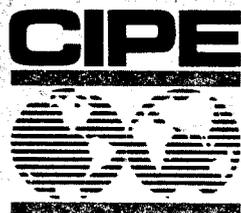


WINDTUNNEL



ANNUAL NARRATIVE REPORT
TO THE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
FISCAL YEAR 1993

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EXECUTIVE SUMMARY

I. Background:

In January 1992, the Center for International Private Enterprise (CIPE) submitted an unsolicited proposal to the Agency for International Development (A.I.D.), Regional Mission for Europe. The proposal called for A.I.D. to provide CIPE with an 18-month grant of \$1.5 million to promote business and entrepreneurship development in the Baltic States (Estonia, Latvia, Lithuania) and a better legal and regulatory environment for small and medium private business in Hungary. A.I.D. accepted this unsolicited proposal and signed a grant agreement with CIPE on September 30, 1992 to provide \$1,500,000 to CIPE over an 18-month period.

An integrated approach is being pursued under the Legal and Regulatory Reform in Hungary Project, whereby six groups are conducting research and advocacy work on issues of critical importance to small and medium-sized business development:

- o financial sector reform;
- o tax issues;
- o the role of regional governments in catalyzing privatization and business activity;
- o the informal sector;
- o privatization; and,
- o imperfections in the real estate market.

Projects in the Baltic States are being carried out independently of each other. CIPE's projects in the Baltic States advocate better business laws and regulations through research, legislative analysis, media and public opinion polling activities, and training beginning entrepreneurs and stock and commodities brokers.

II. Program Strategy Update:

The following report describes activities under a \$1.5 million grant from USAID to CIPE for six private sector development projects in Hungary and four in the Baltic States. Details on the following accomplishments are found in this report.

- o CIPE's Budapest Office at Szent Istvan krt. 10 actively coordinates the work of the Hungarian sub-grantees through bilateral contacts and, in particular, by hosting monthly meetings of CIPE's Hungarian Advisory Board. In addition, the Budapest office has managed the publication of the monthly project newsletter.
- o CIPE hosted an advocacy workshop for Hungarian sub-grantees in September. The workshop, based on similar programs of the U.S. Chamber of Commerce, presented various advocacy strategies and techniques to grantee project managers. Input from the members of the Advisory Board was a key component of the workshop.
- o Also in late September, CIPE hosted a day-long workshop at which the grantees presented reports on their research to date. Each grantee reviewed the topic under study, the goal of their research in terms of coverage of

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specific policy recommendations, and the method of data collection and analysis.

- o Meetings of CIPE's Hungarian Advisory Board took place in July and September. The featured speaker at the July meeting was Laszlo Bekesi, former Minister of Finance and currently Member of Parliament representing the Hungarian Socialist Party. The September meeting was highlighted by a presentation given by Median Opinion and Market Research Ltd., which is conducting a series of polls to obtain information on public attitudes toward the reform process.
- o A contract for The Institute for World Economics and the Blue Ribbon Commission's project on aspects of privatization was signed with effect from September 1 and the groups have begun their research. The project must overcome the lag relative to other groups which have been at work since March by applying a higher level of effort to begin the advocacy phase of the project in coordination with the other grantees.
- o A contract for the project examining tax policies with regard to small and medium-sized enterprises has been signed with Kopint Datorg, a well-known economics research firm. Work commenced with effect from September 1. This was subsequent to the annulment of a similar contract signed earlier with IPOSZ which, as discussed in the previous quarterly report, decided that it could not effectively undertake the project. Kopint Datorg has been making an accelerated effort to complete its research and advocacy projects along with the other grantees in the program.
- o The Median polling agency conducted a public opinion poll in September and is planning a series of focus groups in November and December. This work serves as an informational database and will be the basis for analysis to be provided by Median for incorporation into the project's final report.

III. Program Management Report:

- o A conference was held in September in the town of Eger, Hungary, on issues related to the privatization process and the role of regional governments. The conference, hosted by the Public Policy Institute, one of CIPE's sub-grantees under the Legal and Regulatory Reform in Hungary project, was attended by an array of policymakers, including local mayors, representatives of commercial associations, researchers and experts including a guest from Poland and a representative from the United Nations, and staff of CIPE/Budapest and CIPE/Washington. The conference was also attended by the media and was reported on in Hungarian-language newspapers.
- o This quarter, the Lithuanian Free Market Institute took the initiative to convene a meeting of commercial bankers, central bank officials and members of the securities commission to discuss conversion of hard currency shares into the new litas. This meeting was instrumental to the development of the draft law, which was passed by Parliament on August 9, 1993.

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- o The Estonian Small Business Association, EVEA, provided project documentation for their proposal on a Small Business Loan and Guarantee Fund to the Minister of Economy. In September, EVEA's proposal was passed by the Parliament.

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LEGAL AND REGULATORY REFORM IN HUNGARY

ACTIVE PROJECTS

PROJECT REPORTS

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LEGAL AND REGULATORY REFORM IN HUNGARY

Private Enterprise Funding in Hungary Budapest, Hungary

Foreign Subrecipient: Financial Research, Ltd.
Dates of Project: April 1, 1993 - December 31, 1993
Project Funding Level: CIPE - \$ 69,500
FRL - \$ 55,100

I. SUMMARY:

One of the leading impediments to small and medium-sized business development in Hungary is the inability of small-scale entrepreneurs to gain access to credit. The existing banking system is geared to doing business with large state-owned, "low-risk" enterprises, leaving small-scale businesspeople in a severely disadvantaged position with regard to financing. In addition, the existing interest rate structure incorporates a 20 percent withholding tax imposed by the Government on banks, which the banks pass along to the consumer in the form of correspondingly higher lending rates. Financial Research Ltd., will identify the shortcomings of the Hungarian financial system with respect to access to credit for small business, and propose concrete solutions to correct these problems.

II. STATUS:

In this quarter FRL has established contacts with the "Big Three" Hungarian banks (the Hungarian Credit Bank, the Foreign Trade Bank and the National Savings and Commercial Bank), and a car and truck repair company which received a special privatization loan and is working on obtaining an energy consumption rationalization loan. FRL have collected data on the distribution of bank loans across different groups of enterprises in order to detect whether any identifiable biases toward certain groups of entrepreneurs exist.

The current, second phase of the project is focusing on case studies of enterprise financing and will feature 2 panel discussions, one on relations between small businesses and local and state budgetary institutions, the other on ways to make businesses more creditworthy, with emphasis on the perspective of the lending agency. The case studies are exploring the following credit situations:

1. A hotel/restaurant renovation loan extended to a small entrepreneur near Budapest. The amount of the loan was HUF 10 million; there are problems with redemption.
2. A privatization loan for a small-scale entrepreneur to buy three bakeries.
3. A refused application for a very small amount on the part of a small trading company.

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4. A metal-polishing firm's application for HUF 15 million.
5. A bridge finance loan of UHF 5 million for a cosmetics manufacturing and packing company.
6. A World Bank loan to a dairy entrepreneur.

Arrangements have been made for publication of FRL's research and policy recommendations with "Magyar Hirlap", "Figyelo", "Bank es Tozsde" and "Heti Vilaggazdasag", which are widely-read business and economics periodicals. Work is proceeding on individual papers on the following topics:

- Monetary policy tools and enterprise financing;
- Financial management of small enterprises and the role of bank finance;
- The impact of banking regulation on small enterprise financing;
- Modalities of preferential loan schemes offered to small enterprises; and,
- An examination of privatization loan schemes.

Management Report

Reports have been submitted in a timely manner. The project is managed by Dr. Eva Varhegyi, who along with Dr. Eva Voszka, is working directly with banks and organizing panel discussions. Drs. Zoltan Speder and Laszlo Sandor are conducting interviews and data collection with the three large commercial banks, and small entrepreneurs. Dr. Erszebet Gem is contributing an assessment of activities of government bodies.

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LEGAL AND REGULATORY REFORM IN HUNGARY

The Privatization Process in Hungary
Budapest, Hungary

Foreign Subrecipient:	Institute for World Economics Blue Ribbon Commission Foundation
Dates of Project:	September 1993 - December 1993
Project Funding Level:	CIPE - \$ 57,256 IWE - \$ 20,000

I. SUMMARY:

Two main aspects of the privatization process will be analyzed with subsequent action taken in the way of advocacy for legal and regulatory reform. The Institute for World Economics (IWE) and the Blue Ribbon Commission (BRC) will jointly examine the new Hungarian plan to speed privatization and the effects of privatization activities on the operation of small-scale businesses to date.

Authorities in Hungary have recently set forth proposals for a version of mass privatization which entails the extension of subsidized, low-interest rate loans to businesses with the financial viability to purchase state-owned assets. Benefits and costs of this plan will be examined, with comparative analysis undertaken against the mass privatization programs conducted recently in the Czech Republic and Poland. This will be accomplished, in addition to primary research, by hosting experts from these two countries in a series of seminars in Budapest. The effect of privatization to date on businesses will be determined by a process of interviewing twenty small Hungarian firms, both privately-founded and newly privatized.

II. STATUS:

Management Report:

Establishment of the scope of work and signing of the contract have been delayed due to changes in the scope of the research. The project was streamlined in order to maximize the likelihood of achieving concrete and applicable policy recommendations. During a recent visit to Budapest, CIPE staff reviewed the contract, project objectives, activities, deliverables and budget in detail with representatives of IWE and BRC, and agreement was reached on all major points. Signatures have been obtained on the contract, whereupon project work will commence with effect from September 1.

