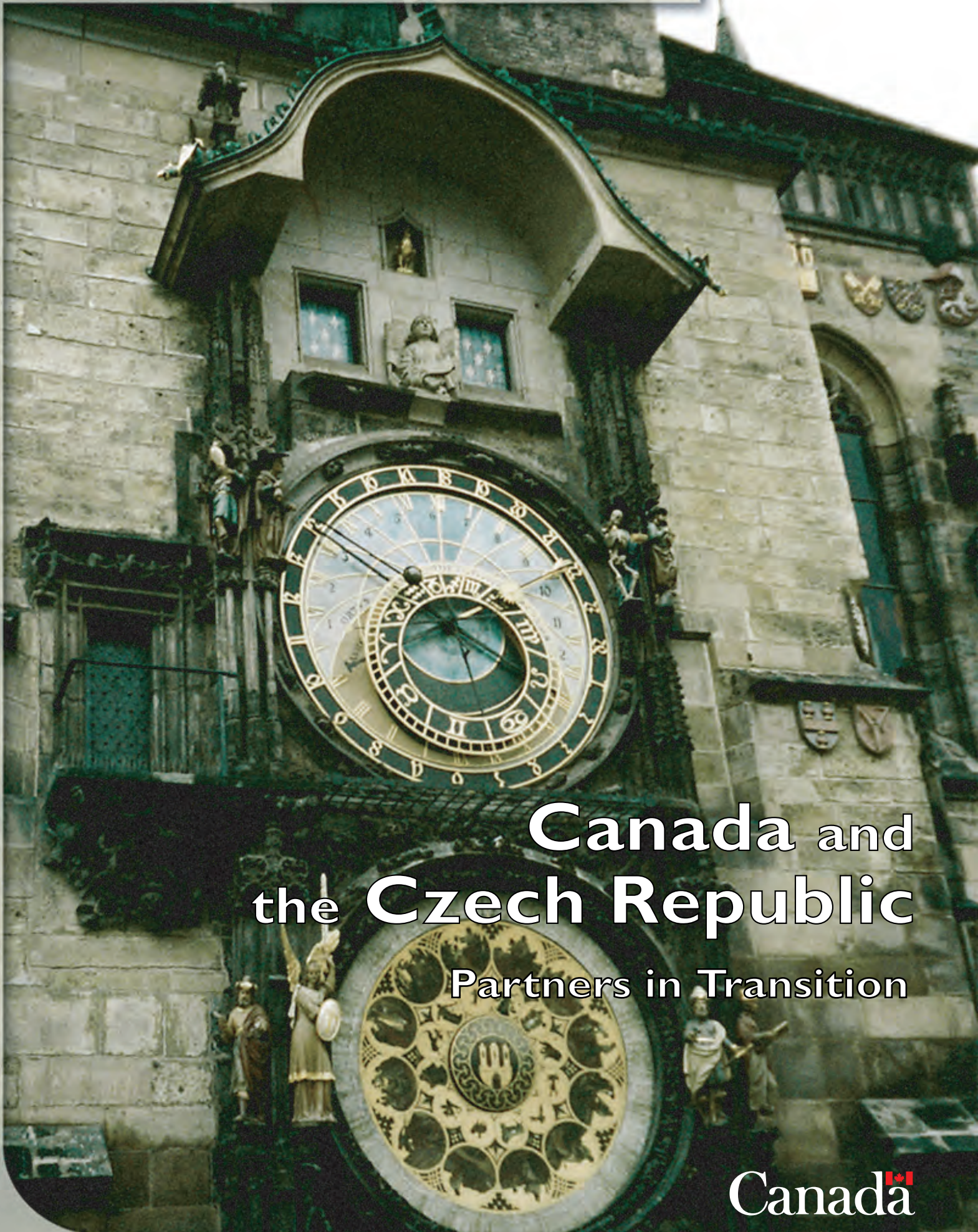




Canadian International  
Development Agency

Agence canadienne de  
développement international



# Canada and the Czech Republic

Partners in Transition

Canada 





# **CANADA and the CZECH REPUBLIC**

*Partners in Transition*

**Europe, Middle East and Maghreb Branch  
Graduation Publication**

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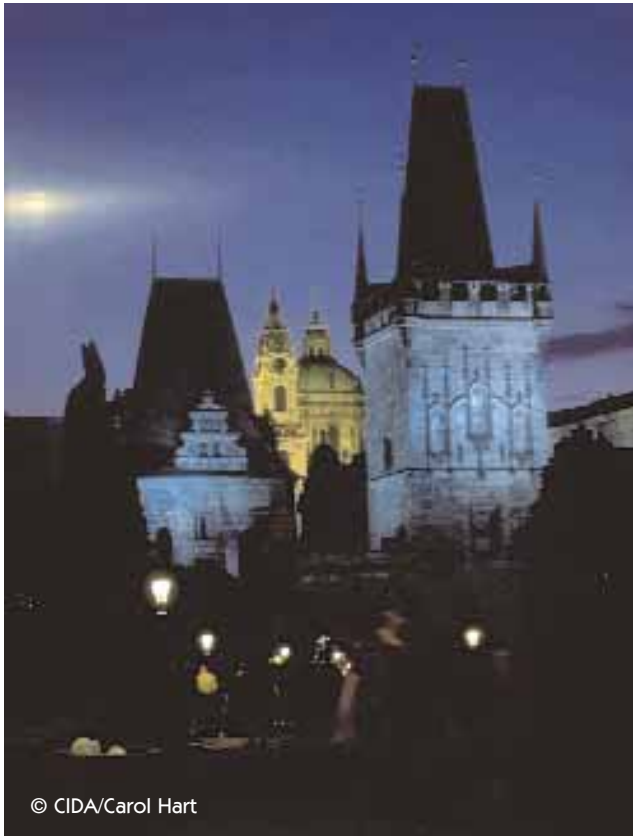
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### **Canada and the Czech Republic: Partners in Transition**

The year 2004 was highly symbolic for the Czech Republic as it joined the European Union (EU) in May of that year. This was the final indication that the difficult, and sometimes painful, political and economic transition that began in 1989 had been a success. It all began on the evening of November 17, 1989, in Prague when students started a march commemorating the 50th anniversary of the Nazi murder of Jan Opletal, a Czech student. The march soon changed in focus and began moving towards the Wenceslas Square chanting “Freedom” in protest of the communist regime. The students were met by riot police and special anti-terrorist units who attacked the unarmed crowds, injuring many.



© CIDA/Carol Hart

Prague at night

These events would spark what became known as the Velvet Revolution, led in the capital city Prague by Václav Havel and the Občanské Fórum (Civic Forum). From the time the revolution started, events progressed rapidly under the pressure of mass protests often numbering in the hundreds of thousands. In a little over a month, the Velvet Revolution was able to end 40 years of communist dominance in Czechoslovakia.

