



Phare

Progress and strategy paper
Transport

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Transport

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Foreword

This paper is part of a series which will cover each of the main areas of Phare activity. It describes the nature of the problems faced in Phare's partner countries during their transition from planned to market economies. It goes on to examine actions undertaken to date, and to assess their impact on the transformation process.

There is clearly a need to ensure that the approach being taken in any given sector is relevant to the longer-term goals of economic transformation. For this reason, these papers also contain the thinking of those responsible for operating Phare on actions for the future and how Phare should contribute to the next phase of the transition.

The papers do not reflect any official position of the European Commission. They have been written by the Phare Operational Units and are intended as a stimulus to discussion for all those involved in the debate on economic transformation in central and eastern Europe.

Alan Mayhew

Relations with central and east European countries

The Phare Programme

The Phare Programme is a European Union initiative which supports the development of a larger democratic family of nations within a prosperous and stable Europe. Its aim is to help the countries of central and eastern Europe rejoin the mainstream of European development and build closer political and economic ties with the European Union.

Phare does this by providing grant finance to support the process of economic transformation and to strengthen newly created democratic societies. Phare also provides grant finance to help countries with Europe Agreements integrate with the European Union.

In its first five years of operation to 1994, Phare has made available ECU 4,283 million to 11 partner countries, making Phare the largest assistance programme of its kind.

Phare works in close cooperation with its partner countries to decide how funds are to be spent, within a framework agreed with the European Union. This ensures that Phare funding is relevant to each government's own reform policies and priorities. Each country takes the responsibility for running its own programmes.

Phare provides know-how from a wide range of non-commercial, public and private organisations to its partner countries. It acts as a multiplier by stimulating investment and responding to needs that cannot be met by others. Phare acts as a powerful catalyst by unlocking funds for important projects from other donors through studies, capital grants, guarantee schemes and credit lines. It also invests directly in infrastructure, which will account for more Phare funds as the restructuring process progresses.

The main priorities for Phare funding are common to all countries, although every one is at a different stage of transformation. The key areas include restructuring of state enterprises including agriculture, private sector development, reform of institutions and public administration, reform of social services, employment, education and health, development of energy, transport and telecommunications infrastructure, and environment and nuclear safety. Under the Europe Agreements, Phare funding is being used to make laws compatible with European Union norms and standards, and to align practices.

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Executive summary

One legacy of central planning in the central and eastern European countries was that their transport sectors were in various ways ill-suited to the newly emerging market-based economic system. Against this background, the governments in the central and eastern European countries have viewed transport sector reform as a priority, both because of the enabling role the sector can play in the wider economy, and because of the impetus it can give to European integration.

Reform of the transport sector was rendered more difficult not only by financial constraints but also by deficiencies in various areas at the outset of the reform process, such as planning capabilities or human resources. In view of these obstacles, and given the sector's importance, Phare made over ECU 136 million available in the period 1991-1993 to support the reform efforts of the central and eastern European countries' governments, through national and regional programmes. A further ECU 230 million is foreseen for 1994 alone.

Under national programmes, initial support took the form of emergency supply programmes, e.g. for equipment and spare parts where needed, while the main focus of Phare know-how is for institution-building and policy and strategy formulation. Increasingly, support has been granted for the prioritisation of infrastructure investments, both through developing planning capabilities and carrying out specific feasibility studies. Other key needs which are being met through current programmes include assistance for the development of the legal and regulatory framework with special reference to laws and standards found in the European Union, support for balanced infrastructure development, development of investment planning capabilities, introduction of mechanisms for non-state financing of infrastructure and restructuring of transport operators to reflect the new market-oriented environment. Regional programmes have been used to support coherence of different countries' infrastructure planning, for training, but in particular to tackle the serious problems which have emerged at border crossings under the strain of reoriented traffic flows.

As far as Phare's future activities in the transport sector are concerned, the key development will be increased investment-based assistance, as well as a continuation of traditional know-how transfer. The importance of commitment from the partner government and of donor coordination has been amply demonstrated by experience. Both must be maintained if the impact of both types of assistance is to be maximised. As regards partner country commitments, Phare will introduce a number of milestones which will have to be met by governments for

substantial financial support to be granted for investments. Partner countries will also be encouraged to demonstrate a substantial commitment to other projects. This will increase the medium and long-term benefits by ensuring that know-how is built up locally.

As regards cooperation with other donors, Phare recognises that different donors have different areas of competitive advantage. It will therefore cooperate closely with international financial institutions on project appraisal, tender and implementation procedures in the case of investment-based assistance. The European Union's long-standing work on the internal market gives Phare a natural competitive advantage in the general area of harmonisation of laws and in regulatory work. Administrations and technical bodies from the European Union Member States should also be directly involved according to their expertise.

Within this framework, national programmes will continue to provide support in the areas set out above, with particular emphasis on approximation both of laws and of the regulatory framework to those in the European Union, thus reflecting the evolving political context and facilitating integration between the central and eastern European countries and the European Union. Other key priorities will be support for the restructuring of transport operators and provision of know-how and training for the central authorities involved in transport planning and management. The co-financing facility introduced at the European Council's Copenhagen summit in June 1993 will open new opportunities for supporting infrastructure investment through the national programmes.

Another new instrument which may be used in the transport field is the Cross-border Cooperation Facility which could serve to ease border crossing bottlenecks between central and eastern European countries and adjacent regions of European Union Member States. The main focus of regional programmes will continue to be support for the elimination of such bottlenecks on the main international corridors within the central and eastern European countries and on their borders with the former Soviet Union. Other regional programmes, such as ensuring the coherence of national investment plans and training in areas such as air-traffic control, have demonstrated their worth and will also continue.

Given the number of Phare instruments which may be used for investment-based assistance (including at border crossings), streamlining is envisaged during 1994 to ensure that the criteria for their operation are sufficiently compatible.

Section 1 - Background

The legacy of central planning in the central and eastern European countries is that their transport sectors, at the outset of the reform process, were ill-equipped to perform the functions normally performed by the transport sector in a modern market economy. This deficiency in the central and eastern European countries can be shown to be the result of inter-connected factors which prevailed under central planning, as can the failure to take sufficient account of environmental considerations, generally viewed as an integral element of a sustainable transport policy in industrialised economies, and in the European Union in particular.

