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ON

THE IMPLEMENTATION OF ECONOMIC AID TO  
THE COUNTRIES OF EAST AND CENTRAL EUROPE

AS OF 31 DECEMBER 1990

FIRST ANNUAL REPORT ON THE IMPLEMENTATION OF ECONOMIC AID TO EAST AND  
CENTRAL EUROPE

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PREAMBLE

The initial decisions on the nature of European Community assistance to East and Central Europe, starting with Poland and Hungary, took shape during Autumn 1989 following the summit of G 7 industrialised countries in Paris in July 1989. In addition to assuming responsibility for coordinating aid from the group of 24 bilateral donors, the Commission also made plans for a programme of Community assistance to support the process of economic and political reform in Poland and Hungary. These included action to increase access to Western markets (notably through the cooperation agreements), to improve food security particularly through food aid, and to support investment in economic infrastructure notably through loan instruments such as the ECSC facility and the EIB. A central aspect of what has become known as the PHARE programme (Poland and Hungary Action for Restructuring the Economy) has of course been E.C. grant aid in the form of financial and technical assistance, based on Council Regulation 3906/89 of 18.12.89, later amended by Regulation 2698/90 of 17.9.90.

The present report has been drawn up in accordance with Article 10 of Regulation 3906/89 and reports on measures covered by that Regulation.

The first section of this report sets out the legal, financial and policy context within which the first set of EC aid measures were to be developed. The second section describes the process of decision making and implementation of aid measures. A third section explains how these were coordinated with the action of certain other donors. The fourth section concerns humanitarian aid, a legal basis for which was created by the amending Regulation 2698/90 in September 1990. There follows a section on Commission organisation in respect of PHARE aid.

## I - GENERAL CONTEXT FOR EC AID IN 1990

### 1.1 LEGAL BASIS

Council Regulation 3906/89 concerning economic aid to Poland and Hungary<sup>(1)</sup> was negotiated at great speed and adopted on December 18th, 1989. It constitutes the legal basis for decision making procedures, providing for a management committee mechanism and tendering provisions which are broadly similar to other forms of EC external aid. Its policy focus is in contrast specific, assistance for economic restructuring being the general aim, and promotion of the private sector being an issue for particular attention. Within that framework, measures are suggested in a range of sectors in particular in agriculture, industry, investment, energy, training, environment protection, trade and services.

The Regulation was also highly specific in its financial coverage, referring exclusively to the 1990 budget of 300 million ECU for Poland and Hungary which had just been agreed by the Budgetary Authority. These specific references were later modified by the amending Regulation 2698/90 of September 17th, 1990<sup>(1)</sup> which omitted specific reference to a budget or time scale and placed in an annex the list of recipient countries, extended to include Bulgaria, Czechoslovakia, the GDR, Romania and Yugoslavia. The Regulation thus became a general legal framework with unlimited duration. By including the possibility of financing humanitarian aid in the amended article 3 (1) the Regulation also broadened the focus of Community aid, introducing a form of aid which would not be subject to a management committee opinion though it would not exceed 5% of the total budget as was stipulated at the time by the Council and the Commission.

### 1.2 FINANCIAL FRAMEWORK

The Commission's initial budget proposal of 200 MECU for economic aid to Poland and Hungary put forward in a letter of amendment to the preliminary draft budget for the 1990 financial year was raised definitively by the Budget Authority to 300 MECU. The fact that the budget was provided in the form of non-dissociated appropriations, requiring full commitment by the end of 1990 and full disbursement by the end of 1991, proved to be a very particular constraint, imposing a very short lead-in time before decisions and commitment and making multi-annual development programmes impossible. This inevitably had a profound impact on the process of aid programming and project identification at least during the first half of 1990.

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(1) Attached in Annex I

When the initial budget of 300 MECU was raised in July 1990 to 500 MECU to provide for the extension of assistance to other countries of East and Central Europe, the Budget Authority modified the status of the budget and register it in the form of dissociated appropriations with 500 MECU for commitment (and 350 MECU for payment) in 1990. This served to remove the obstacle to multi-annual programming though it maintained the end-of-year deadline for commitments. This constraint continues to mark out the PHARE aid operation from other Community external aid instruments which are based on contractual obligations and thus obligatory expenditure.

### 1.3 POLICY ORIENTATIONS

Discussions in a G24 framework during autumn 1989 had already pointed the way for the policy focus for economic aid specified in Regulation 3906/89 (see above). The general guidelines for aid drawn up in accordance with Article 8 of the Regulation, which built further on this policy focus, were submitted to the management committee for opinion in February and later finalised by the Commission in May (Annex 2). The general guidelines served to give further elaboration to sectoral policy priorities in anticipation of the programming dialogue with the national authorities of the recipient countries. They served also to give an indicative breakdown of aid between sectors and countries confirming an allocation of funds on the basis of a 2:1 ratio between Poland and Hungary. The guidelines were complemented later in autumn 1990 with indications concerning the newly eligible countries.

### 1.4 AID PROGRAMMING

The programming discussions with the Polish and Hungarian authorities were designed to take further the debate relating it to national priorities and to identify a number of feasible sectoral programmes, taking account of the current state of play as regards the reform and adjustment measures to establish a market economy.

The aim was to establish an agreed framework programme with the national authorities in each country in order to structure project identification and appraisal work thereafter. The programmes were, by definition, indicative in character. Flexible programming was necessary since neither Poland nor Hungary had had any experience as an aid recipient. They had, for instance, difficulties in distinguishing between tied and untied aid, between the programme and project approach, between loan and grant finance. The national authorities did not have much time to work out their own medium term objectives and sectoral adjustment policies let alone the appropriate institutional structures.

In accordance with its general approach to external aid and in accordance with the wishes of the recipient countries, the Commission sought to develop the prerogatives of the national authorities in setting policy and aid priorities. Working nevertheless under exceptional budget constraints (referred to in 1.2 above) it was obliged to limit the programming dialogue and fix on a limited number of sectoral programmes that could be mounted relatively quickly and achieve total disbursement within 18 months.