Early in 1990, the first free and democratic elections in over 40 years were held, removing the final vestiges of a discredited past.

Czech politicians and leaders were aware of the difficulties their country faced in the transition ahead. The economy was heavily reliant on inefficient and unmarketable heavy industries that required comparatively high levels of raw materials and energy and which left the environment heavily polluted. This also meant an artificially high labour participation rate. Yet, overall, it was not all bad news. Czechoslovakia, unlike many other transition countries, was not burdened with foreign debt or hidden inflation. It had a highly educated population and experience in democratic governance and market economics. Czechoslovakia was ready and eager to move forward. Because of these factors, the selected path of transition was different than in other Central and East European countries.

A controlled devaluation of the currency, and an effort to keep unemployment low, helped the Czech economy in the early years, and made the transition easier for people to bear, but the long-term effects were to prove damaging.

Internal political and cultural differences between the Czech and Slovak populations in the early 1990s led to a peaceful division of the nation on January 1, 1993. Liberalization of the economy continued throughout the early 1990s and the Czech crown

became fully convertible with other currencies in October 1995. However, the slow pace of certain political and economic reforms began to strain the economy. Controlled incomes, an undervalued currency, and slow privatization of key sectors such as banking, together with the voucher system for privatization, meant that many large firms were still highly inefficient and overemployed.