The former Soviet Union and other COMECON partners accounted for a high share in the historical trade of the central and eastern European countries, and this is reflected in the infrastructure they have inherited. By the same token, this inherited infrastructure is inadequate for emerging levels of trade with and travel to the Member States of the European Union, who are increasingly the main trading partners of the central and eastern European countries. The problem is compounded by the radial structure of the national trunk road networks in most of the central and eastern European countries, and is most visible at border crossings, where bottlenecks are common.

Another conditioning factor was the high shares of industrial output in gross domestic product, in response to central planning. This had to be supported through massive spending on railways which were the favoured mode for freight, as well as for long-distance passenger travel. Their market share was in the region of 50-80 per cent. Failure to give serious consideration to environmental factors in transport sector development may also be seen as the result of the subordination of all other aspects of economic policy to maintaining high levels of industrial production.

Finally, the high share of public spending in GDP determined the extensive provision of cheap public transport facilities. It also led to very low levels of private car ownership, and higher utilisation of public transport than in the west. At the same time, like much of the rest of the economy, each transport mode was organised as a public monopoly, in a horizontal structure, with only a minor part of the labour force involved in the direct provision of transport services, and with prices controlled by the state. In the present context of depressed public spending and increasing costs, it has been difficult to maintain service quality at past levels in the short term, while also meeting essential maintenance needs.

The challenge of transformation

Against this background, reform of the transport sector is seen as a priority for two main reasons:

- the national authorities in the central and eastern European countries have recognised increasingly since the start of their economic reforms the imperative of restructuring and modernising the transport sector and making available adequate infrastructure. This is based on the realisation by the central and eastern European countries that these processes are crucial prerequisites for the success of the wider transformation of the economy
- another factor behind this drive to restructure and modernise the transport sector is the desire for integration of the central and eastern European countries with the European Union. The breakdown of COMECON and the associated trade and transit patterns make this a necessity. To help achieve this in the transport field, the central and eastern European countries, as well as the European Union (see Pan-European dimension), will have to reorient infrastructure and policies towards the development and availability of adequate trans-European networks, including flexible and fast border crossings

However, the scale of the challenge imposed by these factors must not be underestimated. The movement towards a market economy - whether based primarily on private ownership or public involvement - will have major effects on the transport industry. The industry will have to restructure itself to reflect certain fundamental economic changes:

- severe resource limitations and removal of current subsidies
- the power of the consumer, whose real needs must be met
- changes in the respective roles of public and private transport
- integration of economic and environmental issues in order to ensure a realistic and balanced development of the transport infrastructure covering all modes.

The level of transport sector development differs widely in the various central and eastern European countries. For example, infrastructure is relatively well-developed in the Visegrad Four and in the Baltic States compared with Albania. Nevertheless, for all of them the transition towards a transport sector which meets the requirements of the market economy and achieves optimum utilisation of resources will require (beyond the general reform of the economy):

- modernisation of policy instruments
- institutional reform
- development and implementation of realistic and balanced investment strategies
- approximation of laws and standards with international standards, in particular those of the European Union
- development of strategies to increase market orientation of the transport operators.

In most of the central and eastern European countries, the current budget restrictions have severe implications for the necessary reforms of the transport sector. State budgets for construction, and especially maintenance and rehabilitation of transport infrastructure, have been substantially reduced over recent years and a large backlog of road and rail maintenance has built up. The infrastructure is rapidly deteriorating. The serious external debt problems, and the need for the government to provide loan guarantees, are constraining new public foreign borrowing, and the access to concessional funds is limited.

The pan-European dimension

Since December 1991 the European Community has signed Europe Agreements with a number of central and eastern European countries¹. These should be viewed as a framework preparing the central and eastern European countries for European Union membership. These agreements single out the transport sector as one area where integration efforts should be concentrated. Accordingly, they contain the commitment of the parties to develop and strengthen their cooperation so as to enable the central and eastern European countries in question, to:

- restructure and modernise transport
- improve circulation of passengers and goods and the access to the transport market, by removing administrative, technical and other obstacles
- facilitate transit by road, rail, river and combined transport

- achieve operating standards compatible with those in the Community and support the approximation of laws and practices².

A number of initiatives taken by the European Council during 1992-1993 flow from the European Union's policy that reform and integration of the transport sector in the central and eastern European countries is a matter of mutual interest. At the Edinburgh summit in December 1992, the decision was taken to establish the Edinburgh Growth Initiative and the temporary EIB lending facility, which may be used in the Phare countries for the development of trans-European networks, including in transport. At its Copenhagen summit (June 1993), the European Council further decided that 15 per cent of the overall Phare budget could be made available to co-finance certain infrastructure investments, in areas such as transport.

The European Council in Copenhagen also decided to set up a framework for strengthened dialogue and consultation with the associated Phare countries. It is eloquent testimony to the trans-European dimension of the sector, and to the dependence of the wider economic reforms in the central and eastern European countries on the development of appropriate transportation systems integrated with those found in the European Union, that transport was selected as the first subject for such consultation at ministerial level. The Treaty on European Union states that the Union may decide to cooperate with third countries to promote trans-European networks of mutual interest and to ensure inter-operability of networks.

The process of coordinated infrastructure development began with the first pan-European transport conference in Prague in October 1991, and continued at a follow-up conference in Crete in March 1994. This process has led to the definition of a limited number of priorities for infrastructure developments in the medium-term, taking into account the limited amount of resources available.

The recent initiative to earmark ECU 150 million from the Phare budget for a Cross-border Cooperation Facility (see Section 4) between Phare countries and European Union Member States is potentially a further mechanism for contributing to the development of trans-European transport infrastructure. This is clearly one way in which it can fulfil its objectives of fostering cooperation between the eligible border regions in the central and eastern European countries and the European Union.

¹ Poland, Czech and Slovak Republics, Hungary, Bulgaria, Romania.