1.4.1 The indicative programme for Poland agreed on 15.2.90 with Professor Trzeciakowski, the Minister responsible for aid coordination, can be summarised as follows:

	MECU
a) Agriculture	<u>100</u>
of which - supply of crop protection products	50
- supply of animal feed components	20
- sectoral credit and support scheme	30
b) Environment	<u>22</u>
c) Industrial Restructuring	<u>47</u>
of which - foreign trade infrastructure	10
- privatisation agency	9
- rural telecommunications	5
- sectoral import/SME scheme	23
d) Human Resources	<u>18</u>
of which - TEMPUS	13
- European Training Foundation	4
- ACE	1
e) Other technical assistance	<u>12</u>

1.4.2 The indicative programme for Hungary, agreed on 7.3.90 with Vice Minister Fazakas and the Interministerial Committee for external aid, can be summarised as follows:

a) Economic Restructuring	<u>33</u>
of which - foreign trade infrastructure (customs)	8
- privatisation	4
- SME sector support	21
b) Environment	<u>27</u>
of which - national sector programme	25
- regional centre	2
c) Human Resources	<u>9</u>
of which - TEMPUS	7
- European Training Foundation	2
d) Agriculture (sector support scheme)	<u>20</u>
e) Other technical assistance (including ACE)	<u>11</u>

- 1.4.3 Apart from the strong emphasis on agriculture supply programmes in Poland there were many similarities between the two indicative programmes. As regards privatisation for instance, both countries were in the process of setting up the legislative and institutional framework for the privatisation of state enterprise and both required substantial support in the form of technical assistance. Environment occupied a strong place in both programmes, not least because identification and appraisal missions had been organised early on at the beginning of 1990 through the G24 network setting the basis for sectoral programmes with rapid disbursement potential. As regards human resources, the emphasis was on its TEMPUS scheme and the European Training Foundation in accordance with the Commission's proposals which were at the time being discussed in Parliament and Council.
- 1.4.4 Subsequent adjustments and reallocations were decided by the national authorities in the light of changing needs and priorities. In Hungary for instance, after the change of government in Summer 1990, two new programmes concerning social welfare and the reform of higher education were foreseen in place of a foreign trade (customs computerisation) project which was behind schedule. In July when it became clear that the setting up of the European Training Foundation would be delayed, the budget earmarked was reallocated for investment in core training projects at national level. Complementary economic reform measures - enterprise restructuring in Poland and financial sector reform in Hungary - were introduced during the course of the year and financed through the reserve.
- 1.4.5 Programming in respect of Bulgaria, Czechoslovakia, the GDR and Yugoslavia<sup>(1)</sup> was a very different matter given the even more extreme time pressures. Though there was a clear prospect since summer 1990 of extending aid to the other countries of East and Central Europe, the budget was only confirmed end July and the legal basis on 24 September, a mere week, as it transpired, before the disappearance of the GDR. In Czechoslovakia and Bulgaria, there were newly constituted governments which had many pressing matters to deal with in addition to external aid.

A highly pragmatic course of action was taken by the Commission which, in rapid dialogue with the national aid coordinating authorities, agreed to simplify the allocation of 1990 aid with a focus where possible on a single sector programme that could be prepared within a limited number of weeks.

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(1) Economic Aid to Romania was not made effective in 1990. Romania did however receive PHARE humanitarian aid. See section IV.

For Bulgaria, the emphasis was on a private agriculture development programme (16 MECU) and a couple of urgent projects regarding environmental monitoring equipment (3.5 MECU) and medical (pre natal) equipment (5.0 MECU). For Czechoslovakia, 30 MECU was allocated to environment and 4 MECU for an initial participation in the TEMPUS scheme. The GDR placed emphasis on environment (20 MECU) though 14 MECU was also reserved for intra-German regional measures in liaison with the ERDF INTEREG programme, as well as 1 MECU for TEMPUS. The whole of Yugoslavia's 35 MECU allocation was channelled into technical assistance for a major financial sector restructuring programme in liaison with the World Bank.

## II - MANAGEMENT OF 1990 MEASURES

### 2.1 PREPARATION AND DECISION-MAKING

- 2.1.1 The first PHARE aid measure was the Polish crop protection chemicals supply scheme which was decided on in record time on February 21, 1990. Thereafter a steady stream of measures were submitted to the management committee for opinion and to the Commission for financing decision and commitment. In all, financing proposals for a total of 34 programmes for 1990 aid were produced (see table 1 for the breakdown by sector). Management Committee meetings held at closer and closer intervals as the year proceeded, took place on February 25, April 30, June 27, July 25, September 26 especially for GDR measures, October 3, November 21 and December 19. The Committee delivered a favourable opinion on all the 1990 proposals.
- 2.1.2 Most of the measures concern national sectoral development programmes with a strong element of technical assistance and training. Some, particularly the Polish crop protection and animal feed programmes are essentially supply operations, although also containing a technical assistance component. Others, especially in environment, provide for a broad range of specific separate projects to be undertaken by means of a global financing facility. The two exchange and cooperation schemes TEMPUS and ACE were the only programmes of a multinational character.
- 2.1.3 In addition to the sectoral programmes, a commitment of 10 MECU for "multidisciplinary technical assistance" was agreed in two successive tranches. This is an enabling device consistent with general management practice in external aid, giving a global authorisation to finance, within given parameters, small scale operations, such as feasibility studies, technical assistance, and micro projects without requiring a specific Committee opinion and Commission decision on each operation. Apart from preparatory work, for instance on the Polish rural telecommunications programme, the multidisciplinary facility was used to finance feasibility studies on infrastructure questions (transport, nuclear energy, sewage treatment) and small operations such as health management projects in Poland and Hungary, a local government development project in Poland and a Polish language training (G24) project.



TABLE 1

**BREAKDOWN BY SECTOR OF MAJOR 1990 PROGRAMMES  
DECIDED BY THE COMMISSION**

<u>SECTOR/PROGRAMME</u>	<u>COUNTRY</u>	<u>AMOUNT (MIO)</u>	<u>COMMITTEE OPINION</u>
<b><u>ECONOMIC RESTRUCTURING</u></b>			
Privatisation Agency	P	9.0	May
Financial Sector	H	5.0	May
Privatisation Agency	H	5.0	June
SME Credit/Support	P	21.0	June
SME Sector Support	H	25.0	July
Regional Economic Structures	D	14.0	September
Statistics	P	1.5	October
Financial Sector	Y	35.0	November
Industrial Restructuring	P	4.0	November
Equity Investment	P	2.0	November
Foreign Trade	P	8.5	November
Foreign Trade	H	1.3	December
<b>TOTAL</b>		<b>131.3</b>	
<b><u>AGRICULTURE/RURAL DEVELOPMENT</u></b>			
Crop Protection	P	50.0	February
Animal Feed	P	20.0	May
Credit/Equipment	P	30.0	June
Private Sector	H	20.0	June
Private Sector	B	16.0	October
Rural Telecommunications	P	6.0	December
<b>TOTAL</b>		<b>142.0</b>	
<b><u>ENVIRONMENT</u></b>			
Multi Sector	P	22.0	May
Multi Sector	H	25.0	May
Regional Center	H	2.0	May
Multi Sector	D	20.0	September
Multi Sector	CS	30.0	November
Monitoring Equipment	B	3.5	December
<b>TOTAL</b>		<b>102.5</b>	
<b><u>HUMAN RESOURCES (non-specific)</u></b>			
ACE	P+H	1.5	February
Tempus	P+H	20.0	May/June
Research Infrastructure	H	3.0	July
Tempus	D	1.0	September
Tempus	CS	4.0	October
Higher Education	H	3.0	November
Health Care	B	5.0	November
Vocational Training	H	1.5	December
Vocational Training	P	2.8	December
Social Welfare	H	3.0	December
<b>TOTAL</b>		<b>44.8</b>	

2.1.4 At its December meeting the Committee also gave its opinion on three measures for which financing from the 1991 budget was foreseen early in 1991. These concerned the renewal of the technical assistance component of the TEMPUS scheme, the renewal of the multidisciplinary technical assistance facility and a new joint venture support scheme. Details of these measures will be included in the annual report for 1991.