By the spring of 1996 the economic problems were coming to a head. The long undervalued Czech crown had hidden inefficiencies by promoting exports, but currency liberalization after 1995 made the problem more pronounced. In 1997 the current account deficit reached a high of 7.5 percent, which was seen as unsustainable and led to a foreign exchange crisis in May of that year. Economic difficulties in other emerging markets at the same time only exacerbated



the problem. The Czech government reacted quickly and effectively, floating the Czech crown and drastically cutting budget spending which allowed the Czech economy to quickly recover and to begin growing again before the close of the decade.

### **The Czech Voucher Scheme**

The voucher system was a novel system by which the Czech Government transferred state assets to private individuals. Each Czech citizen was entitled to purchase one voucher book for about 1,000 Czech crowns (about a week's wages at the time). The voucher books granted a set amount of points with which a citizen could bid on shares in state-owned companies, thus becoming shareholders in the newly privatized firms. Around 75 percent of eligible Czech citizens bought vouchers. It was thought that efficient and successful companies would attract the most voucher points and money, while inefficient and poorly managed companies would be closed. However, the voucher system did not work exactly as intended.

Investment firms, run by Czech banks, offered to manage people's vouchers. Many citizens felt that the professional firms would produce the best profit as they would know the state-owned companies best, and would be qualified to conduct research to find the best value for their vouchers.

Unfortunately, the Czech banks were also the largest creditors to the old state-owned enterprises, and closing inefficient firms would have produced huge losses through bad loans and other investments. The effect of the voucher scheme was that many firms that should have been closed remained open, postponing the hardships of transition for several years.

### The Czech Republic Leading the Way

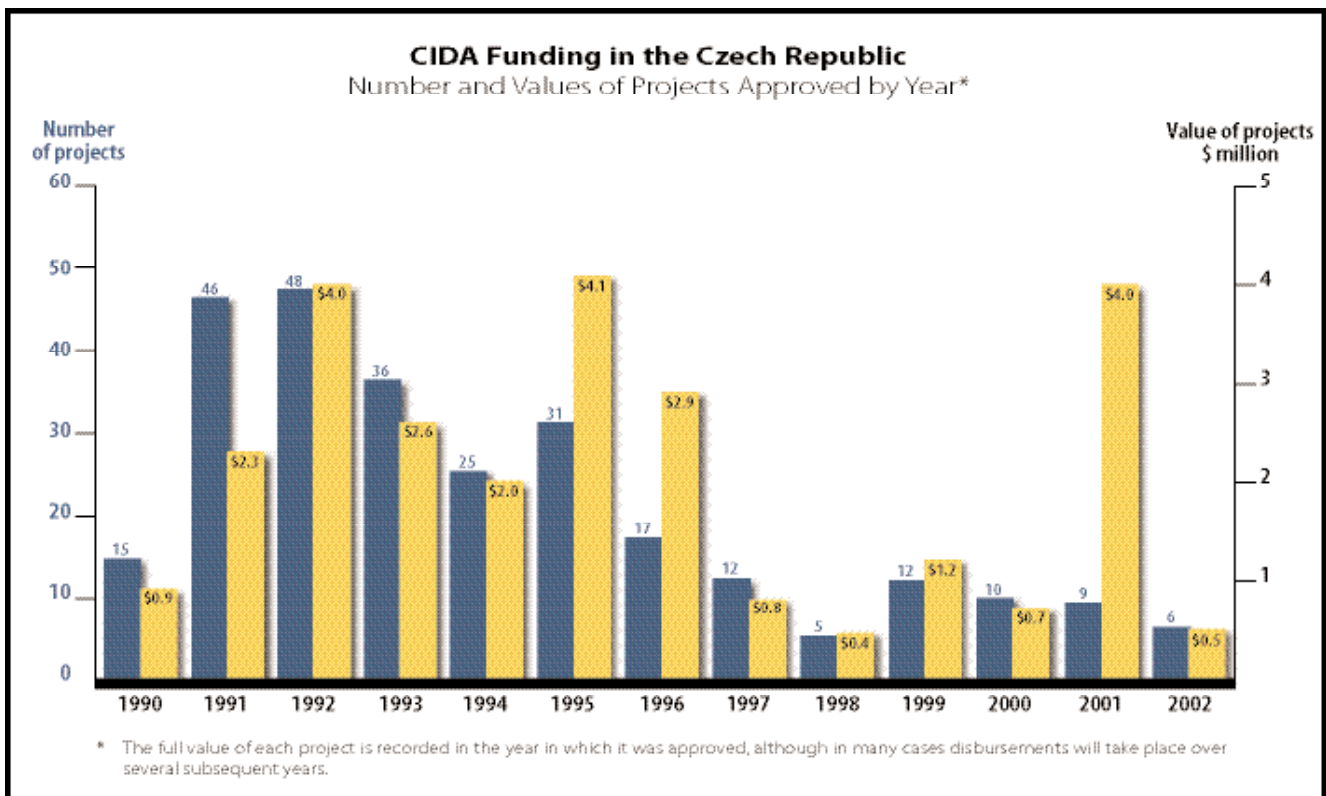
After the rapid changes of 1989, the Czech Republic was left with the task of completely reorienting the nation after more than 40 years of command economy and one-party rule. But the new Czech leadership was up to the task and adopted a proactive approach to bringing about reforms. The Czech nation had the advantage of history on which to draw, having had a vibrant democratic period between the two world wars and strong dissident movements especially in 1968 and 1977. Many of these dissidents were given the chance to bring forward their ideas on reforms, and many had spent years planning the steps that might be needed if and when the country freed itself from communist direction.

