

SOURCES OF FINANCING - THE ENVIRONMENT

Prepared by Filip Kořínek
for U.S. & Foreign Commercial Service, American Embassy Prague
Approved by Daniel E. Harris, Commercial Attache

DIPLOMOVÁ PRÁCE

**FINANČNÍ ZDROJE
V OBLASTI ŽIVOTNÍHO PROSTŘEDÍ**

Filip Kořínek

Fakulta sociálních věd
Institut ekonomických studií
Universita Karlova
prosinec 1995

Děkuji svému konzultantovi E.Zawadzkemu za jeho spolupráci na utváření celkové podoby této práce a panu D.E.Harrisovi, bývalému obchodnímu atašé Amerického velvyslanectví v Praze, za jeho podporu v průběhu jejího vzniku.

Dále bych rád poděkoval všem, kdo mi pomohli získat nezbytné informace o dané problematice, především ing. Jiřímu Dlouhému CSc. (MŽP ČR), ing.J.Piskovi (US AID), sl.L.Bělské z Centra pro zahraniční pomoc (MH ČR), pí L.Kafkové (MF ČR), p.J.Vrlovi (European Investment Bank), p.I.Očkovi (IFC), p.A.Kmentovi (Svaz měst a obcí), sl.L.Dvořákové (MZV ČR) a ing.Nevyjelovi (SFŽP).

Prohlašuji tímto, že jsem předloženou diplomovou práci vypracoval samostatně, na základě údajů získaných od výše zmíněných osob a s použitím jen uvedené literatury.

Filip Kořínek

13.prosince 1995

CONTENTS

EXECUTIVE SUMMARY	II
HOW TO FIND THE RIGHT INFORMATION FAST	III
ALPHABETICAL INDEX	IV
SECTOR INDEX	VI
INTRODUCTION	VIII
I. LOCAL SOURCES & PROGRAMS COORDINATED ON LOCAL LEVEL	1
1. LOCAL SOURCES OF FINANCING	2
1.1. Government	2
1.2. State Environment Fund	3
2. BILATERAL COOPERATION	6
2.1. European countries	6
2.2. Non-European countries	8
3. MULTILATERAL COOPERATION	9
3.1. PHARE	9
3.2. Silesia	11
3.3. Teplice	12
3.4. Program Environment I.	13
3.5. GEF	14
4. MUNICIPALITIES	14
4.1. State budget	14
4.2. Local budgets	15
4.3. Housing Guarantee	16
4.4. Loans from commercial banks	17
4.5. Bond issues	19
5. NATIONAL PROPERTY FUND	19
6. CZECH TAX SYSTEM AND THE ENVIRONMENT	20
7. CZECH-MORAVIAN GUARANTEE AND DEVELOPMENT BANK	21
II. U.S. SOURCES	22
1. EXPORT-IMPORT BANK	23
2. OPIC	24
3. SBA	27
4. TDA	27
5. U.S. GOVERNMENT INITIATIVES	29
5.1. SEED Act funding	29
5.2. US EPA	32
5.3. Department of Commerce	35
5.4. Department of Energy	36
6. STATE PROGRAMS	36
7. U.S. COMMERCIAL BANKS	37
III. MULTILATERAL SOURCES	38
1. EUROPEAN INVESTMENT BANK	39
2. EBRD	40
3. UNDP	44
4. UNIDO	45
5. THE WORLD BANK GROUP	46
5.1. WORLD BANK	46
5.2. IDA	47
5.3. IFC	48
5.4. MIGA	49
5.5. MDBO	50
IV. APPENDIX	51
DOCUMENTS REVIEWED FOR THIS REPORT	62

EXECUTIVE SUMMARY

The Czech Republic suffered substantial environmental damage under the communist regime prior to the "velvet revolution" in 1989. During that period, the government paid no attention to environmental problems. As a consequence of this attitude of the old regime, the first democratic elections in 1990 brought to the government a number of people with past experience from various environmental groups.

New laws were approved establishing the Ministry of Environment and setting ambitious environmental standards and schedules for phasing them in a relatively short period of time.

Total investment in the environment has increased substantially and reached about three percent of GDP (according to senior government officials) which places the Czech Republic higher than the average in Western Europe. Since 1991, the share of the emerging private sector has been increasing and currently represents over half the total funds spent.

The Czech Republic has benefited from cooperation with a number of foreign countries and multilateral institutions. Foreign assistance to the Czech Republic moves increasingly from technical assistance and research and development grants towards support of investment.

"Sources of Financing - the Environment" identifies and describes the major channels of funding for Czech and regional projects, including the most relevant sources of support to U.S. exports to this market.

The first chapter describes funding provided by or channeled through local government bodies. It includes information on various local and regional projects funded and/or otherwise supported under bilateral or multilateral cooperation agreements.

The second chapter focuses on U.S. sources of funding, including direct government support (EPA), independent government agencies (US AID, Export-Import Bank, OPIC, TDA, SBA etc.) and private government-supported investment funds and other entities.

The third chapter identifies the principal international / multilateral sources of funding of environmental projects in the Czech Republic including the World Bank Group, the European Union, and the United Nations.

HOW TO FIND THE RIGHT INFORMATION FAST

Reading this will save you time !

Structure of the study:

The paper is divided into three parts that describe three channels of environmental financing in the Czech Republic - from or through local institutions, from U.S. sources and from multilateral sources.

In addition to the general CONTENTS in the beginning of the study, each section includes more DETAILED CONTENTS (pp. 1, 22, 38).

If you look for information about:

- a particular source of financing, use the ALPHABETICAL INDEX (p.IV) to find the right section.
- financing of environmental projects in the Czech Republic, look for "•" . This sign marks the most relevant paragraphs in each section from this point of view.
- all sources of financing in one particular sector, use the SECTOR INDEX (p.VI)

References to other sections of the paper use only section numbers. Use CONTENTS (general or detailed - pp. 1, 22, 38) to look up page numbers.

ADDRESSES, EXCHANGE RATES

Prague addresses in this paper do not include "Czech Republic". Please add this to your letters. (Similarly, addresses within the United States do not include "USA"; please add if needed.)

All figures in Kč, Czech crowns, were converted to dollars using the exchange rate of \$ 1 = Kč 29. Note, however, that the current exchange rate is lower, approximately at \$ 1 = Kč 27 (March 95). Conversions from ECU have been made at the rate of \$ 1 = ECU 0.75.

ALPHABETICAL INDEX

	SECTION	PAGE
ABI	II/5.3.	35
Access to Capital Program	II/7.	37
Alliance ScanEast Fund	II/2.5.	43
American Business Initiative	II/5.3.	35
Auburndale Property Fund	II/2.5.	26
Austria	I/2.	6
AXCAP	II/7.	37
Bancroft Central Europe Fund	II/2.5.	26
Bank Fund (PHARE)	I/4.1.1.	9
Black Triangle	I/4.1.5.	10
CABEE	II/5.3.1.	35
Calvert Emerging Europe Fund for Sustainable Development	II/2.5.	25
Canada	I/3.	8
Capital Development Initiative	II/5.1.4.	30
CDI	II/5.1.4.	30
Center for Clean Air Policy	II/5.1.5.	31
Center for Trade and Investment Services	II/5.1.5.	32
Central and Eastern European Growth Fund	II/2.5.	26
Česká spořitelna	I/5.4.	17
ČMZRB	I/8.	21
Committee on Renewable Energy, Commerce, and Trade	II/5.4.	36
Consortia of American Businesses in Eastern Europe	II/5.3.1.	35
CORECT	II/5.4.	36
Corine	I/4.1.5.	11
CROCO (Cross-Border Cooperation Programme)	I/4.1.4.	10
CSAEF	II/5.1.3.	30
CTIS	II/5.1.5.	32
Czech & Slovak Investment Corporation	III/2.5.	43
Czech and Slovak American Enterprise Fund	II/5.1.3.	30
Czech-Moravian Guarantee and Development Bank	I/8.	21
Danube River Basin	I/4.1.5.	11
Decontamination of Areas Damaged by Exploitation of Uranium	I/4.1.5.	11
Denmark	I/2.	6
Eastern Europe Business Information Center	II/5.3.1.	35
EBRD	III/2.	40
ECRE	Appendix	59
Energy Efficiency Center	II/5.4.	36
Energy Project Development Fund	Appendix	59
Enterprise Funds	II/5.1.3.	30
Environment I.	I/4.4.	13
Environmental Action Plan	II/5.2.1.	32
Environmental Pollution Prevention Project	II/5.2.1.	33
Environmental Protection Agency	II/5.2.	32
Environmental Technology Initiative	II/5.2.2.	34
Environmental Training Project	II/5.1.5.	31
EP3	II/5.2.1.	33
EPDF	Appendix	59
ETI	II/5.2.2.	34
European Bank for Reconstruction and Development	III/2.	40
European Investment Bank	III/1.	39
Export-Import Bank	II/1.	23
France	I/2.	7
GEEI	Appendix	59
GEF	I/4.5.	14
Germany	I/2.	7
Global Energy Efficiency Initiative	Appendix	59
Global Environment Emerging Markets Fund	II/2.5.	25
Global Environmental Facility	I/4.5.	14

Housing Guarantee	I/5.3.	16
IBRD	III/5.1.	46
IDA	III/5.2.	47
IFC	III/5.3.	48
IFREE	Appendix	60
International Bank for Reconstruction and Development	III/5.1.	46
International Development Association	III/5.2.	47
International Finance Corporation	III/5.3.	48
International Fund for Renewable Energy and Energy Efficiency	Appendix	60
Joint Implementation	II/5.1.5.	31
Komerční banka	I/1.5.4.	18
MDBO	III/5.5.	50
MIGA	III/5.4.	49
Municipal Infrastructure Finance	I/4.3.	16
Morgan Stanley European Emerging Markets Fund	III/5.3.2.	48
MUFIS	I/5.3.	16
Multilateral Development Bank Operations	III/5.5.	50
Multilateral Investment Guarantee Agency	III/5.4.	49
National Program of Air Protection	I/1.1.	5
National Property Fund	I/6.	19
Netherlands	I/2.	7
New Europe East Investment Fund	III/2.5.	43
Norway	I/2.	7
NPF	I/6.	19
OPIC	II/2.	24
Overseas Private Insurance Corporation	II/2.	24
PHARE	I/4.1.	9
Poland	I/2.	8
PRIDE	II/5.2.1.	33
Private Power Sector Energy Development Feasibility Study Fund	Appendix	59
Project in Development and the Environment	II/5.2.1.	33
Remote Sensing	I/4.1.5.	11
Renaissance Fund	III/2.5.	43
Renewable Energy Pre-Investment Support Fund	Appendix	60
REPS	Appendix	60
SBA	II/3.	27
SEED	II/5.1.	29
SEVEN	II/2.5.4.	36
Silesia	I/4.2.	11
Small Business Administration	II/3.	27
State Environment Fund	I/1.2.	3
Support for East European Democracy	II/5.1.	29
Switzerland	I/2.	8
Tax System	I/7.	20
TDA	II/4.	27
Teplice	I/4.3.	12
Trade and Development Agency	II/4.	27
Trade Information Center	II/5.5.	36
U.S. Agency for International Development	II/5.1.	29
U.S. Export Council on Renewable Energy	Appendix	59
U.S. Technology for International Environmental Solutions	II/5.2.2.	34
U.S. TIES	II/5.2.2.	34
UNDP	III/3.	44
UNIDO	III/4.	45
United Nations Development Program	III/3.	44
United Nations Industrial Development Organization	III/4.	45
US AID	II/5.1.	29
US EPA	II/5.2.	32
Utility Partnership Project	II/5.1.5.	31
World Bank	III/5.1.	46
World Bank Group	III/5.	46
World Environmental Center	II/5.1.5.	31

SECTOR INDEX

AIR, WATER, WASTE, AND ENERGY

* - info Specific to the sector / General info (relevant to the sector)

SECTION	PAGE	*	NAME / DESCRIPTION
I/1.2.	3	G	State Environment Fund
I/4.4.	17	G	Municipal loans from commercial banks
I/4.5.	19	G	Municipal bond issues
I/6.1.	20	S	Income tax
I/6.2.	20	S	Value-added tax
I/6.3.	21	S	Real estate taxes
II/1.	23	G	Export-Import Bank
II/2.	24	G	Overseas Private Investment Corporation (OPIC)
II/3.	27	G	Small Business Administration (SBA)
II/4.	27	G	Trade and Development Agency (TDA)
II/5.1.3.	30	G	Czech and Slovak American Enterprise Fund
II/5.2.1.	33	G	Environmental Pollution Prevention Project
II/5.3.	35	G	Department of Commerce
II/5.5.	36	G	Trade Information Center
II/6.	36	G	State Export Financing Programs
II/7.	37	G	U.S. Commercial Banks
III/2.	40	G	European Bank for Reconstruction and Development (EBRD)
III/3.	44	G	United Nations Development Programme (UNDP)
III/4.	45	G	United Nations Industrial Development Organization (UNIDO)
III/5.	46	G	The World Bank Group

AIR

SECTION	PAGE	*	NAME / DESCRIPTION
I/1.1.1.	2	S	Ozone Layer Protection Program
I/1.2.3.	5	S	National Program of Air Protection
I/3.1.4.	10	G	Cross Border Cooperation Program
I/3.1.5.	10	S	Black Triangle
I/3.1.5.	11	S	Corine Corinair
I/3.2.	11	S	Silesia
I/3.3.	12	S	Teplice
I/3.5.	14	S	GEF - Climate Change and Ozone Layer Depletion
I/4.1.	14	S	Municipalities - State budget funding
I/4.3.	16	G	Housing Guarantee Program
II/5.1.5.	31	S	USAID pilot projects
	31	S	World Environmental Center
	31	S	Center for Clean Air Policy

SOLID WASTE

SECTION	PAGE	*	NAME / DESCRIPTION
I/3.4.	13	S	Program Environment I.
I/5.	19	S	National Property Fund
II/5.1.5.	31	S	World Environmental Center

WATER* - info Specific to the sector / General info (relevant to the sector)

SECTION	PAGE	*	NAME / DESCRIPTION
I/1.1.1.	2	S	National program for retention of water in the landscape
	2	S	River Systems revitalization
	2	S	Labe river project
	3	S	Odra river project
	3	S	Morava river project
I/3.1.4.	10	G	Cross Border Cooperation Program
I/3.1.5.	11	S	Danube river basin
I/3.2.	11	S	Silesia
I/3.5.	14	S	GEF - International Waters
I/4.1.	14	S	Municipalities - State budget funding
I/4.3.	16	G	Housing Guarantee Program
I/5.	19	S	National Property Fund
II/5.1.5.	31	S	World Environmental Center

ENERGY

SECTION	PAGE	*	NAME / DESCRIPTION
I/3.1.4.	10	G	Cross Border Cooperation Program
I/4.1.	14	S	Municipalities - State budget funding
I/4.3.	16	G	Housing Guarantee Program
II/5.1.5.	31	S	Utility Partnership Project
II/5.1.5.	31	S	USAID pilot projects
II/5.4.	36	S	Department of Energy
App. - I/5.1.5.	59	S	Private Power Sector Energy Development
Feasibility Study Fund	59	S	Global Energy Efficiency Initiative (GEEI)
	59	S	U.S. Export Council on Renewable Energy (US/ECRE)
	59	S	Energy Project Development Fund (EPDF)
	60	S	International Fund for Renewable Energy and Energy Efficiency
(IFREE)	60	S	Renewable Energy Pre-Investment Support Fund (REPS)

INTRODUCTION

The Czech Republic has suffered from serious environmental pollution. Following the political changes of 1989 towards a free-market economy, new legislation was passed establishing the Ministry of Environment and a set of environmental laws. Environmental legislation and its implementation and enforcement are likely to be the principal driving forces of environmental investment in the future.

The government reports a total annual investment in the environment equal to roughly 3 % of the GDP in 1993 (i.e. in the range of \$0.75 - \$1 billion). This percentage is higher than average in the West and is expected to remain at this level over the rest of the decade. Environmental investment should then decrease below 2 %.

The cost of protecting and restoring the environment over the next several decades is in the order of \$50 - \$100 billion. The strategic goals of the Ministry of Environment are to meet the quality of the environment comparable with the average level of OECD states in 1990-91 by 2005 and have a comparable level with the OECD average by 2015-2020.

The government's contribution to environmental investments is currently about half of the total, including resources from the state budget and the State Environment Fund. In 1994, the state budget included approximately \$250 million for the environment (2.06 %) and the State Environmental Fund spent \$125 million.

The government advocates market solutions to environmental problems especially through internalizing costs of environmental pollution. With the privatization process having nearly reached its end, anti-pollution requirements being gradually phased in, and the government having made a commitment to enforce regulatory compliance, a significant increase in private environmental investments can be anticipated in all sectors of the market.

Some financial assistance comes from external sources, including under programs and projects of bilateral cooperation - United States, Netherlands, Germany, Norway and other; from international donors such as the World Bank, the European Bank for Reconstruction and Development, and the United Nations; and from private commercial and investment banks and investment funds.

It is expected that funding will gradually move from technical assistance, consulting, and other services to actual environmental investments projects. The market, dominated by characterizing the most serious environmental problems and identifying possible solutions, will shift to one concentrated on solving the problems.