## 2.2 IMPLEMENTATION

2.2.1 Before embarking on the implementation of any measure, a framework agreement between the Commission and the respective government had to be drawn up and signed by both parties in order to establish the general rules governing Community aid (procurement, taxes, payment procedures, audit, etc.) and to clarify the respective rules of the Commission and the two partners. The framework agreements are all more or less identical. They were negotiated and agreed with each aid coordination Minister usually shortly before the first decisions on individual aid measures were made. Poland was the exception where the plant protection import scheme, needing to be implemented very rapidly, was the subject of an ad hoc agreement incorporating all relevant passages from the framework agreement.

Following each financing decision on a national aid measure by the Commission, an individual financing memorandum, setting out the details of the actions to be implemented, was drawn up and co-signed by the Commission and the representative of the implementing authority, normally the Minister with responsibility for the sector in question.

2.2.2 Most of the 1990 sectoral programmes have similar characteristics as regards implementation, providing for decentralised management of financial resources under the responsibility of the implementing authority. This entails use of 'an advance payment system' and ex post control procedures on a more extensive scale than is current in other areas of E.C. external aid. This approach, which simplifies the administration of aid is particularly justified in the case of Central and East European countries, given their level of technical competence and the need to enhance the management capacities of the implementing agencies.

2.2.3 In practice, the system of decentralised management requires that before a first advance payment can be made the implementing authority must proceed with the designation of a management team or programme implementation unit (PIU), the opening of an ecu account and the establishment of a work programme with detailed disbursement estimates.

2.2.4 The decentralised system, which has distinct benefits in the longer term, necessarily requires some months lead-in time before the programmes in question become fully operational. The first programmes applying this system - particularly in the environment and SME sectors - served as a learning experience for all concerned not least the national aid coordinating authorities. Certain problems have still not been overcome, such as the authorisation for line Ministries in Poland to open and manage ecu accounts. In Czechoslovakia and Bulgaria, the absence of a Commission delegation to advise the PIU and endorse contractual procedures is an added disadvantage which will only be overcome during 1991.

### 2.3 TENDERS AND CONTRACTS

2.3.1 Tendering and contract procedures are similar to those used in other fields of Community external aid with participation open to all legal persons in the twelve Member States and in the six beneficiary countries. Major supply contracts are systematically the subject of open tenders published in the Official Journal. The opening and evaluation of bids and the contracting is the responsibility of the implementing authority under Commission supervision and using technical assistance as appropriate. In view of the quite specific nature of the products requested and the urgent need to assure commencement of supply before spring, a restricted tendering procedure was exceptionally used in the case of the Polish crop protection chemical supplies programme. Other tenders published in 1990 included first items of equipment for the Hungarian environment and research infrastructure programmes, hospital equipment for Bulgaria, animal feeds for Poland, agricultural supplies for Bulgaria, and environmental monitoring equipment for Hungary, Bulgaria and Poland.

2.3.2 Technical assistance was recruited according to the established procedures of restricted consultation (short lists) drawing on diverse sources including the existing Commission data base of consultancy firms and using where appropriate the technical services of the Commission for advice on specific expertise (e.g. environment). In certain cases of expertise on economic reform issues, for example as regards privatisation or customs development, the Commission invited submissions under two separate 'prequalification' procedures published in the Official Journal in September and December 1990 respectively in order to establish a "pool" of experienced consultants. Short term expertise was usually recruited through the framework contracts already established for external aid to the ALA and non-associate countries.

2.3.3 An appropriate breakdown of 1990 commitments would show that technical assistance and training (including TEMPUS and ACE) forms about 25% of the total. Supplies, including equipment and materials as well as the agricultural imports, will total about 40%. Finance for credit lines and other financial instruments will represent about 18%. Miscellaneous expenditure notably contingency provisions in sectoral programmes totals about 7%. The overall total is made up by the 51 MECU (10%) reimbursement to FEOGA (see below 2.4).

#### 2.4 PAYMENTS

As explained above, an accelerated rate of disbursement was an extremely important consideration in the design of aid measures during the early part of 1990. This was less vital as it became clear by the Summer 1990 that the appropriations for aid under Regulation 3906/89 would be dissociated, and as more emphasis could therefore be placed on the setting up of qualified management units in the recipient countries, and on focussing on medium term objectives.

The overall payments situation end 1990, summarised in table 2, shows major differences in disbursement rates not merely according to the date of decision but also according to the nature of the programme in question: supplies operations and schemes based on one-year grants (such as TEMPUS) have a high rate of disbursement, contrasting with the complex sector programmes using advance payments systems where, at best, a first tranche payment to the ecu account of the implementing authority has been carried out. The lead-in time necessary to arrive at the stage of the first tranche payments of this sort is such that the disbursement rate is low or zero in the case of programmes which were decided in the second half of the year.

A somewhat exceptional payment was made in the form of a transfer to the FEOGA account to regularise payment for food aid to Poland and Romania decided independently of the PHARE operation in late 1989. This payment gives rise to a rate of disbursement of 34% for the whole programme.

#### 2.5 MONITORING AND EVALUATION

For each of the main sector programmes, provision is made for a 6 monthly audit of expenditure by independent experts. Framework contracts were established after open tender with two auditing firms, the services of which will in fact first be required only during the first half of 1991. Complementary procedures for monitoring progress in programme implementation were also set up.