As the goals of reform were democratization and prosperity, the Czech Republic worked tirelessly towards the objective of eventually joining the EU, NATO and

the Organisation for Economic Co-operation and Development, partly because these are important indicators of the success of the reforms, and partly as a means to ensure future peace and stability. The desire to become a member of these organizations proved a strong incentive for maintaining reforms even during trying times, and also worked as indicators of success in the reform process, both domestically and internationally with donors and investors.

### Canada Lending a Helping Hand

Even as the revolutions were taking place in Central Europe, Canada was looking at ways to support the changes taking place. In 1990 the Task Force on Central and Eastern Europe was set up in the then Department of External Affairs (now Foreign Affairs Canada). This task force (renamed the Bureau of Assistance for Central and Eastern Europe in 1993) had the mandate of helping the region's former



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socialist states, including Czechoslovakia, in their efforts at democratization and economic reform. In 1995 the Canadian assistance program moved from the Department of Foreign Affairs to the Canadian International Development Agency (CIDA). CIDA, as the Canadian government department responsible for the vast majority of Canada's foreign assistance programs, had the advantage of experience in managing similar programs and could provide the strategic orientation to the rapidly evolving program. The program for the Czech Republic was joined with similar programs for other countries in the region to form the Central and Eastern Europe Branch within CIDA.



Old Town Square with the Church of Our Lady Before Týn.

Between 1990 and 2003 Canada's assistance program to the Czech Republic amounted to \$22 million through 271 projects. While Canada was never one of the largest donors to the Czech reform efforts, taken together with direct investments from Canadian private and not-for-profit organizations, the cumulative effect has been substantial.

Canada's official assistance to the Czech Republic was focused on three priorities, corresponding to Canadian foreign policy objectives in the region. *Democratic development and good governance* projects concentrated on institutional strengthening in the areas of justice, law enforcement (police cooperation), customs protection, statistics, and public administration (municipal cooperation). In the area of *private sector development*, the primary focus was placed on management training for middle and senior level executives of commercial enterprises, and on encouraging industrial cooperation through the provision of policy advice in the area of foreign investment. While numerous small projects and programs supported private sector development, it never reached the scale of CIDA's public sector efforts. Another area of interest was the facilitation of trade and investment links between Canada and the Czech Republic through joint venture projects. Projects related to the *environment* were a focus early in Canada's aid program, but were phased out in 1994/95. These included initiatives related to clean-up and rehabilitation, environmental auditing, risk assessment, forest management, land reclamation, and remote sensing.