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LEGAL AND REGULATORY REFORM IN HUNGARY

Tax Reform in Hungary Budapest, Hungary

Foreign Subrecipient:	Kopint-Datorg
Dates of Project:	September 1, 1993 - December 31, 1993
Project Funding Level:	CIPE - \$ 30,000 Kopint-Datorg - \$ 7,536

I. SUMMARY:

In Hungary there are a number of taxes at the national and local levels that impede private sector development and encourage business activity in the informal market. The result is that increasingly firms seek to avoid tax payment by declaring a minimum of activity on the books of the legally registered company, while conducting the bulk of business through informal channels. The Government, for its part, levies these taxes to provide a substantial social welfare program, collects taxes inefficiently due to the preponderance of cash-based transactions throughout the economy and concerns about the sizable fiscal deficit.

II. STATUS:

The National Association of Craftsmen's Federations (IPOSZ) was initially identified as a group well-suited to the task of undertaking a research and advocacy project in the field of tax policies. Their broad membership base within and outside Budapest implied a practical and readily available framework for identifying precise obstacles to small business formation in the field of taxation. However, subsequent to contract signing and transfer of funds to Budapest, the management of IPOSZ requested that the contract be annulled in view of certain unforeseen scheduling and resource conflicts which would make it difficult for them to successfully complete the project within the timeframe required.

CIPE staff accordingly arranged the annulment of the IPOSZ contract and simultaneously identified Kopint Datorg, a well-known economics research firm, as a good alternate sub-grantee for this project. Kopint Datorg has established a reputation for its work and publication in the field of Hungarian tax policy. A contract similar to the previous one with IPOSZ, but somewhat more substantive in terms of policy analysis, was signed with Kopint Datorg and work commenced with effect from September 1.

Management Report:

Despite IPOSZ' withdrawal from the project, the organization president Gyorgy Szucs remains committed to the larger CIPE project, and will remain on the Advisory Board. In this instance, CIPE's management controls worked to the benefit of the project, and promoted the development of IPOSZ's organizational discipline.

A proposal to carry out the tax project has been solicited and received from Kopint Datorg, an economics research firm in Budapest. They have presented a plan whereby specific problems regarding tax policy as a hindrance to small business growth will be identified through a series of interviews. Analysis will be carried out and policy recommendations devised and presented with the assistance of an energetic advocacy plan. Moreover, Kopint Datorg proposes attention be given to assistance provided and planned for businesses to enhance their financial viability to increase their chances of receiving loans from the lenders' perspective, and will also incorporate the implications of various options in revenue collection for the national budget deficit.

LEGAL AND REGULATORY REFORM IN HUNGARY

Private Sector Development and Local Government in Hungary Budapest, Hungary

Foreign Subrecipient: Public Policy Institute
Dates of Project: April 1, 1993 - December 31, 1993
Project Funding Level: CIPE - \$ 46,525
PPI - \$ 8,000

I. SUMMARY:

In the context of Central Europe, Hungary has a comparative advantage with regard to the development of small- and medium-sized enterprises (SMEs) thanks to economic reforms implemented over the past decade. However, deregulation and the taxation system and credit facilities require further action. The Public Policy Institute will critique the role of government in promoting private enterprise, focusing on the activities of local governments. The Institute will produce two policy papers to argue for an improved environment for small business development in the regions outside Budapest. The policy papers will be presented to policy makers and the press, and will be incorporated into the CIPE Budapest Office program.

II. STATUS:

PPI's activities at this stage consist of data collected in the course of trips to the two regions in question, with specific focus on contacts with municipal authorities as (a) a primary source of information on assistance offered to small businesses and access to the central budget in this regard, and (b) channels for communicating policy recommendations generated by analysis of the data collected in the fall.

On September 9-11, PPI hosted a conference on privatization strategies and the role of local and regional governments. Approximately 20 experts and researchers attended the conference, as well as representatives of the local government and the Hungarian media. A number of issues related to the privatization process were discussed, and in addition to the opportunity provided by the meeting for professional in the various fields to meet, the exchange of ideas and opinions serves to deepen the interest of participants in exploring the precise role of regional governments in the privatization process.

Management Report:

Reports have been on time, but CIPE staff have suggested more substantive description of project activities. Accordingly, reports have been more substantive in their description of PPI's activities. The project is managed by Tamas Foldi and Mihaly Laki.

LEGAL AND REGULATORY REFORM IN HUNGARY

Regulatory Impediments in Real Estate Budapest, Hungary

Foreign Subrecipient: Budapest University of Economic Sciences
Dates of Project: April 1, 1993 - December 31, 1993
Project Funding Level: CIPE - \$ 20,000
BUES - \$ 10,000

I. SUMMARY:

The Budapest University of Economic Sciences (BUES) will examine the barriers to the development of private real estate, which is vital to the development of private enterprise. Emerging entrepreneurs face the problem of finding space to rent or own. This proposed project would investigate and analyze the existing regulatory and institutional framework for real estate development. It would examine the restrictions on real estate market mechanisms in construction, rental ownership for business and residential purposes. BUES will produce an analysis and report on legal and regulatory impediments, and provide concrete policy recommendations to policy makers, the media and other opinion leaders.

II. STATUS:

In this quarter team members worked further on their study of the effects of privatization of property. The issue focuses on the problems in real estate arising from municipal government control over leasing rights. Interviews have been conducted with small-scale businesspeople and with agents involved in the property rental process in order to specifically gauge the effects of existing and recently-introduced legislation on the commercial property market. In addition, questionnaires have been prepared and distributed to a group of selected businesspeople as part of the information-gathering effort which BUES is undertaking as a basis for its analysis.

The team completed a paper on preprivatization and its implications for real estate markets. The report gives a brief description of the law itself, highlights problems with the legislation and the narrow path available to policymakers, sets out empirical evidence, and surveys the problems, debates and certain macroeconomic consequences of preprivatization. Finally, the paper draws lessons from this experience for policymakers with regard to future legislation at the municipal and national levels.

In addition, the team prepared a short paper on the situation with regard to mortgages in Hungary. This instrument should play a crucial role in the financing of real estate transactions, but an appropriate institutional legal and regulatory framework still does not exist.

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The team has established contact with the print media (HVG, a leading business weekly magazine) and has contributed to the CIPE newsletter.

Management Report:

The project manager, Dr. Szakadat, has completed a good deal of the research for the preprivatization sub-study and is actively supervising the progress of the other researchers. CIPE's Budapest office has also been in contact with Dr. Szakadat with regard to the forthcoming advocacy portion of the project.

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LEGAL AND REGULATORY REFORM IN HUNGARY
The Informal Sector in Hungary
Budapest, Hungary

Foreign Subrecipient: **Foundation for Market
Economy**

Dates of Project: **April 1993 - December 1993**

Project Funding Level: **CIPE - \$ 75,000**
 FME - \$ 15,000

I. SUMMARY:

The Foundation for Market Economy will seek to identify causes of the rapid growth of the informal sector in Hungary. This project will involve a research and advocacy program to make key decision makers in the government, including Parliamentarians, aware of the various legal, regulatory, and macro- and microeconomic factors contributing to the existing environment whereby small and medium-sized businesses conclude that survival requires the operation of the better part of their accounts outside the realm of official access. The goal is to effect changes in laws and regulations and the institutional environment in Hungary that force entrepreneurs into this position.

II. STATUS:

In the period under review, FME has continued work, more or less to the point of completion, on the following topics of research:

Registration process for a sole proprietorship;

Registration process for a limited partnership;

Registration process for a limited liability company;

Registration process for a limited liability company established by privatization; and

Interview with a solicitor advising entrepreneurs in registration.

Working papers on additional topics, including the secondary economy in the centrally planned system and transformation mechanisms between the formal and informal sectors, are also being prepared.

FME has contacted other grantees under the Legal and Regulatory Reform Project and has meetings with them to discuss their topics and the project in general. They have also established contacts with researchers at other institutions involved in analysis of the informal economy in order to share findings and discuss possible ways of cooperation.

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Management Report:

The project manager, Dr. Laszlo Kallay, has worked with CIPE in the past on a private sector development project which culminated in publication of a book entitled "Small Business Development through Privatization". Dr. Kallay has also participated in CIPE-sponsored conferences in the region, and in addition to executing his own workplan under the current grant, has been actively promoting the coordination and cooperation of other subgrantees' efforts in the framework of the Legal and Regulatory Reform Project.

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LEGAL & REGULATORY REFORM IN HUNGARY

PUBLIC OPINION MONITORING PLAN

I. SUMMARY:

An integral component of the Legal and Regulatory Reform in Hungary project is the monitoring of public attitudes and perceptions of the overall reform process. This information is vital to the timely analysis and development of relevant policy recommendations by the grantees. A contract has been accordingly signed with Median Opinon and Market Research, Ltd., one of the leading polling firms in Budapest. The works entails one general public opinion poll on the overall reform effort, with emphasis on points relevant to a market economy (e.g. the concepts of profit and public vs. private sector employment), one poll directed at entrepreneurs in and outside Budapest on more specific issues related to SME development, and a series of focus groups, again examining specific issues related to business development. The results of this work are being discussed on a continuous basis with the CIPE/Budapest office and with the grantees, and will be incorporated into the final report.

III. STATUS:

CIPE's contract with Median stipulates that Median is to conduct two polls and 4 focus group sessions during the fall of 1993. One of the polls has been completed. It targeted a large, general audience using the "Omnibus" method of standard recipients, and consisted of general questions soliciting opinions regarding the commercial and economic environment, especially on prospects for reform and private sector development. The second poll will be targeted at a narrower audience of entrepreneurs with more technical questions.