TABLE 2

PAYMENTS SITUATION END DECEMBER 1990  
(Presentation according to date of Commission decision)

COUNTRY	SECTOR PROGRAMME	DATE DECISION	TOTAL COMMITMENT	MECU PAYMENT	% PAYMENT
P	Crop Protection*	21.02.	50.0	48.0	96
P	Environment	16.05.	22.0	12.3	56
P	Privatisation	16.05.	9.0	3.9	43
H	Environment	16.05.	25.0	10.2	41
H	Environment Centre*	16.05.	2.0	1.0	50
H	Financial Sector	16.05.	5.0	--	--
P	Animal Feed*	16.05.	20.0	3.0	15
P+H	ACE*	16.05.	1.5	--	--
H	Privatisation	04.07.	5.0	2.7	55
P	SME Credit/Support	04.07.	21.0	--	--
P	Agric. Cred/Equip	04.07.	30.0	--	--
H	Agric. Sector	04.07.	20.0	--	--
P+H	TEMPUS*	04.07.	20.0	19.2	96
H	SME Sector	02.08.	25.0	8.3	40
H	Research Infrastr.	02.08.	3.0	1.2	40
D	Regional Struct.	26.09.	14.0	0.4	2
D	Environment	26.09.	20.0	--	--
D	TEMPUS*	26.09.	1.0	0.9	93
CS	TEMPUS*	10.10.	4.0	3.7	93
P	Statistics*	10.10.	1.5	--	--
B	Agric. Sector	10.10.	16.0	--	--
Y	Financial Sector	28.11.	35.0	--	--
P	Industrial Restruc.	28.11.	4.0	--	--
P	Equity Investment*	28.11.	2.0	--	--
P	Foreign Trade	28.11.	8.5	--	--
CS	Environment	28.11.	30.0	--	--
H	Higher Education	28.11.	3.0	--	--
B	Health Care*	28.11.	5.0	--	--
H	Foreign Trade	19.12.	1.2	--	--
P	Rural Telecom	19.12.	6.0	--	--
B	Environment Monit.*	19.12.	3.5	--	--
H	Vocational Training	19.12.	1.5	--	--
P	Vocational Training	19.12.	2.8	--	--
H	Social Welfare	19.12.	3.0	--	--
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all	other (small projects, FEOGA, minibudget etc.)		64.0	47.2	65
R	Humanitarian Aid		15.5	9.1	59
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TOTALS			500.0	171.1	34.2
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\* Supply operations, grant schemes and other projects not using a decentralised management approach (advance payment system with PIU).

## 2.6 COUNTERPART FUNDS

The commodities made available in the framework of the two supply programmes in the agricultural sector (plant protection chemicals and animal feed) were sold on the market to farmers and generated zloty-funds. These so called "counterpart funds" were collected by the implementing agents of the programmes FDPA and ROLPASZTO respectively and transferred to a new organisation called "Cooperation Fund", set up under the responsibility of the Minister in charge of Aid Coordination. A Memorandum of Understanding, concluded between the Commission and the competent Minister, stipulated procedures for decision making and management of the Counterpart Funds. It is agreed that the funds will be used to reinforce the implementation of reform policies initiated by the Government, promote aid coordination and be integrated to the maximum extent possible with PHARE financed programmes or projects co-financed with other donors.

## III - AID COORDINATION

- 3.1 Aid coordination - in the sense of achieving a complementary granting of aid within a coherent policy framework with common objectives - has been a major preoccupation for the Commission since the beginning of the PHARE operation. Though this annual report is not designed to document the way the Commission carried out its broader coordinating role with the G24, it is nevertheless appropriate to indicate briefly some specific operational examples and techniques of aid coordination and co-financing involving aid measures under Regulation 3906/89.
- 3.2 The large scale of the EC aid budget and its focus on economic restructuring gave the Commission particular responsibility from the outset to liaise closely with those other major donors also deeply involved in structural adjustment measures. With the assistance in particular of the I.M.F. and the World Bank, the Polish and Hungarian governments had already begun working out reform strategies both at macro economic level and for certain sectors. This provided a basic framework for specific programmes of technical assistance to be developed whether by the Commission or other donors. Where such reform strategies did not yet exist, the Commission has been able to play an active role - in conjunction with other donors - in assisting the national authorities to develop appropriate sectoral policies.
- 3.3 EC co-financing of preparatory work prior to the launching of sectoral programmes has taken various forms - the 4 MECU programme on industrial restructuring for Poland for example is part of a joint effort with the World Bank, also involving UK and Japanese funds, to finance the evaluation of Polish State enterprises to prepare for restructuring. On a smaller scale (under the multidisciplinary facility), there was co-financing with the World Bank of a series of preparatory studies in the transport sector for Hungary; the groundwork for the development of an agricultural sector strategy for Poland was financed on a similar basis. The 2 MECU 'equity investment' measure for Poland, in contrast, was a specific partnership with the EIB, using EC grant aid to finance technical assistance to prepare for EIB industrial investment programmes.

- 3.4 Joint appraisal missions, another way of promoting aid coordination, were carried out in certain cases where interested donors could be brought together rapidly as in the case of the G24 environment sector missions to Poland and Hungary organised early in 1990 by the G24 environment working group. Cooperation at appraisal stage however has not until now been followed up with G24 co-financing of the environment programmes. More positive results are expected from the multidonor appraisal mission to Poland to prepare for the pilot language teaching project launched at the end of 1990 (under the multidisciplinary facility).
- 3.5 EC co-financing of sectoral programmes (with the World Bank), where much of the groundwork and technical analysis had already been done, was a particularly appropriate option for the Commission precisely because of the tremendous time pressures under which the Commission was working in order to commit all appropriations before the end of 1990. In the financial sector, the 5 MECU programme of technical assistance and training for Hungary and the much larger 35 MECU programme for Yugoslavia are examples of this approach where EC grant aid combines with useful effect with World Bank loan finance. The 3 MECU programme (to support higher education reform in Hungary) is an example of co-financing where EC aid is used to finance initial activity and core infrastructure before large scale World Bank loan finance comes on stream. The 5 MECU input to the Polish privatisation agency involved the IFC (International Finance Corporation) which gave technical endorsement to the project as well as cofinancing (from inter alia US-AID and the United Kingdom. Similarly in Hungary assistance to the State Property Agency involves the Commission, Canada, USAID and the United Kingdom.
- 3.6 Where major cofinancing was not an immediate option, EC aid, measures were very frequently used to set up sizeable management and financing mechanisms at national level designed to become a point of reference for G24 bilateral aid. This has been the case for the three 'multi-sector' environment programmes in Poland, Hungary, and Czechoslovakia where the management units for the EC financing facility have become a focal point within the Environment Ministries for aid coordination and policy development. For small and medium-sized enterprise development as well, both the Polish and the Hungarian programmes provide the nucleus for managing bilateral aid inputs including offers of small scale technical assistance and training.
- 3.7 Other aid coordination initiatives include the first phase of the local government development programme in Poland (financed under the multidisciplinary facility), which gives the International Union of Local Authorities an explicit mandate to assist in planning a medium term programme with coordinated G24 inputs. The TEMPUS scheme; over and above its own grant aid, is also designed to promote G24 coordination in the area of higher education cooperation. The vocational training programmes in Poland and Hungary are also both designed to strengthen the aid coordination capacity of the national authorities.