² Only the Europe Agreements with Poland and Hungary have entered into force (January/February 1994)

Section 2 - General orientation

Objectives

The main medium-term objectives of the central and eastern European countries in transport are:

- to reform and reinforce the relevant governmental bodies (transport ministry, regulators), adapting them to the requirements of free-market economies
- to introduce new mechanisms to finance the development and maintenance of the transport infrastructure (for instance road-user charges, toll roads, tariffs, price reforms for rail and aviation, etc.)
- to restructure and modernise the operations and management of commercial and public concerns involved in the provision of transport services, including
 - restructuring of transport operators. This applies in particular to the railways, where separation of railway operations into network and service operators is entailed
 - restructuring and partial privatisation of the aviation and airport sector
 - assistance to the emerging new operators in the field of road transport, forwarding, transport logistics etc
- to ensure a balanced development of the various modes of transport, namely road, rail, inland waterways, aviation and combined transport. Generally, maintenance and rehabilitation will take precedence over new construction, in particular in the medium-term
- to ensure a balanced development of, and among, national roads, feeder and trunk roads and international links which constitute transit corridors and paths for external trade
- to maintain and improve the public transport services
- approximation of laws, standards and practices to those applied in the European Union

Main issues and constraints

The main issues and constraints in achieving these objectives can be summarised as follows:¹

Insufficient planning capabilities

- unrealistic expectations as to the need for new transport infrastructure. This derives primarily from insufficient knowledge within national authorities of the investment planning and economic appraisal practices applied in a free-market economy
- insufficient recognition of the principle that, for a project to be justified, it must generate advantages and revenues which repay the investment
- too much focusing by governments and the international financial institutions on the development of road transport, at the expense of railway transport in particular. This imbalance derives primarily from over-emphasis on short-term economic returns to guide investment decisions, at the expense of criteria which are harder to quantify, such as longer-term environmental or social costs. Moreover, not all costs are included in the feasibility analysis. (Lack of progress in restructuring the railways must also be considered as a factor which serves to make it appear unattractive to investment)
- lack of reliable transportation data and credible traffic forecasts
- insufficient consideration of the changes in demand for various modes of transport which have resulted from reorientations of traffic and trade.

Institutional and regulatory framework

- lack of the necessary regulatory and legal framework. This includes the absence of laws establishing property rights relevant for private investment in the transport sector. There is also insufficient progress in harmonisation and approximation of laws and standards to those applied in the European Union
- lack of adequate anti-monopoly laws
- inter-ministerial collaboration and coordination is not always effective. This is a factor especially relevant to border crossing projects, which involve both transport and customs authorities
- the Ministry of Transport's role in a market economy is still being defined, and its position within the government, vis-à-vis other ministries, is often weak.

¹ No attempt is made to prioritise or quantify the constraints.

Human resources

- staff inadequately trained for the changing needs of the sector. Outdated management and administrative practices
- lack of consistent training strategies and programmes. This is equally the case among central, regional and local authorities and transport operators.

Financial

- budgetary constraints at state level, given that transport infrastructure can only in a few cases be fully self-financing. This is leading to deterioration of the infrastructure and public transport services
- inappropriate or non-existent mechanisms for non-state financing of the development and operation of the transport sector
- inappropriate regulatory framework for private operators and investors.

Political and social

- social implications (for example, unemployment and dramatic real term increases in fares) of reorganising, modernising and privatising the operation of the transport sector, which is especially relevant for the restructuring of the railways, where line closures may also be an issue
- linked to the above, a lack of political will to reorganise and restructure the transport sector

Multi-country regional perspective

- transport infrastructure investments tend to be based on individual countries' national interest (political and economic). Inter-operability of networks, which offers significant economic returns, is given second priority as a result.

Section 3 - Phare assistance programmes

Previous Phare programmes

The Phare transport activities are being implemented through two main types of programmes. Under National Transport Sector Programmes, the country in question and the Commission, within the framework of multi-annual guidelines, agree once a year on the components to be financed and the related budget allocation. Under multi-country Regional Transport Programmes, all the eligible countries and the Commission agree on the components which have to be of a multi-country nature, and the related budget allocations for the specific components.

The increased focus on the transport sector, as a crucial component in the economic transition and economic and political integration, is reflected in the yearly Phare allocations to transport which have increased over the years. From zero in 1990, it amounted to ECU 19 million in 1991, doubled to ECU 38 million in 1992 and reached ECU 86 million in 1993. See Table 1 below.

Table 1: Phare transport programmes 1991 - 1994 (in MECU)

| Country | 1991 | 1992 | 1993 | 1994 ¹ |
|-----------------|--------------|-------------|--------------|-------------------|
| Albania | not eligible | 4,4 | 0,0 | 20,0 |
| Bulgaria | 0,0 | 1,0 | 3,5 | 22,6 |
| Czech Republic | 1,0 | 1,33 | 3,0 | 13,0 |
| Estonia | 0,0 | 0,3 | 0,23 | 3,0 |
| Hungary | 2,0 | 0,0 | 0,0 | 18,0 |
| Latvia | 2,0 | 0,0 | 0,2 | 3,0 |
| Lithuania | 2,0 | 0,3 | 4,2 | 8,0 |
| Poland | 2,0 | 0,0 | 48,0 | 80,0 |
| Romania | 9,0 | 2,0 | 0,0 | 25,0 |
| Slovak Republic | 1,0 | 0,67 | 2,0 | 2,0 |
| Slovenia | 0,0 | 0,0 | 0,9 | 1,2 |
| Regional | 0,0 | 21,0 | 24,0 | 30,0 |
| Total | 19,0 | 31,0 | 86,03 | 230,6 |

¹ Subject to confirmation of final programming, and including the Cross-Border Cooperation Facility.

National programmes

The focus of the Phare national transport programmes has evolved gradually. Although there is overlap, it is useful for illustrative purposes to distinguish between the initial stages and more recent assistance.

Initial support

This consisted primarily of short-term emergency spare parts and equipment supply programmes in support of the basic operation of the transport system. For example, the 1991 Transport Programme for Romania included ECU 8 million for the import of critical spare parts and equipment to the National Roads Administration, Bucharest Public Transport and Romanian Railways. In 1992 ECU 4 million was made available for the import of buses and critical spare parts to Albania.