Median has provided CIPE with lists of questions for review in each case. These incorporate questions solicited from CIPE sub-grantees in Budapest which tailor the surveys specifically to the framework and substance of the Legal and Regulatory Reform Project.

Findings from the first poll were presented by Median staff at the September Advisory Board meeting and provoked lively discussion among grantees and Board members on a number of topics regarding public perceptions of the reform process and its impact on policy.

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BALTIC STATES PROJECT

**PROMOTING THE PRIVATE SECTOR IN LITHUANIA
Vilnius, Lithuania**

Foreign Subrecipient: Lithuanian Free Market
Institute
(Vilnius, Lithuania)

Dates of Project: April 1993 - December 1993

Project Funding: CIPE - \$ 57,254
LFMI - \$ 16,706

I. SUMMARY:

This project aims to promote private sector development through the advocacy of the small business views on existing and proposed laws and regulations. To build popular support for the private sector, the Lithuanian Free Market Institute (LFMI) will conduct a campaign to educate the public about private entrepreneurship, and contribute to the understanding of the size and role of the private sector in the economy.

II. STATUS:

This quarter, LFMI has accomplished the following:

Policy Recommendations and Advocacy

- 1. Banking Reform:** As part of the Prime Ministers advisory council LFMI President Elena Leontjeva made recommendations on commercial bank reform in the wake of a scandal that removed the Central Bank chairman in September. The chairman had been removed for moving 20 million lits in soft agriculture credits through his former bank, Limpitex. LFMI presented a state bank privatization plan to the Prime Minister in a meeting in August. This initiative was widely commented on in the wake of the scandal.
- 2. Lithuanian Investment Bank.** LFMI economists and lawyers have worked on draft statutes of the proposed Lithuanian Investment Bank, a project of the European Bank for Reconstruction and Development, and Nordic Investment Bank. LFMI continued its involvement in this project by participating in a working session attended by the President of Lithuania. As a result LFMI's proposals were modified and presented to the Ministry of Finance.

3. **Capital Markets.** LFMI took the initiative to convene a meeting of commercial bankers, central bank officials and members of the securities commission to discuss conversion of hard currency shares into the new litas. This meeting was instrumental to the development of the draft law, which was passed by the parliament on August 9, 1993.
4. **Foreign Investment.** LFMI presented its proposals to continue the tax holiday for foreign investors to the Advisory Council to the Prime Minister on the 19th of July. The decision was postponed until the fall, at which time LFMI will present its foreign investment proposals.

Media, opinion polling, and outreach.

LFMI has been successful in broadcasting information on project activities through the local media. A partial listing of media activities is listed below:

Television, Radio and Print Media:

- o July 19, 1993, Radio Show, "Studio of Actualities".
LFMI president Elena Leontjeva and LFMI vice - president Juozas Kabasinskas were interviewed on issues surrounding the implementation of currency reform.
- o July, 1993, Television Show, "Verslo Pulsas" (The Pulse of Business).
LFMI Political Scientist Audronis Raguotis was interviewed on tax reform.
- o July 7, 1993, "Litas" newspaper.
LFMI vice - president Juozas Kabasinskas was interviewed under the title, "The state and tax payers, who will be the winner".
- o August 11, 1993 "Respublika" newspaper
LFMI president Elena Leontjeva was interviewed on the decision of the government to impose a 60% interest rate ceiling and implications for the banking system.
- o August 20, 1993 "Vakarines Naujienos" (Evening News)
LFMI vice - president Juozas Kabasinskas was interviewed on the prospects for the Lithuanian litas.

Seminar.

LFMI held the first seminar under the project in August in Trakai, Lithuania. Forty participants from Lithuania, Latvia, Sweden, Denmark and the USA attended. The seminar was highlighted in two influential newspapers, "Lietuvos Aidas" on August 6, and "Savininkas," a weekly newspaper designed for entrepreneurs.

Management Report.

LFMI continues to demonstrate its capability to manage a CIPE project and deliver on project activities. Each contract deliverable, (i.e. workplans and reports) has been meticulously prepared and submitted in accordance with the timetable. Virgis Daukas, the project manager, has left LFMI to take another position, but LFMI has quickly responded, with president Elena Leontjeva directly responsible for the fulfillment of the project.

BALTIC STATES PROJECT

THE VOICE OF BUSINESS
Tallinn, Estonia

Foreign Sub-recipient: Estonian Small Business Association (EVEA)
Dates of Project: October 1992 - September 1993
Project Funding Level: CIPE - \$88,918
EVEA - \$27,000

I. SUMMARY:

This project aims to create a "Voice of Business" to advocate changes in laws and regulations affecting Small and Medium Enterprises, improve the image of private entrepreneurship, and contribute to the understanding of the size and role of small business in the economy through a research effort. The Estonian Small Business Association (EVEA) collects information and data on the size and role of Small and Medium Enterprises (SME's) in Estonia, and produces analyses of new business laws, a newsletter to provide information on entrepreneurship, and a report on the research on SME's and economic development. With the assistance of two consultants, EVEA has developed an advocacy program to enhance the effect of its reports, analyses and newsletter. A media campaign will promote a positive image of private business. A series of two public opinion polls will be conducted to gauge public attitudes toward entrepreneurship. EVEA has already drafted, and submitted to Parliament, large parts of a new small business law.

II. STATUS:

EVEA continued to perform at a high level this quarter:



1. Survey of Estonian SME's

In July, results of the survey were publicized in the local press and widely commented upon in the mass media. Survey data is presented in easy-to-read graphs and tables that facilitates adaptation for presentation in different media. Survey data is frequently used in EVEA's advocacy campaign.

In August, the survey findings and graphical information was translated and published in English, a copy of which is enclosed. CIPE has shared the survey data with John Hansen, the World Bank's Senior Economist for Estonia, and Editor of the recent Bank surveys of each Baltic republic. Hansen was impressed with EVEA's efforts and supportive of the grassroots support for such efforts.

2. Advocacy

EVEA stepped up its advocacy campaign this quarter. Noteworthy activities include:

- o Project documentation for the Small Business Loan and Guarantee Fund was presented to the Minister of Economy. In September, EVEA's proposal was passed by the Parliament.
- o A meeting was arranged with the Chairwoman of the Committee for Budget and Taxes, Valve Kirsipuu. She was presented with several examples of small business tax incentive programs in industrial countries.
- o Strategy sessions were held with two Members of Parliament who will back EVEA's proposals.
- o EVEA publicly criticized the Law on Taxation procedures, which was quickly pushed through Parliament without input from the business community. Letters were sent to key parliamentarians, and articles were published by EVEA staff in the press. Under public pressure, the President of Estonia vetoed the legislation. Later the Parliament overrode the veto. EVEA is involved in an effort to forward the case to the constitutional court.
- o EVEA has continued to survey its members' views in an effort to develop its ability to mobilize in support of their members' views.
- o EVEA has presented its views on two upcoming legislative drafts, on Corporate Taxes and Entrepreneurship.

3. Media

EVEA has continued to publish its monthly insert in Kaubualeht, and has published two issues of a membership newsletter. Both of these vehicles have become increasingly valuable in EVEA's advocacy and membership development efforts. EVEA will begin to publish the newsletter twice a month in October.

4. Membership

The rate of membership growth slowed during the summer months, EVEA gained 48 members this quarter. New promotional brochures were printed in Estonian, Russian and English.

Management Report

EVEA was audited this month. On the whole findings were very positive, with the exception of one issue on tax withholding that EVEA and CIPE are resolving. CIPE has responded to the audit report with a letter to EVEA, a copy of which is enclosed.

BALTIC STATES PROJECT
COURSES FOR MANAGERS AND ENTREPRENEURS
Riga, Latvia

Foreign Sub-recipient: Latvian Entrepreneurship and Management Academy
(LEMA)

Dates of Project: October 1992 - September 1993

Project Funding Level: CIPE - \$125,841
LEMA - \$ 69,000

I. SUMMARY:

This program proposes to increase the size, business skills, and business decision-making ability of the Latvian private sector through the development of courses in entrepreneurship and management for managers and entrepreneurs. The Latvian Management Academy is developing a business curriculum of management, accounting, finance, marketing, and other topics with the aid of Durham Business School, UK (DUBS), and training a group of trainers to conduct two-week courses for up to 800 entrepreneurs.

II. STATUS:

LEMA's courses, designed on the DUBS "Working for Myself" platform, have continued throughout the summer. Thus far, LEMA has trained over 500 people and has informed CIPE that they will reach the goal of 800 people by the end of the project.

Also this quarter, LEMA arranged to have the Latvian textbook printed in hardcover. A run of 80 copies were printed in September, and the balance of this will be accomplished in October. Work on the Russian version of the curriculum has also progressed and the work will be revised as a result of a pilot Russian course delivered in Daugvilpis.

Courses have been arranged outside of Riga in Cesis and Daugvilpis, where courses were delivered in Russian for the first time. LEMA also showed initiative on running a course for the directors of secondary education throughout Latvia. Officials were invited to take the course in Riga, where many were exposed to entrepreneurial education for the first time. LEMA has also offered the course for employees of the VEF company, a large firm in Riga.

Management Report:

This quarter the project manager traveled to Washington on other business and met with CIPE staff. During the session CIPE staff went over financial and programmatic reporting format and content, with an aim of bringing the reports up

to higher standards. CIPE staff will travel to Riga in October to further this educational process. CIPE will work with LEMA to ensure that the excellent work they are doing in Riga is accurately documented in quarterly reports.

