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Proposal for a
COUNCIL REGULATION (Euratom, EC)
concerning the provision of assistance to economic reform and
recovery in the New Independent States and Mongolia

(presented by the Commission)

EXPLANATORY MEMORANDUM

EUROPEAN UNION COOPERATION WITH THE NEW INDEPENDENT STATES AND MONGOLIA

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INTRODUCTION

Since 1991, the European Union has been supporting the transition in the New Independent States¹ through the Tacis programme. Over this period 3,200 million ECU has been committed. In addition, 510 Million ECU was committed in 1998 and a further 450 has been proposed for the programme in 1999. There have been three Regulations for this assistance: in 1991 (EEC, EURATOM) 2157/91), 1993 (2053/93) and the current legal basis for this assistance (Council Regulation (Euratom, EC) No. 1279/96) which will expire on 31 December 1999. A new Regulation is proposed which will cover the years 2000-6, the period of the new financial perspective. The preparation of the new regulation has provided the opportunity for a wide-ranging review of the Tacis programme – a review which has included both a reflection on the past and a discussion of the future. The purpose of this memorandum is to outline the results of this process, to set out the Commission's vision for the future orientation of the programme, and to explain the implications for the new regulation.

It sets out the new priorities for assistance as follows;

- Greater concentration of the assistance to achieve maximum impact,
- Clearly differentiated country programmes,
- Support for the objectives of the Partnership and Cooperation Agreements (PCAs),

These objectives will be promoted through improved implementation of the assistance, notably;

- A move from 'demand-driven' to 'dialogue-driven' programming,
- Increased promotion of investment
- An increase in the number of assistance instruments available, including an increased use of twinnings between EU and NIS institutions and industrial cooperation,
- Improving the quality of the assistance, notably through the creation of an 'incentive' scheme.

This memorandum is divided into four chapters. The first looks at past experience. Since the Tacis Programme was launched in 1991 a number of reports have been produced – monitoring reports, evaluation reports, reports by the Parliament, the Court of Auditors, etc. In addition, in preparing the new regulation, a broad consultation exercise was organised which involved the many stakeholders in the Tacis programme both in the EU and in the NIS. These various initiatives have provided additional valuable input, and an attempt has been made to take into account the criticisms and recommendations made. The new regulation aims to learn from the lessons of the past.

The second chapter looks at the changing political and economic context in which the new phase of assistance will be implemented. The points raised include: (i) the increasingly complex economic and political context in partner countries which will require new solutions; (ii) the significance of enlargement and its implications on the EU's priorities in the region; (iii) the increasing importance of the Partnership and Cooperation Agreements (PCAs) in EU-NIS relations; and (iv) and the need for greater efficiency and cost-effectiveness in programme implementation.

The third chapter outlines the future policy objectives. Given past experience and in view of the changing environment, the EU's objectives in the region in the years 2000-6 will be

¹ NIS denotes the New Independent States and Mongolia

different and the areas on which the EU should focus its assistance will need to be carefully defined. The programme will need to retain the flexibility to provide assistance appropriate to the differing needs of 13 partner countries whilst also concentrating on a limited number of areas in which real impact can be achieved. Moreover, the programme must have the ability to react rapidly to the threat of political or economic crisis in the region.

And finally, chapter four will outline the means needed to meet these objectives.

In conclusion, it will be seen that the evolving situation has necessitated changes to the programme in terms of objectives, instruments and management methods.

CHAPTER ONE

LEARNING FROM PAST EXPERIENCE

The reorientation of EU assistance to the NIS, as set out in this memorandum, must find inspiration in the lessons learned and experience gained over the seven years of the Programme's operation. The results of the Tacis Interim Evaluation, completed at the end of 1997, as well as numerous individual country, sector and project evaluations, operational monitoring reports and the reports of other Community institutions such as the Court of Auditors and Parliament provide a substantial basis for assessing the past experience of Tacis.

In addition, a broad consultation exercise was held during May-July 1998. On 26 May 1998 a "brainstorming meeting" was held in Brussels to gather the views and ideas of a wide range of stakeholders involved in the Tacis Programme, including representatives of industries, consultancies, NGOs and academics. The results of the meeting have been published and are available separately². Reflection meetings were also held in the partner countries – in Moscow, Kiev, Almaty and Tbilisi. In addition, a number of informal discussions have taken place with representatives of the Parliament and the Member States. These consultations have provided valuable input into the reflection process.

The main points raised in these reports and meetings are described below. They highlight;

- the insufficiently clear programme objectives
- a lack of focus partly due to the demand-driven approach,
- the need to differentiation between objectives in the different regions covered under the Regulation,

On the implementation side, it is clear that;

- a greater variety of instruments is needed to deal with an increasingly complex needs of the NIS including more investment promotion, twinning and industrial cooperation
- there is insufficient conditionality to ensure good quality projects,
- management procedures are over complex,

² Tacis publication, "The Tacis Programme: a Reflection on the Past and the Future"

a) Better defined objectives

The reports stress the need for more clearly defined policy objectives. The perception is that the broad objectives of the current regulation combined with a demand-driven approach to programming has led to an overall lack of focus and a dispersal of efforts. This in turn has reduced the potential impact of the programme and minimised visibility.

To overcome this, there is broad support for shifting from a demand-driven to a dialogue-driven approach according to which the EU would clearly state its policy objectives and, within the context of these, determine together with the partner countries areas of common interest.

In addition, there is a need to highlight the increasing importance of the PCAs. It is felt that the programme could better reflect the objectives of the EU as defined through the policy dialogue instituted under the PCAs. It is further felt that the extensive PCA machinery is a resource which could be drawn upon in the elaboration of programme strategies. Future activities must promote the objectives of the new partnership.

In the past, the overall objectives of Tacis have been to promote democracy and market reform in the NIS. Whilst there is no doubt that great strides have been made in the majority of partner countries, the extent to which Tacis has contributed to these processes is hard to quantify. In general, there seems to be a broad consensus that the past objectives of Tacis have been appropriate, that these objectives have been partially met and that they remain relevant for the future. However, it is clear that improvements can be made. The Tacis interim evaluation, for example, highlights the fact that the reinforcement of democracy has received relatively little attention and warrants a more structured approach.

A number of evaluations have highlighted the need for a clearer strategic focus for actions in the field of nuclear safety. Future assistance to this sector will need to focus on a limited number of achievable objectives.

b) The need for regional differentiation

It is widely agreed that the NIS do not constitute a homogeneous block. The needs, priorities and the pace of transition in the countries are different. Moreover, over the period to be covered by the new Regulation, these differences are likely to increase. Both sector specific reports, such as the report of the High-Level Panel of Advisors³ on the Nuclear Safety Programme, and reflections on the overall Tacis programme, point to the need for flexibility in future assistance to respond to these increasingly different needs.

c) Greater concentration

The Tacis Programme has been widely criticised for lacking focus – for spreading its limited resources too widely and too thinly thereby reducing impact and visibility.

The tools for the development of a well targeted programme already exist: indicative programmes provide for the elaboration of strategic objectives for each country; annual or biannual action programmes allow Tacis to implement these strategies whilst also responding to political and economic developments on the ground; programming guidelines explicitly limit the number of areas of cooperation in each country. In reality, however, this system has not succeeded in achieving an adequate degree of focus and

³ Panel of High-Level Advisors on Nuclear Safety in Central and Eastern Europe and in the NIS, A Strategic view of the future of the EU's Phare and Tacis programmes, August 1998.

concentration. The reasons for this are various: programming guidelines have not been rigorously applied; areas of cooperation have often been broad themes which have acted as "catch-alls"; and political pressures have often exacerbated the dispersal of efforts.

Whilst it is essential that the programme retains the ability to respond flexibly to changes taking place in the increasingly diverse partner countries, there is clearly a need to tighten the existing system and to ensure a greater degree of discipline in programme formulation. Without the readiness to narrow the scope of the assistance it will be difficult to improve impact and visibility.

d) The need for areas of cooperation that better promote objectives

It was felt that EU objectives could be better expressed in terms of cross-sectoral themes which contributed more directly to the strengthening of the relationship between the EU and the partner countries and which were more closely related to objectives.

High-level policy advice was an area in which it was felt Tacis could play a stronger role. In a limited number of areas Tacis had succeeded in establishing a dialogue with top government officials and parliamentarians. Through a more effective use of Delegations and a better selection of project counterparts it was felt that this capacity could be reinforced.

Other areas which were considered to warrant future support included human resource development like the management training undertaken in the context of the Productivity Initiative, institution-building, social welfare and the rule of law. In addition, industrial cooperation was identified as a high priority and an important means of creating a real partnership with the countries of the NIS. Sectoral reform was considered to be less of a priority as Tacis had neither sufficient resources nor sufficient influence to achieve results.

Tacis was considered to have been particularly successful in the promotion of regional co-operation through assistance to interstate and cross-border projects. Support for actions like the TRACECA Central Asia to Europe transport corridor, the INOGATE oil and gas pipeline initiative and regional environment projects such as the Black Sea environment programme have promoted important inter-government co-operation among NIS. This has enhanced their political and economic independence and promoted economic and political links with the EU as well as with Central European accession countries. Regional co-operation, as well as rehabilitation programmes have also contributed to conflict resolution in the former Soviet Union.

Some areas are considered to have received insufficient attention in the past. As mentioned above, the reinforcement of democracy has received relatively little attention given its status as a secondary objective of the programme. During the brainstorming meeting in Brussels with EU stakeholders a strong case was made for Tacis to place a greater emphasis on the development of good governance and the civil society. The strongest advocates of this were representatives of the private sector who stressed the need for a pluralistic society for the development of a healthy market economy.

The nuclear safety programme has been the subject of a number of reviews. Despite often severe criticism, the assessments are unequivocal in highlighting the importance of the sector and the need for continued, more focused, assistance. Much of the criticism has stemmed from the fact that the programme's objectives have been too ambitious: it was never realistic to expect the Tacis Programme to address the problems of soviet designed reactors. Among the main recommendations for the future development of the programme are: (i) the need to develop a clearly defined strategy with the programme

partners; (ii) a more active involvement on the part of project partners; (iii) concentration on fewer, larger-scale actions to increase focus and visibility; and (iv) streamlining of procedures.

e) The need for more appropriate instruments

To date, Tacis has provided mainly technical assistance. The Tacis Interim Evaluation concluded that "technical assistance in the form of transfer of know how is very much needed in the NIS ... at the present time, the provision of technical assistance rather than financial assistance is appropriate".⁴

At the same time a number of reports have warned against a too heavy reliance on consultants. It is widely felt that short-term fly-in experts can have only a limited impact and that the provision of longer term advice has proved more effective. In addition, it is felt that there are a number of different sources of expertise which could be more involved in the delivery of advice, for example administrators and civil servants from the member states. Moreover, it was felt that as Tacis focused on new areas, e.g. Justice and Home Affairs, or the reinforcement of the regulatory framework, expertise would increasingly be found in the EU's public sector.

Related to the above is the need to establish long-term enduring relationships which go beyond the scope of the Tacis intervention. This implies the need for a greater emphasis on the creation of longer term partnerships between EU and NIS operators, for example twinning projects between public administrations, between operators in the nuclear sector or industrial cooperation in the private sector.

It is further felt that the cost-effectiveness and efficiency of the programme could be significantly enhanced by increasing the inputs of NIS experts in the delivery of advice. Not only would they contribute valuable local know how to the project, but such an approach could stimulate the development of a local consultancy market.