Another important component was general know-how transfer for institution-building and policy and strategy formulation. Examples of projects include support for the reorganisation of the Bulgarian Ministry of Transport, development of the legal and regulatory framework in Romania, provision of high-level policy advisers to ministries of transport in Hungary and the Czech Republic and transfer of know-how for the reorganisation of the Bulgarian, Estonian and Lithuanian Railways.

More recent assistance

Increasing support has been granted for the prioritisation of infrastructure investments, given that not all the desired investments can be made within the resources available. On the one hand, this has covered general support for the upgrading of investment-planning capabilities, and for the development of transport infrastructure investment plans. On the other, assistance has also been provided for the preparation of a number of specific pre-investment activities and feasibility studies. These have included feasibility studies for a new Danube Bridge between Romania and Bulgaria, for the development of the E-20 railway in Poland, for the Prague-Dresden motorway, and for the construction of a light-rail connection in Tallinn. Another important element, particularly in more recent programmes, is support for the mobilisation of domestic and foreign resources for infrastructure investments.

The main elements of current Phare assistance in the context of the national transport programmes can be summarised as follows:

- development of an appropriate legal and regulatory framework with a special focus on harmonisation and approximation of laws and standards to practices applied in the European Union
- development of overall policies and strategies for a well-balanced development of the transport infrastructure
- development of up-to-date investment-planning capabilities including provision of reliable transport data, cost-benefit analysis and financial engineering. This process is facilitated if local staff of the organisations which must acquire these capabilities are fully involved in the implementation of feasibility or pre-investment studies
- the introduction of mechanisms and tools for non-state financing of infrastructure development such as road-user charges, concessions and other forms of built operator transfer
- restructuring and development of the transport operators in order to improve their capacity to operate in a market-oriented environment
- general upgrading of human resources and management and administrative practices and procedures.

Some examples of the activities which have been undertaken with Phare assistance in each of the central and eastern European countries are found in Annex I.

Multi-country programmes

The main focus of the 1992 and 1993 multi-country Regional Transport Programmes has been to provide support for the elimination of a number of border crossing bottlenecks, focused on the main international corridors. So far, special attention has been given to the bottlenecks between Germany and Poland and the Czech Republic, the transit problems created by the events in the former Yugoslavia, as well as the building of the Via Baltica.

Border crossing bottlenecks are generally caused not only by deficiencies in infrastructure, but also by inadequate customs clearance and control facilities and/or outdated customs clearance and control procedures. The multi-sectoral nature of border crossing problems is one of the main rationales for Phare assistance, given that the programme's grant-funding and flexibility allow it to deliver an integrated package of assistance covering equipment, training, know-how and small-scale investment. Phare's regional transport programmes in this field are carefully coordinated with regional actions in the customs fields to ensure just such an integrated approach. This is complemented by supporting the required cooperation between the different national authorities involved.

Another part of the rationale for regional Phare assistance to tackle this problem is that larger scale infrastructure investment does not always give sufficient attention to border-crossing problems, which often have a multi-sectoral character (covering infrastructure, administrative matters and equipment) and cut across several authorities (such as transport and customs). Phare assistance helps to achieve coherence and consistency between larger scale infrastructure investments, but in particular allows such investments to yield a higher rate of return than would be the case if improved transit times were cancelled out by delays at the border. Phare's involvement (notably the provision of grant funds) has helped to:

- secure speedy intervention on high-priority projects
- ensure that larger scale infrastructure investments, which may have a relatively minor impact on transit times, are not wasted because avoidable delays, longer than the time-saving resulting from the investment, are encountered at crossings. Infrastructure investments may also directly contribute to traffic which existing border crossings cannot cope

- promote cooperation between central and eastern European countries and within national administrations
- take account of regional multi-country development perspectives
- integrate areas which are either isolated, landlocked or peripheral.

A list of the border crossing projects included in the 1992, 1993 and 1994 programmes is found in Annex II.

The other main component of regional programmes has been selected multi-country studies which supported the elaboration of coherent and regionally consistent infrastructure development plans. These have also been designed to achieve the most economic, yet ecologically sustainable, development of the transport infrastructure, with inland navigation, rail and combined transport as the priorities.

Priority has also been given to assist the Phare countries in starting up and developing self-sustainable capabilities for the collection, validation and processing of transport data and information, and their use for policy analysis, multi-modal transport planning including economic analysis as well as optimisation and prioritisation of investments.

The remaining element in the multi-country regional transport programmes has been crucial training activities, primarily in air traffic control.

Section 4 - Strategic orientations for future actions

General orientation

In general, future Phare transport activities will support the attainment of the main objectives outlined in Section 2 with a special focus on alleviating the major identified constraints.

Adapting to an evolving political context

The priorities for assistance in each country will continue to be determined in accordance with the approach of partnership which has governed Phare programming to date, namely with individual countries establishing priorities in accordance with their specific needs, within a framework set by the European Union. This does not, however, mean that the European Union, through the European Commission, cannot have an input into the formulation of these priorities, as it has to date, through contributing constructively to the dialogue which takes place with national authorities during programming.

It is clear that, within the parameters set out above, the wider political framework described in Section 1 is one of the main factors which should also be taken into account when determining Phare's priorities for action in the transport field. The particular importance of the Europe Agreements, the first of which, with Poland and Hungary, entered into force on 1 February 1994, should be underlined in this context, given their dynamic and evolutionary character.

Commitment of partner countries

Experience shows that Phare actions have the greatest impact where there is a strong commitment on the part of the partner country. This commitment takes different forms for investment and other types of assistance.

Investment: The new orientation towards infrastructure development (see below) entails significant growth in levels of financial support. In view of this, Phare will introduce a number of milestones or requirements which will have to be met by the partner government for substantial financial support to be granted for investments. Key requirements will include determining priorities for the various infrastructure investments which are needed, and the elaboration of a clear and coherent strategy for transforming of the transport sector in the country concerned. It is also reasonable to expect central and eastern European countries to pay attention to making crossing borders easier, in particular as far as customs procedures are concerned.

Other assistance: As a general rule, conditions may also be attached in future to types of assistance other than large-scale investment. A substantial commitment by the partner country should accompany Phare's small-scale investments and transfer of know-how. This could consist of direct financial contributions; organisational measures; publicity; or the allocation of man-hours, for instance in staffing a border crossing or participating fully in the work of technical experts, thus reducing costs and ensuring know-how transfer.