The program continues to win the support of many in Latvia. Jim Kenney, the U.S.I.A. Officer at the U.S. Embassy is extremely supportive, an Professor Alan Gibb, of Durham University continues to leverage EC PHARE funding by providing pro bono consulting to LEMA when he is in Riga on EC business.

BALTIC STATES PROJECT

TRAINING PROGRAMS FOR BROKERS/DEALERS OF COMMODITIES AND SECURITIES AND ELABORATION OF INVESTMENT PROJECTS

Foreign Subrecipient: **Baltic International Exchange
Academy
Riga, Latvia**

Dates of Project: **January 1, 1993 - December 31, 1993**

Project Funding Level: **CIPE - \$95,000
BIEA - \$11,300**

I. SUMMARY:

This program proposes to increase the size, skills, and decision-making ability of commodity and stock brokers in the three Baltic States of Latvia, Estonia and Lithuania through the development of a training program for these brokers as well as the development of an investment advisory service.

The Baltic International Exchange Academy (BIEA) would:

- o Develop training programs for commodity and stock brokers/dealers to provide training to about 300 brokers from the three Baltic States.
- o Develop capital markets advisory services to encourage the rapid development of the three Baltic Stock exchanges.
- o Develop a privatization and investment consultancy service for foreign and domestic investors.

II. STATUS:

Over the summer, the Baltic International Exchange Academy continued work on the project:

- o The licensing agreement reached last quarter with the Latvian Ministry of Finance took shape. attached in the Appendix is the outline for the course on Securities Markets, upon completion of which participants will be licensed specialists in the Latvian securities market. This thirteen-day course draws on local expertise from the three Baltic States. The course started in mid-September.
- o BIEA held a course in Tallinn, attended by 21 persons.
- o BIEA has published several articles in the business press in each Baltic State dealing with issues surrounding the development of securities markets.
- o BIEA continues to build its business advisory capability in Riga, Tallinn and Vilnius. Records of each consultation are kept to build a database of

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consulting clients and their business interests. BIEA Riga has developed business plans for several clients for a fee, which is put back into the project.

- o Work on the BIEA database of business and economic information continued in Riga, Tallinn and Vilnius.

Management Report:

CIPE feels BIEA has capably managed the project this quarter. BIEA has been able to leverage project funds through participation fees and advisory services. BIEA has already managed to meet the matching requirement of this grant and is becoming self-sufficient quickly. In October CIPE staff will travel to Riga to monitor the project and discuss ways of capitalizing on BIEA's success in implementing the project.

APPENDIX

TRIP REPORT
LEGAL AND REGULATORY REFORM
IN HUNGARY

June 30, 1993 - July 8, 1993

September 6, 1993 - October 1, 1993

Budapest, Hungary

Submitted by
Gene Spiro
Program Officer
Center for International Private Enterprise

TRIP REPORT

CIPE Program Officer Eugene Spiro took two trips during this quarter, one brief visit to Budapest (June 30-July 8) to monitor the Legal and Regulatory Reform in Hungary project, and one longer visit (September 6-October 1) to attend three conferences associated with the same project and for the purposes of project development in Slovakia and Bulgaria.

During the first trip, Mr. Spiro attended the CIPE-sponsored meeting of CIPE's Hungarian Board of Advisors in Budapest at which grantees gave progress reports on their research to date. Also at this meeting, a discussion was lead by Mr. Laszlo Bekesi, former Minister of Finance and current Member of Parliament representing the Hungarian Socialist party. At the meeting Mr. Bekesi outlined the economic program of his party and gave his prognosis for recovery of the Hungarian economy over the medium term.

Mr. Spiro then met with all of CIPE's sub-grantees under the Legal and Regulatory Reform program during which routine issues related to the work on the projects were discussed, clarifications to the contracts were made, plans discussed with regard to the research findings and advocacy workshops to be held in September were established, and arrangements made to finalize work programs for the Institute for World Economics and Kopint Datorg on the privatization and tax policy projects, respectively.

In the course of the second trip, Mr. Spiro met with David Cowles, Director of USAID in Budapest and described in detail the most recent activities and developments related to the Legal and Regulatory Reform in Hungary project. He then attended a conference hosted by the Public Policy Institute, one of CIPE's sub-grantees in the Legal and Regulatory reform in Hungary project. The conference, held in Eger, one of two cities focused on by the PPI project on the role of regional governments in the privatization process, was attended by some twenty experts and representatives from the fields of economic policy, government, and business associations. The conference received good coverage by the media and generated lively discussion among the participants regarding the privatization process in Hungary and the role of regional governments in encouraging the development of the private sector.

In Bulgaria, Mr. Spiro met with a number of groups for project development, and with the USAID representatives, Jerry Zarr and John Babylon. The discussion with USAID centered on likely areas of work for CIPE projects; the AID officials recommended focusing on undertaking case studies whereby the precise situation of small and medium-sized businesses in Bulgaria could be determined, with subsequent action to be taken on the policy fronts. It was also suggested that projects involving assistance to the government on disseminating information on actions such as privatization and tax reform would be of great use in preempting confusion and creating a smooth path for the undertaking of much-needed reform policies.

Below is a list of groups with whom Mr. Spiro met in Sofia:

Bulgarian-American Trade and Investment Association
Insider Agency
Ekonomika Magazine

First Eastern International Bank
Center for the Study of Democracy
Open Society Fund
Varna Entrepreneurs' Association
Bulgarian Academy of Sciences
Ministry of Finance

Mr. Spiro visited Bansko, a small resort town two hours' drive south of Sofia, at which a meeting was held with the Mayor of Bansko and discussions centered on the possibility of a project whereby technical and financial assistance would be provided to the local authorities as they establish an investment fund for privatization of municipal enterprises.

In Slovakia, Mr. Spiro also met with a number of groups which could conduct useful projects in the interest of the private sector, specifically small and medium-sized business development. A meeting was also held with USAID representatives in Bratislava, Loren Schulze and Roman Snajder. Substantive discussions were held with the following groups:

Slovak National Agency for SME Development
Business Innovation Center
Center for Economic Development
Slovak National Agency for Foreign Investment and Development
Slovak Chamber of Commerce
Slovak Enterprise Center
Profit Magazine
Slovak-American Enterprise Fund
Bnai Brith Foundation

The last week of the trip comprised a series of meetings in Budapest with Steve Rogers, CIPE Director of Evaluations. These meetings involved detailed discussions with CIPE sub-grantees and members of CIPE's Hungarian Board of Advisors of various aspects of the Legal and Regulatory Reform in Hungary project, with a focus on defining the most effective methods of advocacy for the program and the role of CIPE/Budapest therein. Messrs. Spiro and Rogers also attended two CIPE-hosted workshops, one on research findings to date, at which grantees discussed the nature and status of their individual projects, and the other on advocacy. The latter was designed to provide assistance to grantees in formulating their advocacy strategies which will be an integral part of the project as final reports are prepared and policy recommendations are set forth to policy makers and the general public.

**MID COURSE EVALUATION
LEGAL AND REGULATORY REFORM IN HUNGARY**

November 9, 1993

**Prepared by
Steven B. Rogers
Deputy Director
Evaluation & Administration
CIPE**

INTRODUCTION

With a grant of \$1 million from the U.S. Agency for International Development, The Center for International Private Enterprise has initiated a major program of legal and regulatory reform in Hungary. The project is a highly coordinated effort of six Hungarian public policy institutions, a high level advisory board and a CIPE program office in Hungary. The goal is to identify the principal policies impeding the growth of the private sector and recommend reforms that will improve the prospects of private business and lead to economic growth.

The project consists of three phases:

- 1) Identification of local organizations who would participate and the major economic policy areas in need of reform.
- 2) Research on those policy areas and advocacy of specific policy reforms, both carried out by local organizations under contract with CIPE.
- 3) Consolidation of the research findings and reform recommendations into a final project report and presentation at a National Conference prior to Hungarian elections in 1994.

This mid-course evaluation is conducted during the second part of phase 2. At this point the participating organizations should be nearing completion of the research and beginning to form advocacy strategies to promote their findings and recommendations. As a formative evaluation this is the ideal point at which to take stock of the project's accomplishments and consider all adjustments and planning necessary to ensure accomplishment of the project objectives.

The evaluation was carried out in Hungary during the week of September 27 - October 1, 1993. The findings are based on attendance at workshops on project research results to date and an advocacy strategy session that involved representatives of all participating organizations and the Advisory Board. Also, separate interviews were conducted with members of the Advisory Board, staff of the participating organizations, members of the media, and CIPE staff in Hungary.

The following report is divided into four sections. Each section includes specific recommendations to ensure successful completion. The sections are:

- I. Progress to Date - Research
- II. Future Activities - Advocacy & Consolidation
- III. Project Management
- IV. Conclusions



I. PROGRESS TO DATE: Research

1. Project Objective

A review of the approved grant proposal and the subsequent project plan reveals that a single, concise, written objective was never included. There does appear to be general agreement on the purpose of the project between the staff in Washington and Budapest, USAID, the Advisory Board, and for the most part the participants. Nevertheless, a written objective statement is necessary to keep the project focussed and as a basis for evaluation, among other purposes.

Recommendations

- The following recommended objective statement is drawn from the original project documents, particularly the statement of anticipated results.

To frame the economic debate in Hungary by developing and advancing a consolidated reform program based on sound research on the principal economic policy requirements of the country.

To accelerate the pace and focus the direction of economic policy reform through a coordinated advocacy effort by Hungarian organizations.

To improve the skills and ability of Hungarian private independent business and public policy groups to advocate legal and regulatory reforms. Foster greater cooperation among these groups.