During the early 1990s, Canada's assistance program supported a wide range of sectors related to the above listed priorities, often disbursing funds on short notice and with little strategic direction. This reflected the fact that aid was sorely needed in the Czech Republic, and Canada's desire to offer support meant that funds were approved and disbursed very quickly. After the 1995 transfer to CIDA, the program was refocused to support well-targeted projects and specific aspects of the reform process, where Canada was able to offer special know-how and expertise.



## Support for the Environment

Shortly after 1989 it became apparent that the restoration of the environment would be a long-term, financially demanding issue. The environment had been devastated over many years by a high concentration of heavy industry such as coal mining, steel processing, and metallurgical industries, and by pollution left behind on Soviet military bases. The Czech Government was aware of this difficult problem and invited foreign donors and experts to contribute funds and expertise. Canada devoted many resources to these efforts, making environmental projects one of the key sectors for Canadian assistance in the early 1990s.

One such need was noted early: the need for an effective land management system. The Czech Office of Survey, Mapping and Cadastre (COSMC) had to make the transition from a centralized office with a mandate of recording land information, to a modern organization with an effective land information system fully accessible to the private and public sector. The lack of an effective land registration system was proving to be a barrier to privatization and to the restitution of private lands confiscated during the communist era.

### Teaching Czech Youth About Environmentalism

One of the projects supported with Canadian aid was a project to increase the awareness of Czech schoolchildren about global environmental problems and issues at home. Over 8,000 students from 453 schools participated in activities for the Air Pollution Project Europe, and hundreds more participated in Earth Day events. Almost 50 teachers were given training in incorporating environmental education into the classroom. The effects of this project have been broadly felt, even to this day.

Canada's long experience in land information management was well known to the COSMC, and they approached a Canadian firm with a request for assistance. Discussions were helped along by a Canadian expert of Czech descent, a member of the Czech-Canadian Chamber of Commerce. This kind of positive involvement from diaspora communities was often to be found in CIDA project development. Along with transfer of expertise, through training done in Canada and in the Czech Republic, the land information system was launched in 2001, connecting 112 workplaces and about 5,000 users.

## The Czech Public Sector—Changing the System From Within

With the collapse of the communist system and government, the Czech Republic was left with the old government structures and institutions. While changing officials in government could be achieved in a matter of weeks, changing both the purpose and process of the state and regional bureaucracies would prove to be a massive undertaking. Many of the state institutions were inefficient, burdensome, and often contradictory to democratization and economic liberalization. To effect true reforms within the country, fundamental changes had to be made in how the public sector functioned.

Assistance from Canada in this sector has since been described as far-reaching and extensive, with multiple projects being implemented at the national and regional level. Often the best advice and support for the Czech institutions came from their Canadian counterparts, such as the Royal Canadian Mounted Police (RCMP), Department of Justice Canada, Statistics Canada, the Federation of Canadian Municipalities, as well as private firms and educational institutions. These projects focused on transferring knowledge and experience, strengthening public systems and procedures as well as the legislative environment. The projects included the Canadian

Bar Association working to create links with the Czech Bar Association and transferring knowledge and expertise. Other large projects focused on contributing to the recodification of civil laws, support for modern prison systems, encouraging greater efficiency in the court systems, and reform in areas such as legal aid and antidiscrimination in the workplace.

Canadian contributions were welcomed for the way they delivered assistance in a collaborative and non-imposing manner, and for being flexible to the beneficiaries' needs. Some projects helped export relevant Canadian processes and methods, some of which are considered among the best in the world. These include the community policing model exported by the RCMP to help Czech police with minority relations.