And finally, there is wide support for an increased use of assistance to catalyse investment financing from other sources. Some steps have already been taken to ensure that technical assistance studies are more closely linked to investment. As well as supporting specific instruments designed to finance feasibility studies in advance of IFI investment like the Bangkok Facility, projects like TRACECA have successfully catalysed IFI investment into cross border infrastructure projects in the NIS. However, a still closer collaboration with the International Financial Institutions is advocated. The financing of feasibility studies not linked to potential follow up investment should not be supported. At the same time there is a general realism as to the potential for the Programme to finance significant infrastructure projects. With the limited budget available, it is accepted that Tacis' role would primarily be one of catalysing and supporting investments, rather than itself financing investments.

f) Simplified and more efficient management

Many of the criticisms levelled at the programme relate to the complex and cumbersome procedures. The programme is widely perceived as being slow and inflexible and therefore ill adapted to the needs on the ground. The Tacis Interim Evaluation urges the Commission to "review its administrative and financial procedures in order to create a leaner and more flexible administration needed to implement projects efficiently"⁵.

⁴ Tacis Interim Evaluation, p.31

⁵ Tacis Interim Evaluation, p.71

The complexity of the programming cycle is largely a result of legal and financial constraints which have increased over time. The Tacis Interim evaluation highlights the fact that the 1996 Tacis Regulation itself has hindered the efficient and effective management of the programme⁶.

However, within this context a number of measures have been undertaken over the last two years to improve the management of Tacis;

- Administrative, and particularly tendering, processes have become more transparent to partners and contractors and the dissemination of project results as well as the provision of information about Tacis has improved
- a forward planning system has been instituted to track project implementation and identify bottlenecks,
- average project size has increased maximising the impact of Tacis actions and reducing the administrative burden,

As a result of these developments, Tacis last year achieved its best quantitative financial performance since the inception of the programme. During 1997, funds were committed earlier and more funds were contracted than in any previous year of the programme. Details of budgetary performance, including a reduction of the contracting backlog since 1996, are provided in the annex.

Without question this process of simplifying and streamlining procedures will continue, particularly in the context of the creation of the new Common Service. Whilst many of the management reforms will take place at the micro-level outside the scope of the regulation, the regulation could nonetheless provide a framework more conducive to the provision of efficient and effective assistance. Issues to be addressed within the new regulation include:

- An improvement in the quality of projects. At present, there is little conditionality attached to project implementation. Project partners receive the assistance for free and European experts are often explicitly barred from future project phases. This quality deficit will need to be overcome, in particular by ensuring a greater commitment on the part of the partner country to the success of the project.
- A reduction in emphasis on administrative procedures at the expense of performance and results achieved. Good performance by project implementors, rather than merely good book-keeping, needs to be rewarded.
- More simplified forms of contracting. For certain forms of assistance and co-operation, such as some forms of twinning, industrial cooperation and nuclear safety projects where there are a very limited number of appropriate implementing agencies, the current tendering procedures are not appropriate. These procedures delay project implementation without providing any value in the form of transparency or competition. At the same time, flexibility should not be at the expense of transparency. A number of provisions should be included to ensure that an appropriate level of transparency is maintained

⁶ Tacis Interim Evaluation, p.65

- An increased number of large-scale, high profile initiatives. Initiatives of the Traceca/Inogate type have proved successful at focusing assistance on clearly defined objectives and raising the profile of Tacis both in the EU and the NIS. At the same time, there will remain a need for a limited number of small-scale initiatives which are often more flexible, more suited to certain areas, and often have a high visibility at the grass roots level.

In order to retain the support of EU and NIS stakeholders in the programme, it is essential that future assistance is seen to be responding to past criticisms and recommendations. The points listed above reflect not only the conclusions of various reflection and evaluation processes but also reflect the Commission's own experience in implementing the Tacis programme. They have therefore been taken into account in drafting the new regulation.

CHAPTER TWO

THE CHANGING ENVIRONMENT

As well as responding to the lessons learned from implementing Tacis over the last few years, the New Regulation must take account of the changing political and economic context in the NIS.

Hurriedly launched at the end of 1991, Tacis sought to respond to the needs of countries still constituting a single block (the USSR and then the CIS) and confronted by the same problems: launching economic reforms and creating independent sovereign states. Now, seven years later, the process of the break up of the former Soviet Union and of differentiation between the countries can be seen in all sectors. These developments have been a result not only of the desire of the majority of NIS to assert their independence, but have also been due to the process of transition and reform which has accentuated the differences between the NIS.

This process of divergence between the countries of the NIS will increase. Differentiation manifests itself in both the political and economic spheres. Politically, certain countries have made significant progress in creating democratic systems and institutions and in establishing the rule of law. Others still lack a functioning democratic system. On the economic level, there are widely varying differences in commitment to, and pace of, reform among the different NIS.

Given this situation, future assistance must be able to target the increasingly differing needs of the partner states.

a) Political context

i) Democracy, the civil society and the rule of law

Democratic institutions and principles have taken root to varying degrees in the NIS, often underlining regional differences. With some notable exceptions, most countries have sought to establish the formal institutions of democratic government and have accepted basic democratic principles such as the division of powers, independence of the judiciary, the rule of law and free and fair elections. However, in some NIS these institutions have not prevented governance by presidential decree, weak political opposition, and a lack of freedom of expression. In all NIS, democratic institutions require further strengthening.

The existence of a strong civil society is a necessary complement to democratic institutions in the development of a truly democratic order and a healthy market economy. Once again, the extent of the development of civil society varies across the NIS. In many NIS, non-governmental structures have proliferated as have the independent electronic and print media. In others, the development of a non-government sector and the civil society and independent press is less advanced. In the past, civil society has benefited significantly from Tacis support and from the promotion of partnerships with organisations from the EU through technical assistance and twinnings. In the future, EU support will need to continue in order to consolidate this progress and to ensure the firm foundations of democratic civil society in the NIS.

The promotion of an effective and transparent public sector and the application of the rule of law are further essential elements for the establishment of a democratic society and the operation of a healthy market economy. In the majority of the NIS, the weak legal and regulatory framework is identified as the major hindrance to increased domestic and foreign investment.

In the future, the main programme should focus on support for the civil society, and the development of efficient and transparent government and a strong legal and regulatory framework. Such assistance shall be co-ordinated with the Democracy Programme (subject to a different Regulation and separate budget line).

ii) Inter-NIS relations and regional cooperation

Since the collapse of the Soviet Union in 1991, the NIS have made major strides in establishing their sovereign independence. Relations between the countries have evolved and normalised. Inter-country relations are being governed less by the political and economic exigencies of the past and more by the realities and opportunities of the present and future. This trend is likely to increase over the period of the new Regulation.

Regional and inter-state cooperation remain fundamental instruments in promoting stability and sustainable economic relations among NIS countries. Such regional cooperation both among NIS themselves and with non-NIS have increased significantly in the past few years. While the Commonwealth of Independent States (CIS) is increasingly seen by many of its members as a loose framework for inter-governmental relations rather than a mechanism for supra-national actions, other cooperation groupings have emerged among the NIS. These include the Customs Union countries (Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan), the so-called GUAM grouping (Georgia, Ukraine, Azerbaijan, Moldova) and the Central Asian Economic Union.

The NIS are also engaged in regional cooperation initiatives which draw them increasingly into political dialogue and economic cooperation with their central and western European neighbours. Russia is involved in the Barents Euro Arctic Council (BEAC), Council of Baltic Sea States (CBSS) and Black Sea Economic Cooperation (BSEC), Ukraine and Moldova are involved in the Central European Initiative (CEI) and, along with the Caucasus countries, in BSEC.

The new regulation must facilitate the promotion of regional cooperation aimed at consolidating stability, democracy and economic development, in particular when such cooperation draws together the NIS, candidate countries and the EU.

iii) EU-NIS relations

In the future, the EU-NIS relationship will increase in importance given the enlargement of the Union to the East. Agenda 2000 stresses that an enlarged EU will have extended

frontiers with Russia, new frontiers with Ukraine, Belarus and Moldova, as well as direct access to the Black Sea, leading to intensified contacts with the Caucasus and Central Asia.

After enlargement, the Community will represent a market of 500 million consumers and producers. The member states will require close economic links with their immediate Eastern neighbours in the former Soviet Union, which are already very important suppliers of energy and other raw materials. Post-enlargement, there is likely to be an increase in trade flows, a need for expanded transport networks, new investment opportunities and demands for increased cooperation on environmental protection. Cross border cooperation will increase. Enlargement also means that cooperation between the EU and NIS in the field of Justice and Home Affairs will assume increasing importance.

In short, enlargement represents an opportunity to all countries of the region. Some countries aspire to eventual membership of the Union and have already applied for associate status. Others recognise the opportunities offered by enlargement and have declared their wish to participate actively in the establishment of a broad area of cooperation across Europe.

As outlined in Agenda 2000, the global allocation for external assistance programmes is likely to increase at a rate comparable to that of the GDP of the EU Member States. Given this constraint combined with the scale of the problems to be addressed, the cost effectiveness, profile and overall impact of assistance will need to be maximised.

iv) The Partnership and Cooperation Agreements (PCAs)

Partnership and cooperation agreements have been signed with all the NIS except Tajikistan. The agreements set out both the general principles and the detailed provisions that govern relations between the EU and the NIS. The PCAs are an embodiment of a joint commitment by the EU and partner country for closer understanding and cooperation which aim to foster progress towards a market economy. The Agreements provide for a political dialogue between the Union and the NIS and set the parameters for non-discriminatory trade relations. For the western NIS, the future possibility of a free trade area is included. The Agreements also cover a wide range of new areas of cooperation including education, employment and science and technology. So far three PCAs have entered into force (Russia, Ukraine, Moldova) while the others should do so before 2000.

The PCAs thus provide the overall framework for relations between the EU and the NIS, including the assistance programme. This does not mean that the Agreements provide detailed guidance for the priorities and implementation of the programme. However, the extensive machinery of the PCAs, emanating from Cooperation Councils and Committees will undoubtedly provide an essential input into the programming process. Future activities must promote the objectives of the new partnership.

b) Economic Context

i) Macro-economic situation and policy

The last two years have witnessed both the first fruits of reform as well as the fragility of the economic transition process.

After years of decline of the real economy in the New Independent States, 1997 saw a return of growth in the region as a whole. However, the developments during the first part of 1998 have underscored the fragility of the transition process in a number of countries. Nevertheless, there are some positive signs such as the good progress in transition and consequently significant economic growth achieved by some NIS in the last two years.

The Russian economy which recorded positive growth for the first time in 1997 since the transition process started is now in a deep crisis since August 1998. At the centre of the rouble devaluation and ensuing loss of confidence lies the large foreign financing of the structural fiscal deficit, combined with insufficient privatisation efforts and an unstable legal and regulatory framework.

The reversal of the Russian situation has serious implications for growth prospects in the region, particularly for those countries with large trade links with Russia. In Ukraine, which shares a number of structural weaknesses with Russia, GDP continued to decline in 1997 and has dropped below 40% of its pre-transition level. In other NIS countries, the conditions have improved markedly in the last two years. With the exception of Kazakhstan and Moldova, they have resumed growth and have made progress in combating inflation. Recent experience, however, has shown that in this region GDP growth is quite volatile. Although all will be affected by more restrictive access to international capital markets and trade effects of the Russian downturn, the severity of the impact will be less marked in those that have decisively implemented structural reforms, prudent macro-economic policy and refrained from excessive government interference in the functioning of markets.

ii) Structural policy

Up until 1998, rapid progress was being made in most NIS countries in the first stage of transition involving market liberalisation, privatisation of state-owned companies, establishment of key institutions and regulatory structures. More recently the picture is less clear. As the Russian crisis has shown such measures need to be followed up with structural measures of the second stage of transition, such as improving tax revenue collection, reinforcing the legal and regulatory framework including regulation and supervision of liberalised financial institutions and markets, and enterprise restructuring combined with overall prudent macro-economic policy. Measures taken in the earlier stage of reform need to be consolidated and institutions already established require strengthening. The results in the region in these fields are less encouraging.