2. Identification of Issues

The first step of the project was to identify the legal and regulatory areas that are impeding private business development in Hungary and in need of reform. The final selection of issues being analyzed and advocated in this project are as follows:

Regulatory Impediments in the Real Estate Market
Private Sector Development and Local Government
Private Enterprise Financing
Privatization Strategies
The Informal Sector
Tax policy

These issues not only reflect the priority policy concerns of a group of private sector research groups, but are linked directly to the predominate campaign issue of the upcoming Hungarian elections.

Identification of these issues was predicated on CIPE's involvement in Hungarian projects since 1989 and continuous monitoring of conditions in the country. CIPE organized a roundtable discussion with private business leaders in Hungary in 1991 out of which came a preliminary list of legal and regulatory

barriers to private sector development. In the year immediately preceding the inception of this project two field studies added to CIPE's analysis of Hungary's economic status. Final selection of issues was made in conjunction with the selected grantees. Now, as the research phase begins to show results, all of the Hungarians interviewed in the course of this evaluation agreed that the topics are right on target. An additional paper is being written on the Hungarian Commercial Code by Anna Halustyik, a member of the Advisory Board.

Attention in Hungary is beginning to focus on next May's elections. The major election issue at this point is the economy. After leading the region in economic reforms in the late 1980s the reform process has stalled. The economy is performing poorly, unemployment is on the rise and, as an opinion poll conducted as part of this project shows, public support for a market based economy appears to be eroding. The extent to which the voters maintain faith in market economic solutions will have a marked effect on the outcome of the election. Many in the country believe that an Hungarian version of the recent Polish elections is a plausible outcome.

In the course of the evaluation interviews, there was unanimous agreement that the overriding concern for those seeking office is how to develop the preconditions for economic growth in Hungary. Additionally, there was consensus regarding the most important specific topics within that issue. Heading the list are privatization and banking, two subjects that are specific subjects of this project. Other topics, agriculture, unemployment, and the national budget, are elements of several of the project studies.

Recommendations

- The May elections firmly places the project within a highly publicized debate and not simply an insulated academic or public policy exercise. As it addresses the critical campaign issue right down to the level of specific topics, the CIPE project is well positioned to attract the attention of the media and opinion leaders and play an important role in framing the economic debate.

Every effort should be made to make the most of that position. The project should be promoted and described in terms that clearly place it at the heart of the debate. This could be done even with something as simple as using a title such as "Preconditions for Economic Growth in Hungary" for the National Conference and final report. This or a similar title may communicate a stronger relevancy to Hungarians than "Legal and Regulatory Reform," which could be used in a subtitle.

3. Identification of Grantees

The organizations selected to carry out the project are:

Financial Research Ltd.
Foundation for Market Economy
Institute of World Economics/Blue Ribbon Commission Foundation
Kopint Datorg
Public Policy Institute
Budapest University of Economic Sciences

These organizations represent the most significant private sector economic research groups. This is the opinion of the members of the advisory committee members who were interviewed. In terms of economic public policy research all agreed that there was no other group in this league or higher that was omitted. However, the fact that no business associations representing private entrepreneurs are participating directly as grantees is a shortcoming.

Identification of the Grantees followed a course similar to the identification of issues -- through CIPE's three year involvement in Hungarian projects. At the outset CIPE laid out criteria for selecting grantees. Business entrepreneur groups must be independent and their members primarily private firms and public policy groups also must be privately supported.

Two business associations were identified as potential participants, but ultimately were not included. The first is the National Association of Entrepreneurs (VOSZ). VOSZ had been the first organization in Hungary supported by CIPE. It had long been the major representative of the private sector. However, VOSZ's management of their most recent grant had been unacceptable. They had incurred unauthorized costs and had failed to meet reporting requirements. Furthermore, the management of VOSZ recently changed and conditions at the organization are tenuous. Therefore VOSZ was not chosen as a participant. However, VOSZ is represented on the Advisory Board and is committed to the project and advocacy of the results.

CIPE has monitored the status of The National Association of Craftsmen's Federations (IPOSZ) for several years. They were initially identified as the group to undertake the project on tax policies. Their broad membership provided access to information on obstacles to small business posed by tax policies. However, CIPE was aware of the organization's limitations and worked with them to design a project in which the actual research was subcontracted. Furthermore, in awarding the contract CIPE built in strict control over the procurement process.

Those management controls worked to alert CIPE staff to the fact that IPOSZ was not fulfilling its commitment to the procurement process. Investigation into the matter by IPOSZ led to the revelation of internal management problems and IPOSZ's withdrawal from the contract. The President of IPOSZ remains on the Advisory Board and continues to be committed to the overall project, including the advocacy component.

Even without direct business association participation the list of grantees is very impressive. Furthermore, the project is strengthened by its collaborative nature. According to several Advisory Board Members and grantees there have been very few collaborative efforts like this and none involving so many organizations. They went on to observe how beneficial this collaboration had been already and the likelihood that some level of collaboration would continue beyond this project.

Recommendation

With its agenda of research and advocacy on behalf of the private sector this project has great potential for initiating a meeting of the minds of researchers and private business. Without the direct participation of a business association,

however, special efforts must be made to ensure that this potential is achieved. Although the Advisory Board includes several representatives of private business and business associations, other methods of drawing the private sector into the project need to be explored.

In the course of the evaluation several recommendations were made by staff and participants to further direct business involvement. They include:

- Identify several businessmen in addition to the Advisory Board to review and comment on the research and final report while in draft.
- Develop a presentation of research results to take on site to business association meetings in Budapest and other cities throughout the country. This should be done between the release of the final report and the National Conference. Time must be scheduled in the presentation for discussion and response from the business members.

4. **Grantee Research**

Most grantees' projects began in April, 1993. Kopint Datorg and the Institute for World Economies were delayed and did not begin until September. On September 30, 1993 a day long workshop followed by an Advisory Board Meeting provided the first opportunity for combined presentation and discussion of the preliminary results. The workshop also provided an opportunity to assess the progress to date.

Each grantee distributed written executive summaries and took approximately an hour to present their work and respond to questions. The following briefly summarizes the reports.

Financial Research Ltd. is examining private sector financing with a focus on financing small and medium sized businesses. Their research is not complete so they presented a thesis for discussion. They propose the following series of recommendations:

- Enact policies to increase capital accumulation of small and medium enterprises -- including tax incentives, anti-inflation measures, promotion of certain sectors, and investment in infrastructure.
- Redesign financial institutions - including creation of local bank regulations to eliminate obstacles to obtaining credit, venture capital regulations.
- Improve state managed infrastructure - clarify role and function of the Hungarian Enterprise Development Foundation, depoliticize all parts.

Institute of World Economics/Blue Ribbon Commission is researching privatization strategies, specifically small privatization schemes - examining the government's plan for distributing ownership to private citizens in a voucher type program as a way to create demand for the property. Plan to describe Small Investors Privatization Program (SIPP), the pros and cons, and outline other possible techniques. No specific reform recommendations were mentioned.

Foundation for Market Economy has completed a very thorough study of the informal sector, its size and causes. The executive summary does not include very concrete reform recommendations other than noting that informal activity is reduced when participation in the policy making process occurs.

Kopint Datorg, despite having just begun in September, has prepared a very thorough description of the Hungarian tax structure that assesses the fall in the tax base, tax avoidance, and concealed income. Although preliminary, they are looking particularly at recommendations to reduce corporate tax rate, benefits and incentives for investment, paperwork simplification, social security reform, and removal of tax-type payments to state financial funds.

Public Policy Institute is critiquing the role of local government in promoting private enterprise. PPI is focussing on two regions and has collected data from municipal authorities and the business community. In early September they held a conference in Eger on the role of local government in privatization strategies.

Budapest University of Economics' original work plan calls for studies of five topics regarding regulatory impediments in real estate. They have now discussed them with staff and are expected to formally request a reduction in topics. Research so far is focussed on the land mortgage credit system and agricultural investment. The summary is sketchy and does not conclude with specific recommendations.

Recommendations

- **More specific reform recommendations** - Although these are preliminary results, as a group they are long on description and short on recommendations. More recommendations may develop as the research is completed. However, to be certain that the grantees are working towards concrete policy reform recommendations, this requirement should be reinforced with them. This could be done in connection with communicating the requirements for the final project report -- as described below. This is particularly important in light of the tight timing of the balance of the project.
- **Timing** - Because of the crucial timing of the project any delays in the individual projects could turn into a major set back. It seems that several of the projects should be further along in the research at this point. To avoid future delays and ensure that the final research paper are adequate for timely incorporation into the final project report, a series of deadlines for draft submissions should be set at this point. The "Deliverables" section of the contracts does not address submission of draft research papers. This was an oversight that should be specifically corrected.

5. **Advisory Board**

The project design calls for an advisory board to include the leading figures in business and public policy. Attaining a high caliber board is essential in order to gain access to policy makers and the press, which is one of the major purposes of the Board. The other is to provide sound, informed review and recommendations on

the research findings, the shape and direction of the final report and plans for the final conference.