Your comments concerning this study, its focus, structure, value to a U.S. exporter etc. will be highly appreciated and incorporated in future reports from US&FCS Prague. Please address your communications to US & FCS Prague, Hybernská 7a, Prague 1, 117 16, Czech Republic, tel. (+42/2) 2421-9844, -9846, fax. (+42/2) 2421-9965.

I. LOCAL SOURCES & PROGRAMS COORDINATED ON LOCAL LEVEL

1. LOCAL SOURCES OF FINANCING	2
1.1. Government	2
1.2. State Environment Fund	3
2. BILATERAL COOPERATION	6
2.1. European countries	6
2.2. Non-European countries	8
3. MULTILATERAL COOPERATION	9
3.1. PHARE	9
3.2. Silesia	11
3.3. Teplice	12
3.4. Program Environment I.	13
3.5. GEF	14
4. MUNICIPALITIES	14
4.1. State budget	14
4.2. Local budgets	15
4.3. Housing Guarantee	16
4.4. Loans from commercial banks	17
4.5. Bond issues	19
5. NATIONAL PROPERTY FUND	19
6. CZECH TAX SYSTEM AND THE ENVIRONMENT	20
7. CZECH-MORAVIAN GUARANTEE AND DEVELOPMENT BANK	21

1. LOCAL SOURCES OF FINANCING

1.1. GOVERNMENT

The Action Plan 1994-1996 submitted by the Ministry of Environment to the Czech government in 1994 includes a list of all environmental programs and projects funded by the government. All major local programs are listed below. Multilateral programs supported by the government are described in section I/3 of this study.

1.1.1. LOCAL PROGRAMS

National program of air protection (1994)

- reduction of emissions from small and medium-sized sources of air pollution by substitution of solid fuels by natural gas or electricity (see also section I/1.2.3.)
- Kč 6.1 billion (\$ 0.2 billion) from 1994 to 1997, funding provided by the National Property Fund

National program for retention of water in the landscape (1995)

- increase of nature's retention and accumulation capacity
- Kč 50 million (\$ 1.7 million) annually from the state budget

River systems revitalization (1992)

- reestablishment of natural functions of rivers
- Kč 150 mil. (\$ 5.1 mil.) annually from the state budget

Environmental protection program (1993)

- grants for research projects which contribute to improvements of the environment or provide expert support to the state administration.
- Kč 100 mil. (\$ 3.4 mil.) annually from the state budget

Ozone layer protection program (1995)

- recycling and disposal of ozone layer destroying materials
- funded by the State Environmental Fund from fees for freon emissions (approx. Kč 50 mil. (\$ 1.7 mil.) annually). Additional funding available for valuable projects.

Country Renovation Program (1994)

- renovation of the natural environmental processes in small municipalities
- Kč 250 mil. (\$ 8.6 mil.) in 1995 from the state budget

Radon program (1990)

- measures to reduce risks resulting from radon exposure in buildings
- Kč 150 mil. (\$ 5.1 mil.) annually from the state budget

Labe (Elbe) river project (1992-1994)

- study of the river basin and proposal of solutions
- Kč 10 mil. (\$ 0.3 mil.) in 1994 from the state budget

Odra river project (1995)

- study of the river basin and proposal of solutions, cooperation with PHARE
- total of Kč 23.5 mil. (\$ 0.8 mil.) from the state budget, Kč 7.1 mil. (\$ 0.25 mil.) in 1995

Morava river (1995)

- study of the river basin and proposal of solutions, cooperation with PHARE
- total of Kč 26.5 mil. (\$ 0.9 mil.) from the state budget Kč 4.5 mil. (\$ 0.15 mil.) in 1995

1.1.2. CONTACT

Ministry of Environment
Project Department
Domestic Projects Section
ing. Jiří Dlouhý, CSc.
Vršovická 65
100 10 Prague 10
tel. (+42/2) 6712-2853
fax. (+42/2) 6731-0490

1.2. STATE ENVIRONMENT FUND (SEF)

- The State Environment Fund (SEF or the Fund) is a major source of environmental project financing in the Czech Republic. In 1994, the Fund provided \$ 123 million in the form of subsidies and loans. The Fund is administered by the Ministry of Environment.

1.2.1. DESCRIPTION

The income of the Fund consists mainly of:

- charges for waste water discharge into surface water;
- charges for emitting pollutants into the air;
- charges according to the Waste Management Act;
- deliveries for permanent or temporary removal of agricultural land from production;
- charges for ground water use;
- payments made to the state budget for extracted minerals;
- finances imposed by the Fund officials and by the Czech Environment Inspection;
- penalties imposed for unauthorized use or holding of Fund finances;
- subsidies from the state budget;
- shares on tax revenue;
- credits from legal persons;
- contributions from domestic and foreign legal and natural persons;
- other.

The resources of the Fund may be used for:

- the support of investment and non-investment activities;
- the support of research, development, production and introduction of suitable technologies and activities of scientific-technological development;

- c) the support of activities related to the environmental functions of water courses and stretches;
- d) the support of monitoring components of the environment and environmental processes;
- e) the payment of installments and interests for loans obtained;
- f) the support of education and distribution of information;
- g) the reimbursement of costs related to activities of the Fund.

1.2.2. FUNDING PRINCIPLES

Finances from the Fund are provided to applicants (Czech entities) under conditions determined by the Fund statute and by directives of the Ministry of Environment. The basic qualification criteria are the level of reduction of negative environmental effects, the quality of the project in terms of technology and efficiency, and the quality and expertise of the applicant.

The directive of the Ministry of Environment establishes that at least 60 percent of financial sources is to be reinvested in the region from which they come. Certain regions have been given a 70 percent threshold and one region has a 100 percent minimum return level.

The 1994 basic funding principles were as follows:

- 1) Subsidies: Available only for non-business entities and municipalities; subsidies can cover up to 40% of the project cost recognized by the Fund, exceptionally up to 80%.
- 2) Loans: The only support available to businesses and for projects on a commercial basis submitted by applicants specified under 1).
 - a) 0 - 1 % interest rate: non-business entities and municipalities;
 - b) 9 ± 1 % interest rate: businesses; the average interest rate of such loan should not exceed 60 percent of the average interest rate of commercial banks;
 - c) Loans can have grace periods up to 5 years and maturity terms of up to 5 years; not both - loans generally have to be repaid within 7 years.
- 3) A project can be supported partly by a subsidy and partly by a loan (both at the same time) but total support from the Fund must not exceed 80 percent of the project cost.

1.2.3. RESULTS OF THE YEAR 1994

The Fund's own income amounted to Kč 2.6 billion in 1993, Kč 3.3 in 1994, and is expected to be Kč 3.4 bil. in 1995. In addition to revenues from fees, charges, penalties etc., this includes payment of principle and interest of loans provided in the past (Kč 201.5 million in 1994).

The 1994 budget expenses were to a great extent (67.7 percent) represented by the Fund's commitments to projects approved in previous years. Only 24.4 percent was provided for new projects. (The remainder is a Kč 300 million capital reserve for guarantees provided by the Fund). Similarly, only Kč 0.9 is expected to be used for support of new projects in 1995.

- In 1994, the Fund allocated Kč 2,096.8 (\$ 72 mil.) in the form of subsidies and Kč 1,447.4 million (\$ 50 mil.) as loans. The rest (Kč 40.0 million) was the cost of the Fund's activity. Total expenses reached Kč 3,584.2 million (\$ 124 mil.).

Because of a time discrepancy between the day when the Fund receives financial resources and the day when they are used, substantial amounts are always transferred to the following year. (For instance, most of the additional funds from the National Property Fund (NPF) which the SEF received in late 1994 were transferred to 1995). In addition, funds committed but not disbursed are transferred every year. In sum, Kč 1,702.7 million (\$ 59 million) was drawn over to 1995.

- Income and expenses in 1994 (Kč million, Kč 29 ≈ \$ 1)

	Income		Expenses		Net result Kč million
	Kč mil.	%	Kč mil.	%	
Water protection	975.6	22 %	1,993.7	55 %	- 1,018.1
Air protection	1,415.6	32 %	1,062.8	30 %	353.4
NPF - National Program of Air Protection	1,000.0	22 %	155.8	5 %	834.2
Freons	56.6	1 %	0	0 %	55.6
Nature protection	514.9	11 %	144.4	4 %	370.5
Solid waste	451.8	10 %	178.1	5 %	273.7
Other	75.5	2 %	40.4	4 %	35.6
TOTAL	4,489.1	100 %	3,584.2	100 %	904.9

Requirements of applicants for support exceed several times the actual resources available. By November 1994, i.e. roughly during the first three years of its existence, the Fund received 2,500 applications for support in the total amount of Kč 30 billion (over \$ 1 billion). About 1,000 applications worth Kč 9 billion (\$ 0.3 billion) have been approved.

According to Mr.J.Nevyjel, the Fund's economic manager, requirements for support are likely to remain higher than available resources for some 10 - 15 years to come. On one hand, charges for pollution of the environment will gradually increase in the near future, but on the other hand, a lower number of entities is expected to pay as environmental pollution is reduced which will have an offsetting effect on the Fund's income.

- In 1994, the government approved a plan to provide additional Kč 6.1 billion (\$ 0.2 billion) from the National Property Fund for the **National Program of Air Protection**. The drawing of these resources has been divided into four years: 1994: Kč 1 billion, 1995: 1.5 billion, 1996 Kč 2 billion, 1997: Kč 1.6 billion. The primary target of these resources is low-emission sources which are in most cases replaced with natural gas or electric power units. Roughly 60 percent will cover low-interest loans to businesses. Non-profit entities and municipalities are eligible for subsidies up to 70 percent of the project cost. The Ministry of Environment expects that annual emission of fly-ash will be reduced by 300 thousand tons and emissions of sulphur dioxide will fall by 350 thousand tons which will bring an immediate improvement of air quality in the country. Criteria for funding from these sources are slightly different from those for general support of the State Environment Fund.

1.2.4. CONTACT

Státní fond životního prostředí ČR
K Moravině 7/1871
190 00 Prague 9
tel. (+42/2) 684-1984, -2165
fax. (+42/2) 684-2150
Director - ing. Jan Beneš

2. BILATERAL COOPERATION

According to a document of the Ministry of Environment, all foreign support to projects of the Ministry of Environment was limited exclusively to technical assistance until 1993. An exception in this regard is the PHARE Program which provided financing for procurement of laboratory equipment. The funds directed to the environmental sector in the Czech Republic remained in the donor country and were spent in the form of contractual payments to environmental experts, consulting companies and other. Therefore, they are not directly accessible to U.S. companies. Since 1994 (even since 1993 to a limited extent) the trend is towards support of investment projects among most donors. Donors expect co-financing from all available resources but also require participation of the recipient and guarantees of the Ministry of Environment.

Foreign aid and cooperation in the environment is based on both bilateral and multilateral agreements. The following sections (I/2.1. and I/2.2.) provide brief description of the most important bilateral and multilateral programs and projects.

Ministry of Environment
Project Department, Foreign Projects Section
ing. Alexandra Orlíková
Vršovická 65
100 10 Prague 10
tel. (+42/2) 6712-2218
fax. (+42/2) 6731-0490

2.1. EUROPEAN COUNTRIES

AUSTRIA

The Austrian government has established the Öst-Ekofond to support environment in Central and Eastern European countries. The funds are currently managed by the Österreichische Kommunalkredit A.G.. A total of ATS 227 million (\$ 24 million) is to be divided among 33 projects. Projects completed in 1993 include projects focused on energy savings, reconstruction of heat distribution system, heating facility construction and emission monitoring.

DENMARK

Denmark's support to CEE countries in the field of environment is provided under the Act on subsidies for environmental activities in Eastern European countries. Denmark has created a special environmental fund. A cooperation agreement was signed in June 1991. From technical assistance projects which prevailed in the past, the support moves towards investment projects, especially supplies of technology, such as waste water treatment technology for a Czech engineering manufacturer. Four environmental projects (total cost of Kč 75 million or \$ 2.6 million) were financed in 1993.

The Danish Environmental Protection Agency financed a study on the conversion of a coal-fired plant in Děčín Bynov to natural gas and will contribute DK 10 mil. (\$ 1.7 mil.) to purchase of Danish equipment.

FRANCE

Three French companies - Compagnie Générale de Chauffe, Gaz de France, and Charbonnage de France Ingénierie have prepared a study focused on possibilities of air pollution control and energy savings in Prague through conversion of heating systems. The cost of the study was shared by the three companies (50 percent) and the French government. The French companies also made a commitment to partly finance the project if approved and guaranteed by the city of Prague. Roughly half of the total cost of the project (\$ 0.5 billion) should be paid from local sources including funds from the State Environment Fund, state budget subsidies, and loans from local and foreign commercial banks. Local branches of the three French companies have launched a number of demonstration projects concentrating on heating systems reconstruction.

GERMANY

The German government has provided a grant to the Czech government for environmental projects amounting to approx. DM 40 million. The largest portion of these resources (DM 25,9 million) will be provided to the Chemopetrol Litvínov company to upgrade its power plant. The Czech Energy Works (EZ) will receive DM 8 mil. for new technology to reduce emissions of sulphur and carbon dioxides and dust. The same amount will be used for the construction of two waste water treatment plants and for consequent sludge processing.

In 1993, the Czech Republic and Germany began preparation of an agreement on cooperation on an international program for protection of the Labe/Elbe River, and other projects in air pollution control, protection of the nature, and solution of environmental problems from the past. The same areas are to be covered by an agreement with Saxony. An agreement should also be signed with Bavaria focusing on environmental technologies transfer and hazardous waste disposal in Bavarian facilities.

NETHERLANDS

Cooperation in the environmental sector is based on a Memorandum of Understanding on Environmental Cooperation signed in June 1991 during the Dobříš meeting of Ministers of Environment which directly preceded the 1993 Luzern conference. In 1993, four projects (NGL 1.1 million = \$ 0.6 million) were prepared. The Ministry of Environment also works with two Dutch counties - South Holland (seven projects) and Groeningen (in preparation).

NORWAY

Assistance from Norway is based on an agreement signed in April 1993 in Luzern, Switzerland. It has been approved for five years but can be extended. Support is provided in compliance with the Norwegian government's Action Plan for Eastern Europe. Proposals are submitted and approved by Norway's State Pollution Control Authority which also determines (with the consent of the Ministry of Environment) the final amount of support and provides the funding.

Norway's support is concentrated on projects with significant impact on cross-border transmission of pollutants and their negative influence on health of the population. For these reasons, the 1994 plan included projects for water quality improvement in the Odra and Želivka river basins and a study of the health impact of air pollution in the district of Teplice

(see also I/3.3.). A number of projects focus on monitoring of air pollution. Norway's assistance to the Czech Republic takes mostly the form of studies, technical assistance, and transfer of know-how. Future projects should include installation of advanced environmental protection technology.

POLAND

In September 1994, the Czech Minister of Finance I.Kočárník and his Polish counterpart Grzegorz Kolodko signed an agreement on the settlement of the Polish debt of \$57 million toward the Czech Republic by financing 13 environmental projects. The most expensive project (\$ 15 million) is the modernization of boilers at a power plant in Vítkovice. Other projects are in water treatment and conversion of heating to natural gas. Poland will pay construction and supplies of Polish technology. This belongs to the agenda of the Ministry of Foreign Affairs.

SWITZERLAND

Technical assistance: based on the 1990 Declaration of Intent and the 1991 Memorandum of Understanding; Following the division of Czechoslovakia, the Czech Republic received CHF 4 million (\$ 3.2 million) for 10 projects of which six were in the jurisdiction of the Ministry of Environment and four under the Ministry of Agriculture. These projects have been completed. Negotiations are underway to distribute the remaining funds.

Investment support: started in 1994, Switzerland's support for investment projects is expected to reach CHF 30 million. The Ministry of Economy is responsible for coordination but final selection from among the 73 projects submitted will be made by Switzerland.

2.2. NON-EUROPEAN COUNTRIES

UNITED STATES - see part II. of this study

CANADA

The Canadian government funds an intergovernmental project with the Czech Republic managed by Ontario Hydro, a Toronto power utility. Part of the project is a recent study which has pointed out several areas where the Czech Republic can achieve significant electricity savings.

The project's results to date include an overview of the situation in the electric power sector (energy industry, consumption trends, savings potential etc.) and identification of areas with the highest potential for successful implementation of major savings programs. These programs are estimated to save 254 MW by the year 2000. The cost of the necessary measures is estimated at Kč 2.9 billion (\$ 100 million). The project's last phase is to involve training for Czech experts and implementation of selected pilot projects in cooperation with Canadian experts.

Ms.Zina Janáčková, ČEZ (Czech Energy Works)
tel. (+42/2) 2408-2657, fax. (+42/2) 2408-2438

3. MULTILATERAL COOPERATION

3.1. PHARE

- The European Union's PHARE program shifts increasingly from technical assistance grants towards support of investment projects. In 1994, 25 million ECU (\$ 33.3 mil.) was spent on infrastructure and environmental projects under the CROCO program. PHARE has also five major regional programs in the environmental sector.

3.1.1. DESCRIPTION

The Poland-Hungary Aid for Reconstruction of the Economy (PHARE) program was approved by the Commission of the European Community in December 1991 and shortly later was extended to cover other CEE countries. In 1994, 11 countries benefited from the program. In the Czech Republic, the Program is administered by the Center for Foreign Assistance at the Ministry of Economy. The program provides grants to support transition towards market economy and private enterprise. The initial main focus of the program was the transfer of know-how and technical assistance through country-specific and regional programs. Recent initiatives lead towards support of larger investment projects in cooperation with the European Investment Bank, the European Bank for Reconstruction and Development, and other financial institutions.