While a number of NIS countries (Armenia and Azerbaijan, for example) are expanding their efforts to implement the delayed structural measures associated with the first stage of transition, others (Belarus, Uzbekistan and Turkmenistan) have demonstrated less ambition in the implementation of reform measures in various fields favouring instead less market-oriented schemes. Following the outbreak of the crisis Russian authorities have also backtracked on reforms, mainly in financial market regulation and price liberalisation. For the reasons outlined above, it is imperative that NIS countries take additional decisive steps to supplement the first stage transition reforms with the second stage reforms. Failure to do so will put the hard won achievements of the early transition years at risk, including stabilisation that is only now achieving results in terms of growth and disinflation.

In this complex and fluid context EU assistance needs to be prepared to respond to economic crises and must also continue to provide assistance aimed at the first stage of economic reform (ensuring trade and price liberalisation, assisting in the privatisation process and in the establishment of institutions needed to support and regulate a market economy). In addition, assistance must be available for consolidating and building on these reforms. This needs to include reinforcing the legal and regulatory framework, facilitating a conducive investment climate and promoting entrepreneurship.

c) The social context

The economic reform process in the NIS has had a severe social impact. The closure of uncompetitive industries and restructuring of the public service have produced large-scale

unemployment. Social provisions have been scaled down. Fiscal austerity coupled with low tax collection has meant public sector wages and social benefits are often not paid for months at a time. The most vulnerable social groups, including children and the elderly, are the worst hit. This situation provides the potential for social unrest, an increase in nationalism and a loss of faith in the economic reform process.

In the past, support for addressing social issues and, in particular, the social consequences of economic reform have not received significant attention under Tacis. This illustrates one of the disadvantages of the demand-driven approach to programming according to which partner state governments tend to focus on other aspects of the economy. This should be addressed under the new Regulation with an increased emphasis on the social consequences of reform. This will include measures to restructure the social security systems in the NIS, promote re-training and employment and support in providing basic social services to the most needy. Given the scale of the problems to be addressed and the limited funds available within the EU Programme, assistance will need to be carefully targeted and restricted to areas in which the provision of advice can achieve a real impact.

d) The environmental context

The era of Soviet central planning left an appalling legacy of environmental problems with which the NIS are only now beginning to come to terms. Inadequate attention was paid to the environmental impact of the exploitation of natural resources. Urgent action is now needed to restore and protect the environment in the NIS. But environmental and public health problems must compete for attention with many other economic and institutional problems in these countries.

Development of National Environmental Action Plans (NEAPs), supported by Tacis, have helped provide a framework and guide for identifying the highest priority problems and for developing realistic, efficient and cost-effective solutions. Actions aimed at dealing with some of the major inter-state environmental problems, such as pollution in the Black and Caspian and Aral Seas have also been supported.

The Environment will continue to be a key sector in the reform process in the NIS, both for social reasons, in order to improve living conditions, and as part of countries' efforts to integrate into the world economy and trading system. As Agenda 2000 underlines, with enlargement cross-border environmental issues will become more important for the EU in its relations with the NIS. Nevertheless, the sheer scale of environmental problems in the NIS compared to the limited resources available under the programme means that EU objectives in this area must be realistic and focused.

Environmental considerations are also an important cross-cutting theme in the reform process. Many of the general economic policy reforms such as macro-economic stabilisation, pricing, privatisation, industrial restructuring and trade liberalisation can contribute to environmental improvement.

e) The rural economy

The rural economy and particularly the agriculture sector remains a key element in many NIS economies, particularly in some countries of the Caucasus and Central Asia. The collapse of the soviet system of central planning, and with it the markets for agricultural produce, necessitated a huge adjustment in the sector and has had a profound effect on living standards in large parts of the NIS. Unemployment lives alongside vacant and unused land. Investment, key inputs, machinery, fuel, grain, distribution systems and access to markets are all lacking.

Reform of the agriculture sector has required three parallel processes; land privatisation and liberalisation of the market for land, fundamental legal and regulatory reforms and the promotion of an environment conducive to economic growth in the rural sector including investment and training. Non-agricultural elements of the rural economy too like crafts, light industry and tourism also need to be nurtured, largely through the same measures.

Tacis assistance in the sector has included various phases of support from food aid and rehabilitation projects in rural (and often post-conflict) areas to policy advice related to land privatisation and legal regulation to the establishment of rural credit schemes. The new Regulation will need to make provision to consolidate these efforts and in particular to support the second phase of the reform of the agricultural sector and promotion of the rural economy. This assistance will centre on supporting the creation of a conducive regulatory and investment climate in the sector.

f) Nuclear safety

Improving nuclear safety remains a major and distinct priority for the NIS. Nuclear power provides an important source of energy for a number of countries and is likely to continue to do so in the medium term. Whilst international assistance has achieved some results in improving safety standards and awareness, the needs remain vast. There are, for example, twenty-nine nuclear reactors operating in Russia today. It must be accepted that the EU's assistance programme cannot and should not hope to close or modernise all these reactors.

In addition, severe radioactive contamination poses a grave environmental threat in parts of the NIS. Specific areas of concern include North West Russia where large quantities of spent fuel and radioactive material threaten the Barents Sea region. It is important that the nuclear material is subject to a reliable safeguard system.

Given the scale of the problems and the limited resources available, future EU assistance must be strictly focused on specific and achievable objectives. These will include meeting international commitments outlined in the G7 Memorandum of Understanding on the closure of Chernobyl, support for the preparation of EBRD and EURATOM loans for the completion of replacement power generating capacity at the Rovno and Khmelnitsky sites and contributions to the 'Shelter fund' as well as the reinforcement of the nuclear safety culture through support for regulatory authorities, particularly in Russia.

CHAPTER THREE

OBJECTIVES 2000 - 2006

a) Programme objectives

In response to the changing environment in the NIS as outlined in chapter two, future EU assistance shall focus on the following objectives. The objectives will vary from country to country depending on the different needs and priorities.

i) Democracy and the rule of law

Strengthening democracy and the rule of law will remain a key priority for EU assistance. In this area, assistance shall focus on the promotion of good governance through support to the policy-making process, and support for key institutions of the legislative, judicial

and administrative machinery. Assistance shall also focus on the reinforcement of the rule of law through support for the development of an effective legal and regulatory framework, aimed at assisting the NIS to implement their international commitments, eg. under the PCAs, and promote a climate conducive to domestic and foreign investment. Support for an effective legal and regulatory framework will also seek to provide a sound basis for an active civil society including for example, the activities of consumer groups and professional associations. Actions in this area will be coordinated with, and complemented by, assistance through the democracy programme supported under a different budget-line.

ii) The private sector and economic development

Transition to a market economy will remain the key priority for EU assistance to the NIS. This includes fully functioning free market economies operating in a transparent regulated environment conducive to investment. A related objective remains the integration of the NIS into the world economy, with accession to the World Trade Organisation (WTO) serving as a means to that end.

Future assistance will also support enterprise restructuring and privatisation. Private entrepreneurship will be promoted, as well as industrial cooperation and joint ventures between NIS and EU companies as key elements of economic development. This will involve know-how transfer, twinnings, facilitating access to finance and management training initiatives. Encouraging both public and private investment and continued assistance in the establishment of a sound banking system will be critical elements in the realisation of this objective and key priorities for the next period of EU assistance to the NIS. Further structural reform and the promotion of sound fiscal policies will also continue to be objectives of EU assistance.

iii) The social consequences of transition

As well as aiming to consolidate and continue structural economic reforms, EU assistance will also have as an objective dealing with the social cost of the transition process. The aim will be to support the restructuring of the social welfare system including pension, health, service and social insurance reform. In addition, EU assistance will aim to promote employment in the most needy areas where economic and industrial reforms have led to mass unemployment. This will be done, inter alia, through assistance with employment services and through re-training. Finally, assistance will aim to support the provision of basic social services, mainly by regional and local levels of government, to the most needy sections of society. In recognition of the scale of the problems to be addressed and the limited resources available, actions will need to be targeted at limited and achievable objectives.

iv) Regional and cross border cooperation

Regional cooperation- particularly frameworks involving NIS countries, associate countries and the EU, such as the Barents Euro Arctic Cooperation, Council of Baltic Sea States ('Northern Dimension') and Black Sea cooperation – will remain an important objective of EU assistance to the NIS. Assistance will be aimed primarily at those issues which require a regional response as well as at activities promoting cooperation between neighbouring countries.

Interstate and inter-regional cooperation shall primarily serve to assist the partner countries to identify and pursue solutions to problems which are of an interstate or regional nature. As such, it shall include actions which are best undertaken at a multi-

country rather than at national level, for example, the promotion of networks, environmental cooperation and actions in the area of justice and home affairs.

Well developed infrastructure networks are essential for a well functioning market economy. One priority for assistance will therefore be the development of such networks, in particular energy transmission networks as currently supported under the Inogate programme, telecommunications networks and transport networks like the TRACECA corridor, the 'Crete corridors' II and IX and the 'Pan European Transport Areas (PETrAs)'. Moreover, support could be provided for the development of existing networks for example by using 'intelligent transport' systems.

The enlargement of the Union to the East will place an added emphasis on the importance of enhancing cross-border cooperation between the countries of the NIS and the EU, and the NIS and the Central European countries. In order to increase the effectiveness of assistance, co-ordination between the relevant Community instruments (Interreg, Phare – Credo and Tacis CBC) will need to be ensured. Future assistance is likely to focus on the following areas: (i) improving the efficiency and effectiveness of border controls, (ii) addressing trans-boundary environmental concerns and (iii) tackling problems in the justice and home affairs arena, eg. illegal immigration and drug trafficking. An important objective will remain the development of close links in border regions through the promotion of economic ties, joint ventures and cooperation between local and regional governments. Cross border cooperation will also have as an objective dealing with the specific development problems which face regions on the periphery of national economies.

v) Environmental protection

Objectives in the environmental field will include the promotion of a strong legislative and regulatory framework and environmental policy and practice which meets international standards. Ecologically sound and efficient exploitation and use of natural resources, the improvement of environmental infrastructure and effective reduction of cross border pollution will characterise the main aims of assistance in this area. These objectives will be promoted through assistance aimed at consolidating ongoing efforts to develop environmental policy, establishing a sustainable regulatory framework, and promoting investment in the sector.

In addition, it will remain imperative that environmental considerations are taken into account in the implementation of projects in other areas, such as agriculture, energy or infrastructure.

vi) The rural economy

Increasing the standard of living in rural areas of the NIS and increasing their participation in, and contribution to, national economies will be the objective in this area of assistance in the future. Achieving growth in the rural economy will be promoted by facilitating free market practices in agriculture through sound policy, a conducive regulatory framework, access to finance and access to markets. These measures will also be key to promoting agriculture-related and non-agricultural economic activity including craft, light industry and tourism.

vii) Nuclear safety

Improving nuclear safety is an objective distinct from the overall aims of promoting democracy and the market economy, although the introduction of market principles in the

power sector and the promotion of law-based, open and democratic institutions contributes to this objective.