CIPE has been successful in meeting the target of a high caliber board. Leaders of business, business associations, media, and research are all represented on the Board. The board consists of:

Attila Chikán - University of Economic Sciences
Anna Halustyik - Baker and McKenzie
Michael Haraszti - Hungarian Franchise Association
Arpád Kézdi - The Center for Private Enterprise Development
Iván Lipovecz - HVG Magazine
Iván Major - Blue Ribbon Commission
György Surányi - Central-European International Bank
Gábor Széles - National Federation of Industrialists
Péter Szirmai - National Association of Entrepreneurs
György Szücs - National Federation of Craftsmen's Associations
György Varga - FIGYEL Magazine
Tibor Vidos - GJW Politconsult
Péter Zwack - Zwack Unicum Plc

The Board's attendance at the monthly meetings reflects a reasonably good level of participation. Staff reports that roughly half the members regularly attend meetings. Although it would be desirable to have better attendance, as in any board there is a balance between a sufficiently high level of members with very busy schedules and attendance at the meetings.

Thus far the Board meetings have featured talks by the economic spokesmen for the major political parties and reports from grantees on the research. These have been productive in several ways, in addition to informing and involving the board.

- ▶ The participation of the political parties has informed and engaged them in the project at an early point, thus helping ensure access to the parties once the results of the project research is available.
- ▶ The meetings have been covered in the newsletter, thus informing a broader audience of the parties' economic agenda, the relevance of the project to the political agenda and CIPE's nonpartisan approach.
- ▶ For the project grantees this first hand message of the parties' economic agendas should help shape future advocacy efforts, although this may have to be specifically drawn out in the advocacy phase.

The Board meetings have not, however, involved foreign experts as originally planned. The project proposal called for, "talks by foreign experts in the areas of tax policy, labor law, credit reform, business formation and registration, property rights and other area."

The Board members interviewed in the course of this evaluation showed very strong commitment and support of the program. However, several also expressed some uncertainty as to CIPE's expectations regarding their full role. One Board member expressed his uncertainty in the context of regret at not having the opportunity to be involved in selecting the projects at the inception. Clarification of

the role of the Board will be useful in dealing with the press. A reporter noted that when the project becomes fully publicized this will be a frequent question. There is also a desire for more opportunities to discuss the project individually with project staff, as opposed to always as a group.

Recommendations

- Begin bringing foreign experts to address the board as envisioned in the original project design. At this point perhaps the most important topic is advocacy. Now that the project is moving into the advocacy phase, and given the relative lack of experience by the grantees, a series of speakers on advocacy techniques, possibly followed by individual consultations, would be very advantageous.
- Step up the process of soliciting recommendations and feedback from the Board members, particularly on the best approach to the written final report. The CIPE Director in Hungary already has plans for a questionnaire.
- Initiate a series of individual meetings between project staff and Board meetings. This will help solidify their participation and result in more candid and thorough input.
- Although this may have been done at the outset, CIPE staff should discuss with the Board their expected role. There may have been some misconceptions at the beginning that can be clarified now that the project is at mid course. This is especially important given that the most intensive participation of the Board is expected in the second half. Preparation of a written statement on the role of the Board may be useful to simplify future responses to the press.



II. FUTURE ACTIVITIES: Advocacy & Consolidation

The project design implies essentially a two tiered advocacy structure. First, the grantees will carry out advocacy on the specific subject and findings of their projects. Second, consolidated advocacy for the full legal and regulatory reform agenda will be carried out in association with the final report and national conference. The anticipated results of the project's advocacy efforts are both improved regulations and a new ability and commitment of the grantees to carrying out future advocacy on their own.

1. Individual & Collaborative Advocacy

A meeting attended by representatives from all the grantees was held on October 1, 1993. The purpose was to initiate the advocacy portion of the project by briefing the grantees on advocacy by sharing ideas and techniques. Some tough obstacles to effective advocacy are immediately evident from the grantees' comments and discussion at the meeting. The obstacles derive from ingrained attitudes toward advocacy and an almost total lack of experience with advocacy or the sense of democratic participation in decision making.

A couple of grantees began the meeting by staking a claim for pure scientific research and neutrality as the appropriate position for their organizations. This underscores how tenuous the idea of advocacy is in Hungary. The separation between economists and decision makers has been traditionally blurred. Economic research has been carried out in connection with and in support of policy makers. Therefore, the idea of independent research representing a private sector point of view vying for influence with a policy maker is relatively unknown.

The argument for neutrality was dismantled in discussion by other grantees citing the range of value choices inherent in simply selecting a topic and approach. For example researching obstacles to privatization assumes that privatization is a desirable pursuit.

The conclusion was reached in the discussion that it is appropriate and even a responsibility for a research organization in a democracy to actively promote their point of view and findings. However, there was not resounding, unanimous agreement. In the end a certain ambivalence toward advocacy remained in several of the grantees.

Part of the explanation of this ambivalence may stem from the fact that these are exclusively researchers. As researchers they may not feel the impact of economic policy with the immediacy of a business person trying to operate in Hungary. Stronger participation of business people would have injected a greater urgency into the discussions and plans for advocacy.

The question of who is ultimately responsible for advocacy of the overall consolidated results of the research has been alluded to, but thus far not addressed directly. CIPE, as the connecting point of the project, is the obvious choice for this responsibility. However, for CIPE to actively take part in an advocacy program redefines CIPE's traditional role of supporter rather than actor. CIPE must define its role before advocacy functions begin falling on CIPE by default.

Finally, on a more technical project design issue, all of the grants, save one, end on December 31, 1993. That will mean that all CIPE-sponsored advocacy will end then. Since most final research findings will not be published until close to that date, advocacy based on the final research will be minimal.

Recommendations

- Develop a specific advocacy plan for the consolidated project results. This will entail defining CIPE's role in the effort. As a first consideration perhaps CIPE's appropriate role is to organize a series of activities for the grantees as a group. Such activities could include joint press conference, briefings for the

political parties and government officials. CIPE's function would then be coordinator rather than direct advocate. The plan should include a role for the advisory board.

- Seriously consider extending all grant periods through the dates of the National Conference. This will allow continued CIPE support of advocacy, coordination of efforts, monitoring and evaluation of results, and participation in the conference.
- Require any grantees who haven't already done so to submit outlines of advocacy plans in order to identify those with the weakest concept of advocacy.
- Utilize foreign experts to address advocacy at the Board meetings and follow-up with direct technical assistance to grantees most in need.
- Continue having advocacy meetings with all grantees to coordinate efforts and share techniques/experiences. Some of the grantees have good experience with advocacy but their contribution to the initial advocacy meeting was overshadowed by the conceptual discussion.

2. Media

As in most advocacy efforts, the media is a central focus. How seriously the final recommendations are taken depends in part upon media publicity-- the more widely known it is, the harder for policy makers to ignore it. To its credit, there is already a growing interest on the part of the media in the project.

Just as there is individual grantee advocacy and coordinated project advocacy, there are emerging individual grantee media relations and overall project media relations handled by the CIPE staff in Hungary. Balancing the two will be necessary to avoid undermining the effectiveness of both. Whereas approaching the media from different angles through the various individual grantees has advantages, it would be a mistake if the project appeared predominantly in the press as simply a group of unrelated projects. There needs to be a degree of coordination and a way of instilling the collaborative identity of the whole project into the media activities of the individual grantees.

In the course of the evaluation interviews, most of the discussion of the media as an element of advocacy related to how CIPE and the overall project were presented rather than the individual research projects. Publicity of CIPE will become a part of the story and we need to be prepared for a range of questions, some simple some more complex. For example:

- What is CIPE?
- What is its interest in Hungary?
- Is CIPE interfering in Hungarian affairs?
- Where is the money coming from?
- Why these grantees?

This issue is one element of the advocacy of the overall project. The question here is how prominently CIPE should be featured in press announcements.

Just as in the overall advocacy issue, CIPE needs to plan its appropriate role rather than taking on media activities by default.

Recommendations

- Develop a media strategy as an adjunct to the advocacy plan. Such a strategy will help keep control of how the project is portrayed including the political balance, the role of CIPE and other potentially sensitive areas.
- The media strategy should include at least the following materials/considerations:
 - A description of the project that forcefully communicates what is unique and timely about it. To get the media's attention you have to do or say something interesting.
 - A clear and concise written statement defining CIPE.
 - Press summary (concise statement) of the final report.
 - Identification of who on the CIPE Budapest staff is responsible for media relations.
 - Address language problems, strong professional Hungarian translations of any English materials.
 - TV and radio are most prominent, but most difficult to crack. The strategy should address this.
- In providing technical assistance for advocacy at least one advisor should have a strong media background. Such an advisor could help with this overall strategy. If Collingwood Harris for example were used, this work could possibly begin with Hungarian staff visits to Washington.

3. Final Report

The final report is perhaps the most critical product of the project. It is the culmination and unification of all the various research findings and recommendations. For most impact it should link the project directly to the issue of the day: how to generate economic growth in Hungary. The report will be printed in Hungarian and English.

The project scope of work specifies the following for inclusion in the report:

- a distillation of the findings of the grantees,
- a synthesis of the Advisory Boards findings,
- findings of the foreign experts,
- recommendations for eliminating or changing laws and regulations,
- an advocacy blueprint for Hungarian business and public policy organizations,
- a detailed analytic framework and matrix to legal and regulatory impediments and areas for reform.

This outline is very ambitious. Obviously, the Report cannot be just a compendium of each of the individual studies. On the other hand, some of the above items may need to be modified or deleted for the sake of producing a report that is clear, timely and persuasive.

As part of this evaluation Board Members and participants were asked their opinion of the most important characteristics of the report. Their response makes a fairly short list:

- ▶ It should define the magnitude of the issue and recommend realistic and achievable legal and regulatory reforms. Several Board Members emphasized the word "achievable" noting that previous reform recommendations had failed because of overly ambitious, unachievable recommendations.
- ▶ It must be honest and open - such a report in Hungary cannot appease everyone and shouldn't try. It needs a strong point of view.
- ▶ It must be comprehensible - the target audience is not going to patiently wade through dense, complex verbiage.