- The total budget of PHARE in 1990-1993 exceeded ECU 3.3 billion (\$ 4.4 bil.), including more than ECU 1 billion (\$ 1.3 bil.) in 1993. The Czech Republic received approximately ECU 204 million (\$ 272 mil.) during these four years (ECU 265 million (\$ 353 mil.) by 1994).

- In 1993, ECU 6.8 million (\$ 9 mil.) was used to establish a **Bank Fund** for the Czech Republic. The Fund provided grants to government bodies (mostly for technical equipment) and loans to municipalities mostly for heating system conversion projects. Other projects supported were in air and water protection, energy savings, and health care. The funds available have been used up but plans for appropriation of additional resources are under consideration.

3.1.2. CONTACT

Ministry of Economy
Center for Foreign Assistance
ing. Eva Pišová, Head of PHARE Unit
Staroměstské nám. 6
110 01 Prague 1
tel. (+42/2) 2489-7476
fax. (+42/2) 231-3227

3.1.3. CZECH REPUBLIC - PHARE INDICATIVE PROGRAM FOR 1994-96

Signed in May 1994 by the Ministry of Foreign Affairs and the European Commission, this document brings some changes in the structure of the program. Available funds are divided into two parts: 1) the national program (ECU 35 million (approx. \$ 47 mil.)) and 2) cross-border cooperation projects (CROCO, ECU 25 million (approx. \$ 33 mil.)).

The document also defines five key areas of interest to PHARE, including (1) development of private enterprise, (2) development of human resources, (3) infrastructure: this includes support in the sector of transportation, energy, and environment through the CROCO Program (see I/3.1.4. below), (4) social security, and (5) institutional development and European integration.

Compared to initial stages of the program, responsibility for project selection moves increasingly from Brussels onto the Center for Foreign Assistance. However, the European Union has still retained the responsibility for project evaluation and approval and is subject to continued criticism as its procedures are rather time-consuming.

3.1.4. NATIONAL PROGRAM (PHARE - ENVIRONMENT)

Phare's environmental program is coordinated by the Ministry of Environment. Its support is focused mainly on studies (monitoring, engineering, marketing) and supplies of laboratory equipment. As of late 1994, ECU 6 million (\$ 8 mil.) remained to be allocated.

CROCO - Cross Border Cooperation Programme

This is a new program to support projects with cross-border positive effects between EU and CEE countries. The total 1994 budget is ECU 150 million (\$ 200) including ECU 25 million (\$ 33 mil.) for the Czech Republic. Funding will be provided to selected infrastructure projects (transportation, environment, and energy). This program does not bring additional resources but represents funds deducted from the total PHARE budget in the country. As financial resources from the EU were not available until 1995, a 25 percent contribution from domestic sources was a condition of the start-up of the projects some of which are to be completed as early as November 1995.

- The Czech program has two immediate objectives: to improve cross-border road and rail infrastructure, and to reduce environmental pollution in the Czech-Saxon-Bavarian border region.

Six projects were approved within the 1994 budget including sewerage systems in Rumburk and Ústí n. Labem and a water treatment plant in Hrádek n.N.. The Czech-German program covers 16 districts which represent 20.9 % of the territory of the Czech Republic.

Since Austria has joined the European Union, southern parts of Bohemia and Moravia (10,904 km or 13.8 % of the total area) will benefit from the program funding in the near future.

3.1.5. REGIONAL PROGRAMS (PHARE - ENVIRONMENT)

BLACK TRIANGLE

Established in 1991, this program covers the region of Northern Bohemia and the neighboring areas of Poland and Saxony, Germany (Black Triangle region). It is focused on smaller projects with visible fast positive effects. Eight projects were selected in the Czech Republic in 1993 mostly for air quality improvements with the total budget of ECU 1.2 - 1.3 million (\$ 1.6 - 1.7 mil.). If the proposal for a third stage is approved, the Program will last through to 1997. Part of the program are projects for air pollution monitoring (supplies of equipment) and EIA (Environmental Impact Assessment).

CORINE

Involved in this program are Bulgaria, the Czech Republic, Slovakia, Poland, and Romania. Its budget is ECU 5.5 million (\$ 7.3 mil.). The program is divided into three subprograms:

- **CORINE Corinair** - creation of a database of air pollutants in cooperation with OECD countries
- **CORINE Biotopes** - compilation of a list of plant communities to be added to the Corine database of biotopes which is a source of information on ecosystems of over 5,700 places of the European Community
- **CORINE Land Cover** - This program is also a part of the Remote Sensing Program (see below). Its result will be a digital map of the Czech Republic and Slovakia.

REMOTE SENSING

Involved in this ECU 5 million (\$ 6.7 mil.) program are the five countries participating in the CORINE program and Hungary. It is divided into three parts:

- **Land Cover** (as part of the CORINE program, see above)
- **MARS**: vegetation cover modeling and agricultural applications
- **Pilot projects for geo-information systems (GIS)** for the Black Triangle program (above) and the Danube River Basin program (below)

DANUBE RIVER BASIN

The program involves countries of the Danube River Basin and its total budget is ECU 9.5 million (\$ 12.7 mil.). The main objective is to initiate cooperation among the countries concerned to solve environmental problems of the region. Projects (mainly studies) are to be financed from various sources including GEF (see I/3.5.), the Commission of the EU, and the Austrian government. The program is still in its initial stage.

DECONTAMINATION OF AREAS DAMAGED BY EXPLOITATION OF URANIUM

A new program to be opened in 1995 - 1996, prepared and coordinated by the Czech Republic. Beneficiary countries will include Bulgaria, Hungary, Rumania, and the Czech Republic. The proposed budget is approximately ECU 9 million (\$ 12 mil.).

3.2. SILESIA

- This project was started in 1991 and is implemented in cooperation with the US EPA. It is closely related to the Program Environment I. (see I/3.4.). The first stage of the project resulted in identification of the most serious environmental problems in the region. The current (second) stage launched in 1992 is focused on monitoring, designing mitigation strategies, and determining how best to allocate funds using Comparative Environmental Risk Assessment. It has taken the form of demonstration projects which should precede Environmental Risk Management (reduction of risks). US EPA provided funds through US AID for most of projects involving EPA's experts and/or consulting firms. The Czech government financed the work of local environmental specialists by grants under its Environmental Protection Program.

Demonstration projects:

- a) Reduction of coke plants emissions
- b) Reduction of waste water effluent - Biocel Paskov company
- c) Reduction of food contamination risks
- d) Air quality control

Support activities:

- a) Information center of the Silesia project
- b) Model of negotiations between an entrepreneur, state administration, and the public.

Ministry of Environment
Regional Office in Ostrava
Helena Čížková
Prokešovo nám. 8, Ostrava
tel. (+42/69) 628-2362
fax. (+42/69) 621-2061

U.S. Environmental Protection Agency
Anna Phillips
Central European Program
tel. (202) 260-9709
fax. (202) 260-3923

3.3. TEPLICE

The three objectives of this program are monitoring of the environment with special emphasis on air pollution, determining the impact of environmental (esp. air) pollution on the health of the population in the district of Teplice (the district of Prachatice is used for comparison), and designing mitigation strategies and ways of effective allocation of funds.

- EPA launched the project in 1991 by significant investments: about \$500,000 worth of monitoring equipment, with technical assistance to the Czech Hydrometeorological Institute in addition. The Institute has since expanded its activity to the whole of the Czech Republic, purchasing about \$7.5 million in U.S. equipment with its own funds. This project is the most positive experience with using U.S. government funding to solve environmental problems and to create potential for and initiate U.S. exports.

Participating in the program (15 projects in 1994) are a number of local institutions and foreign entities, including EU (PHARE), US EPA, and a number of research institutes and universities.

In 1991 - 1993, Czech government support amounted to approx. \$ 1.3 million, US EPA support (equipment, material, and technical assistance) is estimated at \$ 1.5 million, Norwegian Institute for Air Research Lillestrom: \$ 0.3 million, PHARE: \$ 1.9 million. In 1994, the program received approx. \$ 0.5 million from the state budget. The U.S. now provides only minimal support.

3.4. PROGRAM ENVIRONMENT I.

The program is administered in close cooperation with the World Bank, the European Union, the United States, Canada, Norway, and Sweden. It is in a direct relation to the Environmental Action Plan approved at the 1993 Luzern conference. It is focused on (1) identification of problems requiring immediate attention to prevent long-term negative impact on the population and ecosystems; (2) selection of opportunities for effective use of the limited resources available; (3) fostering of transfer of top methodic, technological, and technical procedures of effective environmental protection with emphasis on environmental damage prevention; and (4) mobilization of all available resources for solution of the most pressing problems.

On the basis of technical/economic studies prepared for each of the five projects of the program (below), investment and non-investment measures were recommended. The expected volume of sources needed for the completion of the five projects is Kč 21 billion (approx. \$ 0.7 billion), required state guarantees for a World Bank loan would be approx. Kč 7,5 billion (approx. \$ 0.25 billion); The loans should be drawn over a period of three years, 1994 - 96, and repaid from 1999 to 2016. However, the Czech Government (the Ministry of Finance) has been reluctant to approve state guarantees for this program. In the meantime, the project studies have become out-dated as a consequence of privatization, changing legislation, and other factors.

- Some chances are given to the project for a toxic waste disposal facility in Ostrava. A request of state guarantees is currently in preparation at the Ministry of Environment. The other projects will not be completed if no new funding is identified before the currently available resources are exhausted (e.g. US AID support for the Silesia project).

Following is brief description of the projects and their goals (name of the foreign participant in the project in parenthesis):

1. * Center for toxic waste disposal in Ostrava (Fichtner (Germany) and Chemcontrol (Denmark) within the PHARE program); Comprehensive preparation of construction of the Center;
2. * Municipal services (Scandiaconsult (Sweden)); selection and assessment of possible investments bankable by international financial institutions in three areas: potable water distribution, municipal waste water treatment, and municipal waste disposal;
3. * Master plan for Northern Moravia (within the framework of the international project Silesia (see I/3.2. above), US EPA); determination of relevant investments to improve environment of the region
4. * Master plan for Northern Bohemia (Norconsult Int'l (Norway)); preparation of a plan of measures to solve the key problems of the region's environment (exclusive of energy and mining);
5. * Study for renovation of areas devastated by mining in Northern Bohemia and Northern Moravia (Canadian Task Force for Middle and Eastern Europe); development of procedures of renovation of areas damaged by mining and prevention of further damage.

Ministry of Environment
ing.Libuše Deylová, tel. (+42/2) 6712-2361

3.5. GLOBAL ENVIRONMENTAL FACILITY (GEF)

The GEF was established in the International Bank for Reconstruction and Development (IBRD or World Bank) as a pilot program in order to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development by resolution of the Executive Directors of the World Bank and related interagency arrangements between the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), and the World Bank.

The GEF operates as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the costs of measures to achieve global environmental benefits in the following focal areas:

- (a) Climate Change
- (b) Biological Diversity
- (c) International Waters
- (d) Ozone Layer Depletion

The World Bank acts as the Trustee of the **GEF Trust Fund** which was newly established to replace the former Global Environment Trust Fund (GET).

- The Czech Republic has received funding under the Biological diversity program (\$2.55 million, including \$2 million from the World Bank, \$ 0.5 million from Austria and \$ 50 ths. from the U.S.) and the Ozone layer depletion program (\$2.2 million). If the projects are completed within less than the expected three years, GEF will provide additional funding.
- The Czech Republic also applies for support under the other two programs. The country's Climate change project is in its initial stage which consists in identification of measures to lower emissions of gas pollutants (esp. carbon dioxide) and restriction of other factors causing climate change, mainly in the energy sector. The cost of the study (\$400 ths.) is paid under the GEF. The Czech Republic also participates in the Odra river (Baltic sea) protection project. An action plan has already been elaborated and a similar plan should be prepared for the Morava river basin as part of the GEF-financed Danube river protection project.

4. MUNICIPALITIES

4.1. STATE BUDGET (ENVIRONMENT / ENERGY)

- The 1994 state budget provided funds in the form of investment subsidies for selected districts of northern Bohemia, the Sokolov district, selected districts of northern Moravia, and Prague. These funds amounted to Kč 1,080 million (\$ 37 million) and are often referred to as the "eco-billion". Funded from these sources were projects on air pollution control, conversion of municipal heating systems to non-polluting energy sources, and water protection. Preference was given to completion of existing projects.

Northern Bohemian districts and the Sokolov district:

- Total resources available: Kč 460 million (\$ 16 mil.)
- conversion of heating systems: Kč 127.7 million (\$ 4.4 mil.)
- air pollution control: Kč 332.3 million (\$ 11.6 mil.)

Northern Moravian districts:

- Total resources available: Kč 420 million (\$ 14.5 mil.)
- conversion of heating systems: Kč 7.7 million (\$ 0.3 mil.)
- air pollution control: Kč 246.2 million (\$ 8.5 mil.)
- waste water treatment: Kč 166.1 million (\$ 5.7 mil.)

Prague:

- Total resources available: Kč 200 million (\$ 6.9 mil.)
- conversion of heating systems: Kč 75 million (\$ 2.6 mil.)
- air pollution control: Kč 75 million (\$ 2.6 mil.)
- Prague Water Supplies (Pražské vodárny) project: Kč 50 million (\$ 1.7 mil.)

- Additional funding was provided to selected parts of the region of northern Bohemia and the Sokolov district with significant environmental pollution. The subsidies totaling Kč 700 million (\$ 24 mil.) in 1994 are divided among nine districts or their parts: Sokolov, Liberec (part), Louny (part), Litoměřice (part), Děčín, Ústí nad Labem, Teplice, Most, and Chomutov.
- Other state budget funds for the environment include subsidies and grants provided through the Ministry of Agriculture, the Ministry of Industry and Trade, the Ministry of Environment and local governments. Total financing for the environment amounted to Kč 7.5 billion (\$ 250 mil.) in 1994 which represents 2.06 percent of the state budget.

This figure does not include resources from the State Environment Fund (SEF, see I/1.2.) in the amount of Kč 3.6 billion (\$ 124 million). The SEF is one of the main sources of financing of municipal projects. (see section I/1.2.)

4.2. LOCAL BUDGETS

Local budget revenues consist mainly of real estate taxes, income taxes, administrative and local fees, proceeds from sales and rental of municipal property, loans, state subsidies and other. Local budgets totaled Kč 75.9 billion (\$ 2.6 billion) in 1994. Of this amount about 25 % were state subsidies which are usually provided for a specific purpose (state administration, schools and other).

- Small municipalities can also benefit from the **Country Renovation Program** which allocated funds totaling Kč 100 million and has been appropriated Kč 250 million for 1995. Over 70 % of these funds are to be used for projects of municipalities focused on systems of environmental stability, including prevention of erosion, maintenance of greenery and other.

4.3. HOUSING GUARANTEE

US AID, the Czech Ministry of Finance, and the Municipal Finance Company (MUFIS a.s.) signed an agreement to initiate the Housing Guarantee Program (HG or the Program).

MUFIS a.s. is the Czech acronym for Municipal Finance Company, a newly created joint-stock company which will serve as central revolving loan fund. Its principal shareholders (49 percent each) are the Ministry of Finance and the Czech-Moravian Guarantee and Development Bank (see section I/1.7.). The remaining 2 percent is held by the Union of Towns and Cities.

- MUFIS will provide low-interest, long term capital to nine Czech commercial banks for on-lending to municipalities for new infrastructure projects related to housing. Eligible projects are for example: water supply system, waste water treatment facilities, gas distribution lines, conversion of municipal district heating systems, solid waste management, minor road construction, existing residential buildings insulation etc.

The program has three components:

1. Capital for Projects: A \$20 million low-interest thirty-year loan from the U.S. capital market with guarantees of the U.S. government has been made available to MUFIS for the first year of operation of the program. U.S. loans could total \$100 million over five years subject to availability of funds and agreement of the parties.

2. Capital for commercial banks: MUFIS will provide these funds to nine commercial banks in the Czech Republic. The money will be lent to municipalities. Project evaluation and loan approvals are the responsibility of the participating banks. The loans will have a fixed interest rate of about 12 % p.a. and terms of 7 to 15 years. They will range from Kč 10 million (\$ 0.34 mil.) to Kč 100 million (\$ 3.4 mil.). Approximately 15-20 projects will be funded from the first installment to be transferred in March 1995. US AID expects that by stimulating banks, often reluctant in respect of financing of municipal projects, the program will have a long-term effect.

3. Technical assistance program: US AID is providing technical assistance to most participants in the program: cities, commercial banks, and MUFIS.

The nine participating banks are: Česká spořitelna, Komerční banka, Investiční a poštovní banka, ČSOB, COOP Banka, Kreditní banka Plzeň, Živnostenská banka, Pragobanka, GiroCredit. On the basis of an agreement with MUFIS, each bank has been assigned certain funds to on-lend to municipalities. The highest amounts are to be allocated by the first three banks.

According to Česká spořitelna, today the only Czech bank with a municipal financing program (see I/4.4. below), HG has often created too high expectations. Some critical comments have been made about the program's long preparation. While in 1992, when the program began to evolve, municipal loans were nearly non-existent, interest rates high and long-term financial resources in scarcity, the program is less of an exceptional source of financing today. Its interest rate is close to that of commercial banks. However, It has retained the advantage of longer repayment periods (up to 15 years) than currently available on the Czech market. Its fixed interest rate facilitates financial planning but also carries certain risks associated with the expected decrease in inflation and interest rates.