Future assistance in this sector shall avoid over-ambitious objectives and focus instead on specific, realisable objectives. The three principal priorities identified are: (i) support for the reinforcement of the nuclear safety culture and the application of efficient safeguards, in particular through support for the regulatory authorities, (ii) contributing to international initiatives, such as those outlined in the context of the G7; and (iii) supporting spent fuel and nuclear waste management, notably in Northwest Russia. In addition, on-site assistance at nuclear power plants which aims to contribute to an efficient transfer of safety culture and know how at the plant level shall be implemented in the short term.

In establishing and implementing the actions in this area, the Commission will benefit from the competencies existing in its own services. This will include the use of the independent scientific and technological expertise of the Joint Research Centre.

b) Management objectives

i) Maximising impact and enhanced visibility

Maximising the impact of Community assistance will be an important objective for actions under the new Regulation. This will be enhanced by restricting the programme's activities to a limited number of areas in each country. Future actions need to be more visible, both to the governments and people in partner countries as well as the EU's own constituency.

ii) High quality initiatives

Future actions need to promote high quality and successful initiatives. Moreover, success needs to be 'replicated'. Without penalising some, opportunities need to be found to provide additional support for countries that can identify and present the highest quality projects.

iii) Simplified procedures

At present, there is widespread agreement that the Tacis programme has become too heavy and too inflexible to respond adequately to the changing needs of the partner countries. If EU assistance is to be a relevant and a valuable instrument, a thorough review of internal procedures is required with a view to substantial simplification. A more acceptable balance between transparency and flexibility must be found.

CHAPTER FOUR

THE MEANS TO ACHIEVE THE PRIORITY OBJECTIVES

The new regulation provides the opportunity not only for a re-focusing of the programme to better take into account the emerging needs of the different NIS and the EU's priorities in the region. It also allows for an improvement in the management of the programme in order to increase efficiency and effectiveness in meeting those objectives and thus maximise impact.

The situation in the NIS to which the EU seeks to respond has become more complex. Needs vary in different countries as they experience reform at different speeds and

develop different priorities. This situation makes it necessary to have a variety of instruments available that can be tailored to fulfilling the programme's objectives.

The following management reforms are therefore proposed.

a) Dialogue-driven programming

Future assistance shall better reflect the specific needs of the individual partner countries and the EU's interests in the different regions. With this shift in emphasis to the provision of support for areas of common interest, there is a need to replace the demand-driven principle of Tacis with a dialogue-driven approach. Such an approach will have implications for the programming process with the Commission taking a more proactive role in project identification. The dialogue driven approach will better elaborate the objectives of partnership as set out in the PCAs. A key instrument in this programming process will be the strategy programme in which the agreed strategy for the coming three to four year period in the programme will be detailed. Experience gained during the implementation of the first indicative programmes will be used in the development of the new programmes. This will allow the programme to respond to past experience and to the emerging needs and priorities of the partner states mid-way through the period of the Regulation.

At the beginning of each year the Commission shall provide an indicative timetable for the presentation of the action programmes to the above mentioned Committee.

The action programmes shall be established in close cooperation with the partner states and shall encompass the following information:

- link between the strategy and the action programme,
- insertion of the action programme in the reform process under way in the partner state,
- co-ordination of the action programme with other donors' activities,
- general organisation for the implementation and the management of the programme,
- list of projects to be funded.

For each project above EURO 1 million, a project sheet shall be attached in the appendix to the action programme. For each project above EURO 3 million, a logical framework matrix shall be attached in the appendix to the action programme.

The programming process will thus consist of developing both national and multi-country (cross border cooperation and inter-State) indicative and action programmes. The principle of concentrating on three areas of cooperation will apply to both national and multi-country programmes. Experience has shown that the areas of concentration are different depending on the type of programme. Multi-country programmes, for example, are best suited to tackle areas of cooperation requiring the participation of more than one country, like the development of infrastructure networks and inter-state environment initiatives.

During the programming process, the Commission shall promote better co-ordination between national and multi-country programmes and relevant Community instruments, notably the Phare, Meda and Interreg programmes. In this respect, particular attention shall be paid to cross-border cooperation and regional transport, energy and environment projects.

For the implementation of Article 11, the Commission shall, as a rule and on a quarterly basis, hold in those partner countries where a delegation exists an information meeting on the assistance in order to ensure co-ordination of Community and bilateral efforts on the spot.

Co-ordination and cooperation with other donors shall be encouraged. In particular, attention shall focus on the use of Community grant-financing to mobilise significant, new investments. In order, to obtain effective cooperation with the international financing institutions, there shall be regular consultations between the Commission and these institutions on a central as well as a local level. In certain cases, Memoranda of Understanding may be drawn up to formalise cooperation and co-ordination.

The 'incentive scheme', described below, will support the objectives set out in the national indicative programmes and will thus be limited to the same concentration areas. Horizontal delivery mechanisms, like the existing Small Projects Programmes, aimed at providing assistance in a number of pre-defined areas, will promote the objectives set out in the national programmes. The instruments through which assistance will be provided within the national and multi-country programmes are set out in f, below.

Assistance provided outside the scope of the national and multi-country indicative programmes will include activities related to the preparation, implementation, monitoring, audit and evaluation of the programme, information activities and exceptional assistance (described below) as well as initiatives such as the 'Bangkok facility', implemented by the EBRD, which benefits all the countries covered under the Regulation.

b) Differentiation

The dialogue-driven approach to programming will enable the EU to better address the differing needs and priorities of the partner countries through a clearer definition of the areas of common interest. During the reflection on the future of EU assistance to the NIS, consideration was given to accommodating regional differentiation through the preparation of a number of separate regulations. This would have had the advantage of making explicit the EU's priorities in the different regions. However, in the interests of flexibility, it was decided to maintain one overall regulation. Despite this, the need to differentiate between the NIS remains. Furthermore, it should be noted that a number of the partner countries have themselves advocated a more differentiated approach.

The programme shall take into account the differing needs and priorities of the principal regions covered by the regulation and in particular the need to promote democracy and the rule of law. In the Western NIS and the Caucasus, the main priorities will include the creation of a favourable investment climate, the promotion of regional cooperation and the establishment of a wider area of cooperation across Europe. In Russia, more emphasis will be given to promoting industrial cooperation and partnership, strengthening the economic and financial framework and reinforcing the rule of law. Whilst in Central Asia and Mongolia, particular attention shall be given to strengthening democracy and good governance, supporting the development of networks, and promoting fundamental, sustainable economic reform. The description of objectives for the different countries covered under the regulation establishes regional priorities and provides an orientation for the programming process. These objectives will be pursued in the development of national or multi-country indicative programmes.

c) Thematic areas of cooperation

The areas of cooperation seek to reconcile the need to focus assistance on a limited number of areas and the need to maintain flexibility. Rather than continue to set out priority sectors of support, EU objectives can be better expressed in terms of cross-sectoral themes. The thematic approach seeks to respond to the complex situation that exists in the NIS after the first phase of the reform process. The approach allows for different priorities to be addressed in the different countries of the NIS.

d) Concentration

The new Regulation will employ two principle means to better focus the assistance and so achieve greater impact and visibility. First, each country programme or multi-country programme will be limited to three thematic areas of cooperation. Nuclear safety will be an area of concentration available in addition to the three.

In addition, projects will be larger and fewer in number. As a rule, projects in Russia and Ukraine will be subject to a minimum threshold of EURO 2 million, while those in other countries should not be less than EURO 1 million. Large-scale, high profile initiatives, such as Traceca, Inogate, the fight against drugs, and environmental protection, shall be encouraged. Activities of this type actively promote regional cooperation and, at the same time, support the EU's priorities.

However, there will remain a need for a limited number of small-scale initiatives. In certain sectors, large-scale projects are inappropriate. Moreover, small-scale projects often have a high visibility at the grass roots level. Projects of less than one million ECU will therefore continue to be supported in areas such as twinning, industrial cooperation and Justice and Home Affairs. Small scale studies and other initiatives related to project preparation, implementation and evaluation will also continue.

e) Incentive Scheme

The Incentive Scheme will complement the national action programmes and will support projects linked to the three agreed concentration areas. Funding will not be divided between countries in advance, but instead will be determined on the basis of a call for proposals according to which the best projects will be supported.

The objective of the scheme is to introduce an increased element of competition into the project selection process and ensure that the actions financed are of the highest quality. Partner countries will be given an added incentive to prepare and submit high quality initiatives through the prospect of increasing their allocation of EU assistance. The scheme takes its inspiration from the Phare programme's 'Catch up' facility.

A set of horizontal selection criteria (building on those outlined in Article 2.7 of the new Regulation) will be established and agreed by the committee referred to in article 10 of the new Regulation (ex-Tacis committee). These will include criteria to determine the quality of project proposals. Criteria might include; i) governments' commitment towards the implementation of the project (political and financial), ii) the regulatory and institutional framework iii) existence of appropriate implementation structures including sufficient local staff iv) the degree of visibility and likely impact of the project. Special attention could also be given to the preparedness of projects in order to ensure that the Scheme will have an immediate impact.

There will be no pre-defined national allocation of budgets inside the Scheme. However, the Commission will, subject to the availability of proposals meeting the pre-defined criteria, take account of the need to ensure a reasonable geographical distribution of the financial resources.

The scheme will be gradually phased into the programme. Taking into account the experiences of the first phase, the proportion of the annual budget devoted to the scheme may be increased up to a maximum of 25%.

f) Instruments

At present, the majority of Tacis assistance is provided through traditional technical assistance. While technical assistance - still the most appropriate instrument to support the on-going transition in the NIS - will remain the main instrument of cooperation, other mechanisms will be increasingly employed. In the future there will be a shift towards twinnings and longer-term cooperation. Expertise from the public as well as the private sector will be in increasing demand as the legal and regulatory framework becomes a key priority. Instruments aimed at promoting and facilitating investment will also become increasingly important.

Assistance in the future will be provided through the following key instruments:

i) General Know How Transfer

- *Traditional Technical Assistance*

In some areas traditional technical assistance provided through EU private sector companies will remain the most appropriate form of support. Such assistance, however, is likely to decrease over the life-time of the regulation.

- *Civil Servants*

As Tacis develops into new areas, eg. Justice and home affairs, it can be expected that increased use will be made of civil servants and administrators from the Member States. As the transition progresses, there will be an increasing need for practical expertise in making newly established institutions and regulatory bodies function effectively. This may often require the input of public sector or para-statal officials

- *Industrial cooperation*

In order to promote economic reform and restructuring in the NIS, there needs to be an increased emphasis on industrial cooperation. This provides an opportunity for essential skills transfer in the context of a structured relationship between EU and NIS companies that can continue well beyond the period of an individual project.

ii) Twinnings

In addition, Tacis will increasingly support the establishment of twinnings at all levels: between regional and local administrations, professional organisations, regulatory bodies, unions, companies, universities, non-governmental organisations. These arrangements have proved successful up to now in promoting longer-term, sustainable collaboration. Such an approach is based on cooperation, with projects designed for mutual benefit and aimed at the creation of enduring relationships. This could bring a number of further benefits including cost-effectiveness and the reinforcement of pluralistic, democratic societies. Moreover, such an approach would counter the perception that Tacis is run for the benefit of European consultants. A twinning initiative would require an acceptance that, in certain cases, award of contracts by tender is not appropriate.

iii) Investment Promotion

Tacis is already indirectly promoting investment through technical assistance to improve the overall investment climate. This will continue. However, there is also a need to explore more direct investment promotion mechanisms such as using funds to better catalyse

investment from IFIs thereby securing large investment multipliers. With respect to co-financing investments, for which there is limited scope within the tight budget, it should be recognised that there may be instances when a limited financial contribution from the EU could tip the balance in favour of sizeable investments from IFIs and other sources. Given the budgetary limitations, investment financing will be limited to certain key sectors.