Donor coordination

Phare must continue to coordinate the assistance it provides with other donors. It is self-evident that the cost-benefit ratio of the overall assistance effort will be greater if the various donors each act mainly in areas of comparative advantage.

This is particularly pertinent in the context of the wider orientations for future action, especially on investment co-financing. With the introduction of the Copenhagen co-financing facility, but also of the Cross-border Cooperation Facility, Phare will in future be able to make more direct contributions to infrastructure projects than it has in the past with national and regional programmes, though Phare funding will be complementary to other sources, rather than the central source of funding. With the increased emphasis on investment-based assistance, there will be a clear need for cooperation on project appraisal, as well as on tender and implementation procedures, with the international financial institution in question. In such a way not only can duplication of effort be avoided, but the long-standing expertise of the international financial institutions in, for instance, project identification can be fully exploited. Other areas of cooperation with the international financial institutions would be the economic evaluation of network effects, and costing of environmental effects.

In transport, as in other sectors, Phare, by virtue of its inherent flexibility, is able to finance small-scale projects below the order of magnitude of projects usually financed by international financial institutions. This may be linked to the larger-scale infrastructure projects mentioned above, whose economic rates of return can be increased through accompanying smaller-scale investments. Phare may have a particular contribution to make here, such as continued work under the regional programmes and now with the Cross-border Cooperation Facility, to overcome border crossing bottlenecks which, if left, may prevent larger-scale investments from yielding up any significant benefits in terms of improved transit time.

Phare will also continue to fund small-scale projects where there is both a lack of financial resources in the local banking sector, and a high social benefit. Added economic benefits accrue where the project has a demonstration or pilot character.

Phare will continue to fund know-how transfer to the central and eastern European countries. This will also be another means of maximising the economic benefits of infrastructure development. It will fund feasibility studies to prepare for investment and give assistance to support the central and eastern European countries' institutions involved in the process. Moreover, the European Commission's long-standing work on the internal market also gives Phare a definite comparative advantage in the general area of harmonisation of laws and in regulatory work. This should be fully exploited by a strong commitment in this area, particularly given the importance attached to it within the new political framework of the Europe Agreements. European Union Member States' administrations and technical bodies should be directly involved, according to their expertise.

Encouraging domestic investment

In transport, as with other areas of infrastructure, investment trends are very low in the central and eastern European countries. Traditional public investment in such projects is difficult, given the current budgetary pressures experienced by governments in the central and eastern European countries, which may even have problems in meeting operational or maintenance costs. On the other hand, payback periods for such investments are very long, and provision of scarce medium and long-term resources are discouraged by the lack of profitability, which is the general rule, even where projects may have social benefits or secondary economic benefits by encouraging other economic activity.

While the transition to a fully working market economy continues, Phare has a role in facilitating these investment projects, which would have been viable in a stabilised market economy. Ways should be explored for optimising the use of Phare's grant funds to encourage private sector participation in such projects, through mechanisms such as interest rate subsidies, soft loans, guarantee schemes, etc. The other means which can make projects more attractive to investors is, of course, to cover part of the costs with grants.

Main forms of assistance

It is useful for the purposes of this general orientation to distinguish between four main forms of assistance which will be used in future for these purposes. These are the regional programmes and the traditional type of national programme, as identified in Section 3, as well as Copenhagen co-financing investments (within the framework of the national programmes), and the Phare Cross-border Cooperation Facility.

Phare will ensure coherence and complementarity between the different types of programmes, and notably the infrastructure activities.

Traditional national programmes

The national transport programmes will be the main instrument for supporting the development of the coherent and realistic strategies referred to previously, including plans for the restructuring of the operating bodies. Know-how transfer will be the primary mechanism for achieving this.

The national Phare Transport Programmes will, in addition, continue to support the objectives pursued until now, as set out in Section 3. This will of course cover the provision of well targeted and output-oriented know-how and training to the central authorities involved in transport management. Increasing attention should be paid to provision of know-how which contributes to the approximation of central and eastern European countries' laws and practices to those existing in the European Union. This process will further the integration process and is, moreover, singled out as a priority area in the Europe Agreements.

Some countries may also request support for the elimination of border-crossing bottlenecks through their national programme. Given the new instruments now being introduced which may be used to tackle such problems - the Copenhagen Co-financing scheme, within the framework of national programmes, and the Cross-border Cooperation Facility - and the continued existence of the regional border crossing programme and the new Phare, such support will only be considered within the framework of the national programmes in exceptionally urgent cases where the financial and political rate of return will be sufficient to justify the intervention.

Co-financing of infrastructure investments

Within the national programmes, financial support will be provided for a limited number of major infrastructure investments through the Copenhagen co-financing scheme (see Section 1). The main criteria for eligibility are:

- the intervention is linked with progress in restructuring or re-organising the sector in question
- the project is bankable according to normal criteria applied by the international financial institutions
- the project is co-financed with one or several of the international financial institutions and the government
- the Phare contribution is a necessary component either in terms of taking over a part of the government contribution, advancing the date of project finalisation or making the project feasible at all
- Phare will not replace private financing, although this does not rule out projects where private financing plays a role

- the project should be of 'Community interest'.

The Commission will continue to select projects so as to yield the highest possible economic rate of return for partner countries. Nevertheless, the criterion of 'Community interest', means that co-financing investment should also contribute as far as possible to the creation of trans-European networks linking European Union Member States and the central and eastern European countries. Where priority cannot be given to projects which directly support the development of the main international corridors, it should go primarily to projects which contribute indirectly to this goal, by linking important national economic centres or the whole country to the international network.

Although assessment of compliance with the above criteria will be carried out on a case-by-case basis, the main types of investments which could be considered are summarised in Table 2.