MUFIS a.s. (c/o _MZR B a.s.)
ing. Josef Vaník
Jeruzalémská 4
111 21 Prague 1
Czech Republic
tel. (+42/2) 2423-0734 / ext. 2706
fax. (+42/2) 260-273

US AID Prague
Fred Van Antwerp
tel. (+42/2) 2451-0758
fax. (+42/2) 2451-0340

4.4. LOANS FROM COMMERCIAL BANKS

To date, local banks have been able to provide long-term loans to municipalities only to a very limited extent. Until now, only Česká spořitelna had a municipal program offering enhanced support for municipal projects. Recently, two other banks of the "big four" started preparing a municipal program which will provide longer terms and lower interest rates. The four biggest commercial banks (formerly state owned) and their approach to financing of municipal projects are briefly described below.

Česká spořitelna (ČS)

Česká spořitelna (Czech Savings Company) used to be the state savings bank. Even now it has a dominant position on the market of personal deposits. It makes its resources available to other commercial banks and also provides direct loans to businesses, individuals, and municipalities.

- The Bank claims to have helped start municipal credit financing in the Czech Republic. It is the only local bank with a special program for municipalities. As part of the Bank's privatization 20 percent of its ownership was granted to municipalities.
- _S's municipal program offers lower interest rates (1.5 - 2 % below the rate on business loans), longer repayment periods (typically up to 10 years), and different requirements for repayment guarantees (it accepts future income guarantees). Its rates are variable around its basic interest rate which is closely dependent on the discount rate of the central bank. As of February 1995, the Bank's rates were 9.5 percent and higher for 4- to 6-year loans and 10 percent and more for 6- to 10-year loans under the municipal program.
- As of December 31, 1994, the Bank had 560 outstanding municipal loans in the total amount of Kč 3.2 billion (\$ 110 million). This represents a sharp increase in the last three years - municipal loans totaled Kč 1.3 billion in 1993 and 0.6 billion in 1992. The Bank estimates its market share at roughly 75 percent.
- Česká spořitelna has also assisted several cities on municipal bond issues. In 1994, it prepared and provided underwriting for three out of six issues denominated in the local currency of that year (see I/4.5. below), representing Kč 420 million out of Kč 600 million (\$ 14.5 mil., resp. \$ 20.1 million).

Česká spořitelna a.s.

Ing. Petr Klos
Director of Municipal Services Development Section
Budějovická 1912
140 00 Prague 4

tel. (+42/2) 6107-2362
fax. (+42/2) 6107-2515

Komerční banka (KB)

KB is the largest bank in Central and Eastern Europe. It was established in 1990 as part of a reform of the banking system to take over the central bank's commercial loan portfolio.

- Most loans provided to date to municipalities were short- to medium-term. The Bank newly begins to provide long-term financing. These loans can be refinanced through the Housing Guarantee Program (HG, see I/4.3. above) or retained as a direct loan based usually on decision of the borrower. To date, the Bank's requirements in respect of municipalities businesses were equal but a new municipal policy is in preparation. This can be regarded as an indirect stimulation effect of the HG program.
- As of February 16, 1995, Komerční banka had a total exposure of Kč 569 million (\$ 20 mil.) in municipal loans. 67 percent of this amount were medium-term loans, 6 percent were long-term, i.e. 4-10 years. Municipal loans represented 0.26 % of the Bank's loan portfolio.

Československá obchodní banka (ČSOB)

CSOB, founded in 1965, held a monopoly on foreign payments and hard currency transactions until 1990. It is one of the few originally Czechoslovak banks that is continuing operations in both republics. It continues lend for imports and exports and currently has an estimated 80% share of this market. The bank has a branch office in Chicago.

The Bank does not have a special municipal financing program but participates in the Housing Guarantee Program.

- The Bank has acted as a guarantor for the Export-Import Bank of the United States and other Western Banks. ČSOB operated a credit facility which provided financing for desulphurization of three power plants. The Bank also guaranteed a Japanese loan for the Opatovice power plant

Investiční a poštovní banka

Investiční banka used to manage long-term assets of the state. It re-gained its independence as of January 1, 1990 and privatized in 1992. It recently acquired a majority share in Poštovní banka. Approximately one third of the Bank is held by the National Property Fund. The Bank is the third largest in the Czech Republic in terms of total credits and fifth largest in terms of total assets.

- The Bank began providing municipal loans in late 1994. (These loans had interest rates

lower than the 12 % set for the Housing Guarantee program.) It is currently preparing a municipal policy which would introduce a comprehensive municipal program including all services provided today to the business sector but modified in order to be more easily accessible to municipalities - lower interest rates and fees, longer maturity etc.

4.5. BOND ISSUES

- Several towns and cities in the Czech Republic have issued or plan to issue bonds to obtain financial resources for their projects. They include Ostrava, Šumperk, Liberec, Smržovka, Prague (denominated in US dollars), Čáslav, Veselí n. Moravou, Pardubice, Rokytnice, and Rychnov nad Kněžnou. Bond issue preparation is underway in Plzeň, Ústí nad Labem, Brno and possibly other cities.

4.6 PHARE BANK FUND

(see I/3.1.1.)

4.7. UNION OF TOWNS AND CITIES

Mr. Jaromír Jech, Secretary
Union of towns and cities
Pacovská 31
140 00 Prague 4

tel. (+42/2) 6121-1424
t/f. (+42/2) 6121-1318

The Union has over 1,000 members. This represents only 17.5 % of all municipalities in the country but 76 % of its population (7,8 million out of 10.3 million inhabitants).

5. NATIONAL PROPERTY FUND (NPF)

- According to a law approved in 1991, assets of the National Property Fund (NPF) can be used (with government approval) to finance expenses related to environmental damage resulting from the operation of a state enterprise before its privatization. This is an equivalent of the U.S. "Superfund".

- The NPF resources can be used exclusively for the three following types of environmental damage: undersurface water pollution, soil pollution, and hazardous waste dumping sites. Only costs incurred after the signature of an Agreement can be reimbursed by the NPF.

As of February 1995, the NPF has signed nearly 80 agreements, including some of a total of 120 cases which have received government approval and some agreements signed by the Fund before the government issued a resolution establishing its right to make final approvals.

- The NPF expenditures resulting from these agreements totaled Kč 150 million (over \$ 5

million) by the end of 1994 and are expected to reach Kč 2 billion (\$ 70 million) in 1995. The sum of costs determined by all risk assessment analyses is Kč 50 billion (\$ 1.7 billion). Whether or not NPF expenditures will be equal to this cannot yet be determined.

The new owner of an enterprise has to have submitted a proposal of an "Agreement on reimbursement of environmental damage removal" to the Fund before the date of signature of the agreement on property transfer (sale).

The company is required to call a tender (public or selective). Bids are evaluated by a commission in which the Ministry of Environment and the NPF have their representatives. For information about tenders, contact the NPF, preferably by a written communication.

National Property Fund
ing. Jan Mrkos PhD.
Rašínovo náměstí. 42
128 00 Prague 2
tel. (+42/2) 2499-1292
fax. (+42/2) 291582, 295825

6. CZECH TAX SYSTEM AND THE ENVIRONMENT

7.1. INCOME TAX

The income tax law grants **tax exemption** to income from the operation of small water power stations (up to the output of 1 MW), wind power stations, solar facilities, biogas producing facilities, facilities for the production of specific biological degradable substances, facilities for the utilization of geothermal energy, in the calendar year in which they were put into operation and the following five years.

Deductible items from the personal and corporate income tax include donations for purposes of environmental protection if provided to legal entities and municipalities in the Czech Republic. Such donations of natural persons have to exceed 2 percent of the tax base or Kč 10,000. Maximum 10 percent of the tax base can be deducted. For legal persons (businesses), each donation has to exceed Kč 2,000; maximum deductible donations are the equivalent of 2 percent of the tax base.

Expenses spent in order to achieve, ensure, and maintain a taxpayer's incomes (and therefore not included in the tax base) include the cost of operation of a facility for protection of the environment as defined by legislation, e.g. the waste management act or the air protection act.

7.2. VALUE ADDED TAX (VAT)

The list of products subject to preferential VAT rate (5 percent as opposed to 22 percent which applies to all other products) in Appendix I of the VAT Act includes certain products related to the environment: biogas, recycled paper products, water turbines, solar energy equipment, small waste water treatment plants, air filters, water and heat consumption measuring and control devices and other.

7.3. REAL ESTATE TAXES

Exempted from this tax are: waste water treatment facilities, facilities serving solely for the purpose of environmental improvements, buildings where solid fuel heating systems have been converted to gas, electric power or other alternative energy sources for five years following the conversion.

7. CZECH-MORAVIAN GUARANTEE AND DEVELOPMENT BANK

The Czech-Moravian Guarantee and Development Bank (MZR) was founded in 1992 to support the development and growth of small and medium-sized enterprises (SMEs) in the Czech Republic. Its shareholders are the state (30 percent) and large commercial banks (70 percent). The Bank has a universal banking license with limited foreign exchange activities.

The Bank's principal objective is to act as an intermediary between state programs for support of SMEs and their beneficiaries - the SMEs. It provides direct support (e.g. partial payment of interest) and loan guarantees through a network of 33 commercial banks for start-up businesses, existing SMEs and special target groups. There are currently nine programs available. The 1994 state budget appropriated Kč 1.2 billion for these programs, far below the total requirements of applicants for support.

- The Bank and the Ministry of Finance are the two principal shareholders of the Municipal Finance Company (MUFIS) established to provide funding for municipal infrastructure projects under the Housing Guarantee Program of the U.S. Agency for International Development. For more information about the program, see section I/4.3. of this study.

Česko-moravská záruční a rozvojová banka a.s.
ing. Ladislav Macka, General Manager
Jeruzalémská 4
111 21 Prague 1

tel. (+42/2) 2423-0734
fax. (+42/2) 260-273

II. U.S. SOURCES

1. EXPORT-IMPORT BANK	23
2. OPIC	24
3. SBA	27
4. TDA	27
5. U.S. GOVERNMENT INITIATIVES	29
5.1. SEED ACT Funding / US AID	29
5.1.1. Silesia and Teplice projects	29
5.1.2. Housing Guarantee	29
5.1.3. Czech and Slovak American Enterprise Fund	30
5.1.4. Capital Development Initiative	30
5.1.5. Other US AID activities	31
5.2. US EPA	32
5.2.1. Environmental Action Plan	32
5.3.1. Environmental Technology Initiative	34
5.3. Department of Commerce	35
5.4. Department of Energy	36
5.5. Trade Information Center	36
6. STATE PROGRAMS	36
7. U.S. COMMERCIAL BANKS	37

1. EXPORT-IMPORT BANK OF THE UNITED STATES

- The Export-Import Bank is one of the major sources of support to U.S. exporters to the Czech Republic in a variety of sectors including environment and energy. As of June 1994, the Bank provided financing in the amount of \$ 573 million to the Czech Republic.

1.1. DESCRIPTION

The Export-Import Bank of the United States (Ex-Im or the Bank) is an independent government agency responsible for assisting the export financing of U.S. goods and services through a variety of loan, guarantee, and insurance programs. The bank does not compete with commercial lenders but assumes the risks they cannot accept. Nevertheless, it still requires reasonable assurance of repayment. During its 60 years of existence, the Bank has helped finance nearly \$ 300 billion in overseas sales.

1.2. PROGRAMS AND SERVICES - see Appendix, section II/1.2.

1.3. ENVIRONMENT

- **Environmental Exports Program** - a program designed to provide enhanced levels of support to substantially improve the competitive position of U.S. environmental exporters includes:

- a) A new short-term **Environmental Export Insurance Policy** will provide enhanced short term, multi-buyer and single-buyer insurance coverage for small business environmental exporters. Features of the program include policies which deliver 95% commercial coverage and 100% political coverage with no deductible.
- b) Enhanced medium- and long-term support for environmental projects, products, and services reflected in Ex-Im Bank's loan and guarantee programs.

Eligibility: Exporters of environmentally beneficial products and services specifically used for and exporters participating in foreign environmental projects entirely dedicated to abatement, control or prevention of air, water, and ground contamination or pollution, protection in the handling of toxic substances, use of renewable energy and other.

- During FY 1994, Ex-Im provided support for nearly \$1 billion in environmental projects.

1.4. CZECH REPUBLIC

- Total Ex-Im support in the Czech Republic reached \$573 million as of June 1994. In March 1994, Ex-Im Bank authorized \$317 million in long term guarantees for the sale of equipment and nuclear fuel by Westinghouse Energy Systems to upgrade the safety and reliability of a Soviet-designed VVER-1000 nuclear power plant under construction near Temelin in South Bohemia. In another transaction approved in June, the Bank provided a \$12.5 guarantee for the sale of environmental equipment and services for a waste treatment plant by Pamco Environmental of Seattle, Washington. The plant will recycle debris into energy and new products.

1.5. CONTACT

Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571-0999
Telex: (TRT) 197681 EXIM UT
Toll Free Number: 1-800-565-EXIM (3946)
Main Number: (202) 565-EXIM (3946)
Main Fax Number: (202) 565-3380

Inquiries not related to current or pending transactions should be directed to:
Business Development Group
tel. (202) 565-3900
fax. (202) 565-3931 (International Business Development)

2. OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

- OPIC has played a major role in assisting U.S. companies in the region. Energy and environment projects have included \$12 million in insurance for a project by Air Products and Chemicals company and \$250,000 in insurance for a project by Environmental Systems Corporation, both in the Czech Republic.

2.1. DESCRIPTION

OPIC is an independent agency of the U.S. Government that supports U.S. private investment in developing countries and emerging market economies through (1) investment loans and loan guarantees; (2) investment insurance; and (3) and investor services. OPIC is structured like a private corporation and operates on a self-sustaining basis. All of its guaranty and insurance obligations are backed by the full faith and credit of the United States of America and by OPIC's own financial reserves currently standing in excess of \$2,0 billion.

2.2. SERVICES - see Appendix, section II/2.2.

2.3. CZECH REPUBLIC / CENTRAL AND EASTERN EUROPE

- OPIC has played a major role in assisting U.S. companies in the region. From Fy 1991 to FY 1993 OPIC provided \$119.2 million in direct loans and loan guarantees to eleven projects, \$1.2 billion in insurance for 76 projects, and \$1.1 million to support feasibility studies. The bulk of this activity has not, however, been in the energy and environment sectors. Energy and environment projects have included \$12 million in insurance for a project by Air Products and Chemicals company and \$250,000 in insurance for a project by Environmental Systems Corporation, both in the Czech Republic.

- OPIC Executive Vice President Christopher Finn led more than two dozen companies on an investment mission to the Czech Republic and Slovakia in June 1994. The delegation met with the Prime Minister and other high legal government and private sector representatives in Prague and Bratislava to discuss investment opportunities in pollution abatement, telecommunications, energy, real estate development and construction. Some of the participating U.S. companies included Ameritech, Babcock and Wilcox, Conoco, ICF Kaiser, Southern Electric, Pratt & Whitney, and Westinghouse.

2.4. CONTACT

Overseas Private Investment Corporation
1100 New York Avenue, NW
Washington, DC 20527
OPIC InfoLine: (202) 336-8799
OPIC FactsLine: (202) 336-8700
OPIC programs in Central and Eastern Europe: tel. (202) 336-8645

2.5. OPIC-SUPPORTED FUNDS

Global Environment Emerging Markets Fund

- In 1993 OPIC provided loan guarantees for debentures in the amount of \$50 million to support the formation and capitalization of the Global Environment Emerging Markets Fund (GEEMF) managed by the Global Environment Fund (GEF) Management Corporation. The fund will invest up to \$80 million in equity and debt securities of private companies (individual investments of up to \$10 million) whose operations are expected to yield positive environmental benefits giving particular attention to projects related to clean energy, renewable sources, water treatment, air pollution control, and waste management in Asia, Latin America, and Eastern Europe.

Jeffrey Leonard, President
GEF Management Corporation
1201 New York Avenue, N.W., Suite 220
Washington, DC 20005
tel. (202) 789-4500
fax. (202) 789-4508

Calvert Emerging Europe Fund for Sustainable Development

- OPIC will provide a \$42 million investment guaranty to establish the Calvert Emerging Europe Fund for Sustainable Development. The \$60 million fund has been approved by OPIC's Board of Directors, and will be managed by S.G. Europe, Ltd., based in Bethesda, Maryland. The fund intends to concentrate on investment opportunities related to environmental remediation and manufacture of pollution reduction instruments and appliances.

Mark Grovic
Clavert Emerging Europe Fund
7201 Wisconsin Avenue, Suite 310
Bethesda MD 20814
tel. (301) 718-4272
fax. (301) 656-4421

David Fisher
SG Euro Venture Advisors
Patro II
Pod Kesnerkou 57
150 00 Prague 5 - Smíchov
Czech Republic
t/f. (+42/2) 546010

Central and Eastern European Growth Fund

This fund is underwritten by OPIC, managed by Salomon Brothers and owned privately. The Fund will invest in new companies, established companies planning to expand, and state-owned companies being privatized. By raising capital to finance productive business enterprises in Eastern Europe, the Fund will generate new economic activity, private sector growth, and employment opportunities.

Bancroft Central Europe Fund

The Bancroft Group will manage an OPIC-supported investment fund to be capitalized at \$100 million. It will make direct investment in private or privatized businesses.