- 3.8 The regional environment centre in Budapest is perhaps the only example of an existing mechanism which has already managed to attract financial support from several donors including the EC (2 MECU in 1990) which is represented on the board of the centre. An EC programme of assistance for joint financing of this sort is rare because of the tied nature of most bilateral aid and the reticence of most donors (with the exception of the EC) to place funds directly at the disposal of the national authorities.
- 3.9 About 15% of 1990 aid was used in an explicit co-financing operation whereas another 40-50% may prove to be an effective magnet attracting co-financing by bilateral donors after initial decision making on EC aid. (As was the case at the end of 1990 when a small amount of Austrian co-financing was drawn into the 3 MECU Hungarian social welfare project). The annual report cannot make a final analysis of the aid coordination implications of 1990 aid measures since there have been some positive (and unexpected) developments since the end of the year - for instance the interest expressed by EFTA to co-finance through CEN any EC technical assistance measures on standards and quality control such as those already agreed with Poland and Hungary in the context of their 'foreign trade' programmes. The trend towards planned convergent use of aid is bound to accelerate, moreover, as the aid coordination authorities within the recipient countries become more familiar with the practices and preferences of the donor community and more equipped to present national policy priorities with a clear definition of needs for external assistance.

#### IV - HUMANITARIAN AID

- 4.1 As 1990 progressed it became increasingly clear that in at least two of the beneficiary countries (Bulgaria and Romania) a combination of economic and climatic factors would bring about the need for measures to bring immediate relief from distress among the population or to avert future distress. Thus in September 1990 when the Council amended Regulation 3906/89 so as to extend the PHARE assistance to Bulgaria, Czechoslovakia, the GDR, Romania and Yugoslavia, provision was made to allow financing of humanitarian aid (a limit of 5% of the 1990 budget was set for this kind of aid). It was also agreed at that time by the Council and the Commission that humanitarian assistance in the form of food aid, which had earlier been provided to Poland and Romania, could be financed. Thus a sum of 50 MECU was used to meet the cost of food aid provided to Poland and Romania in 1990, prefinanced by the FEOGA Guarantee Section.



The other PHARE humanitarian measures concerned Romania, where a total of 15.5 MECU was committed as follows:

	MECU
Supply of medicines <sup>(1)</sup>	11.1
Orphanages heating and refurbishment	3.0
Infant Formulae and Medicines for Romanian children	1.4

Local costs, particularly for the heating action, are met from part of the counterpart funds generated from food aid equivalent at the time to approximately 15.0 MECU. In addition to these measures, the Commission used non-PHARE finance to support four pilot projects for orphanages (2.7 MECU) and emergency medical supplies for disadvantaged children (0.3 MECU).

- 4.2 To help administer the Orphanages heating and refurbishment actions and to supervise the distribution of infant foods and medicines for children the Commission set up a temporary team of heating, medical and administrative experts in Bucharest. There was, for both projects a twin objective. In the first place the urgent need was to ensure that the aid provided was rapidly and effectively utilized. In the second place the Commission strove not to bypass local administrative structures, but by working with them, to strengthen their capacity to cope with future humanitarian measures. In the on-the-spot supervision of these projects the Commission sought and received the cooperation of a number of Community based NGOs which are active in Romania, and will continue to work with them in implementing on-going programmes of humanitarian assistance in Romania.

#### V - COMMISSION ORGANISATION

- 5.1 The PHARE Operational Service (PHOS) set up in January 1990 to initiate, prepare and supervise the implementation of assistance programmes in Poland and Hungary (to a value of around 200 M.ECU) comprised a total of 24 staff of all grades. This staff was made available through a major redeployment of personnel within the Commission.
- 5.2 During 1990, the geographical scope of the PHOS's activities was extended to include another five countries and new responsibilities were assumed for humanitarian aid and coordination with non-governmental organisations. In the absence of extra staff to administer the additional 300 M.ECU worth of programmes, a further internal redeployment effort was undertaken to fill 11 new posts.

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(1) Originally provided as emergency aid (budget article 950 (1990)).

- 5.3 In the face of continuing demands on the service's resources, this complement of 35 posts was strengthened towards the end of 1990 by the addition of three detached national civil servants and six interim and auxiliary staff. Thus the staff numbers at the end of 1990 were:

Administrative Grade	13
Detached National Civil Servants	3
Clerical Grades	10
Secretarial	12
Interim and auxiliary staff	6
<b>TOTAL</b>	<b>44</b>

- The PHOS is assisted by the other Commission Directorates General in the assessment and planning of projects and programmes. In addition PHOS has been obliged to make extensive use of outside consultants.
- 5.4 Decisions were taken in principle to provide staff for EC Delegations in Poland, Hungary, Czechoslovakia and Bulgaria which would help to ensure on-the-spot coordination of assistance programmes. By the end of 1990, delegations were operational in Warsaw and Budapest, but not in Prague or Sofia.
- 5.5 Within the framework of the G-24's overall assistance to central and eastern Europe; coordination and cofinancing with other organisations is essential. So far, it has only been possible to meet this need through the use of detached national civil servants.
- 5.6 Constraints on staffing levels will continue to be a major preoccupation for the Commission over the years ahead as the practical implementation of programmes, in addition to their evaluation and selection, adds a further significant dimension to the work of the PHOS.

## VI - CONCLUSIONS

- 6.1 The first year of the Commission PHARE programme was one in which basic procedures and relationships were established and the budget was fully committed. These are important achievements when viewed in the light of the situation as it existed in these countries at the beginning of 1990. Poland and Hungary, followed by the other countries embarked on programmes of political and economic reform for which there was no precedent; they had to manage a reform process in both of these highly interactive spheres - simultaneously. Ministers and civil servants were dealing with new concepts, new processes for which little in their previous experience had prepared them. Least of all had they any previous experience in handling programmes of development assistance. Thus there were inevitable delays in setting up the organisational structures to agree on national priorities for assistance and to coordinate on a national basis the offers of a wide range of donors. Further understandable delays occurred as new Parliaments accustomed themselves to tackling the adoption of the necessary legislation for effecting economic reform.