Table 2: Main eligibility criteria for co-financial support through the Phare Programme.

| Activity | Components |
|--|---|
| Maintenance, rehabilitation or upgrading of infrastructure on major international corridors and national roads and railway lines in the following directions: * EU/central and eastern European countries * central and eastern European countries/NIS * Central Europe/Balkans * Central Europe/Baltics provided the projects either directly support the development of the international network or link up important national economic centres or the whole country to the international network. | Including road, rail, combined transport and inland waterways. Rehabilitation, maintenance and upgrading of specific parts of a corridor, including crucial ring roads and border crossings. Central and eastern European countries in question must take the necessary measures to facilitate border crossing operations in particular where this relates to customs clearance and control procedures. |
| Upgrading of main national roads and railway lines of key priority for the central and eastern European countries concerned. | |
| Development of combined transport. | Promotion of road and rail transport and especially containerisation and construction of terminals. |
| Replacement of technical equipment, provided EU-compatible standards are being introduced. | |
| Upgrading of air traffic services and control. | |
| Development of major transit ports. | |

The co-financing projects will be identified and appraised in close collaboration with the partner government and the major international financial institutions. The European Commission appraisal will rely on the background documentation and appraisal reports prepared by the international financial institution in question. Tender and implementation procedures for the Phare contribution will be aligned with the procedures applied by the relevant international financial institution.

The envisaged use of the Copenhagen Co-financing scheme in 1994 is summarised in Table 3.

The first Copenhagen Co-financing Programme - upgrading of the E 20 railway line between Kunowice and Warsaw - was approved by the Commission in late 1993 and financed through the 1993 National Programme for Poland.

The co-financing interventions will always be supported by directly-related know-how transfer in the relevant fields, which could include project management support for re-organisation and restructuring, financial and commercial aspects, marketing, etc.

Multi-country programmes

Infrastructure: Given the seriousness of the issue, and the contribution which Phare assistance can make to ease it, the main focus of the regional programmes will continue to be support for the elimination of the most serious border crossing bottlenecks on the main international corridors in the central and eastern European countries. With the new Phare Cross-border Cooperation Facility in place, the border crossing bottleneck elimination financed through the regional budget should focus only on central and eastern European countries and central their borders with the NIS.

The interventions will as a general rule be co-financed with the governments involved and the Phare contribution will normally not exceed 50 per cent¹. Support will be provided to specific border crossings and not to individual countries. This implies that trilateral agreement on the total package to be implemented would be required (between the two countries concerned and the European Commission).

Table 3: Envisaged use of Copenhagen Co-financing in 1994. (Subject to confirmation in official programming)

| Country | Project Phare contribution | Envisaged |
|----------|---|---------------|
| Romania | Co-financing with EIB, EBRD and IBRD of the ongoing Romanian Roads Rehabilitation Programme with an expected Phare focus on: (i) upgrading of E 68 from Nadlac to Serbes and (ii) upgrading of E 60 from Bors to Serbes | MECU 22 |
| Bulgaria | Co-financing with EIB and EBRD of the Bulgaria Transit Roads Project with an expected Phare focus on the upgrading of E 79 (Vidin-Sofia) | MECU 10 |
| Hungary | Development of M5 and A2 roads; | Up to MECU 15 |
| Albania | Project identification is ongoing. Likely focus could be development of the Port of Dürres and/or upgrading of the Tirana-Dürres-Rogozhine road. | Up to MECU 3 |
| FYROM | Transit roads upgrading. | Up to MECU 17 |

¹ However, where case technical assistance, training and customs clearance equipment is part of the package, this could be fully financed by Phare.

In the selection of the border crossings eligible for Phare support, a simplified methodology for financial rate of return calculations will also be used, giving due consideration to non-quantitative aspects. The following main criteria will be applied for selecting projects:

- regional dimension of project and implications for international transit
- economic feasibility, including expected output
- relevant institutional aspects and potential institutional constraints.

Regional studies and training: A limited number of well targeted and output-oriented regional studies and activities are envisaged. Particular attention, terms of reducing waiting time, will be given to:

- linkage with national priorities and the government's commitment to improvements, including the availability of any local financial contribution
- maturity and readiness of the project, including a schedule from implementation to the development of well-balanced and regionally coherent investment plans, with a special focus on the development of rail and combined transport networks as well as inland navigation.

These activities should be designed in order to support the implementation of the conclusions from the Pan-European Conference of Transport Ministers in 1994.

Special attention will be given to the continuation of the 1993 efforts towards developing a regional approach to the collection and utilisation of transport data.

The regional programme will also provide training in selected areas, where a regional approach and methodology are appropriate, especially in the area of air traffic control.

Phare Cross-border Cooperation Facility¹

The recent initiative to earmark ECU 150 million from the Phare budget for cross-border cooperation between Phare countries and European Union Member States will be a further mechanism for developing trans-European transport infrastructure. This is clearly one way in which it can fulfil its objectives of fostering cooperation in the eligible border regions between the central and eastern European countries and the European Union. In 1994 it is estimated that around ECU 100 million from the ECU 150 million total will go to transport.

The new Phare Cross-border Cooperation Facility thus created can finance cross-border activities for the elimination of border crossing bottlenecks (exclusively on European Union/central and eastern European countries' borders). In the context of this particular facility, however, cross-border cooperation should be understood in its broad sense, i.e., all activities which support closer integration of two qualifying regions should be eligible. In relation to infrastructure, this would imply that not only infrastructure work in the border crossing area itself, but also activities which facilitate access to the border, and transit in general, could be considered eligible.

In the eastern Baltics, the facility could be used for the rehabilitation or development of Estonian, Latvian and/or Lithuanian ports. The question will have to be looked at, and priorities determined from a regional perspective, however. Otherwise there is a risk of over-investment which could lead to the development of capacity and facilities which will never be fully utilised.

¹ The operational implications of the new facility are not yet known. However, it must be envisaged that border crossing bottleneck elimination will be a key priority at least in 1994-1995. Provided this is confirmed, the general approach and selection criteria

outlined above will apply. Due consideration will have to be given to the establishment of procedures for co-financing with INTERREG on the EU side of the border.

Streamlining of instruments

The share of infrastructure investment in Phare's activity in the transport field has steadily increased and will clearly continue to do so. However, the various instruments which have been developed for this purpose (multi-country Regional funding to improve border crossings, the Copenhagen co-financing facility, national programmes, the new Cross-border Facility) have built up over time. These different investment instruments are basically complementary, although the criteria for their application may need to be aligned further to facilitate as far as possible the option of combining the different instruments where appropriate.