J.Fred Martin, President
The Bancroft Group
607 14th Street NW
Washington DC 20005
tel. (202) 434-1600
fax. (202) 434-1690

Auburndale Property Fund

OPIC has also approved guarantees to support the capitalization of the Auburndale Central & Eastern European - Newly Independent States Property Fund, L.P.. \$160 million will be raised through the sale of OPIC-guaranteed 12-year and 15-year promissory notes and additional \$80 million in equity from institutional investors such as insurance companies and pension funds. The Fund will be a new (\$240 million) direct investment vehicle that will acquire, develop and redevelop light manufacturing, distribution, and other commercial facilities and related real estate mainly in the Czech Republic, Hungary, Poland, and Slovakia. It will build facilities according to the specifications of corporate users and lease them back. The Fund will have a secondary focus on opportunities in other CEE countries and the countries of the NIS including Russia and Ukraine. The size of the Fund's investment will range from 5 to 15 million dollars. Initial investment period is expected to require up to four years.

Steven Green, Noel Gould, Evan Lovell
Auburndale Properties, Inc.
801 Pennsylvania Ave. NW
Washington DC 20004
tel. (202) 543-8386
fax. (202) 543-8382

3. SMALL BUSINESS ADMINISTRATION (SBA)

3.1. DESCRIPTION

SBA provides financial and business development assistance to encourage and help small businesses in developing export markets. SBA's export loans are available under SBA's guaranty program. As a prospective applicant, you should request that your lender seek SBA participation if the lender is unable or unwilling to make the loan directly. You can contact the finance division of your nearest SBA office for a list of participating lenders. The financing staff of each SBA office administers the loan guarantee programs. The business development staff of each SBA office can provide counseling on how to request export financing assistance from a lender.

Borrowers can use different SBA loan programs and types of loan guarantees simultaneously, as long as the total SBA-guaranteed portion does not exceed the agency's \$750,000 statutory loan guaranty limit to any one borrower. The lender may charge a maximum interest rate of 2.75 percentage points above the New York prime interest rate, or 2.25 percentage points above New York prime if the maturity is less than seven years.

3.4. CONTACT

Sheldon Snook
Office of International Trade
U.S. Small Business Administration
409 Third Street, SW
Washington, DC 20416
Tel: (202) 205-6720
Fax: (202) 205-7272

4. TRADE AND DEVELOPMENT AGENCY (TDA)

- Total TDA expenditure for Eastern and Central Europe reached \$ 5.7 million in 1993. In 1993, TDA approved funding for over 75 activities, with energy and environment accounting for about 70 percent of the total. By December 1994, TDA has completed six projects including five feasibility studies and one orientation visit. The Agency's current activities include three projects in the environmental and energy sectors.

4.1. DESCRIPTION

The U.S. Trade and Development Agency (TDA) promotes economic development by funding feasibility studies performed by U.S. companies or consortia. TDA supports major projects which meet the following criteria: 1) the project represents a development priority of the host country; 2) offers large export or investment potential for U.S. companies; 3) project financing has been identified or is likely if the study suggests feasibility; and 4) without TDA's participation the project would not move forward with U.S. involvement. In reaction to major infrastructure and industry privatization projects in CEE countries, TDA now considers funding for both private and public sector projects.

Other activities include funding of training programs, consultancies, seminars, and other project planning services. Technical seminars can take place either in the U.S. or the respective CEE country. TDA may also sponsor orientation visits to the U.S. for key Eastern European project managers. TDA also considers project-oriented technical training.

4.2. TDA OPERATION POLICIES - see Appendix, section II/4.2.

4.2. CZECH REPUBLIC / ENVIRONMENT

• Current activities (as of December 1994) in the Czech Republic consist of four grants. Three of them are in the sector of energy and environment:

- Power Plant Rehabilitation - retrofitting of district heating plants; a \$318,400 grant awarded in April 1993; study performed by a U.S. consortium of SAIC, Babcock & Wilcox, Sargent and Lundy, and Gilbert Commonwealth.
- Sludge Processing Facility in the Ostrava region; a \$131,000 grant awarded in September 1993; study performed by Kaiser Engineering International.
- Waste Gas Conversion - development of a system for conversion to diesel fuel at the Vresova power plant; performed by ICF Kaiser, Rentech, and William Energy Ventures.

A new grant is likely to be awarded for a slag cleaning project in Ostrava to be performed by Kaiser Engineering International.

Activities completed by December 1994 include grants for the following projects in energy and environment (one orientation visit and five studies):

- Natural Gas/Energy Officials Orientation Visit
- Ground water remediation at a former uranium mine
- Power plant rehabilitation (a fossil fuel plant)
- Natural Gas Storage and Control
- Hazardous Waste - remediation at the Spolana company
- Hazardous Waste - Chabarovice hazardous waste site

• Total TDA expenditure for Eastern and Central Europe, which includes some SEED fund transfer from AID, reached \$ 5.7 million in 1993 which represents a 50 percent decline compared to 1992 due to increased spending in other regions. In 1993, TDA approved funding for over 75 activities, with energy and environment accounting for about 70 percent of the total.

4.3. CONTACT

U.S. Trade and Development Agency
Room 309, SA-16
Washington, DC 20523-1602
Tel: (703) 875-4357
Fax: (703) 875-4009

Geoffrey Jackson, Regional Director for Central and Eastern Europe
Lois Varrick, Country Manager

5. U.S. GOVERNMENT INITIATIVES

5.1. SEED ACT FUNDING / U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

The United States provides bilateral assistance through the **Support for East European Democracy (SEED) Act** which outlines the principals of its policy. The Act authorizes the U.S. Government to undertake a range of activities designed to encourage the establishment of democratic institutions, assist in the development of free market economies, and provide emergency humanitarian aid.

The centerpiece of U.S. assistance is economic restructuring. Programs to address major environmental problems through technical assistance, training, and equipment are also funded.

In 1992, a \$15 million Environmental Sector Grant was provided based on an agreement of the U.S. and the Czechoslovakian governments. \$10 million were transferred to the Czech State Environment Fund. These monies increased the Fund's available resources by 10 percent and enabled additional environmental projects to be initiated. (See I/1.2.)

- Through the SEED Act, the U.S. Congress has appropriated \$1.4 billion to fund technical assistance programs in Central and Eastern Europe since 1989 (\$440 million in 1993). The SEED Act also extends programs such as General Schedule of Preferences (GSP) duty-free tariff treatment and Overseas Private Investment Corporation (OPIC) financing and insurance coverage, provides broad technical assistance, and establishes enterprise funds. The **U.S. Agency for International Development (US AID)** is primarily responsible for implementing the projects. The Act calls for 25 distinct actions to support structural adjustment, private sector development, trade and investment, educational, cultural, and scientific activities, and other.

US AID is the principal federal agency that implements the U.S. Foreign Assistance Program in nearly 100 countries. It awards loans and grants to eligible countries. From these loans and grants flow technical assistance projects and programs implemented through the provision of services and products of U.S. suppliers.

US AID sponsors projects aimed at finding market-based solutions to developing country environmental and energy problems by providing services and financial assistance that facilitate the transfer of appropriate technologies. US AID's approach includes information dissemination, market development, partner identification, transaction assistance, and financial support.

5.1.1. SILESIA AND TEPLICE PROJECTS

Silesia and Teplice are the two most significant US AID projects. They are implemented by US EPA in cooperation with local government and other entities. For more information, see I/3.2. and I/3.3..

5.1.2. HOUSING GUARANTEE

US AID, the Czech Ministry of Finance, and the Municipal Finance Company (MUFIS a.s.) signed an agreement to initiate a Municipal Infrastructure Finance Program in the Czech Republic. For more information see I/4.3..

5.1.3. CZECH AND SLOVAK AMERICAN ENTERPRISE FUND

The Czech and Slovak American Enterprise Fund (CSAEF or the Fund) was established by the U.S. government in March, 1991 to promote the development of small and medium-sized private enterprises in the Czech and Slovak Federal Republic (CSFR). Formed pursuant to the SEED Act, the Fund is similar to three other American Enterprise Funds presently operating in Bulgaria, Hungary, and Poland. After the dissolution of the CSFR on January 1, 1993, two separate subsidiary Funds were created through which the CSAEF pursues its activities.

The Fund provides direct investments in the form of loans and equity capital, technical assistance grants, and additional financing under its joint lending programs.

As of September 30, 1994, the Board of Directors has authorized 52 (22 in the Czech Republic alone) direct investments totaling \$ 31.3 million (\$ 11.1 mil.). Of this amount, funding has been initiated on 47 (20) investments. Of the total, \$ 17.0 million (\$ 5.6 mil.) was in debt financing and \$ 14.3 million (\$ 5.5 mil.) in equity financing.

- The Fund has made four investments related to energy (\$ 1 mil. or 10 % of total investment in the Czech Republic). They include several low-head hydroelectric power stations.

For more information, see Appendix, section II/5.1.3.

Czech and Slovak American Enterprise Fund
1620 Eye Street, NW, Suite 703
Washington, DC 20006
Tel: (202) 467-5480
Fax: (202) 467-5466

Paul Gibian, President and CEO
Alexandra Ossipoff, Director of Operations
Bradley T. Miller, Chief Financing Officer
Richard Dine, Senior Investment Officer

Czech American Enterprise Fund
Blanická 28
120 00 Prague 2
tel. (+42/2) 2424-7046
fax. (+42/2) 2424-6048
Paul Gibian, President
James M. O'Neill, Chief Financial Officer

5.1.4. CAPITAL DEVELOPMENT INITIATIVE (CDI)

This initiative was set up to identify appropriate technology and attract foreign investment for projects in infrastructure. In the Czech Republic, the program has reached its end. Final report is available through US AID Prague.

For more information and contact, see Appendix, section II/5.1.4..

5.1.5. OTHER US AID ACTIVITIES

Under the **Utility Partnership Project** Houston Lighting and Power and the Czech Energy Works (EZ) collaborate on management and technical advisory missions, executive exchanges, and seminars targeted at the Czech power utility - Czech Energy Works (financial management, utility rates and regulation, environmental issues, public relations etc.).

US AID and the U.S. Department of Energy worked with three Czech municipalities (Plzeň, Český Krumlov, Ostrava) on **pilot projects** related to the environment and energy. These projects involved studies, data collection, and transfer of U.S. know-how. Results were used as a basis for an international conference on pollution control from coal-fired low-emission sources.

The **Environmental Training Project** implemented by a consortium led by the University of Minnesota provides management training to environmental businesses. Seven courses were presented in Northern Bohemia in 1993. 1994 was the last year of funding, but continuation of the project is ensured by local trainers and cooperation with the University of Ústí nad Labem.

New environmental protection approaches are introduced by the **World Environmental Center** through waste minimization demonstration projects, using low-cost equipment and processes to decrease industrial pollution. This approach benefits the environment and is economically feasible. For example, through the use of one \$20,000 piece of equipment, Chemopetrol Litvínov, a large petrochemical plant reduced volatile organic compounds emission by over 940 tons a year with annual savings over \$100,000. An additional project is being prepared in another chemical company, Spolana Neratovice.

World Environmental Center
 Thomas J. McGrath
 tel. (212) 683-4700
 fax. (212) 683-4745

The **Center for Clean Air Policy** - a non-profit research institute which develops policy approaches for energy and environmental issues - established the State Energy and Environment Exchange Program (SEEEP) office in Prague to support market-based and least-cost approaches to environmental issues. This program will use **Joint Implementation** in Děčín in Northern Bohemia. In joint implementation, included in the Rio Treaty, two or more countries work together on projects to plan and implement greenhouse gas reduction or offsetting projects.

- For the first pilot project in Děčín, the Center works with financial support from the Rockefeller Foundation, three U.S. utilities (Wisconsin Electric Power Company, NIPSCO Industries, and Edison Development Company), and the Committee on Renewable Energy Commerce and Trade (CORECT, see II/5.4.) of the U.S. Department of Energy.

The three U.S. utilities will invest \$200,000 each into conversion of a coal-fired heating plant in Děčín Bynov to natural gas. An agreement on principle has been signed. The project is only experimental as Joint Implementation still lacks a clear legislative and administrative framework.

Bittle Koenick, Center for Clean Air Policy, tel. (202) 624-8191, fax. (202) 508-3829
 Stan Kolar, Rohanský ostrov 8, Prague 8, tel. (+42/2) 2431-1349, fax. (+42/2) 684-3678

Center for Trade & Investment Services (CTIS)

USAID's Center for Trade & Investment Services (CTIS) promotes increased business activity between U.S. businesses and foreign entrepreneurs in Asia, the Near East, Africa, Latin America, Eastern Europe and the Newly Independent States (ex-USSR). CTIS was set up as a central source of information on USAID-financed programs, policies and projects, procurement and contracting opportunities and information generated by US AID activities.

Center for Trade & Investment Services
 USAID, G/IBD/CTIS
 SA-2, Room 100
 Washington, DC 20523-0229
 tel. (202) 663-2660 or (800) USAID-4-U
 fax. (202) 663-2670

There are other funds and programs supported by U.S. AID focused on the environment and energy sectors but not active in the Czech Republic to date, according to U.S. AID Prague. For more information see Appendix, section II/5.1.5..

5.2. U.S. ENVIRONMENTAL PROTECTION AGENCY (US EPA)

The US EPA is among the most dynamic foreign government agencies active in the Czech Republic. It leads the U.S. contribution to the Environmental Action Plan and implements the U.S. Environmental Technology Initiative including its U.S. TIES component. It works closely with the U.S. AID and implements several projects funded through U.S. AID under the SEED Act, including two major regional projects - Teplice and Silesia.

5.2.1. ENVIRONMENTAL ACTION PLAN (EAP)

US EPA leads the United States' contribution to the Environmental Action Plan (EAP) signed at the April 1993 conference of Ministers of Environment in Luzern, Switzerland. The Plan has two principal objectives: a policy objective to develop National EAPs and an investment objective to help prepare and to obtain financing for environmental health investments. The Luzern agreement does not include means of financing environmental projects. The funding is expected to be raised locally or on international markets.

US AID has the lead on the **Project Preparation Committee, PPC** (investment objective). The policy objectives are the responsibility of the EAP Task Force where the main collaborator of EPA is the Harvard Institute for International Development (HIID).

Policy Objective

HIID provides technical assistance to the Czech Republic in three areas: an evaluation of the current tax and fee system; a survey and an in-depth evaluation of the primary economic instruments applied to controlling pollution, followed by a seminar for senior officials in relevant ministries; and a case study focusing on air pollution generated by the energy and industrial sectors in Northern Bohemia.

Investment Objective

US AID set up two contracts to support Project Preparation Committee activities: one for **Project in Development and the Environment (PRIDE)** and one for the **Environmental Pollution Prevention Project (EP3)**. The PPC provides TA to identify and to develop the pre-investment analysis necessary to obtain financing for EAP projects.

- Under the PRIDE contract, USAID fielded a three week mission to the Czech Republic in late March and early April 1994. The objective of the mission was to identify projects for USAID technical assistance through EP3 primarily in project development, evaluation, and financing.
- Initially, three environmental projects were selected: Děčín, Meziboří, and Ostrava. Currently, the only active project is the one in Ostrava. It consists of two parts: Utilization of waste heat from the Nová Huť steel mill in the near-by town of Vratimov and desulphurization of the Nová Huť coke oven gas. Other projects in Northern Moravia are to be identified.

USAID Washington D.C.
Paul Parks, Program officer for EAP
tel. (202) 647-7114

U.S. Agency for International Development
Environment and Natural Resource Division
Bureau for Europe
Alexia Panehal / Melody Bacha / Paul Parks
tel. (202) 647-7336
fax. (202) 647-6962
Energy and Infrastructure
Robert Ichord
tel. (202) 647-8274
fax. (202) 647-6962

U.S. Agency for International Development
Representation to the Czech Republic
Jim Bednar / Bob Posner / Jan Pisko
tel. (+42/2) 2451-0758
fax. (+42/2) 2451-0340

Environmental Pollution Prevention Project (EP3)

EP3 is a joint project of USAID and the Environmental Protection Agency (EPA), providing technical assistance in urban and industrial environmental management to USAID missions and host-country institutions. The goal of EP3 is the reduction of pollution associated with urbanization and industrialization in developing countries. EP3 offers technical, analytical and informational support to facilitate the adoption of pollution prevention approaches and technologies through a number of activities, including conducting plant-level assessments to identify options for improving productivity and reducing end-of-pipe control requirements; supporting technology development and transfer through demonstration of innovative approaches, identifying business opportunities and assisting in mobilizing investment capital.

Following and independent of the US AID mission mentioned above, EP3 identified two new suitable projects: the Doksany sugar mills and a coal dump at the Kateřina coal mine currently in fire.

Dr. James Gallup

USAID/R&D/ENR

Room 509 SA-18

Washington, DC 20523-1812

Tel: (703) 875-4323

Fax: (703) 875-4639

Dr. James Westfield

RCG/Hagler Bailly

1530 Wilson Boulevard, Suite 900

Arlington, VA 22209-2904

Tel: (703) 351-0300

Fax: (703) 351-0342

5.2.2. ENVIRONMENTAL TECHNOLOGY INITIATIVE (ETI)

The principal objectives of this initiative proposed in President Clinton's February 1993 State-of-the-Union address are to advance environmental protection through innovative technology development and to increase global marketability of U.S. environmental technology. The Congress appropriated \$36 million for ETI in FY 1994 and \$80 million in FY 1995. To ensure Federal government coordination, EPA is to pass about 50 percent of funding to other agencies.

