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Tacis Annual Report 1998

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Commissioner's statement

The Tacis programme is one of the key instruments of the EU to develop cooperation with the New Independent States and Mongolia. This report summarises how Tacis delivered assistance to these countries in 1998, both country by country, and across national borders. This report provides tangible evidence of what Tacis has done. It demonstrates how Tacis has helped the region move towards democracy, and how it has helped develop the region's capacity to operate in an international market economy environment – even in the face of the serious economic problems that the region has faced during the year.

The publication of this annual report coincides with the discussions on a new regulation to govern EC assistance to the region from 2000 onwards. The current Tacis regulation expires by the end of 1999. EC assistance to the development of these 13 countries is a continuously evolving process. It responds to change both among the partner countries, and within the EU itself. The regulation's content is discussed in more detail on page xxx, but I want to emphasise here the balance it strikes between continuity and innovation: continuity in reconfirming the EC's commitment to providing expertise – and funding – to help the countries in the region through the difficulties of transition; and innovation in gearing the approach more precisely than ever before towards the evolving needs of partner countries.

The contractual relations between the EC and the countries in the region have recently changed drastically. In the last few years, the EC has developed a new framework for these relations, known as the Partnership and Cooperation Agreements (PCAs). The first of these PCAs – with Russia – came into force in December 1997, and the first joint steps in its implementation were taken during 1998. PCAs also came into force with Ukraine in March 1998 and Moldova in July, followed by the creation of the implementation bodies for them. PCAs have now been signed with nearly all the countries of the region. The Commission has worked with the European Parliament and the Member States throughout 1998 to progress their ratification, so that all remaining PCAs except with Belarus and Turkmenistan, which is still in the ratification process, will enter into force on 1 July 1999.

Another major EC development with implications for Tacis in 1998 was the formal launch of the next round of the EU enlargement process. Tacis will be affected by the accession, over the coming years, of countries in central and eastern Europe, which will extend EU boundaries up to the frontiers of the Tacis region. This gives added significance to the cross-border and transnational programmes including customs cooperation that Tacis currently operates with EU candidate countries during the preparations for their accession, and to the development of transport and telecommunications infrastructure linking the region to a larger EU. It will also bring further changes to trading and investment patterns, and provide additional urgency to cooperation in the fields of economics, law approximation, environment, migration policy, and justice and home affairs.

The management of Tacis has been adapted following the creation in 1998 of a common service within the Commission for the implementation of all EC external assistance programmes. This new body, known as the Joint Relex Service, has been

given the responsibility for the implementation of the external assistance activities programmed by DGIA and other external relations Directorates General. The new arrangement is intended to generate economies of scale and greater efficiencies – although there was inevitably some temporary slowing down of Tacis delivery during the year before the new service came fully on-stream.

There are external factors that limit what Tacis can achieve, too – notably circumstances in the recipient countries. It was not possible for the EU to normalise relations with Belarus in 1998, so country-specific actions there remained limited. In line with the December 1997 invitation from the Council of Ministers, the Commission did, however, propose a programme for Belarus in the field of civil society and democracy, and substantial progress was reached on this proposal by the year end. Similarly, circumstances in Tajikistan remained too unstable for Tacis to operate there during the year.

But in Russia, hit by its own acute economic problems in August, Tacis showed a high degree of flexibility in its timely response. Within weeks of the midsummer crisis, Tacis had prepared to switch the focus of many of its assistance projects to provide expertise for banks, debt management, and for reinforced EBRD cooperation on bank restructuring. A series of high-level EU-Russia contacts during the second half of the year helped to define where the EC might most effectively redirect its assistance. An EC proposal was also devised and approved to meet Russian requests to provide food aid, which otherwise would have had to be imported on commercial terms, thus allowing Russia to use scarce budget resources to pay outstanding wages and pensions.

The scale of the Russian crisis, and its impact on other countries in the region, provoked a general EU review of how best to help in tackling the consequences. While the solution lies essentially in the hands of Russia and the other NIS themselves, the EU is also committed to assist in whatever way it can. An outline plan was developed by the General Affairs Council during the autumn, and, in December, the European Council in Vienna gave the highest political endorsement to developing a new Common Strategy for Russia and Ukraine, and to proposals of the Commission for assistance for other NIS to cope with the effects of the Russian crisis.

A Commission Communication in April spelt out how the EC would direct its assistance in the nuclear safety field, ie. increasingly at projects that have a clearly defined and manageable role for Tacis. The Commission also continued its contribution to the preparatory work for the sarcophagus for Chernobyl, and is a major player in the execution of the G7 Memorandum of Understanding on the closure of Chernobyl by 2000.

The management of the Tacis nuclear safety programme was the subject of a special Court of Auditors report published in 1998. Although the report was quite critical, it also recognised the achievements of the programme in difficult circumstances. Moreover, the report made constructive suggestions for improving the programme. The Commission's own planning has already taken account of several of these, most notably by matching EC ambitions to the resources available.