In future, it will be necessary to consider these interventions in the transport sector in an overall context. Assessment should take into account implications for activities in other sectors of Phare activity, such as the environment. For regions within individual central and eastern European countries, and for individual countries, this will require some streamlining of the various types of intervention, either standardising the criteria or rules of procedure for their implementation, or redefining the various instruments to eliminate overlap, thus making the types of intervention fully complementary. This is necessary to achieve efficient use of resources, effective planning by the partner country, and control by the Community institutions.

The European Commission will therefore make specific proposals for streamlining in the second half of 1994.

Annex I - Examples of Phare activities in the transport sector, by country

Albania

- supply of 25 new buses for Tirana Urban Transport Company, started in May 1994
- supply of spare parts and maintenance equipment for urban bus transport
- know-how package including reorganisation support to Tirana Urban Bus Transport Company (started January 1994) and a pre-investment study for Dürres ferry terminal (starting June 1994).

Bulgaria

- diagnosis of institutional support needs at Ministry of Transport
- implementation of the above project is ongoing through support for legislation, investment-planning, privatisation, tariff and taxation policy for national roads network, approximation to European Union laws and practices, data information management;
- number of pre-investment studies, concerning in particular improvement of north-south transport links within the country
- pilot project for transport of disabled persons.

Czech Republic

- provision of high-level policy advice
- support to rail restructuring through workshops, studies and policy advice
- studies on road-user charges, transport regulation and licensing
- review of organisational structure and restructuring options for government transport institutions, including urban transport restructuring and improvement (Prague, Ostrava, Brno)
- review of the regulatory framework, taking into account harmonisation with European Union transport legislation
- civil aviation management review
- human resources development
- ports restructuring support study (inland waterways).

Estonia

- support for the reorganisation of Estonian Railways and the Civil Aviation Authority
- feasibility study for the establishment of a light-train system in Tallinn.

Hungary

- establishment of a high-level policy advisory unit
- assistance for the elaboration of a transport sector master plan
- ongoing studies on road-user charges and on railway traffic in the sub-Carpathian region
- training aimed at transport sector personnel, including management and technical language training. Supporting equipment provided for training projects.

Latvia

- institutional support to Ministry of Transport, including organisational study and training programme
- assistance for development of Latvian ports.

Lithuania

- training programme for senior management and staff of transport authorities
- institutional support to the Ministry of Transport
- assistance for development of the Port of Klaipeda
- feasibility studies for a centre for investigation, consulting and training in transport and logistics; selected sections of the Via Baltica; and concerning the upgrading of railway infrastructure
- transfer of know-how to Lithuanian road administration (co-financed with Danish government)
- elaboration of a master plan concerning civil aviation.

Poland

- transfer of know-how to support privatisation in the transport sector
- advice on regulatory/legislative matters, including issues relating to approximation to European Union legislation
- studies on rail and road transport costs and tariffs
- traffic modelling as a tool for formulating transport policy options
- establishment of a system of data collection and market monitoring
- other high-level policy advice, including on institutional reorganisation of the sector, transport subsidies in a market economy and human resources
- outline of training programme for staff of Ministry of Transport and Maritime Economy and employees of state enterprises
- procurement of track materials.

Romania

- emergency spare parts provided
- transfer of know-how, including support for the development of a road pavement management system and for privatisation of road transportation
- establishment of a high-level advisory unit to the Ministry of Transport, providing advice inter alia on the reorganisation necessary for it to operate effectively in a market economy
- assistance for the elaboration of a national transport sector strategy
- assistance in preparing transport legislation, including approximation to European Union law
- training in transport management and planning.

Slovak Republic

- provision of high-level policy advisory unit to the Ministry of Transport, including two long-term experts and specific short-term expertise
- support to rail restructuring through workshops, studies and policy advice
- studies relating to road-user charges, transport regulation and licensing
- review of organisational structure and restructuring options for government transport institutions, including urban public transport restructuring and improvement
- review of the regulatory framework, taking into account harmonisation with European Union transport legislation
- civil aviation management review
- human resources development
- land transport study, providing a comprehensive framework for balanced development of land transport modes
- restructuring support for ports and railways.

Slovenia

- restructuring support to Slovenian railways (starting May 1994), covering main aspects of restructuring. This project is co-ordinated with the EBRD rail project for Slovenia
- support to maintenance of rail infrastructure and adjustment to UIC standards
- policy advice: support for elaboration of a transport masterplan for Slovenia.

Annex II - Border crossing projects in regional programmes (approximate figures in MECU)

| Country crossing | Border | Activities | Status | Regional Budget 1992 | Regional Budget 1993 | Regional Budget 1994 | Cross Border 1994 ¹ |
|------------------------------|----------------|---|----------------------------------|----------------------|----------------------|----------------------|--------------------------------|
| Albania (Greece) | Kakavi | Infrastructure upgrading | under preparation | | 0.7 | | |
| Albania (Greece) | - | Road infrastructure upgrading including the Dürres-Rogozhine section and border crossings | formal approval expected in July | | | | 20.0 |
| Albania (FYROM) | Cafasan | Road infrastructure upgrading | under preparation | | | 0.5 | |
| Balkan Customs Corridor | 11 crossings | Supply of customs clearance and communication equipment | under preparation | | | 2.0 | |
| Baltic Customs Collaboration | 6 crossings | Supply of customs clearance and communication equipment | under preparation | | | 1.3 | |
| Bulgaria (Greece) | Kulata | Infrastructure upgrading | under preparation | | 0.3 | | 0.8 |
| Bulgaria (Greece) | Dupniza-Kulata | Reconstruction and electrification of railway line | formal approval expected in July | | | | 4.5 |
| Bulgaria (Romania) | Ruse | Upgrading border crossing area | ongoing | 0.5 | 0.7 | 1.2 | |
| Bulgaria (FYROM) | Gjueshevo | Road infrastructure upgrading | under preparation | | | 0.5 | |
| Bulgaria (Romania) | Vidin | Upgrading ferry terminal, access roads and ferry boat | ongoing | 0.5 | 0.7 | 0.6 | |
| Czech Republic (Germany) | Rozvadov | Road rehabilitation | works ongoing | 0.19 | | | |
| Czech Republic (Germany) | Ceska Kubice | Road rehabilitation | works ongoing | 0.2 | | | |
| Czech Republic (Germany) | Karlovy Vary | Roads rehabilitation | works ongoing | 1.63 | | | |