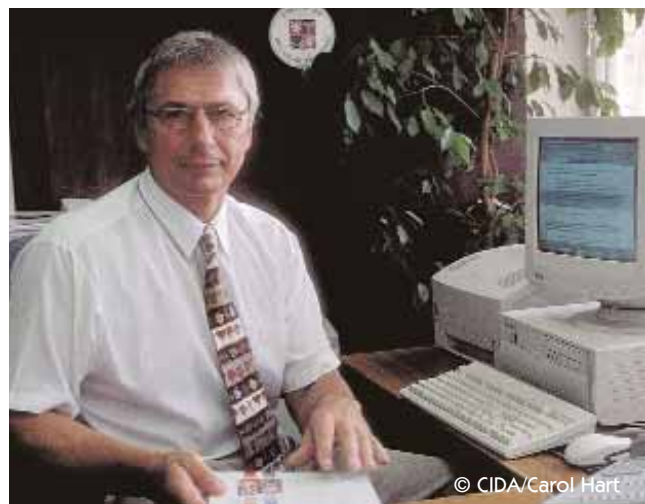
### **Training in the Czech Statistical Office**

In some projects it was the pioneering efforts of individuals that led to great outcomes. In the early 1990s Mr. Edvard Oustrata, a Canadian of Czech descent working as Director of the Department of Information at Statistics Canada, felt that more could be done to help the Czech Republic and other countries in Central and Eastern Europe. His considerable experience with Canadian statistics and Statistics Canada, and his knowledge of the Czech environment and the needs of the Federal Statistical Office of the Czech Republic, ensured the relevance and impact of the project. It was noted that problems existed regionally with economic statistics, the design of computer facilities, and management. From 1993 through 1997, CIDA provided approximately \$235,000 in assistance in these areas. One participant in a six-week survey skills development course described it as the best work experience of his life. Eventually Mr. Oustrata assumed the position of President of the Federal Statistical Office of the Czech Republic.



Participants in a justice cooperation project—aimed at consolidating “rule of law” in the Czech Republic and exchanging information between Czech, Slovak and Canadian justice officials—standing in front of the Palace of Justice.

Known as CAPRA (Clients, Acquiring and Analysing Information, Partnership, Response and Assessment), the community policing model was taught in three different regions in the Czech Republic where it was felt the CAPRA model could best assist in police relations with local Roma communities. Community groups were formed to help bring the local police and the Roma communities together and help the



Mr. Stehlik, Czech official in charge of police training.

police better understand Roma concerns. While not all community groups remained active after the end of the project, there were significant, positive results achieved in all communities. In one instance, the program led to Roma citizens enlisting in the national police force after participating in the community group program; overall, it led to increased attention being focused on minority concerns. The CAPRA model was eventually adapted by other organizations and the Czech Ministry of Interior formed a similar style of community policing adapted to Czech laws and the local judicial system.

### **Evolution of the Relationship of Assistance Between Canada and the Czech Republic**

In 1997, the Central and Eastern Europe Branch at CIDA drafted the Graduation Strategy for several countries in Central Europe, including the Czech Republic. The strategy mapped out the future direction of the program and indicated that a closing down of Canada's assistance program to these countries would take place once the transition goals of these countries and the Canadian government were accomplished. The initial timeline of the graduation strategy ultimately proved too short, especially in light of the many difficulties faced by the recipient countries in the late 1990s; however, it was clear to all that the reform efforts in democratization, governance, economic reform, and private sector development were well underway, and unlikely to falter.

The evolution of the Czech Republic to a functioning market economy and liberal democracy meant that Canada's relationship to the country would also change. The Czech Government had launched its own official development assistance program in 1995, with projects managed by many different government departments. Canada saw the further development of this program as a natural final chapter for Canada's development assistance. From

being a recipient of development assistance, the Czech Republic eventually became a donor country itself, and built a partnership with Canada. The Official Development Assistance in Central Europe (ODACE) program came into existence in 2001 as Canada's response to the interest shown by Hungary, Poland, Slovakia, and the Czech Republic in creating domestic aid agencies similar to CIDA. With \$15 million over six years, ODACE is working with eight countries (the original four plus Slovenia and the Baltic states—Estonia, Latvia and Lithuania) to develop the skills and knowledge needed to begin operating bilateral aid programs of their own. The Czech Republic has since chosen 10 countries to which it intends to offer assistance, including Bosnia, Yemen, Mongolia, Angola and Zambia. Development of projects continues, and it is hoped that Canada and the Czech Republic will partner together to provide assistance to some of these nations. With this final step, the early cooperation between Canada and the Czech Republic to support domestic reforms will have developed into a partnership of equals.