Investment promotion shall therefore take the following forms: (i) technical assistance in support of the enabling framework; (ii) technical assistance to catalyse or accompany investment either before or during the investment; and (iii) co-financing with other sources of investment financing or, on limited basis, investing alone.

Investment financing shall be restricted and would be justified by the following: (i) the multiplier effect, according to which Community assistance would be accompanied by a multiple of investment from other sources; (ii) 'additionality', when Community assistance would encourage investment which would not otherwise have taken place; (iii) areas of strategic interest to the Union.

Priority sectors for investment financing would include: cross-border cooperation, border infrastructure, promotion of SMEs, environmental infrastructure and networks of strategic importance to the EU.

iv) Exceptional Assistance

In addition to the instruments outlined above, the Regulation will also make provision for assistance in response to unforeseen political or economic crises like that now facing Russia and severely affecting other NIS. In the event of such crises in the partner states or the threat thereof, the Commission may propose a special programme of support to be presented to the management committee. At the same time, the Council and the Parliament will be informed of the Commission's intention to provide such exceptional assistance.

This support may include expenditure on imports and local expenditure as part of a package of exceptional measures. Such measures may be required to assist countries in overcoming the consequences of crises caused by political or economic circumstances. Support could, in addition to normal technical assistance instruments, include support for imports (like fuel, for example), or support for local costs related, for example, to the re-establishment of essential distribution networks (ie electricity, water, food). In other situations there could be a case to take specific actions to strengthen civic society development. In the recent past such actions took place for Belarus. Support will not involve macro-economic assistance.

Such exceptional assistance will be provided from within the overall programme budget, by re-allocating resources if necessary, and will be coordinated with other relevant instruments, including with those of IFIs, thus avoiding overlapping or undermining other initiatives.

g) Conditionality

Conditionality is reflected in the current regulation in terms of respect for democracy and human rights. In the new regulation this has been reinforced to include, for the relevant countries, respect for the undertakings of the PCAs.

Linked to the question of programme conditionality is the question of project conditionality. At present, the Tacis Programme provides an insufficient incentive for high quality output: project partners receive the assistance for free and European experts are

often explicitly barred from future project phases. A number of mechanisms have been included in the new regulation to address this quality deficit. Firstly, projects will increasingly be designed in phases, with continued funding dependent on the successful completion (in terms of results) of the previous phase. Secondly, partner countries should become real stakeholders in the programme, where the capacity exists, through increased co-financing of projects. Thirdly, an "Incentive Scheme" will be created (see point e, above).

h) Project Management

Due to legal and administrative constraints, decentralisation of project management to partner organisations, such as has taken place under Phare, is not envisaged at this stage. This could be reviewed in the light of developments. However, The final recipients of assistance shall continue to be closely involved in the preparation and execution of the projects. Wherever possible, the identification and preparation of the projects shall be carried out directly at regional and local level.

In line with comments made by, inter alia, the Court of Auditors, the deconcentration of certain tasks to Delegations shall be encouraged depending upon the availability of staff resources.

i) Simplified Contracting

It is a widely held view that the procedures applicable to Tacis are excessively heavy and inflexible, and that they have a detrimental impact on the implementation of the programme. At the same time, there is a need to ensure an appropriate degree of transparency and accountability in the award of contracts. In line with the objective of increasing concentration and thereby the impact of the assistance, the programme should consist of a small number of large scale projects. It is increasingly evident that, if sustainable results are to be achieved, projects will require a longer term perspective. The assistance will therefore increasingly adopt a modular approach with projects including clear break points with explicit conditions to be met, and with a firm commitment that if they are met, the project will be extended. A results-orientated approach will be increasingly adopted, ie. projects will be monitored according to results not according to inputs. This would require the design of projects with measurable objectives.

The Commission created the Common Service (SCR) for the management of Community assistance to third countries in mid-1998 in order to simplify management procedures and improve the efficiency and cost effectiveness of EU assistance. The SCR is currently working on the development of harmonised procedures to govern the implementation of Community programmes i.e. a general regulation is under preparation which addresses these issues. The awards of contracts under this programme will also fall under this general regulation. However, the Commission will reserve the right to put forward proposals relating to the award of contracts during the negotiations in the Council or prior to the entry into force of the Regulation as and when the work on the general regulation has not been finalised in time. Such a general regulation will take account of the innovations proposed in the new regulation, i.e. increased use of twinnings, industrial cooperation and in the case of specialised areas like justice and home affairs and nuclear safety, increased involvement of member states' administrations and agencies.

It should be stressed that procedural issues are not the main concern of the Regulation. Management reform, for the most part, will therefore take place outside the scope of the Regulation and within the context of the new Common Structure for the management of all Community external assistance programmes.

j) Re-naming the programme

The programme will be re-named. The name Tacis does not associate the programme with the EU and reflects an emphasis on purely technical assistance which will now be complemented by other instruments.

The new name will signal new approaches and orientations for future EU cooperation with the NIS. It will identify the origin of the assistance and will reflect the objective of supporting the establishment of a closer relationship between the NIS and the future enlarged Union. .

k) The Committee

In line with the Commission's proposals on Comitology⁷, it is proposed to change from a Regulatory to a Management type committee.

l) Reporting

In accordance with Article 12, the Commission shall provide an annual progress report. This report shall include an overview and relevant data on the implementation of the assistance on a per country basis.

Other aspects of operational or administrative nature which might have an important impact on programme implementation shall be included in the progress report.

The report shall be made available to the general public.

Additional reports shall be made available to the European Parliament and to the Committee referred to in Article 10 on a regular basis.

CONCLUSIONS

The new Regulation seeks to respond to past experience, changing circumstances, and emerging challenges in framing the European Union's future cooperation programme with the NIS. The new Regulation aims to create a focused yet flexible instrument geared to tackle the future challenges of cooperation between the European Union and the NIS.

⁷ COM 1998 380 final

TABLES SUMMARISING THE ALLOCATION OF TACIS RESOURCES, 1991-97

Fig. 1

Tacis funds committed by country 1991-1997 (in ECU million)

	1991	1992	1993	1994	1995	1996	1997	Total
Armenia	2.3	9.55	17	0	6	14	0	48.85
Azerbaijan	0.4	12.5	8	8	6	16	0	50.9
Baltics	15	0	0	0	0	0	0	15
Belarus	8.92	14.63	9	7	12	0	5	56.55
Georgia	4.96	9	6	8	6	16	0	49.96
Kazakhstan	7.73	20.6	14	14	15	0	24	95.33
Kyrgyzstan	0.7	9.23	10	0	8	0	13	40.93
Moldova	1.1	9	0	10	9	0	18	47.1
Mongolia	0	0	0	8	0	9.5	0	17.5
Russia	211.95	111	160.75	150	161.19	133	132.9	1,060.8
Tajikistan	0	0	0	4	4	0	0	8
Turkmenistan	0.88	8.8	0	8	4	0	11.5	33.18
Ukraine	28.65	48.28	43.25	50.5	72.5	76	59	378.18
Uzbekistan	1.72	18.78	0	15	10	28	0	73.5
Regional Programmes*	105.99	88.63	172	131.5	124.5	152	135	909.62
Donor Coordination**	0	34.88	20.98	24.69	40	43	37	200.55
Programme Implementation Support***	6.2	24.03	11.11	20.99	23	37.5	34.46	157.29
Others****	0	0	0	10	10	11	11.87	42.87
Total	396.5	418.91	472.09	469.68	511.19	536	481.73	3,286.1

*Includes the Inter-state, nuclear safety and cross-border cooperation (1996 & 1997 only) programmes

** Includes EBRD Bangkok Facility, Partnership and Coordination Programme, International Science and Technology Centre

***Includes Coordinating Units, information, monitoring and evaluation

****Includes Democracy Programme

Fig. 2

Tacis funds allocated by sector 1991-1997 (ECU million)

	1991	1992	1993	1994	1995	1996	1997	Total
Nuclear safety and environment	53	60	100	88	108	141.5	98	648.5
Restructuring state enterprises and private sector development	37.5	79.64	94.46	78.66	72.4	55.2	60.92	478.78
Public administration reform, social services and education	103	42.28	79.91	63.55	99.4	55.7	44.75	488.59
Agriculture	79.95	60.54	32.19	41.58	48.33	18.5	26.5	307.59
Energy	65	38.96	38	43.7	42.35	45.8	43.9	317.71
Transport	49.8	33.19	32.77	22.8	21.1	43	20.7	223.36
Telecommunications	0	6.76	6.65	4.1	7.9	6.4	7.3	39.11
Policy advice and SPPs	0	37.8	8	41.08	0	61.01	55.32	203.21
Others*	2.05	0	48.02	40.53	48.71	29.32	52.88	221.51
Donor Coordination**	0	34.88	20.98	24.69	40	43	37	200.55
Programme Implementation Support***	6.2	24.03	11.11	20.99	23	37.5	34.46	157.29
Total	396.5	418.08	472.09	469.68	511.19	536.93	481.73	3,286.1

*Includes the Democracy Programme and miscellaneous

**Includes International Science and Technology Centre, Partnership and Coordination Programme and the EBRD Bangkok Facility

***Includes Coordinating Units, Multidisciplinary fund, information and monitoring and evaluation

Fig. 3

Cumulative funds committed, contracted and paid 1991-1997

	Commitments*	Contracts	Payments
1991	396.5	5.3	0.4
1991-92	815.4	208.5	32.5
1991-93	1,287.5	557.2	212.8
1991-94	1,757.2	1,071.9	513.1
1991-95	2,268.4	1,598.9	887.6
1991-96	2,805.3	2,053.4	1,263.6
1991-97	3,287.03	2,744.4	1,668.6

* These figures represent initial commitments and do not take into account possible decommitments after closure

Fig. 4**Payments in each budget year 1991-1997 (in ECU million)**

	Paid in 1991	Paid in 1992	Paid in 1993	Paid in 1994	Paid in 1995	Paid in 1996	Paid in 1997	Total
1991 budget	0.4	23.4	130.8	114.4	59.8	24.6	7.4	360.8
1992 budget		8.7	33.9	118.5	102.1	82.5	27.4	373.1
1993 budget			15.6	58	109.7	92.3	68	343.6
1994 budget				9.4	76.3	96.3	104.6	286.6
1995 budget					26.6	68.2	124.1	218.9
1996 budget						11.9	60.9	72.8
1997 budget							12.6	12.6
Total	0.4	32.1	180.3	300.3	374.5	375.8	405	1,668.4

Fig. 5**Cumulative contracts and payments 1991-1997 (%)**

	1991	1992	1993	1994	1995	1996	1997
Cumulative contracts as a percentage of cumulative commitments	1.3	25.6	43.3	61	70.5	73.2	83.5
Cumulative payments as a percentage of cumulative contracts	7.5	15.6	38.2	47.9	55.5	61.5	60.8

COUNCIL REGULATION (EURATOM, EC) No XXXXX of XXXX 1999 concerning the provision of assistance to economic reform and recovery in the New Independent States and Mongolia (ex-Tacis)
Official journal NO. XXXXXXXXXXXXXXX

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the Treaty establishing the European Atomic Energy Community, and in particular Article 203 thereof,

Having regard to the proposal from the Commission⁽¹⁾,

Having regard to the opinion of the European Parliament⁽²⁾,

Whereas, pursuant to the European Council in Dublin and in Rome in 1990, the Community introduced a technical assistance programme in favour of economic reform and recovery in the former Union of Soviet Socialist Republics;