1 1994 budget figure subject to final confirmation (Phare's new Cross-border Cooperation Facility)

| Country crossing | Border | Activities | Status | Regional Budget 1992 | Regional Budget 1993 | Regional Budget 1994 | Cross Border 1994 |
|------------------------------|----------------------|--|--|----------------------|----------------------|----------------------|-------------------|
| Czech Republic (Germany) | Folmova | Infrastructure upgrading | under preparation | | 1.5 | | |
| Czech Republic (Germany) | Chis | Rail infrastructure modernisation | formal approval expected in July 1994 | | | | 8.9 |
| Czech Republic (Germany) | Zelezna/Bela | Road infrastructure upgrading including bridge | formal approval expected in July 1994 | | | | 1.0 |
| Czech Republic (Slovakia) | Mosty | Road infrastructure development | under preparation | | | 1.0 | |
| Czech Republic (Poland) | Petrovice | Rail infrastructure development | under preparation | | | 1.4 | |
| Czech Republic | Meclov- Horsovsky | Road and overpass construction | works ongoing | 2.98 | | | |
| Estonia (Latvia) | Ikla | Road infrastructure and customs facilities | under preparation | | | 1.0 | |
| Estonia (Russia) | Narva | Road infrastructure and customs facilities | under preparation | | 1.0 | | |
| Hungary (Romania) | Nadlac | Upgrading or crossing area and customs facilities | under preparation | | 1.25 | | |
| Hungary | Tompa | Bypass and pavement strengthening | completed | 1.93 | | | |
| Hungary (Austria) | Rabafüzes | Bypass and road widening | ongoing | 1.77 | | | |
| Hungary (Slovenia) | Redics | Construction of new lane | completed | 0.26 | | 0.5 | |
| Hungary | Röszke | New road construction and pavement widening | completed | 1.04 | | | |
| Hungary (Romania) | Artand | Road infrastructure and customs facilities | under preparation | | | 1.0 | |
| Latvia (Lithuania) | Grenstale | Road infrastructure and customs facilities | under preparation | | | 1.5 | |
| Latvia (Russia) | Terehova | Road infrastructure and customs facilities | under preparation | | 1.5 | | |
| Lithuania (Poland) | Kalvarija | Road infrastructure and customs facilities | under preparation | | 2.0 | | |

| Country crossing | Border | Activities | Status | Regional Budget 1992 | Regional Budget 1993 | Regional Budget 1994 | Cross Border 1994 |
|-----------------------------|--------------|---|-------------------------------------|----------------------|----------------------|----------------------|-------------------|
| Poland (Lithuania) | Szypliszki | Road pavement and parking area | ongoing | 2.5 | | | |
| Poland (Czech Republic) | Zebrzydowice | Rail infrastructure development | under preparation | | | 2.1 | |
| Poland (Belarus) | Kuznica | Road infrastructure | under preparation | | | 1.0 | |
| Poland (Germany) | Gubinek | Construction of new border crossing | formal approval expected in July | | | | 1.6 |
| Poland (Germany) | Kocbaskowo | Modernisation of access road to border crossing | formal approval expected in July | | | | 10.0 |
| Poland (Germany) | Olszyna | Construction of cargo terminal and modernisation of communication system | formal approval expected in July | | | | 15.0 |
| Poland (Germany) | Osinow Dolny | Renovation of border bridge and modernisation of road | formal approval expected in July | | | | 1.2 |
| Poland (Germany) | Radomierzyce | Construction of new border crossing | formal approval expected in July | | | | 0.3 |
| Poland (Germany) | Swiecko | Construction of cargo terminal | formal approval expected in July | | | | 5.5 |
| Romania (Bulgaria) | Calafat | Development of ferry terminal and rehabilitation of ferry boat | works ongoing | 0.5 | 0.7 | 0.2 | |
| Romania (Bulgaria) | Giurgiu | Development of parking area and general upgrading of customs facilities | works ongoing | 0.5 | 0.7 | 1.2 | |
| Romania (Hungary) | Nadlac | Development of crossing and customs facilities | under preparation | | 1.25 | 1.3 | |
| Romania (Hungary) | Bors | Road infrastructure upgrading | under preparation | | | 0.6 | |
| Slovak Republic | Cadca | Rail infrastructure | under preparation | | | 2.4 | |
| Slovak Republic (Poland) | Skalice | Infrastructure upgrading | under preparation | | 1.0 | | |
| Slovenia (Hungary) | Dolga vas | Upgrading road infrastructure | under preparation | | 0.4 | 0.4 | |

Annex III - Main areas of activity in the transport sector 1991-1993

| | Albania | Bulgaria | Czech Rep. | Estonia | Hungary | Latvia | Lithuania | Poland | Romania | Slovak Rep. | Slovenia | Multi- country |
|---|---------|----------|---------------|---------|---------|--------|-----------|--------|---------|----------------|----------|-------------------|
| Policy, strategy and regulations | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| Emergency supplies (a) | ■ | | | | | | | | ■ | | | |
| Investment planning (b) | ■ | ■ | ■ | ■ | | ■ | ■ | | ■ | ■ | | ■ |
| Investment | | | | | | | | ■ | | | | ■ |
| Financing mechanisms (c) | | | | | ■ | | ■ | | | | | |
| Transport operators | ■ | ■ | ■ | ■ | | ■ | ■ | ■ | ■ | | ■ | |
| Human resources (e) | | ■ | | ■ | ■ | ■ | ■ | ■ | ■ | | | ■ |

■ Areas covered by Phare support

(a) Transport equipment and supplies

(b) Including both specific feasibility studies and assistance for prioritisation of investment projects

(c) Assistance for the development of mechanisms for non-state financing of infrastructure development (e.g. concessions and other forms of built/operator transfer)

(d) Assistance for restructuring and development of transport operators

(e) Human resources, including upgrading of management and administrative practices and procedures



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