From this midterm vantage point a couple of potential obstacles are immediately identifiable.

Timing -- with the elections anticipated in May the current schedule allows no margin for delay. The political parties are now formulating economic platforms. The consensus is that January is the latest date of release for greatest impact. Earlier is better.

Unity -- the findings and recommendations of the individual projects must form a cohesive whole. It should address at least the three characteristics described above. Such unity may be a struggle to achieve since all grantees worked independently without even a guiding framework for format.

Recommendations

- Prepare an outline of contents of the report, determining whether all the items described in the scope of work should be included and in what form.
- Develop a production schedule with ironclad deadlines and defined format and length. Apprise the grantees immediately, possibly holding a special meeting for this purpose. It may be too late, but providing some guidance on length, format, and target characteristics (ie. achievable recommendations) may help expedite final drafting of the report.
- Define the role of the Board. Clearly having all Board Members review everything will be a drag on the schedule. One possible option is to assign specific board members as primary reviewers of individual sections of the report. These same individuals could possibly write introductions to those sections.

- The original project design called for staff to write the project report. Given time restraints and staff resources it will be more expedient to hire a writer.

The process of identifying a writer should begin immediately. The type of writer that best meets the criteria for speed and clarity is probably an economic journalist. The writer must be chosen with great care. Because of the politically charged atmosphere in Hungary, the political affiliation of the writer will have a profound affect on how the report is received.

- Consider the needs of the various target audiences. It may be best to simultaneously prepare a book of 100 pages or so and a separate overview of 10 pages and a press summary of no more than 2 pages.

4. National Conference

The National Conference is the final activity of the project. It is intended to be a venue for discussing the final report both in terms of identification of the impediments to economic growth and to coalescing the various advocacy activities into a dialogue on reform. The Conference should be a major event with high level participation from government, political parties and the private sector. It is planned to video tape the conference for rebroadcast of segments on Hungarian television.

The conference is currently planned for March, 1994. That does seem to be the optimum time given the progress of the preparatory research and the necessity of maintaining sufficient time in advance of the elections.

Recommendations

- Develop a critical path of deadlines and activities necessary to prepare for the conference. This should include:
 - identification of the deadline for setting conference dates and venue,
 - when to finalize the agenda,
 - when to announce the conference and send out invitations,
 - when to ensure participation of the Board and other critical participants, and
 - how to ensure that the video tape will be broadcast as planned.
- Particular consideration should be given to the appropriate project activities that should be conducted between release of the project report and the conference. These activities should further the advocacy objectives and generate interest and support for the project findings. Among possible activities are:
 - A series of presentations on the results of the research to be given throughout the country -- as mentioned in the section above on selection of grantees.

- A session in which the economic staff of the political parties can respond to the project findings -- as mentioned in the section above on advocacy.



III. PROJECT MANAGEMENT

1. Hungarian Office

Establishing an on-site foreign office is a new endeavor for CIPE. Given the scope and complexity of the project, it was considered essential. The overall stated purpose of the Hungarian office is to 1) coordinate the Advisory Board activities, 2) serve as a central collection point for the grantee projects, and 3) produce the project report.

The AID grant further spells out several specific functions of the staff:

- prepare a set of questions for the first national poll,
- share the results of the poll throughout Hungary,
- develop a framework for categorizing and measuring policy changes,
- coordinating Board meetings and visits of foreign experts,
- compile data on small business programs supported by other donors, and
- prepare the project report.

The local office does not have a responsibility for managing or disbursing CIPE payments to the grantees.

Accomplishments

Logistics - The initial months of the project were spent registering CIPE in Hungary, recruiting staff and locating office space. The American Director was hired in December 1992. Locating appropriate office space and negotiating a lease took considerably longer than anticipated. A lease was signed in February 1993. The principal Hungarian staff was contracted in March and the office became functional.

At the same time that the office was being established the Advisory Board and the Grantee projects were being set up. This was accomplished by intensive work of the Washington staff including several extended visits to Hungary. It would have been advantageous to have the office functioning sooner to provide more assistance in establishing the projects, but the work of the Washington staff kept the project on schedule which is crucial for its success.

Financial Management - Although there is no responsibility for disbursing grantee funds, it is critical that the funds for the office activities (Board meetings, Newsletter, general office operations, etc.) be appropriately managed. After five months of operations CIPE commissioned an audit of the financial management of the office. The results showed the records and procedures in order and recommended only that financial records be put on a computer spreadsheet and a policies and procedures statement be prepared.

Concurrently with this evaluation Washington staff assisted the Hungarian staff in developing a financial spreadsheet, which is now in operation. The Hungarian staff is preparing written policies and procedures.

Advisory Board & Newsletter - Immediately upon its establishment, the Hungarian staff began organizing the Advisory Board meetings and publishing the project newsletter. These two activities have been crucial in terms of creating an identity for the project as a national collaborative effort on the highest level.

The newsletter is a monthly publication of about 6 pages in both Hungarian and English. The newsletter is meeting a twofold purpose. First, it is a primary vehicle for coordinating and communicating the progress of the grantees. Second, as it is distributed to opinion leaders and interested groups, the newsletter is beginning to generate broad interest in the project. CIPE staff in Washington have worked with the Hungarian staff to improve the appearance of the newsletter, which is prepared on desktop publishing software.

In coordinating the meetings of the Advisory Board, the Staff Director in Hungary has initiated several important themes. In addition to presentations on grantee progress the Board meetings have featured briefings by the Economic Officers of the major political parties. The Director also initiated the workshops on the status of research and advocacy in late September. These meetings proved to be crucial for taking stock of progress to date and what needs to be done.

On the other hand, the Washington staff has given very little guidance on utilizing the Advisory Board. As a result several items have been overlooked. For example, participation of foreign experts in Board meetings was budgeted and as yet not utilized. Also, the Board was intended to have an important role in framing the national polls conducted by Median. Ultimately, on the first poll that didn't happen. They only had an opportunity to respond to the results of the poll.

The reason these activities were overlooked is the lack of a detailed management plan. So far the Hungarian Office has functioned under a management plan consisting of only the broadest brush strokes. That approach is unquestionably a weakness. A minor weakness at this point during the first phase of the project, but one that has led to a failure to make the best use of the Hungarian Office. For example, one of the advantages of having a local office is their ability to identify the technical assistance needs of the participating grantees. This has only minimally been done. If the function of the office had been more thoroughly thought through and more specific objectives and deliverable identified, the office would have greater value. This relatively minor weakness now could become a major handicap if sustained through the second half of the project.

Future Requirements

The Hungarian staff is at a crossroads. Having established the office and its basic functions, they are now facing a much more intensive period of work through the National Conference. The coordination of the grantee's advocacy work, preparation of the project report, and organization of the National Conference were all anticipated objectives during this final phase. However, the advocacy of the overall project results and the accompanying media relations (as described above) were not fully anticipated. They will become major responsibilities for the Hungarian Staff.

At the same time they are facing this heightened period of activity, the Hungarian national staff seems to be somewhat uncertain of their role. Part of the reason for this is simply a need for a thorough briefing on CIPE, how it functions and the role of staff. CIPE may have taken for granted the delicate balance between technical and financial assistance, coordination and advocacy in the program that is baffling to these staff members without a more complete understanding of the organization.

More importantly, however, the uncertainty of the staff is symptomatic of the larger issue associated with a lack of a detailed management plan. Looking forward to carrying out activities as complex as publishing a report, advocacy, media relations and a National Conference without a detailed management plan and definition of responsibilities would lead anyone to question their role.

Recommendations

- The Washington and Hungarian Program Officers should jointly prepare a management plan to follow through to the end of the project. The plan should take into account the various requirements and recommendations detailed in this evaluation. Particular emphasis should be placed on identifying technical assistance requirements. The plan should spell out the specific duties of the staff members.
- Bring the two principal Hungarian staff to Washington for an intensive briefing on CIPE and improving the skills required in the rest of the project. Consideration could be given to providing basic training advocacy, media relations, and conference organization, for example.

2. Evaluation

The project design calls for staff to develop a framework for categorizing and measuring policy reforms. CIPE has developed and used a number of indicators of success for this kind of project. These indicators should be systematically tracked by the Hungarian office. The indicators include:

- press and media coverage,
- expressions of interest through requests for information,
- direct citing of the project in political or legislative debates,
- the level and extent of participation in the conference and other project activities
- and, ultimately, the enacting of any recommendations of the project.

Some of these indicators have already begun to appear. Notably some press coverage and expressions of interest from other groups. In addition, the grantees should be monitoring these indicators on their individual projects.

The final polling conducted by Median is also intended to serve as an evaluation tool. The staff also needs to work with Median to ensure that the polls developed can be used to indicate at least to some extent the effect of the project and not just a change in attitudes.



IV. CONCLUSION

The building blocks for a very successful project have been assembled. This evaluation has identified a number of accomplishments which make up the project's strengths. They include, first of all, the caliber of the Advisory Board and the Grantees. Clearly, this is a group of organizations and individuals who can drive a project of this magnitude. The collaborative nature of the project further strengthens the project. Not only will it make the results more prominent and meaningful, but the grantees can learn a lot from each other, particularly in the area of advocacy. Finally, the timing of the project vis a vis the 1994 elections and the focus on the key election issues further indicates the excellent potential of the project.