- 6.2 While there was little problem initially in identifying those key areas of systemic economic reform which would form the backbone of indicative programmes of aid - problems were identified early on in the selection and preparation by the beneficiary countries of specific projects and programmes. The PHOS had wide recourse to consultants and experts to assist the beneficiary countries in strategy and programme development.
- 6.3 Poland was the first of the countries to agree an indicative programme and the first in which a major programme was identified, prepared and completed. It was not until March that agreement was reached with the then Government of Hungary on an indicative programme but, with the elections which were held immediately afterwards and the time necessary for the selection and assumption of the new Government, it was not until July 1990 that the structures were put in place to handle the preparation and coordination of aid programmes. In the case of the remaining countries it was not until September 1990 (see 1.2 above) that programming and preparation could commence. This meant that commitment decisions clustered largely in the last quarter of 1990. Moreover, given the necessity to complete all commitment before the end of the year, both the Commission and the recipient countries concentrated on achieving this. In reality it was largely towards the end of 1990 and the beginning of 1991 that the process of project implementation could set into full swing. As most of the programmes consist in, or have important initial elements of technical assistance the amount of disbursement is expected to be small in relation to the total commitments over the first 2-3 years.
- 6.4 In the course of the year, and in particular towards the end of the year as preparations got underway for programming of 1991/92 assistance, both the Commission and the beneficiary countries were able to refine the focus of that assistance with a remarkable level of agreement. It is clear that for both sides the main objective of EC assistance must be to help the recipient country to put in place in the minimum time the framework of laws, regulations and institutions which will form the basis of an efficiently functioning market economy and will encourage investment - especially that from abroad.
- 6.5 It was also apparent at the end of 1990 that the requirement to commit the appropriations totally in the course of the budget year for which they were entered imposes on recipient countries a discipline to which at this stage their decisional or administrative procedures are not adapted. Therefore greater flexibility needs to be built into programme procedures which allows countries to total a two year perspective on aid programming.

A capacity to finance programmes of a regional character where several recipient countries combine in a joint endeavour was discussed with those concerned and a decision in principle was taken to initiate such a facility for 1991/92. As regards aid coordination and co-financing efforts will be renewed in 1991 to involving other donors in jointly financed programmes.

**COUNCIL REGULATION (EEC) No 3906/89**

**of 18 December 1989**

**on economic aid to the Republic of Hungary and the Polish People's Republic**

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

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

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament<sup>(1)</sup>,

Whereas the Community and its Member States have decided to make a concerted effort together with certain third countries, in order to implement measures intended to support the process of economic and social reform under way in Hungary and Poland;

Whereas the Community has concluded Agreements on trade and commercial and economic cooperation with the Republic of Hungary and the Polish People's Republic;

Whereas the Community must have the necessary means at its disposal to be able to implement such measures;

Whereas the fields in which measures are to be undertaken should be determined;

Whereas it is necessary to estimate the amount of Community financial resources needed to carry out these measures in 1990;

Whereas the implementation of such measures will help to achieve the Community's aims and whereas the Treaty does not provide, for the measures in question, powers other than those of Article 235,

HAS ADOPTED THIS REGULATION:

*Article 1*

The Community shall implement economic aid measures in favour of the Republic of Hungary and the Polish People's Republic in accordance with the criteria laid down in this Regulation.

*Article 2*

The amount of Community resources as necessary to carry out the measures introduced by this Regulation amount to ECU 300 million for the period expiring on 31 December 1990.

<sup>(1)</sup> Opinion delivered on 14 December 1989 (not yet published in the Official Journal).

*Article 3*

1. The aid shall be used primarily to support the process of reform in Poland and Hungary, in particular by financing or participating in the financing of projects aimed at economic restructuring.

Such projects or cooperation measures should be undertaken in particular in the areas of agriculture, industry, investment, energy, training, environmental protection, trade and services; they should be aimed in particular at the private sector in Hungary and Poland.

2. Account shall be taken, *inter alia*, of the preferences and wishes expressed by the recipient countries concerned in the choice of measures to be financed pursuant to this Regulation.

*Article 4*

The aid shall be granted by the Community, either independently or in the form of cofinancing with the Member States, the European Investment Bank, third countries or multilateral bodies or the recipient countries themselves.

*Article 5*

Community aid shall in general be in the form of grants. They may generate funds that can be used for financing cooperation projects or measures.

*Article 6*

1. The aid may cover expenditure on imports and local expenditure needed to carry out the projects and programmes.

Taxes, duties and charges and the purchase of property shall be excluded from Community financing.

2. Maintenance and operating costs may be covered for training and research programmes and for other projects; however, for the latter such costs may be covered only in the start-up stage and shall be degressive.

3. However, in the case of cofinancing, account shall be taken in each case of the procedures applied by the other providers of capital.

*Article 7*

1. In the case of assistance exceeding ECU 50 000 for which the Community is the sole source of external aid, participation in invitations to tender and contracts shall be open on equal terms to all natural and legal persons of the Member States and of Poland and Hungary.

2. Paragraph 1 shall apply also to cofinancing.
3. In the case of cofinancing, however, the participation of third countries in invitations to tender and contracts may be authorized by the Commission, but only on a case-by-case basis, after examination of the case.

*Article 8*

The Commission shall administer the aid taking into account the procedure laid down in Article 9. The general guidelines applicable to the aid and to sector-based programmes shall be adopted in accordance with that procedure.

*Article 9*

1. A committee on aid for economic restructuring in Poland and Hungary is hereby set up at the Commission, consisting of representatives of the Member States and chaired by the Commission representative. An observer from the European Investment Bank shall take part in the Committee's proceedings with regard to questions concerning the Bank.
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 Treaty in the case of decisions which the Council is required to adopt on a proposal from the Commission. The votes of the representatives of the Member States within the committee shall be weighted in the manner set out in that Article. The chairman shall not vote.

3. The Commission shall adopt decisions which shall apply immediately. However, if these decisions 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 shall defer application of the measures which it has decided for a period of six weeks.

The Council, acting by a qualified majority, may take a different decision within the time limit referred to in the first subparagraph.

*Article 10*

From 1990 the Commission shall draw up each year a report on the implementation of co-operation operations. The report shall be sent to the European Parliament, the Council and the Economic and Social Committee.

*Article 11*

This Regulation shall enter into force on the third day following that of 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 Brussels, 18 December 1989.

*For the Council*

*The President*

R. DUMAS

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## I

(Acts whose publication is obligatory)

**COUNCIL REGULATION (EEC) No 2698/90**

**of 17 September 1990**

**amending Regulation (EEC) No 3906/89 in order to extend economic aid to other countries of Central and Eastern Europe**

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

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

Having regard to the proposal from the Commission <sup>(1)</sup>,

Having regard to the opinion of the European Parliament <sup>(2)</sup>,

Whereas the Community and its Member States have decided to take concerted action with certain non-member countries in the form of measures intended to support the process of economic and social reform under way in Hungary and Poland; whereas Regulation (EEC) No 3906/89 <sup>(3)</sup> lays down the conditions for the provision of economic aid to these countries;

Whereas the Group of 24 countries and the Community decided at the ministerial meeting on 4 July 1990 that the situation in certain other countries of Central and Eastern Europe warranted an extension of the economic restructuring aid to these countries;

Whereas provision must be made annually in the general budget of the European Communities for appropriate Community financing,

HAS ADOPTED THIS REGULATION:

*Article 1*

Regulation (EEC) No 3906/89 is hereby amended as follows:

1. The title is replaced by the following:

'Council Regulation (EEC) No 3906/89 of 18 December 1989 on economic aid to certain countries of Central and Eastern Europe.'