Whereas Council Regulation (Euratom, EEC) No 1279/96 of 25 June 1996⁽³⁾ concerning the provision of technical assistance to economic reform and recovery in the New Independent States and Mongolia laid down the conditions for the provision of this technical assistance and envisaged such an operation from 1 January 1996 to 31 December 1999;

Whereas such assistance has already generated significant impact on reform in the New Independent States and Mongolia and further assistance is required to ensure this reform becomes sustainable;

Whereas such assistance will be fully effective only in the context of progress towards free and open democratic societies that respect human rights, and towards market-oriented economic systems;

Whereas further assistance is required to promote nuclear safety in the New Independent States;

Whereas the continued provision of assistance will contribute to the attainment of shared objectives, notably in the context of the Partnership and Cooperation Agreements and economic cooperation agreements concluded with the New Independent States and Mongolia;

Whereas it is appropriate to establish priorities for this assistance which are determined, inter alia, by the common interests of the Community and the partner countries;

Whereas the assistance shall take into account the differing needs and priorities of the principal regions covered by this regulation;

Whereas experience has shown that Community assistance will be all the more effective when it is concentrated on a restricted number of areas within each partner country;

⁽¹⁾ Reference

⁽²⁾ Reference

⁽³⁾ OJ Reference

Whereas the development of inter-state economic links and trade flows conducive to economic reform and restructuring should be encouraged;

Whereas regional cooperation, particularly in relation to the Northern Dimension and in the Black Sea region, should be encouraged;

Whereas cross-border cooperation, particularly in the context of borders between the New Independent States and the Union, between the New Independent States and Central and Eastern Europe, and between the New Independent States themselves, including Mongolia, should be encouraged;

Whereas the requirements of economic reform and restructuring now in progress, and the effective management of this programme, require a multi-annual approach;

Whereas the long-term sustainability of reform will require due emphasis on the social aspects of reform and the development of the civil society;

Whereas the integration of environmental aspects into the assistance would guarantee the long-term sustainability of the economic reforms;

Whereas, in the event of severe political or economic crisis, special assistance covering imports and local expenditure may be required.

Whereas the quality of the assistance shall be improved by selecting a proportion of projects on a competitive basis;

Whereas, in order properly to meet the most acute needs of the New Independent States and Mongolia at the present stage of their economic transformation, it is necessary to permit a certain amount of the financial allocation to be used for economically sound investment-financing, notably in the areas of cross-border cooperation, promotion of SMEs, environmental infrastructure and networks of strategic importance to the Community;

Whereas Community assistance could, where appropriate, be more effective and efficient when it is implemented on a decentralised basis;

Whereas effective competition amongst firms, organisations and institutions interested in participating in the initiatives financed by the programme shall be ensured;

Whereas Community assistance will be all the more effective when the involvement of the partner states is ensured;

Whereas it is appropriate that the Commission be assisted in the implementation of Community aid by a committee made up of Member States' representatives;

Whereas the European Council at its meeting in Rome also stressed the importance of effective co-ordination by the Commission of the efforts made in the former Union of Soviet Socialist Republics by the Community and its Member States acting individually;

Whereas the Treaties have not provided, for the adoption of this Regulation, powers other than those of Article 235 of the EC Treaty and Article 203 of the EAEC Treaty,

HAS ADOPTED THIS REGULATION:

Article 1

A programme to promote economic reform and recovery in the partner states listed in Annex I (hereinafter called 'the partner states ') shall be implemented by the Community from 1 January 2000 to 31 December 2006 in accordance with the criteria laid down in this Regulation.

Article 2

1. The programme shall provide assistance to support reforms in progress in the partner states for measures aimed at bringing about the transition to a market economy and reinforcing democracy and the rule of law.

2. The programme shall be based on the principles and objectives set out in the Partnership and Cooperation Agreements and trade and economic cooperation agreements, in the context of which the Community, its Member States and the partner states work together to support initiatives of common interest.

3. The programme shall aim to maximise impact through concentration on a limited number of large-scale initiatives. To this end, the indicative and action programmes referred to below shall cover at most three of the eligible areas of cooperation listed in annex II. Where applicable, support for nuclear safety shall be provided in addition to the three areas. Concentration shall reflect the differing needs and priorities of the partner country as outlined in the following paragraph.

4. The programme shall take into account the differing needs and priorities of the principal regions covered by the regulation and in particular the need to promote democracy and the rule of law. In the Western NIS and the Caucasus particular attention shall be given to creating a favourable investment climate, promoting regional cooperation and building a wider area of cooperation across Europe. In Russia particular attention shall be given to reinforcing the rule of law, strengthening the economic and financial framework, and promoting industrial cooperation and partnership. In Central Asia and Mongolia particular attention shall be given to strengthening democracy and good governance, supporting the development of networks, and promoting fundamental, sustainable, economic reform.

5. The programme shall aim to promote inter-state, inter-regional and cross-border cooperation between the partner states themselves, between the partner states and the Union and between the partner states and Central and Eastern Europe.

Interstate and inter-regional cooperation shall primarily serve to assist the partner states to identify and pursue actions which are best undertaken on a multi-country, rather than a national level such as the promotion of networks, environmental cooperation and actions in the area of justice and home affairs.

Cross-border cooperation shall primarily serve to: (i) assist border regions in overcoming their specific developmental problems stemming from their relative isolation, (ii) encourage the linking of networks on both sides of the border, eg. border-crossing facilities, and (iii) accelerate the transformation process in the partner states through their cooperation with border regions in the Union or Central and Eastern Europe iv) reduce transboundary environmental risks and pollution.

6. In the area of nuclear safety, the programme shall focus on three priorities: (i) supporting the reinforcement of the nuclear safety culture and the application of efficient safeguards, in particular through support for the regulatory authorities; (ii) contributing to international initiatives, such as those outlined in the context of the G7; and (iii) supporting spent fuel and

nuclear waste management, notably in Northwest Russia. As necessary, on-site assistance at nuclear power plants which aims to contribute to an efficient transfer of safety culture and know how at the plant level shall be implemented in the short term.

7. Measures shall be implemented taking into account the objective of promoting stability, through support for sustainable economic, environmental and social development, and taking account of the evolving needs, absorption capacity and progress towards democratic and market-orientated reform in the partner states.

TITLE ONE : Indicative and Action programmes

Article 3

1. The assistance shall be applied in the framework of national, multi-country and other programmes.

2. The national and multi-country programmes shall comprise indicative and action programmes.

3. Indicative programmes covering three to four year periods shall be established in accordance with the procedure provided for in Article 10. These programmes shall define the principal objectives of, and guidelines for, Community assistance in the areas of cooperation set out in annex II and could include financial estimates. Before the establishment of indicative programmes, the Commission shall discuss with the Committee referred to in Article 10 the priorities identified with the partner states.

4. Action programmes based on the indicative programmes referred to in the preceding paragraph shall be adopted on an annual or bi-annual basis in accordance with the procedure provided for in Article 10. These action programmes shall include a list of the projects to be financed within the areas of cooperation set out in annex II. The content of the programmes shall be determined in sufficient detail, so as to enable the Committee referred to in Article 10 to deliver its opinion.

5. The measures outlined in the national action programmes shall be reflected in financing memoranda agreed between the Commission and each partner states. These shall be based on a dialogue addressing the joint interests of the Community and the partner states, particularly in the context of the Partnership and Cooperation Agreements.

6. If circumstances require, the indicative and action programmes may be amended in accordance with the procedure outlined in Article 10 during the period of their application.

7. In the event of severe political or economic crisis in one of the partner states or the threat thereof, a special programme of support may be adopted in accordance with the procedure outlined in Article 10.

Article 4

In addition to the national action programmes, an Incentive Scheme shall be established which shall introduce an element of competition into the allocation of resources. Under this Scheme, projects shall be selected on the basis of proposals received from the partner states and according to criteria to be agreed in accordance with the procedure outlined in Article 10. In order to ensure concentration, projects financed under the scheme should be linked to the areas of cooperation established in the national indicative programmes referred to in Article 3 (3).

TITLE TWO : Measures to be supported

Article 5

1. In the framework of the programmes referred to in Title 1, the following shall be supported:
 - technical assistance.
 - twinnings and industrial cooperation based on partnerships between public and private organisations from the European Union and partner countries.
 - on a case by case basis, the reasonable cost of supplies required in the implementation of the assistance. In particular cases, including nuclear safety, justice and home affairs and cross-border cooperation, a significant supply element may be included.
 - investment and investment-related activities. Assistance may include technical assistance to catalyse and support investments. Assistance may also include investment-financing, notably in the areas of cross-border cooperation, promotion of Small and Medium-sized Enterprises, environmental infrastructure and networks of strategic importance to the Community as described in annex III.
2. In exceptional situations described in Article 3 (7), special support programmes may cover expenditure on imports and local expenditure needed to carry out the projects and programmes.
3. The assistance shall also cover costs related to the preparation, implementation, monitoring, audit and evaluation of the programme, as well as costs concerning information.
4. The measures can be carried out, where appropriate, on a decentralised basis. The final recipients of Community assistance shall be closely involved in the preparation and execution of the projects. Wherever possible, the identification and preparation of the projects shall be carried out directly at regional and local level.
5. Projects will, where appropriate, be implemented in phases. Support for subsequent phases will depend upon the successful implementation of previous phases.
6. The involvement of local experts in project implementation will be encouraged.

TITLE THREE : Financial provisions

Article 6

1. The annual appropriations shall be authorised by the budgetary authority within the limits of the financial perspective.
2. A maximum of 25% of the annual budget could be allocated to investment-related activities as described in annex III. A maximum of 25% of the annual budget could be allocated to the "Incentive Scheme" as outlined in Article 4.

Article 7

1. Measures referred to in this Regulation which are financed from the general budget of the European Communities shall be administered by the Commission in accordance with the Financial Regulation applicable thereto.
2. The Commission shall abide by the principles of sound financial management and, in particular, those of economy and cost-effectiveness referred to in the Financial Regulation.

Article 8

1. Community assistance shall in general be in the form of grants. They may generate funds that can be used for financing other cooperation projects or measures.
2. Financing decisions and contracts resulting therefrom shall expressly provide for supervision by the Commission and the Court of Auditors to be carried out on the spot, if necessary.

Article 9

1. The cost of the project in local currency shall be covered by the Community only to the extent strictly necessary.
2. The co-financing of projects by the partner countries shall be encouraged.
3. Taxes, duties and the purchase of immovable property shall not be funded by the Community.

TITLE FOUR : General provisions

Article 10

1. The Commission shall be assisted by a committee composed of the representatives of the Member States and chaired by the representative of the Commission, to be known as the 'committee for cooperation with the New Independent States and Mongolia' hereinafter referred to as the 'committee'.
2. The representative of the Commission shall submit to the committee a draft of the measures to be taken. The committee shall deliver its opinion on the draft within a time limit which the chairman may lay down according to the urgency of the matter. The opinion shall be delivered by the majority laid down in Article 148 (2) of the EC Treaty. The chairman shall not vote.
3. The Commission may adopt measures which shall apply immediately. However, if these measures are not in accordance with the opinion of the committee they shall be communicated by the Commission to the Council forthwith. In that event, the Commission may defer application of the measures which it has decided on for not more than one month from the date of such communication.
4. The Council, acting by qualified majority, may take a different decision within the time limit provided for by the third paragraph.
5. The committee shall adopt its rules of procedure by qualified majority.
6. The Commission shall keep the committee regularly informed, supplying specific, detailed information on the contracts awarded for the implementation of the projects and programmes.
7. The European Parliament shall be kept regularly informed of the implementation of the programmes.
8. The Commission shall inform the Council and the European Parliament of any special programmes of support that may be proposed according to Article 3 (7).