Even with those advantages, there remains a heavy work load through the end of the project. There are considerable challenges that need to be met in organizing the remaining project activities. Timing is one of them. As much as it is a strength it is equally a challenge. The May election leaves virtually no flexibility in the schedule. Ensuring that all work is completed on time may be a struggle. Overcoming some resistance to the idea of advocacy could become a drag on progress. Making up for the lack of direct business participation also needs to be addressed. Finally, defining and managing the appropriate CIPE advocacy function is crucial for the success of the project.

This project has many components. Overseeing the balance of participants, Board Members, policy issues, media, non partisan status, and the requirements of report publication and conference organization, to name a few, is a formidable task. Among the many recommendations of this evaluation the single overriding requirement is the development of a clear management plan to guide the project to completion. The plan must address the various project components and their timing and define the role of the participants, board and staff. Only with such a plan can the project fully capitalize on its strengths and overcome the challenges to successfully achieve the project objectives.

BALTIC STATES PROJECT
FY 1993 REPORT

I. PROGRAM STRATEGY:

On September 30, 1992, the Agency for International Development, Regional Mission for Europe (RME), Office of Economic Restructuring concluded an eighteen month \$500,000 grant with the Center for International Private Enterprise (CIPE) to promote business and entrepreneurship development and a better legal and regulatory environment in the Baltic States (Estonia, Latvia, Lithuania).

The eighteen month grant with A.I.D. for CIPE projects in the Baltic States is focused on a program of work divided into two phases:

PHASE I: Identification of Business and Public Policy Organizations in Estonia, Latvia, and Lithuania and Development of Project Proposals.

PHASE II: Projects Developed by Baltic Organizations are Undertaken. Program areas include:

- Identifying impediments to private business formation and growth and development of advocacy programs to influence legislation in the different Baltic States.
- Development of entrepreneurship courses. These courses would focus on basic skills such as preparing a business plan, learning western accounting standards and how to approach a bank for a loan.
- Developing a regional capital markets program which would at the outset provide training for brokers and exchange staff in commodity markets in each Baltic State. This program could be complemented by an advocacy program focused on development of a securities law that would regulate and protect the commodity exchanges as well as incipient stock markets.

II. IMPLEMENTATION:

As elaborated in the grant proposal, CIPE has met the objectives of Phase I.

Expected Results of Phase I:

1. Identification of local organizations to receive grants/contracts would be completed and the project parameters that they would work on would be decided.

As a result of several staff trips to the region CIPE developed a strong network of business and entrepreneur groups. CIPE held a joint conference with the National Democratic Institute for International Affairs in November, 1992

(funded by the National Endowment for Democracy) entitled "The Politics of Economic Reform." CIPE invited many potential groups to this conference.

2. Development of projects by local business organizations and public policy institutes. The design of these projects will be done in close coordination with CIPE and in consultation with A.I.D.

The CIPE Board of Directors approved four projects to be funded under the A.I.D. grant at meetings in July and December of 1992, and March, 1993. The following projects were approved:

- o Latvian Entrepreneurship and Management Academy: Riga, Latvia. This program proposes to increase the size, business skills, and business decision making ability of the Latvian private sector through the development of courses in business and economics for managers and entrepreneurs. The Latvian Entrepreneurship and Management Academy is developing a business curriculum of management, accounting, finance, marketing, and other topics with the aid of Durham Business School (UK), and training a group of trainers to conduct two week courses for up to 800 entrepreneurs.
- o Estonian Small Business Association: Tallinn, Estonia. This project aims to create a "Voice of Business" to advocate changes in laws and regulations affecting Small and Medium Enterprises, improve the image of private entrepreneurship, and contribute to the understanding of the size and role of small business in the economy through a research effort. The Estonian Small Business Association (EVEA) is undertaking research to collect information and data on the size and role of Small and Medium Enterprises (SME's) in Estonia, and producing analyses of new business laws, a newsletter to provide information on entrepreneurship, and a report on the research on SME's and economic development. With the assistance of two consultants, EVEA has developed an advocacy program to enhance the effect of EVEA's reports, analyses and newsletter. A media campaign will promote a positive image of private business. A series of two public opinion polls will be conducted to gauge public attitudes toward entrepreneurship. EVEA has already drafted, and submitted to Parliament, large parts of a new small business law.
- o Baltic International Exchange Academy: Regional, headquartered in Riga, Latvia. This program proposes to increase the size, skills, and decision-making ability of commodity and stock brokers in the three Baltic States of Latvia, Estonia and Lithuania through the development of a training program for these brokers as well as the development of an investment advisory service. The Baltic International Exchange Academy (BIEA) will develop training programs for commodity and stock brokers/dealers to provide training to about 300 brokers from the three Baltic States, develop capital markets advisory services to encourage the rapid development of the three Baltic Stock exchanges, and develop a privatization and investment consultancy service for foreign and domestic investors.

- o Lithuanian Free Market Institute: Vilnius, Lithuania. This project aims to promote private sector development through the advocacy of the small business views on existing and proposed laws and regulations. To build popular support for the private sector, the Lithuanian Free Market Institute (LFMI) is conducting a campaign to educate the public about private entrepreneurship, and contribute to the understanding of the size and role of the private sector in the economy.
3. CIPE would conclude new grants and contracts with about five business/entrepreneur organizations and public policy institutes who would undertake six to nine month projects.

Because CIPE was able to quickly develop projects under the Baltic States project, CIPE concluded one year grant contracts with three organizations, and a nine month project with the Lithuanian Free Market Institute.

II. ACCOMPLISHMENTS:

In the first year of the Baltic States Project, CIPE has also met the expected results of Phase II, as elaborated in the grant proposal:

Expected Results of Phase II:

1. Development and implementation of a number of projects which will better define the prospects for private business formation and growth in the Baltic States.
 - o The Latvian Entrepreneurship and Management Academy's course "Working for Myself" has been given to over 500 students. Each module of the 14-part course has been translated and adapted for the Latvian environment by the teachers who deliver each module in the classroom. The curriculum and the teacher training were developed by the Durham University Business School, which has raised additional funds from EC PHARE for the project.
 - o The Estonian Small Business Association (EVEA) has completed a survey of Small and Medium-Sized Enterprises in Estonia that has highlighted barriers to further private business formation and growth. EVEA has also pursued an active advocacy program, increased membership, and undertaken an aggressive media campaign in *Kaubaleht*, the Estonian business weekly. In these efforts they are working to galvanize the support of small and medium sized private business to foster economic growth in Estonia.
2. Development and implementation of a number of projects which will seek basic changes in the enabling legislation and regulations to create more private business in the Baltic States.
 - o The Lithuanian Free Market Institute project scored early successes by way of substantial contributions to the currency reform carried out in June, 1993.

The President of the Institute, Elena Leontjeva, was named to the Prime Minister's advisory council and was able to incorporate Institute proposals into the Law on National Currency and Law on Foreign Currency. LFMI economists and lawyers have also worked on draft statutes of the proposed Lithuanian Investment Bank, a project of the European Bank for Reconstruction and Development. In a letter to CIPE the EBRD Project Officer, Eva Thiel, describes the role of LFMI as "helping to bring about understanding of complex matters concerning the planned activities and corporate structure of this institution... and has been the main driving force in getting the statutes for the bank ready in time for presentation to parliament later this month."

- o In September an Estonian Small Business Association proposal "Small Business Loan and Guarantee Fund" was passed into law by the Estonian Parliament, giving EVEA a hard fought victory. This proposal will facilitate entrepreneurs access to credit, one of the main problems identified in EVEA's survey.

- 3. Development of regional programs to support capital markets development.

- o The Baltic International Exchange Academy (BIEA) has won approval to become a private licensing authority for brokers of commodities and securities in Latvia. BIEA will licence securities specialists at the completion of training courses developed with CIPE support. BIEA has affiliates who are conducting courses in each Baltic State. BIEA is also devaluing business advisory services in all three Baltic States.

- o In July, the Lithuanian Free Market Institute took the initiative to convene a meeting of commercial bankers, central bank officials and members of the securities commission to discuss conversion of hard currency shares into the new Lithuanian litas. This meeting was instrumental to the development of the draft law, which was passed by the parliament on August 9, 1993.

III. EVALUATION:

As described above, CIPE has thus far exceeded milestones set in the unsolicited proposal to U.S.A.I.D. Four interconnected projects are working to promote small business development in the Baltic States from different perspectives.

The Estonian Small Business Association (EVEA) is creating a "Voice of Business" that represents private interests before the Estonian parliament, and, based on the views of membership, initiates proposals to lighten the burden on emerging entrepreneurs.

The Latvian Entrepreneurship and Management Academy (LEMA) is working to increase the skills and preparedness of Latvian entrepreneurs. Having trained over 500 entrepreneurs, LEMA is assisting in the transformation to an entrepreneurial, productive Latvian workforce.

The Baltic International Exchange Academy's work in assisting the emergence of professional securities experts in the Baltic States will help create the type of financial sector necessary for mass privatization and the mobilization of investment capital for private industry to prosper.

The Lithuanian Free Market Institute (LFMI) is promoting private enterprise principles and the views of the private sector in an environment where those views need forceful promotion. The outside expertise and perspective that LFMI has provided has been recognized by the European Bank for Reconstruction and Development (EBRD), the President and Prime Minister of Lithuania. During the course of the project, LFMI has earned a seat on the advisory council to the Prime Minister.

CIPE's integrated approach to private sector development in the Baltic States has brought demonstrable successes in the first year of the project. Much of CIPE's success is due to CIPE's method of operation in working with local partners, who bring local intelligence and intimate involvement to project design and implementation. CIPE will continue to work with subgrantees to ensure that project activities results-oriented given the changing nature of the political and economic landscape in the Baltic States.