2. Article 1 is replaced by the following:

*'Article 1*

The Community shall make economic aid available to the countries of Central and Eastern Europe listed in the Annex in accordance with the criteria laid down in this Regulation.'

3. Article 2 is deleted.

4. In Article 3 (1):

— 'in Poland and Hungary' and 'in Hungary and Poland' are replaced by 'in the countries referred to in Article 1' and 'of the countries referred to in Article 1' respectively,

— the following subparagraph is added:

'The aid may also be used to provide humanitarian assistance'.

5. In Article 7 (1) and in Article 9 (1), 'of Poland and Hungary' and 'in Poland and Hungary' are replaced by 'of the countries referred to in Article 1' and 'in the countries referred to in Article 1' respectively.

6. The following Annex is added:

*'ANNEX*

BULGARIA

CZECHOSLOVAKIA

GERMAN DEMOCRATIC REPUBLIC

HUNGARY

POLAND

ROMANIA

YUGOSLAVIA'.

*Article 2*

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

<sup>(1)</sup> OJ No C 191, 31. 7. 1990, p. 17.

<sup>(2)</sup> OJ No C 231, 17. 9. 1990.

<sup>(3)</sup> OJ No L 375, 23. 12. 1989, p. 11.

## GENERAL GUIDELINES

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According to art. 8 of Council regulation (EEC) N° 3906/89, of 18 december 1989, on the economic aid to Hungary and Poland, general guidelines shall be adopted by the Commission in accordance with the procedure of the committee.

The enclosed guidelines consist of two parts:

- A. Orientation
- B. Indicative allocation

## A. ORIENTATION

### 1. INTRODUCTION

In assisting and promoting the economic restructuring of Poland and Hungary account must be taken of the immediate/short term requirements for imported inputs, so that existing output and living standards may be maintained, and the need to lay a basis of know-how and structures to facilitate the modernization, privatization and development of Polish and Hungarian economies in the medium and long term.

Both of these aspects can be addressed by the actions which will be taken under the 300 Mio ECU fund set up by the Community in respect of which all commitments must be made before the end of 1990 and expenditure completed by the end of 1991.

### 2. OBJECTIVES AND PRIORITIES

The overall aim of Community financial assistance to Poland and Hungary is to support the process of economic restructuring which aims to transform a rigid planned economy into one which is based on and responsive to market forces and private enterprise. This overall aim may be expressed in the terms of the following objectives :

- to meet the immediate/short term needs created by the non-availability of foreign exchange to meet essential imports of equipment, spare parts and agricultural inputs necessary to maintain present levels of output of essential goods and services;
- to provide know-how and financial assistance to help establish the structural and service environment necessary for the development of a modern market oriented business sector;
- to assist in the preparation of sectoral development plans in the agricultural, industrial, and environmental sectors;
- to focus on programmes and projects which will be of a complementary nature, and act as catalysts for complementary or joint further action by other Group 24 donors.

### 3. CAPACITY FOR AID ABSORPTION - SHORT TERM

The fact that the 300 Mio ECUs are non-dissociated credits which must be committed by the end of 1990 and spent by the end of 1991 poses some problems for Poland and Hungary who have made their plans largely



against a longer time horizon. For a project of any complexity it will be difficult to ensure that the feasibility study, specification, appraisal and preparation of a financing proposal is ready for translation, submission to the Committee, and decision by the Commission by November 1990 at the latest. It is clear that these time constraints have not fully been taken into account by the Polish and Hungarian governments when preparing their list of project proposals.

A considerable effort is now being mounted to help both countries to re-consider and re-present projects for financing. The proposed fund allocations presented later in this paper must be read with this in mind. It is also foreseen that the Commission services will have to arrange for special monitoring of the implementation of the early projects - this is also provided for.

#### 4. PROGRAMMES - AGRICULTURE

Agriculture continues to play a significant role in the economies of both countries.

In Poland it accounts for 30% of output and employment. Polish agriculture is characterised by a predominance of small private farms. Despite a considerable potential for development, in general farming methods are poor and efficiency is one of the lowest in Eastern Europe. This is due to a low level of technology, a shortage of inputs, a deficiency of the delivery system and a lack of initiatives for farmers to produce and innovate.

The recently taken reform measures create a new economic framework for the future. Nevertheless, the institutional set-up of the past has not yet been superseded by new free market institutions and mechanisms and in the coming crop year severe problems will have to be faced.

In the short term, in order to safeguard the production in the 1990 crop year urgent support is required to maintain essential inputs. Not only the supply is important, also the mechanisms through which they are supplied: the actions undertaken should contribute to the

maximum extent possible to the development of private initiatives.

This leads to a medium term preoccupation : the definition and implementation of a sectoral strategy (or agriculture aiming at the development of private agriculture within a free market environment delivery system, credit supply, agro-processing, etc.).

For the current year the Commission therefore envisages two types of actions :

- 1) Import support programmes for plant production as well as for animal production (inputs and equipment);
- 2) Sectoral studies, in collaboration with other donors, to define the objectives and priorities for agriculture in the year to come.

In Hungary agriculture accounts for 20% of output and employment.

The sector is dominated by large state enterprises and cooperatives. The sector is an important basis for export revenue with 55% of output so destined.

Although less in need of short term input support, the need for programmes aimed at the reduction of inefficient activities, the liberalization of prices and marketing and the development and re-equipment of the agri-food sector are key targets.

In the medium term, as in the case of Poland, it is necessary to define a strategy for the development of the sector within a free market environment. Such a strategy will provide the framework for the actions to be undertaken in the years to come.

For the current year, the Commission envisages assistance for :

- 1) Training, modernisation of technology research and investment in the agro-processing activities;

2) Sectoral studies (in collaboration with other donors).

5. PROGRAMMES - INDUSTRY/INVESTMENT

The industrial sectors in both countries with few exceptions are characterised by all of the deficiencies inherent in over-protected, featherbedded production units viz. uncompetitive cost structures, poor product quality and design, out-dated technology, out-dated plant and equipment, overmanning and over-dependence on non-convertible currency markets. In Poland in particular the industrial structure is heavily biased towards smoke-stack/extraction industries, specially in the energy sector. Yet, it is clear that manufacturing industry has to be the motor force of economic development and employment in both countries. The strategy must be to create an industrial arm based on up-to-date technology, competitive cost conditions, modern management and marketing skills, and a coherent programme of initial and continuing industrial training for all workers. This requires in particular :

- imported technology and capital which will bring management skills and market access;
- the building up of industrial support services;
- special measures to support the development of small and medium sized enterprises engaged in both production and servicing.

It is clear that both Governments recognize the need to bring in technology - lists of sectors where joint ventures are being actively sought have been circulated. Less recognized is the vital role in any industrial society played by the small and medium sized businesses which produce for local needs, which service large-scale industry, and which form the seed-bed for eventual indigenous business development.