ETI topic areas for FY 1995 are:

- Policy framework to promote innovation
- Innovative capacity
- Environmental technologies for monitoring, control, and remediation technologies
- Pollution prevention technologies
- Domestic diffusion
- International diffusion

- A major component of international diffusion is the **U.S. Technology for International Environmental Solutions (U.S. TIES)** initiative. EPA is planning a number of activities to promote the program including assessment of international markets and needs and evaluation of the ability of U.S. technologies to meet those needs.

Under U.S. TIES program solicitation for FY 1995, the Atlantic Partners company requested funding for a feasibility study for a project on production of environmentally friendly fuel from brown coal.

Richard D. Stern, Senior Technical Advisor

International Technology Liaison

U.S. Environmental Protection Agency

Office of Research and Development

Research Triangle Park

North Carolina 277 11

tel. (919) 541-2973

fax. (919) 541-5227

US EPA is also active in a number of SEED-funded projects. The Agency implements two major projects in the Czech Republic - Teplice and Silesia. For details see sections I/3.2. and I/3.3..

5.3. DEPARTMENT OF COMMERCE

AMERICAN BUSINESS AND PRIVATE SECTOR DEVELOPMENT INITIATIVE

Announced in March 1991, this \$46-million initiative is designed to promote more U.S. investment, participation by U.S. firms in infrastructure development, and increased involvement of small- and medium- sized U.S. companies in bilateral trade. The American Business and Private Sector Development Initiative (ABI) aims to transfer U.S. commercial expertise and investment in agriculture, agribusiness, energy, environment, telecommunications, and housing. ABI's components are the:

Eastern Europe Business Information Center (EEBIC)

EEBIC was established by the Department of Commerce in January 1990 to serve as an information clearinghouse. EEBIC provides information on exporting, financing, and joint ventures, as well as referrals to other agencies such as Ex-Im Bank and OPIC. Under ABI, EEBIC has expanded its services by developing and disseminating information on key CEE industries and business opportunities.

Consortia of American Businesses in Eastern Europe (CABEE)

CABEE, initiated by the Department of Commerce, supports groups of small- and medium-sized U.S. companies that wish to enter the CEE market. Grants assist U.S. trade and business associations in selected sectors in establishing a presence in the region. The program is designed for companies that may lack the capacity or the resources to enter the market on their own. To date, five U.S. trade- producer associations have been established and are providing their members with market surveys, lists of potential joint-venture partners, and guides on how to do business in CEE. Associations supported under the ABI include the Coalition for International Research and Assistance (environment). As of July 1993, \$138 million in U.S. export sales have been attributed to the CABEE program.

Overseas Private Investment Corporation (OPIC)

Under the ABI, OPIC expands its services to potential U.S. investors in Central and Eastern Europe. For more information on OPIC, see II/2..

Trade and Development Agency (TDA)

Money provided through USAID under the ABI has enabled the U.S. Trade and Development Agency to expand its activities in CEE countries. TDA has funded feasibility studies for infrastructure projects in the CEE countries. (For more information on TDA see II/4.).

ACCESS TO CAPITAL PROGRAM (AXCAP)

(see II/7. below)

5.4. DEPARTMENT OF ENERGY

The Department of Energy has established the **Committee on Renewable Energy, Commerce, and Trade (CORECT)**, a multi-agency body established to help the renewable energy industry develop markets domestically and overseas and to nurture models for financing and servicing the dissemination of small-scale renewable technologies (see also II/5.1.5.).

Also under SEED, US AID provided financing to the U.S. Department of Energy to establish an **Energy Efficiency Center, SEVEN**, in 1991. It has developed into a respected institution with good contacts within the industry and government. In addition to involvement in energy efficiency projects, energy labeling, participation in Integrated Resource Planning, the center organizes annual international conferences called the "Energy Efficiency Business Week". This conference has helped to set up and develop contacts between U.S. and West European energy companies and their Czech counterparts. Since 1993, SEVEN works without additional funding of the U.S. government.

SEVEN has helped establish two companies focusing on energy saving projects on the basis of energy performance contracting (the work of the company is paid by actual energy savings of its clients during a specified period of time).

SEVEN

Jaroslav Maroušek, director

Slezská 7

120 00 Prague 2

tel. (+42/2) 256104, 253435

t/f. (+42/2) 258556

5.5. TRADE INFORMATION CENTER

The Center is a one-stop information source on the multitude of Federal export assistance programs, including those that provide export financing. The Center is operated by the Trade Promotion Coordinating Committee (TPCC), which includes the 19 Federal agencies responsible for international trade and export promotion.

International trade specialists can be reached on the Center's toll-free line (tel. 1-800-USA-TRADE (1-800-872-8723)). These professionals advise exporters on how to locate and utilize government programs and guide them through the export process. Callers can get reports and statistics from the computerized National Trade Data Bank. The staff also advises businesses on upcoming conferences, trade missions and fairs offered in the U.S. and overseas by both federal, state, and local organizations.

6. STATE EXPORT FINANCING PROGRAMS

A number of state-sponsored export financing and loan guarantee programs are available. Many cities and states have established cooperative programs with the Eximbank and can provide specialized export finance counseling. Details of these programs are available through each state department of commerce or trade office.

7. U.S. COMMERCIAL BANKS

According to a recent world-wide survey, only a minority of large commercial banks provide financing for environmental projects.

Unlike the lending by European and Asian banks, the bulk of financial activities by U.S. banks do not go directly into helping environmental businesses expand. U.S. banks are far more concerned than their overseas colleagues with minimizing the risk that they will be sued for damages to the environment caused one of their clients. Consequently, most U.S. banks concentrate on environmental impact studies and on analysis of possible effects of environmental regulations. No other country has such environmental liability law. (Based on citations of Mr. John Ganzi of Environment and Financial Research Enterprise which conducted the survey)

- For more information on individual commercial banks, see Financing Guide for Central and Eastern Europe prepared by Coopers & Lybrand under the Capital Development Initiative. Contact Coopers & Lybrand, attn. R.J.Rourke, International Management Consulting Services, 1530 Wilson Boulevard, Arlington, VA 22209, tel. (703) 908-1650, fax. (703) 908-1649.

ACCESS TO CAPITAL PROGRAM (AXCAP)

Access to Capital, or AXCAP, supported by the Department of Commerce and managed by the Bankers' Association for Foreign Trade (BAFT), serves as a national catalogue listing all banks involved in trade finance and the programs that they offer. In addition, the database will include information on environmental projects of interest to exporters and banks. Thirdly, AXCAP will contain a national inventory of services offered by government export credit agencies. The AXCAP service will provide assistance with all aspects of trade financing procedures.

Eric Price
Bankers' Association for Foreign Trade
1600 M Street, NW, Suite 7F
Washington, DC 20036
Tel: 1-800 49AXCAP, (202) 452-0925
Fax: (202) 452-0959

III. MULTILATERAL SOURCES

1. EUROPEAN INVESTMENT BANK	39
2. EBRD	40
3. UNDP	44
4. UNIDO	45
5. THE WORLD BANK GROUP	46
5.1. WORLD BANK	46
5.2. IDA	47
5.3. IFC	48
5.4. MIGA	49
5.5. MDBO	50

1. EUROPEAN INVESTMENT BANK

- The European Investment Bank's activities include an ECU 58 million (\$ 77 mil.) APEX Global Loan for on-lending to small and medium-sized enterprises through commercial banks. Priorities include joint-ventures with companies from the European Union and projects in environment and energy. To date, one loan has been provided by Komerční banka for a waste water treatment facility. In the Czech Republic, the Bank is considering investment programs in the energy sector (power, gas) and in municipal infrastructure (district heating, water treatment, sewage).

1.1. DESCRIPTION

EIB was set up by the Treaty of Rome as part of the decision to establish the European Economic Community. Its primary objective is to promote the balanced development of the European Union by providing long-term loans to investment projects meeting the Community policy objectives. The Bank finances its operations by raising funds on international markets.

EIB works on a non-profit basis and its interest rates closely follow the cost of its borrowing. Loans can be extended directly to businesses, government agencies, public or private sector entities. Loans are always provided only for specific projects, primarily in infrastructure, transportation, telecommunications, energy, industry, and the environment. The EIB can provide up to 50 percent of the cost of a project. An appropriate security (usually State guarantee, although a 1st class security can be considered) is required.

1.2. EASTERN EUROPE / CZECH REPUBLIC

The Bank's activity has been extended to non-member countries through a number of association agreements. Since 1989, EIB has made its funds, know-how, and experience available to CEE countries. Its mandate enabled it to provide ECU 1.7 million (\$ 2.3 mil.) for investment projects in Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia from 1990 to 1993. Since 1993, Albania and the Baltic States are also included. The total amount of funds available for 1994-1996 is ECU 3 billion (\$ 4 bil.) for loans in EIB's usual sectors of activity, with a special emphasis on trans-European networks (TENs).

EIB's activities in the Czech Republic to date include two loans to SPT Telecom in the total amount of ECU 95 million (\$ 127 mil.), an ECU 100 million (\$ 133 mil.) loan to Skoda-Volkswagen, an ECU 125 million (\$ 167 mil.) loan for Czech Rails, and an ECU 100 million for the Ingolstadt-Kralupy Oil Pipeline.

EIB can participate (as it is already the case for some of the above-mentioned projects) in co-financing agreements with other lenders (including IFIs like the World Bank or the EBRD) or donors, such as the EU's Phare Programme.

1.3. ENVIRONMENT

- The Bank is regularly involved in the environmental sector. In the Czech Republic, it is considering investment programs in the energy sector (power, gas) and in municipal infrastructure (district heating, water treatment, sewage) in line with the Government's decisions to protect and improve the environment.
- EIB has also provided an ECU 58 million (\$ 77 mil.) APEX Global Loan to the Czech National Bank used for loans to small and medium-sized enterprises through commercial banks (Komerční banka and Creditanstalt). Priorities include joint-ventures with companies from the European Union and projects in environment and energy. To date, one loan has been provided by Komerční banka for a waste water treatment facility.

1.4. CONTACT

European Investment Bank
 100, boulevard Konrad Adenauer
 L-2950 Luxembourg
 tel. (+352) 4379-1
 fax. (+352) 437704
 Contact: Jean Vrla, tel. (+352) 4379-3142

2. EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

As of February 1994, the EBRD had approved funding for 15 projects, for a total Bank investment of ECU 384.3 million (\$ 512 mil.). The Czech Republic ranks fifth among recipients of the EBRD's investments. The Bank's current strategy includes support of infrastructure and municipal and regional development.

2.1. DESCRIPTION

The EBRD was established in 1991 as a multinational institution designed to foster the political and economic transition in Central and Eastern Europe. The United States is the largest single shareholder, with 10% of the capital. Among the remaining 58 members are the CEE countries, the NIS, Japan, Australia, New Zealand, South Korea, the EU and its members, and the European Investment Bank. The bank is based in London and has Resident Offices in 12 countries.

The Bank helps its countries of operations to implement structural and sectoral economic reforms, including demonopolization, decentralization, and privatization. Its activities include the promotion of private sector activity, the strengthening of financial institutions and legal systems, and the development of the infrastructure needed to support the private sector.

EBRD encourages co-financing and foreign direct investment from the private and public sectors, helps to mobilize domestic capital, and provides technical cooperation in relevant areas. It works in close cooperation with international financial institutions and other international organizations. Foreign joint ventures are one of the EBRD's main vehicles for financing.

With its AAA credit rating, the Bank is able to raise funds at the finest rates from the international capital markets. The Bank uses a broad range of financing instruments including loans, equity investments and guarantees. By the end of December 1994, the Bank had approved 251 projects for a total of ECU 5.8 billion (\$ 7.7 bil.). Out of these, 199 had been signed.

Project-related technical cooperation is a major feature of the Bank's activities. By the end of December 1994, cooperation fund agreements with 35 bilateral donors, totaling over ECU 266.7 mil. (\$ 355 mil.), had been made with the Bank for this purpose; 877 projects, with a total of ECU 223 mil. (\$ 297 mil.), had been committed.

2.2. PROJECT CRITERIA

Only commercially viable projects will be considered. While the Bank seeks to provide the form of financing that best matches the project, certain guidelines apply:

1. The EBRD funds up to 35 per cent of the total project cost for a greenfield project or 35 per cent of the long-term capitalization of an established company.
2. Significant equity contributions from other investors are required, in particular from industrial sponsors in the case of greenfield projects or new joint ventures, where special technical and management skills are needed. In such cases, industrial sponsors are expected to have a majority shareholding or adequate operational control.
3. Typical private sector projects are based on no more than two-thirds debt financing and at least one-third equity.
4. Additional funding by other co-financiers is typically required.
5. The Bank will normally not provide financing to an investor for the funding of the purchase of existing or new shares.
6. Equity from sponsors need not exclusively be in cash but can be in the form of equipment, plant machinery, etc.

Under its charter, the EBRD must commit at least 60% of its resources to private sector projects, including privatization of state enterprises. The balance can be lent to the public sector.

2.3. CZECH REPUBLIC

- As of February 1994, the EBRD had approved funding for 15 projects, for a total Bank investment of ECU 384.3 million (\$ 512 mil.). These include four equity investments (ECU 152.05 million) and ten loans (ECU 232.23 million) for the private sector (including three more equity stakes) and an ECU 70 million public sector telecommunications loan.

The country benefits from seven regional projects for a total Bank commitment of ECU 75.33 million. Three are credit lines to support SMEs (Komerční banka, ING BANK, RZB Vienna), one project is a closed-end investment company, and the other three are an equity investment in a regional service joint venture, an information service company, and a venture capital fund for new and private companies.

The EBRD has approved 14 technical cooperation programs for a total funding of ECU 3.7 million (\$ 5 mil.). These projects include motorways, telecommunications, banking, energy, wholesale markets, institutional and regional development, business planning, and environment.

The active pipeline includes ten projects (ECU 175.6 million (\$ 235 mil.)), nine of them focused on the private sector (ECU 150.6 million) and a ECU 25 million project in public infrastructure (International Road Corridor). The exploratory pipeline currently includes 30 projects for a total potential Bank investment of ECU 547.5 million (\$ 730 mil.).

While the bank does not primarily provide direct funding to small and medium-sized businesses, it has established links with various intermediaries in order to facilitate financing of small- to medium-sized projects which cannot be financed directly. Projects funded by an intermediary have to meet investment criteria consistent with the Bank's overall policy. The Bank has set up agency credit lines with ING Bank, RZB Bank, and Komerční banka. The Bank also has a co-financing agreement with Komerční banka. However, only a limited number of projects were funded through these channels for funding to date.

EBRD's Strategy For Czech Republic 1994-1995 defines four priorities. See Appendix, section III/2.3. for more information.

U.S. companies are participants in 35 out of 145 private sector projects (24.1 percent). These projects represent 33.5 percent of total EBRD finance of private sector projects.

To date, EBRD has approved only one purely environmental project - a waste water treatment project in Estonia.

2.4. CONTACT

European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2EH
United Kingdom
tel. +44-71-338-6000
fax. +44-71-338-6100

Office of the U.S. Executive Director
tel. +44-71-338-6569
fax. +44-71-338-6487
Jiří Huebner, Team Leader, Czech and Slovak Republics
tel. +44-71-338-6001
fax. +44-71-338-6159/7892

Irena Trnka, EBRD Acting Resident Representative in Prague
28 října 9
110 00 Prague 1
tel. (+42/2) 2423-0247
fax. (+42/2) 267876

2.5. FUNDS WITH EBRD EQUITY PARTICIPATION

ALLIANCE SCANEAST FUND

This fund will make equity and quasi-equity investments in companies in CEE countries and the former Soviet republics in which one of the industrial partners invests at the same time. Industries covered are telecommunications, cables, construction materials, pulp and paper equipment, power generation, environmental technology, petrochemicals and plastics, oil and gas.

Alliance Scaneast Fund
Aleksanterinkatu 15b
Eastman Advisors OY
00100 Helsinki - Finland
Contact: Mr. Ari Tolppanen, Chairman
tel. 358-0-680-1144
fax. 358-0-680-1141

NEW EUROPE EAST INVESTMENT FUND

The fund will consider investing in large joint ventures with western industrial partners.

New Europe East Investment Fund
Capital Research International
25 Bedford Street
London WC2E 9HN - United Kingdom
Contact: Mr. Lam Nguyen-Phuong, Vice President
tel. 44-71-257-6700
fax. 44-71-257-6767

RENAISSANCE FUND

This fund will consider investing in emerging private enterprises, including start-up and young growth companies as well as management buy-outs and spin-offs of small state-owned businesses in CEE countries, esp. in the Czech Republic, Poland, and Slovakia. Initial investments will typically be in the range of \$100,000 to \$500,000; follow-on investments as appropriate with ultimate proportions being normally in the range of \$1.5 million to \$2.5 million.

Renaissance Fund
ul. Kobuza 22
02-841 Warsaw, Poland
Contact: Mr. Robert J. Lepkowski, General Partner
t/f. +48-22-480-773

CZECH & SLOVAK INVESTMENT CORPORATION INC.

EBRD has made an equity investment in Czech & Slovak Investment Corporation Inc., a closed-end investment company set up by Investiční banka and Fleming. Investments in the range from \$ 0.5 million to \$ 3 million are made in small and medium-sized Czech and Slovak companies.