Article 11

The Commission shall, together with the Member States and on the basis of a reciprocal and regular exchange of information, including exchange of information on the spot, seek the effective co-ordination of the assistance efforts undertaken by the Community and individual Member States, in order to increase the coherence and complementarity of their cooperation programmes.

In addition, the Commission shall ensure co-ordination and cooperation with the international financial institutions and other donors.

Article 12

Each year the Commission shall present a progress report on the implementation of the assistance programme. This report shall include an evaluation of the assistance already provided. The report shall be addressed to the Member States, the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions.

Article 13

When an essential element for the continuation of cooperation through assistance is missing, in particular in cases of violation of democratic principles and human rights, the Council may, on a proposal from the Commission, acting by a qualified majority, decide upon appropriate measures concerning assistance to a partner states.

The same procedure shall apply in cases of the violation of the obligations of the partner states as set out in the Partnership and Cooperation Agreements in the event that the dispute settlement procedures provided for in these agreements have not led to satisfactory results.

Article 14

When designing and implementing programmes, due regard shall be taken of: the promotion of equal opportunities for women in the partner countries, environmental considerations, the principles, objectives and requirements of the Partnership and Cooperation and trade and economic Agreements and the social impact of reform measures.

Article 15

This Regulation shall enter into force on the third day following its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at XXXXX, on XXXXX.

For the Council The President

ANNEX I

Partner states referred to in Article 1

**Armenia
Azerbaijan
Belarus
Georgia
Kazakhstan
Kyrgyzstan
Moldova
Russian Federation
Tajikistan
Turkmenistan
Ukraine
Uzbekistan
Mongolia**

ANNEX II

Areas of cooperation referred to in Article 3 (3)

1. Promotion of Democracy and the Rule of Law

- development of the rule of law
- support for effective policy making
- reform of public administration at national, regional and local level
- support for executive and legislative bodies (national, regional, local)
- support for Justice and Home Affairs activities
- reinforcement of the legal and regulatory framework
- support for the implementation of international commitments
- support for the civil society

2. Support to the Private Sector and Assistance for Economic Development

- promotion of small and medium-sized enterprises
- development of the banking and financial services systems
- promotion of private entrepreneurship including joint ventures
- industrial cooperation, including research
- privatisation
- enterprise restructuring
- promotion of private trade and investment

3. Support in Addressing the Social Consequences of Transition

- reform of the health, pension, social protection and insurance systems
- assistance to alleviate the social impact of industrial restructuring
- assistance for social reconstruction
- development of employment services, including re-training

4. Development of Infrastructure Networks

- transport networks
- telecommunication networks
- energy pipelines and transmission networks
- border-crossings

5. Promotion of Environmental Protection

- development of sustainable environmental policies and practices
- promotion of harmonisation of environmental standards with EU norms
- promotion of sustainable use and management of natural resources, including efficient energy usage and improvement of environmental infrastructure

6. Development of the rural economy

- legal and regulatory framework, including land privatisation
- increasing access to finance and promotion of training
- improvement of distribution and access to markets

Where applicable, support for nuclear safety shall be provided in accordance with the priorities outlined in Article 2 (6).

ANNEX III

Investment Promotion

An important percentage of the annual budgetary allocation shall be used to support investment. This assistance shall take the following forms:

- technical assistance in support of the enabling framework;
- technical assistance to catalyse or accompany investment either before or during the investment;
- co-financing with other sources of investment financing or, on an exceptional basis, investing alone.

Investment financing shall be restricted and would be justified by the following criteria:

- the multiplier effect, according to which Community assistance would be accompanied by a multiple of investment from other sources;
- additionality, when Community assistance would encourage investment which would not otherwise have taken place;
- areas of strategic interest to the Community.

Priority sectors for investment financing would include: cross-border cooperation, border infrastructure, promotion of SMEs, environmental infrastructure and networks.

FINANCIAL STATEMENT

1 TITLE OF OPERATION

Co-operation with the New Independent States and Mongolia

2 BUDGET HEADING INVOLVED

Chapter B7-52. In particular the following articles specifically covered by this new regulation:

- Article B7-520: Assistance to economic reform and recovery in the New Independent States and Mongolia
- Article B7-521: Transfrontier Co-operation in the field of structural operations

3 LEGAL BASIS

Art 235 of the Treaty establishing the European Community

In relation to the 1993-95 period: Council regulation (EURATOM, CEE) N° 2053/93 of 19/07/93 (OJ n° L 187/1 of 29/07/93), concerning the provision of technical assistance to economic reform and recovery in the independent States of the former Soviet Union and Mongolia.

In relation to the 1996-99 period: Council Regulation (EURATOM, CEE) N° 1279/96 of 25/06/96 (OJ n° L 165 of 04/07/96), concerning the provision of assistance to economic reform and recovery in the New Independent States and Mongolia.

In relation to the 2000-6 period: a new council regulation is proposed.

4 DESCRIPTION OF OPERATION

4.1 General objective

The programme aims to promote economic reform and recovery in the partner states (New Independent States and Mongolia).

The programme shall provide assistance to support reforms in progress in the partner states for measures aimed at bringing about the transition to a market economy and reinforcing democracy and the rule of law.

The programme shall be based on the principles and objectives set out in the Partnership and Cooperation Agreements and trade and economic cooperation agreements, in the context of which the Community, its Member States and the partner states work together to support initiatives of common interest.

4.2 Period covered and arrangements for renewal

See point 3.

Over the period of the new regulation, 2000-6, activities to be financed in the partner countries will be agreed on an annual or bi-annual basis with the Member States.

5 CLASSIFICATION OF EXPENDITURE OR REVENUE

5.1 Compulsory/Non-compulsory expenditure

DNO

5.2 Differentiated/Non-differentiated appropriations

CD

5.3 Type of revenue involved.

none

6 TYPE OF EXPENDITURE OR REVENUE

- 100% subsidy
- Subsidy for joint financing with other sources in the public and/or private sector
- Co-financing possible (art.11.2)

As a rule, the programme finances actions by attributing grants amounting to 100% of the estimated project. However, certain facilities exist which involve co-financing:

- a) the Bangkok Facility, where the programme finances the technical assistance components of EBRD investment projects (no fixed percentages for Tacis contribution).
- b) the International Science and Technology Centre (ISTC) and the Science and Technology Centre Ukraine (STCU) where the programme co-finances R&D projects with the other funding parties, principally the USA and Japan.

In 1998 the Bangkok facility absorbed 23 MECU of the annual funds, and the ISTC and STCU 20 MECU. New co-financing instruments may be developed in the future.

In the context of cross-border co-operation, there will be close cooperation with Phare and Interreg in order to implement coordinated actions on both side of the border.

The Cross-Border Cooperation Programme was launched in 1996. It was initiated by both the European Parliament, which has created a separate budget line for cross-border actions and by the Council, within the Tacis Regulation 1279/96 of 25/06/96 providing for cross-border operations. Selections of actions for financing will be based on the following main criteria:

- importance of the borders between the beneficiary countries and the EU and between Central European and Eastern countries;
- population;
- level of development of the regions concerned, based on certain criteria such as GDP per inhabitant;
- absorption capacity;
- experience gained from the execution of past programmes.

Within the framework of the assistance programme, projects are identified by Commission services on the basis of discussions with the responsible institutions of the partner countries. The selected projects are presented in Action Programmes prepared by the

Commission services and submitted to the relevant committee of Member States for favorable opinion.

7

FINANCIAL IMPACT

7.1 Method of calculating total cost of operation (relation between individual and total costs).

The assistance programme in favour of the New Independent States and Mongolia is among the budgetary priorities of the Commission in Category 4 of the Financial Perspective. Over the period 2000-6, the needs of the NIS will be considerable and far outweigh the resources available.

As outlined in Agenda 2000, the global allocation for external assistance programmes is likely to increase at a rate not superior to that of GDP of the EU Member States. Given this constraint combined with the scale of the problems to be addressed, it is proposed that Community funding be set at approximately 570 million EURO per year on average, or EURO 4000 million over the period of the new regulation.

The Commission, without prejudice to the annual budgetary procedure, proposes for chapter B7-52 for the period 2000-6 for "Cooperation with the NIS and Mongolia" and for all actions concerning the NIS and Mongolia covered by chapters B7-51 "EBRD – Community subscription to capital" and B7-53 "Other community measures in favour of the countries of Central and Eastern Europe and the NIS", a financial envelope of 4000 million EURO.

This amount is indicative and will be proposed during the negotiations on the new financial perspectives 2000-6. It could be reviewed following the outcome of these negotiations in respect of the balance agreed between the cooperation areas considered as priorities in the Commission communications concerning Agenda 2000 and the new financial perspectives for the same period.

7.1.1 Commitment appropriations

The assistance is provided through three categories of programmes: National Programmes, the multi-country Programmes and "other" programmes covering thematic actions, including the Nuclear Safety Programmes, support for the International Science and Technology Centre, the EBRD Bangkok facility, etc.

The qualitative performance of the programme was confirmed in the middle of 1997 by an independent interim evaluation report. It noted that since the beginning of Tacis in 1991, "the programme can be credited with a positive record on project effectiveness in achieving the intended objectives".

A new regulation is required to govern the provision of further assistance to consolidate and build upon the significant headway made by all the countries of the NIS and Mongolia in the establishment of democratic market economies.

Future EU-NIS relations will need to respond to the demands and repercussions resulting from the enlargement of the Union to the East. New common border are likely to bring increased flows of trade, investment and people, and increased concerns for regional security and stability. The need to establish a closer relationship between the NIS and the enlarged Union will also be a priority.

And finally, the determination of the assistance will take place against a background of increasing budgetary constraints. There will be a need to improve the implementation of the programme to ensure maximum efficiency and effectiveness.

The proposed new Regulation builds upon its predecessor whilst at the same time responding to the changing economic and political context in the NIS, the new priorities being:

Greater concentration of the assistance to achieve maximum impact;

- Clearly differentiated country programmes;
- Support for the objectives of the Partnership and Cooperation Agreements (PCAs).

These objectives will be promoted through improved implementation of the assistance, notably:

- A move from 'demand-driven' to 'dialogue-drive' programming;
- An increase in the number of assistance instruments available, including an increased promotion of investment and more use of twinnings between EU and NIS institutions and of industrial cooperation;
- Improving the quality of the assistance, notably through the creation of an 'incentive' scheme.

7.1.2. *Payment appropriations*

The payment appropriations of MECU 490 for 1997 compare to MECU 445 obtained in 1996, representing a growth of 10%.

For the period covered by the Regulation, the payment appropriations are estimated at EURO 4000 million.

7.2 Itemised breakdown of cost.

Financial, technical and economic cooperation with the NIS and Mongolia (Chapters B7-52, B7-51 and B7-53) Multi-annual indicative programme appropriation commitments (Current prices, in millions of EURO) (On condition of the annual budgetary procedure and the results of the negotiation on the new financial perspectives)								
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Breakdown	2000	2001	2002	2003	2004	2005	2006	Total
Total	510	530	550	570	590	615	635	4000

Annual average increase: 3.77%

The programmes are carried out in the indicative areas set out in Annex II of Council regulation (EURATOM, CEE) N°XXXXXX and indicated under point 9.1 below.