In the medium term the Community and its donor partners must assist both countries in elaborating sectoral development strategies supporting the process of privatisation and liberalization, in the implementation of which the roles of the EIB and BERD will be important.

Sectoral studies will be initiated by the Community with Community financial support to act as the basis for future actions.

In the immediate future we should concentrate our actions in the two allied areas of :

- the development of a business support environment, including the energy sector
- the development of small and medium enterprises.

In the former area the Community has extensive know-how to transfer in the fields of industrial training, management and marketing training, industrial credit supply, standards, quality control, investment and export promotion techniques. In particular the creation of 'productivity centres' capable of providing business advice and consultancy have a key role to play. Similarly the experience gained in the promotion of small industry and the creation of business innovation centres is transferable.

In the period 1990/91 these and similar actions will be mounted while the sectoral studies are being prepared which can lead to more intensive medium term development support. It is likely that in the short term demands for financial assistance for the import of essential spare parts, and vital equipment will be made and fail to be met by government or by the provision of credit lines.

#### 6. ENVIRONMENT

Environmental protection is one of the top priorities in Poland and Hungary, not only for health reasons (life expectancy has decreased) and neighbourliness (pollution in the Baltic sea is dramatic) but, more importantly in the short term, because no new major plant can be established in industrial areas since pollution has already reached a too high level (industry counts for 70% of pollution problems).

Poland, for example, is the most threatened country in Europe with some 4.3 Mio tonnes of sulphur rejected yearly and 1.5 Mio tonnes

of very toxic wastes. Accordingly, environment is an area where the authorities wish that western assistance translates rapidly into visible actions, so as to rapidly improve the quality of daily life of the population.

The basic philosophy is to incorporate ecology into economy and to build on regional initiatives and responsibilities, therefore leading to a totally new strategy based on true energy prices, pollution monitoring systems, new standards for industry and quick actions regarding air and water pollution where efficient techniques should be introduced.

In 1990, the Community will essentially supply equipment for the setting up of automatic monitoring systems of air emissions as well as for the lakes and for certain waste water treatment plants.

Moreover, feasibility studies will be done for projects to be financed in 1991 in the following areas : incineration plants for toxic chemical wastes, gas desulphurization in coal-fired power plants and increased production of environmental protection equipment in cooperation with foreign partners.

#### 7. PROGRAMMES - TRAINING

Education, training and re-training are involved in every aspect of the process of social and economic change. In the three sectors dealt with above there is likely to be a strong training or technical assistance component. The qualifications, abilities and skills which are necessary in an open free enterprise competitive economy are not provided for in the centrally planned model even if standards of general and technical education may be high. Training when properly carried out inculcates new attitudes and motivation alongside new skills. This is thus the single most important area for investment by both Poland and Hungary, and is recognized as such. The problems posed for the donor countries are not those of resources or know-how, but those of securing a balanced programme of priority action within the recipient countries as part of an overall strategy for medium term development.

The Community's action in this area will be based on a three-pronged approach :

- Diagnosis of needs;
- Setting of priorities;
- Selection of programmes.

In the case of the first two, technical assistance will be provided to Poland and Hungary to help identify and prioritise their medium/long term needs. In the provision of programmes to meet these needs the European Training Foundation will begin to play a role as from the end of 1990. The TEMPUS scheme should provide an appropriately flexible framework within which offers and requests for exchanges can be dealt with.

Besides these measures actions will be needed in a more immediate time-scale to meet urgent training demands and equipment needs from both Poland and Hungary. Training actions fall mostly into the following areas :

- On-the-job industrial training linked to industrial restructuring;
- Export market research;
- Management courses;
- Financial services training.

Programmes in these and related areas (including training related to institutional as well as economic change) will be agreed with Poland and Hungary and presented for approval and subsequent implementation. In the longer term the programmes will become more structured and coherent as the analysis of needs and setting of priorities is achieved.

B. INDICATIVE ALLOCATION

1. In order to allow for the preparation of assistance programmes to Poland and Hungary financed by the EC fund of 300 m ECU it is necessary to earmark, at least indicatively, global amounts to the various priority areas retained in the EC's action programme - agricultural assistance, training, environment and investment - and, eventually, for new priorities which have been presented by the beneficiary countries in the meantime.

A consensus has already been reached that out of the 300 m ECU, 200 will be made available for Poland and 100 for Hungary. Because of the problems existing in Polish agriculture (low productivity and shortage of hard currency to import the necessary inputs for plant as well as animal production and equipment) consensus was reached with the Polish authorities to earmark half of the 200 m ECU allotted to that country to agriculture.

Taking into account these orientations the Services of the Commission within the context of the Task Force PHARE have prepared an indicative distribution of the available means to the various areas. The table herewith annexed sets out this distribution.

2. In putting forward this proposal the Task Force draws the attention to the provisional character of the allocations for the following reasons:
  - the preliminary character of the requests brought forward by the beneficiary countries, often without any indication as to the financial amounts involved;
  - the absence of indications of hard and local currency combinations for project financing;
  - other requests by the beneficiary countries to which the allocations need to be adapted (for example medical aid and social programmes for the disadvantaged populations) and;

- the constraints imposed by the non-dissociated nature of the 300 m ECU budget funds. Because of this nature credits have to be committed by the end of 1990 and spent by the end of 1991. The implementation of projects/programmes will also have to respect the procedures established by Council Regulations 3906/89

4.2.6

. Multi annual and/or projects requiring long gestation periods are therefore virtually excluded for the moment. So are projects apt for co-financing with the other G-24. As a result the allocation has been oriented towards programmes of a short or medium term nature.

- preparatory studies for future programmes of a more structural and sectorial nature to be financed with new credits on a dissociated basis will have to be made in order to be ready for implementation as soon as such credits become available.

For all these reasons it will be necessary to preserve a large degree of flexibility in the allocations and to provide for the possibility to regularly re-adapt them in time. The Task Force PHARE will re-examine the situation regularly.

In the selection of projects great attention will be given to how they fit into regional contexts and to what extent they contribute to the reform process toward market economies.



PROVISIONAL ALLOCATION

	<u>POLAND</u>	<u>P/H</u>	<u>HUNGARY</u>
<u>Agricultural support and development</u>	100		20
<u>Industrial support and development</u>	35		35
<u>Environment</u>	20		25
<u>Training</u>			
- Tempus		20	
- Training Foundation		6	
- Other (bilateral) projects		10	
<u>Technical cooperation in other areas (such as energy, science and technology, privatisation agencies, social aspects of adjustment, modernisation of customs services)</u>	13		10
<u>Short studies, expertise, minor administrative costs for project implementation, monitoring and control</u>	4		2
<b>TOTAL</b>	<b>172</b>	<b>36</b>	<b>92</b>