Czech & Slovak Investment Corporation Inc.
Fleming Investments Ltd.
25 Copthall Avenue
London EC2R 7DR - United Kingdom
Contact: William Crewsdon, Manager
tel. 44-71-638-5858
fax. 44-71-382-8155

or

Fleming Investments (Prague)
Celetna 19
116 22 Prague 1 - Czech Republic
Contact: Mr. Milan Hladík, representative
tel. 42-2-2481-2711
fax. 42-2-2481-1487

3. UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

3.1. DESCRIPTION

UNDP is the largest program of the United Nations providing technical assistance through a financial fund. It is managed on the basis of five-year cycles. Resources remaining from the fourth cycle in Czechoslovakia (1987-1991) were transferred to the fifth cycle. After the split of the Czechoslovakian federation as of January 1, 1993, the total resources (the Indicative Planning Figure or IPF) of the fifth cycle were divided between the two successor republics. The IPF of the First Country Program of the Czech Republic (1993-1996) totals \$1.8 million, consisting of \$1 million of carry-over resources from the fourth cycle and \$0.8 of revised fifth cycle resources. The Czech Republic has a UNDP recipient status which it is expected to maintain through to 1996. Proposals of projects to receive support under UNDP always have to be submitted by the government.

3.2. CZECH REPUBLIC / ENVIRONMENT

Majority of UNDP projects in the Czech Republic are initiated within the framework of the R-UNIDO Program administered by a private company (TECON). Since January 1993, nine projects have been approved for support under the UNDP in the Czech Republic. Of this amount, 22 percent is expected to be spent on environmental management projects. This includes two projects co-financed with the Czech government. First, a university research grant (\$200.000 from UNDP and cca \$35.00 from the government). Second, a project called Environmentally Sound Technologies Consultancy Network for Industry and Small and Medium-sized Enterprises implemented by the National Technical Consultancy and Training Center (established by a UNDP/UNIDO project and managed by the TECON company mentioned above). The project is focused on environment protection with special emphasis on SME's capability to apply non- or low-waste technologies. UNDP's support to this project is \$193.000, equal to government inputs.

3.3. CONTACT

United Nations Development Programme
Consulting Service Unit
Office of Project Services
220 East 42nd Street, 14th floor
New York, NY 10017
tel. (212) 906-6157
fax. (212) 906-6557

Ministry of Foreign Affairs of the Czech Republic
International Economic Organizations Department
Loretánské nám. 5
125 10 Prague 1 - Hradčany
Contact: Ms. Lenka Dvořáková
tel. (+42/2) 2418-2227
fax. (+42/2) 2418-2036

4. U.N. INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)

4.1. DESCRIPTION

UNIDO acts as executing agency in a number of projects in the Czech Republic, including most projects financed under the UNDP and projects financed by a third party where the UNIDO has an intermediary function. UNIDO and the Czech government (represented by the Ministry of Foreign Affairs) established an the _R-UNIDO Program and delegated management responsibility onto the TECON company (see III/3.2.).

4.2. CZECH REPUBLIC / ENVIRONMENT

- UNIDO's environmental projects in the Czech Republic include the Cleaner Production Center which will concentrate on providing information on cleaner production mainly to SME's, preparing and implementing studies in at least 20 enterprises and summarizing their results in a booklet, training, and advisory services to the government. This project and three workshops on pollution abatement and environmental management are all financed by the Austrian government (UNIDO acts as intermediary). Three other projects in the pipeline (no source of financial support has yet been determined) are a Pollutant Releases and Transfer Registers (PRTR) for which UNIDO support was requested by the Ministry of Environment, a Regional program for environmental management in the iron and steel industry supported by several CEE countries including the Czech Republic, and a project focused on Strengthening of Environmental Component of Energy Auditing in the Industry.

4.3. CONTACT

UNIDO
Environment and Energy Branch
VIC P.O. Box 400
A-1400 Vienna, Austria
tel. (+43/222) 21131
fax. (+43/222) 232-156

Ministry of Foreign Affairs (same as for UNDP - see III/3.3.)

5. THE WORLD BANK GROUP

The World Bank Group is a multilateral lending agency consisting of four closely associated institutions: the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA). (The name "World Bank" is usually used to describe only IBRD.) Their main purpose is to promote economic and social progress in developing countries by helping to raise productivity. They seek to do this by lending funds, providing advice, and serving as a catalyst to stimulate outside investment.

5.1. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD or WORLD BANK)

- The first result of the Bank's activity in (then) Czechoslovakia was a study of the country's environment by local experts and experts of the World Bank, the European Community, and U.S. government agencies and published in 1991. This report became the basis for other major programs and projects. Projects in the Czech Republic have included a \$246 million loan to _EZ (Czech Energy Works) in 1992 called Energy I for a project focused on desulphurisation of coal burning electric power plants. Projects currently in the stage of evaluation include the Bank's possible participation in three waste water treatment projects.

5.1.1. DESCRIPTION

The International Bank for Reconstruction and Development (IBRD or the World Bank) lends funds, most of which it raises through the sale of AAA-rated bonds in international capital markets, to creditworthy developing countries with relatively high per capita income. The interest rate is variable, set at half a percentage point above the Bank's average cost of borrowing, and repayment is generally over 12 to 15 years, including grace period of 3-5 years. Loans are made only to governments or to agencies which have obtained government guarantees.

Typically, IBRD does not finance the total cost of a project - just the components that must be purchased with foreign exchange - which on average is about 40 percent. The rest of the funding is provided by the borrowing countries and by other agencies and commercial banks that co-finance with the Bank.

The Bank has recently increased lending in CEE countries for activities ranging from project finance to sector and structural adjustment loans. In FY 1993, the Bank loaned more than \$ 1.7 billion. Future lending will depend on the number of projects put forward by the region's governments.

5.1.2. ENVIRONMENT - CZECH REPUBLIC

- The World Bank and the Czechoslovakian government agreed in 1991 to cooperate in the fields of modernization and reconstruction of the financial sector, energy, and environment. The first result of this cooperation was a study of the environment in Czechoslovakia prepared by local experts and experts of the World Bank, the European Community, and U.S. government agencies and published in 1991. This report became the basis for other programs of multilateral and bilateral cooperation such as the PHARE program, GEF (administered by the World Bank, see I/3.5.), and the Program Environment I. of the Ministry of Environment (see I/3.4.) for more information on the Bank's involvement).
- Projects in the Czech Republic have included a \$450 Structural Adjustment Loan in 1991 (to the Czechoslovakian federal government) focused on stabilization and incentive pro-market policies, a \$246 million loan to _EZ (Czech Energy Works) in 1992 called Energy I for a project focused on desulphurisation of coal burning electric power plants, a \$80 million loan for a project focused on upgrading of telecommunication (a joint project with EBRD and EIB).
- Projects currently in the stage of evaluation include the Bank's possible participation in three waste water treatment projects (the municipalities of Kolín and Brno and the Biocel Paskov company) in the amount of cca \$50 million. Further, funding of smaller projects through the MUFIS company (see I/4.3.) is under consideration.

5.1.3. CONTACT

World Bank
Office of the U.S. Executive Director
1818 H Street, NW
Washington, DC 20433
Tel: (202) 458-0118
Fax: (202) 477-2967

Mr. Ulrich Hewer, Country Officer
tel. (202) 473-2279, fax. (202) 477-1034

5.2. INTERNATIONAL DEVELOPMENT ASSOCIATION

IDA provides assistance on concessional terms to the poorest developing countries that are not sufficiently creditworthy for IBRD financing. It receives its funding largely from contributions from its wealthier members. Credits are made only to governments. IDA is not active in the Czech Republic.

5.3. INTERNATIONAL FINANCE CORPORATION

- IFC's total commitment in the Czech Republic, as of June 30, 1994, was \$115 million in eight enterprises. Even though IFC does not have a special environmental program all of its projects have had a strong environmental component.

5.3.1. DESCRIPTION

IFC promotes growth in developing countries through financing of private sector projects. It supports its clients with a full array of financial and advisory services. Project financing is offered through loans, equity investments and other financial instruments, such as hedging and swap transactions. IFC mobilizes additional financing from IFIs through loan syndications and securities underwriting. Advisory services and technical assistance help private businesses to increase their chances of success.

IFC provides funding for projects of at least \$20 million. As a general rule, its loans can cover up to 50 percent of the cost of a project and, at the same time, their total value must not exceed 25 percent of the balance of the borrower. (It follows from here that IFC's share for "greenfield" projects will not exceed 25 percent.) On average, IFC funding accounts for 30 percent of the cost of a project. Government guarantees are not required. IFC loans carry commercial interest rates (both fixed and variable), are available in U.S. dollars and other hard currencies, and have repayment terms of up to 12 years.

- IFC also assists companies in preparing projects for funding from the Global Environmental Facility administered by the World Bank.

5.3.2. CENTRAL AND EASTERN EUROPE

IFC is helping to establish **Alliance ScanEast Fund L.P.**, which will invest in equity and quasi-equity securities of companies in Eastern Europe and the former Soviet Republics. Industries covered are telecommunications, cables, construction materials, pulp and paper equipment, power generation, environmental technology, petrochemicals and plastics, oil and gas. The project cost is \$50 million. IFC's contribution is \$8 million (equity). (See section on EBRD (III/2.5.) for address and phone/fax numbers)

Central Europe Telecom Investments, Ltd. will establish a fund to invest in equity securities of privately controlled telecommunications companies to Central and Eastern Europe. IFC's contribution to this \$100 million project is 20 percent (equity).

IFC will participate as a joint lead manager and underwrite up to 15 percent of the shares in the **Morgan Stanley European Emerging Markets Fund**, which will be listed on the NYSE and will invest primarily in listed equity securities of companies in the Czech republic, Hungary, and Poland. The project cost is \$100 million.

Renaissance Capital will provide venture capital to small and medium-sized private companies that have growth potential in Central and Eastern Europe, particularly in the Czech Republic, Poland, and the Slovak Republic. The project cost is \$30 million, IFC's contribution \$5 million in equity. (See section on EBRD (II/2.5.) for more information and address)

5.3.3. CZECH REPUBLIC / ENVIRONMENT

- Even though no IFC project in the Czech Republic is entirely focused on the environment, all projects to date have a strong environmental component. All projects financed by IFC have to meet the World Bank's guidelines for environmentally sound projects. IFC does not have a special program for the environment.

Projects in the Czech Republic approved in 1994 include: a \$63 million project for car wheel production expansion at the Autokola Nová Huť company; a \$14.9 million project at Eternitové Závody a.s and a \$18.2 million project at EZA Šumperk (both producers of building materials converting their production from asbestos-cement to cellulose-based cement); an investment in MaFra a.s., a newspaper publisher, and a \$48 million project for expansion of production of glass containers at Vetropack Moravia Glass a.s.. IFC's total commitment in the Czech Republic, as of June 30, 1994, was \$115 million in eight enterprises.

In addition, IFC was involved in two technical assistance and advisory projects in 1994.

5.3.4. CONTACT

Jerome Esmay, Environmental Projects Specialist
Technical and Environmental Department
International Finance Corporation
1850 I Street, NW
Washington, DC 20433
Tel: (202) 473-7954
Fax: (202) 473-9495

Martin Riddle, Environmental Projects, tel. (202) 473-0661

Richard Ranken, director of European Division I
Europe Department
tel. (202) 473-6195
fax. (202) 334-8965

Vikas Thapar, IFC Regional Representative
Husova 5
110 00 Prague 1 - Czech Republic
tel. (+42/2) 2440-1402
fax. (+42/2) 2440-1410

5.4. MULTILATERAL INVESTMENT GUARANTEE AGENCY

MIGA's purpose is to encourage foreign investment in developing countries by providing guarantees to foreign investors against loss caused by non-commercial risks - currency transfer, expropriation, war, civil disturbance, and breach of contract. MIGA's insurances are very similar to those of OPIC and these two agencies often cooperate on projects. It also provides advisory services to developing member countries on means of improving their environment for foreign investment.

MIGA guarantee operations in the CEE and NIS countries in the period from 1989 to 1994 include 6 projects in the Czech Republic. None of them was a purely environmental project.

Multilateral Investment Guarantee Agency
1818 H Street, N.W., Room H 6083
Washington, D.C. 20433 U.S.A.
tel. (202) 473-6168
fax. (202) 676-9886

Leigh Hollywood, Vice Pres., Guarantees, tel. (202) 473-6168
Edward Coppola, Manager, Eastern Europe, tel. (202) 473-5419
fax. (202) 477-9886

5.5. MULTILATERAL DEVELOPMENT BANKS OPERATIONS

The Department of Commerce has established an MBDO office whose responsibility is to provide information and assistance to U.S. companies interested in supplying goods and services to overseas projects supported by the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank.

For more information and/or contacts for members of the Liaison Team (at the banks listed above), contact:

Office of Multilateral Development Bank Operations
Ms. Brenda L. Ebeling, Director
14th and Constitution Avenue N.W. Room 1223
Washington, DC 20230
tel. (202) 482-3399
fax. (202) 482-5179

IV. APPENDIX

II.	U.S. SOURCES	52
1.2.	EXPORT-IMPORT BANK: Programs and services	52
2.2.	OPIC - Services	53
3.2.	SBA - Programs	54
4.2.	TDA - Operation policies	56
5.	U.S. GOVERNMENT INITIATIVES	57
	5.1.3. Czech and Slovak American Enterprise Fund	57
	5.1.4. Capital Development Initiative	58
	5.1.5. Other US AID activities	59
III.	MULTILATERAL SOURCES	61
2.3.	EBRD - Czech Republic	61

II. U.S. SOURCES

1. EXPORT-IMPORT BANK OF THE UNITED STATES

1.2. SERVICES / PROGRAMS

Export Financing Hotline - Information on export credit insurance, pre-export financing through working capital guaranteed loans, and medium- and long-term loans and guarantees to overseas buyers. Offers of briefing programs including regular seminars and group briefings.

City-State Program - Ex-Im works with state and local government agencies to offer export counseling and financial assistance to the businesses in their jurisdiction.

Working Capital Guarantee Program - helps small- and medium-sized businesses obtain critical pre-export financing from commercial lenders. Ex-Im will guarantee 100 percent of the principal and interest on loans or revolving lines of credit. Exporters may apply for a Preliminary Commitment - a letter from Ex-Im Bank outlining the terms and conditions under which it will provide a guarantee - which can be used to obtain the best financing terms from a private lender. The lender also may apply directly for a final authorization (Final Commitment). Ex-Im has harmonized this program with SBA. Only applications for loans exceeding \$833,333 (including the unguaranteed portion) will be proceeded by Ex-Im. All others are proceeded by the Small Business Administration (see II/3.).

Export Credit Insurance Programs generally cover 100 percent of the principal for political risks and 95 percent for commercial risks.

a) **The New-to-Export Policy (Small Business Insurance Policy)** is available to firms beginning to export or small businesses (per SBA definition) with average annual export credit sales lower than \$2 mil. in the past two years. Includes enhanced coverage of short-term credit (up to 180 days) and lower premium than usual.

b) **The Umbrella Policy** is available to commercial lenders, state agencies, export trading agencies, and similar organizations to insure export receivables of their small business clients. The coverage and eligibility requirements are the same as for a).

c) **The Bank Letter of Credit Policy** insures commercial banks against loss on irrevocable letters of credit issued by foreign banks to U.S. exporters.

d) **The Multi-Buyer Policy** insures all or a reasonable spread of an exporter's short- or medium-term credit sales.

e) **The Financial Institution Buyer Credit Policy** insures individual short-term export credits extended by financial institutions to foreign buyers.

f) **The Short- and Medium-Term Single Buyers Policies** allow exporters to insure their receivables against loss due to commercial and specified political risks on a selective basis.

g) Lease Insurance Policies - enable lessors to expand overseas by providing comprehensive insurance for both the stream of lease payments and the fair market value of the leased products.

Guarantee Program - provides repayment protection for private sector loans to credit-worthy buyers of U.S. capital equipment and services. Coverage is available for loans of up to 85 percent of the U.S. export value, with repayment terms of one year or more. The foreign buyer is required to make a 15 percent cash downpayment.

Loan Program - provides competitive, fixed interest rate financing for U.S. export sales. Ex-Im extends direct loans to foreign buyers and intermediate loans to responsible parties that provide loans to foreign buyers. Coverage is available for loans of up to 85 percent of the U.S. export value. Ex-Im rates are usually the official minimum rates based on U.S. Treasury rates and a spread agreed on by OECD members and depend on repayment period. When there is no foreign competitor, exporters can obtain an Ex-Im Bank Letter of Interest (LI) to assist in negotiations with a potential foreign buyer. The LI indicates the Bank's willingness to consider a financing offer if sale is completed. An LI can be issued within seven days of a request for financing and remains in effect for six months.

Lease Guarantees Program - Lease guarantees for finance and operating leases to foreign entities covering U.S. goods.

Operations and Maintenance Contracts Program helps U.S. firms competing for overseas contracts to operate, maintain, and upgrade new or established projects. Ex-Im will provide loans or guarantees for up to 85 percent of the U.S. export value of operations and maintenance transactions with repayment terms of up to five years. The contract must provide a long-term benefit to the owner, such as training local personnel to take over operation, or establishing permanent procedures to assure good operation of the project.