7.3 Operational expenditure for studies, experts etc. included in Part B of the budget

Commitment appropriations EURO million (at current prices)

	2000	2001	2002	2003	2004	2005	2006	Total
- Studies - Meetings of experts - Congresses - Information and publications								
Total	6	6	6	6	6	6	6	42

7.4 Schedule of commitment and payment appropriations.

The table below concerns payments related to the budgets from 2000-6 and excludes the payments to be processed during the same period but concerning previous budgetary years.

	2000	2001	2002	2003	2004	2005	2006	Following	Total
Commitment									
Appropriations	510	530	550	570	590	615	635		4.000
Payment									
Appropriations									
2000 budg.	17	88	185	162	58				510
2001 budg.		18	91	192	208	21			530
2002 budg.			19	94	230	188	18		550
2003 budg.				20	130	257	134	30	570
2004 budg.					39	181	307	63	590
2005 budg.						41	204	370	615
2006 budg.							68	567	635
Total	17	106	295	468	664	688	730	1.031	4.000

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8 FRAUD PREVENTION MEASURES

- Specific control measures envisaged

The administrative follow-up on contracts and payments remains centralised at the Commission headquarters in Brussels.

Due to legal and administrative constraints, the decentralisation of project management to partner organisations, such as has taken place under Phare, is not recommended at this stage.

However, in line with comments made by, inter alia, the Court of Auditors, the deconcentration of certain tasks to Delegations, shall be encouraged. The extent of deconcentration will depend upon the availability of human resources.

In 1995, a Monitoring and Evaluation (M & E) programme was introduced to ensure that the objectives were being achieved to a level that was satisfactory to all parties concerned. In the context of the Tacis programme, monitoring consists of preparing \ submitting an analytical assessment, carried out at regular intervals in the form of a

written detailed summary of Tacis projects in order to indicate the degree to which these have achieved their stated objectives for project management and other involved parties. This aims at ascertaining that projects are "on course" and signal "early warning" of potential problems to allow adjustments to be made with the minimal disruption. The immediate objective of monitoring is to provide a regular reporting mechanism to enable more focused project management decisions to be reached in order to ensure that a project remains on course thus achieving its objectives.

In 1996 an evaluation unit was established and monitoring became a separate activity. The system of monitoring is implemented via regional offices in the partner states and a central monitoring section at the Commission. The monitoring offices are staffed by EU experts and local monitors. These offices are responsible for all day to day monitoring and providing regular and, when requested, special reports. These offices also cover interstate as well as sectoral projects. The EU experts also provide training to the counterpart monitors.

The monitoring offices interface with all the participants in the programmes i.e. the Commission (including Delegations), Co-ordinating Units, Project Partners and Contractors. They provide monitoring reports on a systematic and agreed basis to the above participants on projects.

The monitoring and evaluation system applies also to activities relating to CBC and the Shelter Fund.

9 ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

9.1 Specific and quantified objectives; target population.

The specific objectives of the programme are outlined in annex II of the regulation.

The target populations in the partner countries are: State Agencies, Public and private enterprises, Public and private banks and enterprises, customers, Farms organisations, Wholesale and retailer organisations, adversely affected populations, State authorities, Beneficiaries of state security systems, NGOs, etc.

The recipient vary depending on the projects formulated.

The global objective of the assistance programme to the NIS and Mongolia is to support economic reform and recovery . More specifically, the programme will:

- provide assistance, in particular technical assistance, to support reforms in progress in the partner states for measures aimed at bringing about the transition to a market economy and reinforcing democracy and the rule of law.
- promote nuclear safety, in particular through support for the regulatory authorities.
- aim to promote inter-state, inter-regional and cross-border cooperation between the partner states themselves, between the partner states and the Union and between the partner states and Central and Eastern Europe.
- be implemented taking into account the objective of achieving long-term stability and prosperity, through support for sustainable economic and social development, and taking account of the evolving needs, absorption capacity and progress towards democratic and market-orientated reform in the partner states.

In order to meet these objectives, assistance will be provided in the following priority areas:

1. Promotion of Democracy and the Rule of Law

- development of the rule of law
- support for effective policy making
- reform of public administration at national, regional and local level
- support for executive and legislative bodies (national, regional, local)
- support for Justice and Home Affairs activities
- reinforcement of the legal and regulatory framework
- support for the implementation of international commitments
- support for the civil society

2. Support to the Private Sector and Assistance for Economic Development

- promotion of small and medium-sized enterprises
- development of the banking and financial services systems
- promotion of private entrepreneurship including joint ventures
- industrial cooperation, including research
- privatisation
- enterprise restructuring
- promotion of private trade and investment

3. Support in Addressing the Social Consequences of Transition

- reform of the health, pension, social protection and insurance systems
- assistance to alleviate the social impact of industrial restructuring
- assistance for social reconstruction
- development of employment services, including re-training

4. Development of Infrastructure Networks

- transport networks
- telecommunication networks
- energy pipelines and transmission networks
- border-crossings

5. Promotion of Environmental Protection

- development of sustainable environmental policies and practices
- promotion of harmonisation of environmental standards with EU norms
- promotion of sustainable use and management of natural resources, including efficient energy usage and improvement of environmental infrastructure

6. Development of the rural economy

- legal and regulatory framework, including land privatisation
- increasing access to finance and promotion of training
- improvement of distribution and access to markets

Where applicable, support for nuclear safety shall be provided in accordance with the priorities outlined in Article 2 (6) of the Regulation.

In all programmes due regard shall be taken of: the promotion of equal opportunities for women in the recipient countries, environmental considerations, the principles, objectives and requirements of the Partnership and Cooperation and trade and economic Agreements and the social impact of reform measures.

9.2 Grounds for the operation.

The action is integrated in the strategy defined by the 1990 European Council of Rome. The EU's technical assistance programme is the instrument foreseen in the financial co-operation title of the Partnership Agreements negotiated with 10 of the 12 NIS plus Mongolia.

The economic situation in the partner countries is such that external assistance is required to support the transition to pluralistic democracy and market economy. The present programme strengthens integration with the EU and CEECs by fostering co-operation and thereby promotes the objectives of EU external policies.

Subsidiarity

Support for a smooth political and economic transition is in the common interest of the EU and the NIS. Given the scale of the task, and in order to achieve a maximum impact, it is necessary to maintain a common instrument to co-ordinate interventions. It can thus be ensured that the effort reaches a "critical mass", thus inducing multiplier effects and realising economies of scale.

The programme will be co-ordinated with the Member States' national programmes in the relevant Committee, in which priorities identified by the Commission are discussed with the Member States, and to which the Action Programmes and projects are submitted for opinion.

Regular co-ordination has been established with the Member States, including on-the-spot co-ordination, both in respect of programme definition and programme implementation.

The assistance is co-ordinated with all major donors. There is a special facility for co-operation with EBRD, in which EU grant financing is combined with the bank's capacity to provide loans. Further instruments may be developed in the future.

Choice of modalities of the interventions

The Regulation has established a programme which provides mainly Technical Assistance. However a maximum of 25% of the budget may be allocated to investment promotion, including: i) technical assistance in support of the enabling framework, ii) technical assistance to catalyse of accompany investments, iii) investment financing in specific areas, in the areas of cross-border cooperation, support for SMEs, environmental infrastructure and networks of strategic importance. In addition, the majority of technical assistance contracts may include an equipment component of up to 20% in normal cases, and reaching up to 50 % of the contract value in the sector of nuclear safety.

Factors of incertitude

The principal factor of incertitude which might effect the results of the assistance is the political and economic situation in all the partner States. The success of the programme depends to a large extent on the willingness and the ability of the recipient institutions and partner state authorities to co-operate and to implement the actions supported.

9.3 Monitoring and evaluation of the operation.

Indicators can be determined at the inception, implementation and end of project level.

At the inception level typical indicators include: adequacy for partner's needs, partner's commitment, intervention logic, contractors performance.

At the implementation level typical indicators include: implementation of activities, achievement of outputs and appropriateness of work plan.

At the end of project level typical indicators include: contractors performance, contribution of project partner appropriateness of the project, sustainability and achievement of objectives.

At programme level, measuring performance is more difficult as projects contribute to short and medium term objectives, which in turn feed into the overall objective. It must be accepted that measuring the impact of technical assistance on a global level will always be an imperfect science. However, in line with the established practice evaluation criteria will include the following: impact, effectiveness, sustainability and efficiency.

The M&E at a project level will be ensured as described in section 8 above.

Moreover the relevant Commission services establish an annual progress report which is submitted to the Member States, the Council, the European Parliament, to the Social and Economic Committee and the Committee of the Regions.

In addition, the Commission services inform Member States in the relevant Committee and the European Parliament through its Budget and External Relations Committee regularly on actual implementation of the programme.

10 ADMINISTRATIVE EXPENDITURE (SECTION III, PART A OF THE BUDGET)

Actual mobilisation of the necessary administrative resources will depend on the Commission's annual decision on the allocation of resources, taking into account the number of staff and additional amounts authorised by the budgetary authority.

The needs for resources from part A of the budget will take into account the screening of personnel underway in the framework of 'Tomorrow's Commission' as well as the eventual rationalisation brought about by the creation of the Common Relex Service (SCR) for management of aid to third countries.

The needs for the resources in terms of external technical assistance to be financed from part B of the budget will be submitted to the budgetary authority at the time of the presentation of the preliminary draft budget.

10.1 Effect on the number of posts.

Type of post		Staff to be assigned to managing the operation*		Source		Duration
		Officials	Other staff**	Existing resources in the DG or department concerned	Additional resources	Years
Officials or temporary staff	A	51	21	74	0	7
	B	35	16	51	0	7
	C	36	14	50	0	7
Other resources						
	Total	124	51	175	0	7

* DG1A and SCR (This number corresponds to the staff involved in the Tacis programme before the establishment of the SCR. The staff resources are now split between the SCR and DG1A).

** END, Temporary, auxiliary and 'interimaire' staff.

SME IMPACT ASSESSMENT FORM

Title of the proposal : New Regulation for assistance to the New Independent States and Mongolia

Reference number:

The proposal:

Tacis regulation concerns the provision of technical assistance to the independent States of the former Soviet Union and Mongolia. The aim of this grant financed technical assistance programme is to foster the development of a market economy and the promotion of democracy in the NIS.

The rationale for such an action to be carried out at Community level is the need to reach a certain critical mass of funding to achieve results in a number of key areas (nuclear safety, private sector development, etc.).

The impact on business:

Beyond its above mentioned broad political objectives, Tacis aims at facilitating the development of trade between the EU and the NIS, in a very large range of sectors, as well as direct investment of EU firms in the NIS.

Specific actions are carried out in order to facilitate the compliance of the NIS to the requirements of the World Trade Organisation (for both tariff and non-tariff matters) and would therefore result in the establishment of a wider market for EU firms.

The development of partnerships between EU firms and NIS firms, i. a. Joint Venture agreements, is strongly supported by many Tacis projects or programmes, of which some are specifically designed for small and medium size businesses.

No geographical origin eligibility criteria is applied and EU Businesses do not have any particular measure to take in order to comply with the proposal.

Although the successful restructuring of NIS firms may result in the strengthening of their position in the global market place, and thus in the appearance of new competitors to EU firms, it is believed that the benefits of political and economic stability of the NIS and the development of trade with this region, largely outweigh the drawbacks of a potentially increased competitive pressure. The expected global effects on EU businesses are therefore positive, both in terms of job creation and of new investment opportunities.

Consultation:

A number of individual firms, as well as organisations representing EU businesses active in the NIS, have been consulted and have expressed their views on the proposed regulation. A round-table on this issue was organised on 26 May 1998 in Brussels with the participation of around forty firms or organisations, among which the Moscow European Business Club and the European Federation of Management Consulting Associations.

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