Project Finance - for financing of projects that are dependent on the project cash flow for repayment. Ex-Im has eliminated the \$50 million minimum project size criteria and established a new Project Finance Division to help expedite transactions. Ex-Im will issue a Preliminary Project Letter as an indication of support.

Ex-Im Bank's programs are easily accessible. Any responsible party - the foreign buyer, the U.S. exporter, a lending institution, or a firm representing either the buyer or the exporter - can apply directly to Ex-Im Bank for a Letter of Interest. Potential borrowers also may obtain assistance in applying for financing at any Ex-Im Bank regional office or one of the U.S. Export Assistance Centers (USEAC).

2. OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

2.2. SERVICES

Investment financing involves medium- to long-term funding to ventures with significant equity and/or management participation by U.S. businesses. Direct loans are typically reserved for smaller projects and range from \$2 million to \$10 million. Loan guarantees are provided for larger projects and are issued to U.S. financial institutions and generally range from \$10 million to \$75 million. OPIC's finance and insurance per-project ceiling has been

raised to \$200 million. OPIC's commitment may range up to 50 percent in new ventures and up to 75 percent for expansions of existing operations.

Investment insurance against the risks of currency inconvertibility, expropriation, and political violence can be provided for equity investments, loans and loan guarantees, technical assistance agreements, leases and other forms of investment exposure.

Investor services include investment and reverse missions and investor conferences that allow U.S. business executives to meet host country government officials, local business leaders, and potential partners.

OPIC offers special insurance and finance programs for energy export investments in oil and gas, oil shale, geothermal, mineral, solar, and other energy projects.

Project Development Program

This program provides eligible U.S. investors with up to 50 percent (75 percent for small businesses) of their total costs of conducting market entry assessment, developing business plans, implementing pilot projects, and conducting feasibility studies. The program is administered by Ernst & Young's International Consulting Service, 1225 Connecticut Avenue, NW, Washington, DC 20036; tel. (202) 775-6439, fax. (202) 862-6399

3. SMALL BUSINESS ADMINISTRATION (SBA)

3.2. PROGRAMS

Export Working Capital Program

The Export Working Capital Program (EWCP) can support single transactions or multiple export sales. SBA guarantees 90 percent (up to \$750,000) of a private sector loan. Loan maturities are generally for 12 months, with two options to renew, for a total of 36 months.

SBA has harmonized this program with Eximbank's Working Capital Guarantee Program. Applications in which the loan equal amount (including the guaranteed and unguaranteed portions) is less than or equal to \$833,333 are proceeded by SBA, larger loans fall under Eximbank. The same application can be used for both either agency.

Small businesses can use EWCP proceeds: 1) to finance labor and materials for manufacturing goods for export; 2) to purchase goods or services for export; or 3) to finance accounts receivable generated from export sales. Proceeds may not be used to establish operations overseas, acquire fixed assets or pay existing debt.

Interest rates are negotiable between the applicant and the lender. SBA charges a guarantee fee of one-quarter of one percent (.25%); other fees may apply.

To be eligible for a guaranty under the EWCP, a company must meet SBA's size standards. The standards vary by industry and are determined by either the number of employees or the volume of annual receipts. Check with your local SBA district office to determine if your company falls within the small business size standards. A company also must have been in business -- not necessarily exporting -- for at least 12 continuous months before filing an application.

Collateral may include export inventory, foreign receivables, assignments of contract and letter of credit proceeds and domestic receivables. Personal guarantees usually are required to support the credit.

Under the program, small businesses can apply directly to the SBA for a preliminary commitment for a guaranty. With this document an exporter can then find a lender willing to extend the credit. The lender must apply to SBA for the final commitment.

Contact: Sheldon Snook, Office of International Trade
tel: (202) 205-6720, fax: (202) 205-7272

Regular Business Loan Program

Small businesses that need money for fixed assets and for working capital may be eligible for the SBA's regular business loan guarantee program. The SBA can guarantee up to 90 percent of a bank loan up to \$155,000. For larger loans, the maximum guarantee is 85 percent up to \$750,000. Loan guarantees for fixed-asset acquisition have a maximum maturity of 25 years. Guarantees for general-purpose working capital loans have a maximum maturity of seven years.

To be eligible, the applicant's business generally must be independently owned, operated for profit, and fall within size standards set by SBA. Export trading companies (ETCs) and export management companies (EMCs) also may qualify.

Contact: Claudia Jordan, Office of Financial Assistance
tel. (202) 205-6570, fax. (202) 205-7064

International Trade Loan Program

This program provides long-term financing to help small businesses compete more effectively and to expand or develop export markets. No debt payment is allowed. Proceeds can be used to buy land and buildings; build new facilities; renovate, improve or expand existing facilities; and purchase or recondition machinery, equipment, and fixtures. The working capital portion of the borrowing could be in the form of either an EWCP or a portion of the term loan.

Loan maturities cannot exceed 25 years, excluding the working capital portion of the financing. The SBA's guaranty cannot exceed 85 percent of the loan amount. The agency's maximum share for facilities or equipment loans is \$1 million, plus \$250,000 for working capital.

Applicants must establish either of the following to meet eligibility requirements: 1) Loan proceeds will significantly expand existing export markets or develop new ones; 2) The applicant's business is adversely affected by import competition.

Contact: Sheldon Snook, Office of International Trade
tel: (202) 205-6720, fax: (202) 205-7272

Small Business Investment Company Financing

A Small Business Investment Company (SBIC), approved and licensed by the SBA, may also provide equity or working capital exceeding the agency's \$750,000 statutory maximum. Unlike the SBA, SBICs can invest in export trading companies in which banks have equity participation as long as other SBIC requirements are met.

Contact: Claude Cooper, Investment Division
tel. (202) 205-3644, fax. (202) 205-6959

Business development assistance

SBA business development assistance to exporters includes:

Trade counseling: available through SBA's resource partners, the Service Corps of Retired Executives (SCORE), the Small Business Development Centers (SBDCs) and Small Business Institutes (SBIs)., training, legal assistance and publications.

Training: SBA district offices sponsor export training programs, often in conjunction with SCORE, SBDCs and other public and private trade groups. Topics range from export financing to joint ventures. Various market- and region-specific workshops are offered. Women executives and business owners can take advantage of a conference series offered under SBA's "Women Going International" program.

Publications: The SBA publishes books and fact sheets on international trade, including the "Exporter's Guide to Federal Resources for Small Business" (accessible through the NTDB).

Legal Assistance: Your local SBA office can arrange a free initial consultation through the Export Legal Assistance Network (ELAN) with an attorney to discuss international trade questions, under an agreement between the Federal Bar Association, the American Bar Association and the SBA. Such questions may include contract negotiation, agent/distributor agreements, export licensing requirements, credit collection procedures, documentation etc.

The SBA has offices located around the country. For the one nearest you, consult the telephone directory under U.S. Government, or call the Small Business Answer Desk at 1-800-8-ASK-SBA or (202) 205-7064 (FAX). For the hearing impaired, the TDD number is (202) 205-7333.

4. TRADE AND DEVELOPMENT AGENCY (TDA)

4.2. TDA OPERATION POLICIES

A host country plays an active role in developing the scope of work for the study, selecting on a competitive basis the U.S. firm to complete it and monitoring the progress of the study. By carrying out a TDA-funded study, a U.S. company establishes a presence in the country and is able to develop long-term relations with host-country officials and project managers that can lead to additional business opportunities.

TDA operates in developing and middle-income countries. The types of projects TDA funds include energy and natural-resource development, transportation, telecommunications and the environment. It is the responsibility of the host government agencies or private sector entity to request financing, either directly at TDA or through the local U.S. Embassy. U.S. companies may bring projects to the attention of TDA as well. TDA's participation usually ranges from \$150,000 to \$750,000. Of TDA's program budget, 18 % goes to environmental projects.

For information on available final reports of recent feasibility studies funded by TDA contact: National Technical Information Service, tel. (703) 487-4650, fax. (703) 321-8547

Once a promising project is identified, TDA hires an assessment team to perform a Definitional Mission to compile information critical to TDA's selection process. These studies are usually performed by small and minority-owned businesses. (DM Hotline: tel. (703) 875-7447)

5. U.S. GOVERNMENT INITIATIVES

5.1.3. CZECH AND SLOVAK AMERICAN ENTERPRISE FUND

The CSAEF is privately managed by a Board of Directors consisting of U.S. and Czech citizens. The Fund receives its funds from US AID. Sixty five million dollars have now been appropriated by the Congress, including five million for technical assistance (TA). The Congress might appropriate additional funds when the initial capitalization is exhausted.

The Fund's investment goals include promotion of employment, export sales, enhancement of the environment, energy efficiency etc. Increasing emphasis is placed on gaining and supporting the participation of U.S. companies as investment partners. Joint-venture investments with U.S. companies have been the greatest successes. To date, the Fund has helped finance eight joint-ventures between U.S. and Czech or Slovak businesses, representing 22 % of the Fund's total investment in the two republics. Two other joint ventures that have been approved by the Fund

Board of Directors are awaiting funding.

The Fund's joint lending programs have grown to 34 loans outstanding at September 30, 1994. By the end of FY 95, the Fund expects to have extended more loans through joint lending than the total of loans and investments in its direct portfolio.

For equity investment, the Fund takes an ownership interest related to the amount invested, and does not typically seek to retain a majority voting position. The Funds are obligated to develop exit strategies and terminate their equity position at the request of the joint-venture partners. Contrary to a timetable of three to five years as the earliest optimum time for sale, the Fund sells earlier when there is an interested buyer and the price represents a satisfactory return.

5.1.4. CAPITAL DEVELOPMENT INITIATIVE (CDI)

The initiative responds to the critical infrastructure needs in Central and Eastern Europe by assisting the CEE private sector identify appropriate technology, attract foreign investment, and by helping CEE governments improve the investment climate. Sectors of emphasis include energy, telecommunications, and the environment. Approximately 900 firms in CEE and the U.S. have been in contact with the CDI technical contractors. This has resulted in the identification of more than 103 projects, of which 59 have been reported through EEBIC (see II/5.3.). In the Czech Republic, the program has reached its end. Final report is available through US AID Prague.

CDI Environmental and Energy Components are designed to assist countries in CEE to address their environmental pollution and energy efficiency problems through development of infrastructure projects and local environmental businesses. Under the program, financial and technical advisory services are available to businesses in the region. CDI offices in the U.S. and in the region identify and respond to infrastructure opportunities, assist eligible governments with policy, regulatory, and institutional issues, provide pre-feasibility advice in technical, policy, and financial fields.

Several joint-venture projects were prepared by Sanders International and a by a local company, Solimar Environmental Research, including fly-ash disposal, construction of two incinerators, tire recycling, and consulting services on environmental audits.

Coopers & Lybrand prepared a Financing Guide for Central and Eastern Europe, December 1994. The guide is updated regularly.

Robert J. Rourke
International Management Consulting Services
Coopers & Lybrand
1530 Wilson Blvd.
Arlington VA 22209

tel. (703) 908-1857
fax. (703) 908-1649

CDI regional service (environment):

Sanders International, Inc.	CDI regional office address:
Marek Raczynski	
tel. (+48/22) 379724	22 Fort Wola Street
fax. (+48/22) 368555	00-961 Warsaw, Poland

CDI regional service (energy):

ICF Resources, Inc.	
Tom Sherwood	U dubu 13
tel/fax: (+42/2) 464651	147 00 Prague 4

After the program ended in January 1995, the private firm Arda took over its activities in the Czech Republic. It has prepared a number of environmental research studies, assisted foreign companies in identifying local partners, provided environmental management training and performed environmental audits.

Arda, Laura Keresty
Na Dolinách 35
140 00 Prague 4
t/f. (+42/2) 430-190
fax. (+42/2) 6121-5241

5.1.5. OTHER US AID ACTIVITIES

The following funds and programs are USAID-supported but have not been active in the Czech Republic to date, according to US AID Prague.

USAID supports a **Private Power Sector Energy Development Feasibility Study Fund**. The Fund shares up to 50 % of the cost of feasibility studies with private power developers that are interested in a particular project but consider the risks too high to warrant funding the entire study. If the project is successful, the developer reimburses USAID for its share of the funding.

USAID has launched a **Global Energy Efficiency Initiative (GEEI)** in cooperation with other Federal agencies, the national laboratories, universities, NGOs, and environmental groups to promote the rapid implementation of energy efficiency worldwide. Studies by the GEEI Working Group estimate that \$8.4 billion per year in energy efficiency services will be needed to satisfy the current growth in power sector demand through the year 2000, even with significant increases in power generating capacity.

USAID has set up a cooperative agreement with the **U.S. Export Council on Renewable Energy (US/ECRE)**, a non-profit coalition of the nine U.S. renewable energy trade associations. This agreement will permit US/ECRE to initiate new activities in renewable energy education, provide training, conduct project identification and assessment activities, and sponsor the attendance of developing country nationals at U.S. workshops and seminars.

USAID's **Energy Project Development Fund (EPDF)** provides financial support for pre-feasibility and feasibility studies for energy projects in USAID-assisted countries. The primary aim of EPDF is to foster the development of energy projects which will ultimately lead to construction of energy facilities, especially electric power plants. EPDF also supports a broad range of energy-related environmental control technologies. The EPDF provides up to 50 percent of the cost of pre-feasibility and feasibility studies, with a maximum contribution of \$250,000 by USAID. Awards made by EPDF include either conditional loans or grants, depending on whether the proposed project is privately or publicly owned. Projects must employ commercially proven technologies, have acquired a strong statement of support by the host country government, and exhibit a high potential for actual development. Applicants must be U.S. companies that are majority-owned by U.S. citizens. However, applicants do not have majority-ownership in potential projects.

Mr. Kami Rahbani, Fund Administrator
Energy Project Development Fund
Price Waterhouse
1801 K Street, NW
Washington, DC 20006
Tel: (202) 296-0800
Fax: (202) 296-2785

The **International Fund for Renewable Energy and Energy Efficiency (IFREE)** supported by US AID provides limited support for feasibility studies related to renewable energy (biomass, geothermal, small hydropower, solar thermal, or wind energy), energy efficiency, or natural gas projects. IFREE offers conditional grants of up to \$50,000 to support up to one half of a project's pre-feasibility study costs. This money must be repaid if the project is financed. Projects must be commercially viable and replicable. IFREE requires that potential funding for the subsequent full feasibility study be identified, a capable in-country participant must exist, and the project must utilize predominantly U.S. equipment.

International Fund for Renewable Energy and Energy Efficiency
750 First Street, N.E., Suite 930
Washington, DC 20002
Tel: (202) 408-7916
Fax: (202) 371-5115

The **Renewable Energy Pre-Investment Support Fund (REPS)** offers financial assistance to private companies to support feasibility and pre-feasibility studies for renewable energy projects in USAID-assisted countries. The REPS Fund is operated under the Renewable Energy Applications and Training (REAT) and Biomass Energy Systems and Technology (BEST) projects. REAT seeks to catalyze investments in sustainable and replicable renewable energy projects. BEST focuses more specifically on promoting electric power generation and the production of fuels from waste biomass associated with agricultural and forest products industries.

The REPS Fund can provide up to 50 percent of the costs of pre-feasibility or feasibility studies to private developers for projects using commercially-proven biomass, geothermal, small hydro, solar, and wind energy technologies. Cost-sharing takes the form of an interest-free reimbursable grant to the project developer, to be repaid if the project reaches financial closure. Both host country developers and U.S. developers working with a local country are eligible to apply. Only solicited proposals will be evaluated. Grants are awarded on a competitive basis.

Renewable Energy Pre-Investment Support Fund
Renewable Energy and the Environment Program
1611 N. Kent Street, Suite 600
Arlington, VA 22209-2134
Tel: (703) 525-9430
Fax: (703) 243-1175

III. MULTILATERAL SOURCES

2. EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

2.3. CZECH REPUBLIC

EBRD's Strategy For Czech Republic 1994-1995 defines the following priorities:

- * Support for the private sector - the main flows of the EBRD's assistance to the private sector will be to purely domestic companies that are mainly export oriented, to SMEs, to restructuring programs, and to foreign joint-ventures.
- * Support of the financial sector by assisting the development of a sound and healthy banking sector and capital market.
- * Support of infrastructure, especially energy, telecommunications, and transport. Possibilities include: equity investment in SPT Telecom and/or participation in two private telecommunications projects, and investment in the planned Ingolstadt-Litvínov oil pipeline, as well as assistance in district heating and private power plant projects.
- * Other initiatives in agribusiness, tourism, municipal and regional development, and the environment.

DOCUMENTS REVIEWED FOR THIS REPORT:

National Trade Data Bank (NTDB) of the U.S. Department of Commerce

Local press: Planeta, Ekonom, Prague Post

Materials provided by the Ministry of Environment, including the Herald of the Ministry of Environment

Annual reports: IFC, Czech and Slovak American Enterprise Fund, Export-Import Bank, European Bank for Reconstruction and Development, State Environment Fund

Financing Guide for Central and Eastern Europe, Coopers & Lybrand, Attn. Robert J. Rourke, 1530 Wilson Boulevard, Arlington, VA 222 09, tel. (703) 908-1650, fax. (+42/2) 908-1649.

Environmental Technologies Export Market Plan, Czech Republic, Trade Promotion Coordinating Committee

Environmental Industry and Markets in the Czech Republic, Kenneth J. Macek, BMT Environmental Ltd., Ke hřišti 20/239, 181 00 Prague 8, Czech Rep., tel. (+42/2) 855-9641, fax. (+42/2) 855-2611.