The interstate dimension of Tacis has demonstrated with increased force during 1998 how it can promote cooperation across the countries of the region. The TRACECA programme in the transport field and INOGATE in the energy field both proved their value in stimulating economic cooperation and thereby bridging political differences. The signature at the highest level by 12 countries of a Multilateral Transport Agreement in Baku in September 1998, took TRACECA into a new phase. The Agreement had been prepared with the assistance of Tacis. The extension of INOGATE to Romania and Bulgaria, too, has provided a logical link of practical value for immediate programming – and prefigures closer NIS ties with an enlarged EU. It also symbolises how underlying common interests can be reflected across what might otherwise become artificial boundaries.

Now that the EC is moving towards a new regulation, it is a good time to take stock of what Tacis has and has not been able to do. Some of this balance sheet can be inferred from the approach taken by the new regulation, which has been developed after intensive and extensive consultation within the EC and with the partner countries. The new regulation is designed to ensure that EC assistance is even more focused and visible. The Commission proposes greater concentration in activities, ie. new assistance should target a limited number of areas of cooperation, with ambitions matched even more closely to funding absorptive capacity and human resources. Future assistance will be able to target the increasingly divergent needs of the different regions covered under the proposed regulation. Overall, EC programmes in the NIS will in future reflect even more closely Member State concerns on crime, recognise the social aspects of developing a market economy, boost investment promotion, put a premium on quality and innovation (the proposed regulation suggests a new allocation for projects selected on a competitive basis, as an incentive scheme), make more use of twinning between EU Member State institutions and the NIS, and focus nuclear safety more tightly.

Across the 13 countries there is hard evidence of the contribution that Tacis has made. Unprecedented challenges have been faced by the countries of the former Soviet Union, as they have struggled for nearly a decade to build democracy and market economies, while laying the foundation for improved living standards. Tacis has provided exceptional help to this process. Of course, setbacks have occurred. The process has faltered from time to time in the partner countries – and 1998 has reminded everyone how fragile the entire process still is. Arguably, the process is, however, by now irreversible. But just as the process continues in the region, so too the EU remains committed to devising and delivering assistance. And despite any incidental failings in Tacis inevitable in a difficult and untried environment, the achievements of Tacis in 1998, significant as they are - like in previous years - are a powerful testimony to the effectiveness and durability of that EC commitment.

Highlights (1 page)

January: First meeting of Cooperation Council under PCA with Russia (the first PCA, which came into force in December 1997), and agreement on a 1998 joint work plan

January: Tacis National Coordinators' meeting in Brussels

March: Entry into force of PCA with Ukraine

April: Commission Communication on nuclear safety in central and eastern Europe and the NIS

May-July: 'Brainstorming' among Tacis stakeholders to help prepare the new regulation for EU assistance to the NIS and Mongolia in 2000-2006

July: Entry into force of PCA with Moldova

July: Creation of Joint Relex Service responsible for the implementation of the Tacis programme (as well as all other external assistance programmes)

August: Russian crisis

September: EC discussions with Russia, Ukraine and Moldova on how to adapt Tacis to maximise assistance in the wake of the Russian crisis; Baku Transport Summit

November: Court of Auditors' report on Tacis nuclear safety programme

December: Vienna European Council authorises action to support NIS in order to mitigate the effects of the Russian crisis for these countries

December: New regulation proposed for EC assistance to the NIS and Mongolia in 2000-2006

Partnership and Cooperation Agreements

The European Council decided in 1992 that new agreements should be negotiated with the New Independent States, to take account of the new political and economic realities. These agreements, called Partnership and Cooperation Agreements (PCA), replace the Trade and Cooperation Agreement (TCA) which was signed with the Soviet Union in 1989. The TCA continues to provide the legal basis for the European Communities' relations with the New Independent States pending the entry into force of the PCAs. So far, PCAs have been signed with all the NIS (except Tajikistan), and all except Belarus and Turkmenistan, the most recently negotiated, will enter into force in July 1999. The first PCA, with Russia, came into force in December 1997. During 1998, PCAs with Ukraine and Moldova came into force.

The PCAs have a common core. Each PCA establishes a strong and comprehensive political and economic partnership between the EC and the partner country, covering trade in goods and services, political dialogue, investment-related issues, such as intellectual property and company rules, and cooperation ranging from transport to higher education, as well as from agriculture to combating illegal activities. They are designed to play an increasingly important role in expanding trade and investment.

The PCAs incorporate internationally agreed norms regarding human rights and democracy, as the basis for the relationship between the European Union and the partner country. By stressing political sovereignty and parliamentary democracy, they assist the partner country in its process of democratisation. Moreover, they refer to respect for democratic principles and human rights as defined in particular in the Helsinki Final Act and the Charter of Paris for a New Europe. Finally, they initiate the mechanisms for a regular political dialogue, including on questions of democracy and human rights.

But at the same time, the PCAs are diverse. Each PCA is tailored to the individual partner country, reflecting the differences between the NIS. Each PCA is an agreement not just between the European Communities and the NIS partner, but also between all of the EU Member States and the partner, bilaterally. They provide a framework for the amicable resolution of disputes. In addition, they offer the possibility to manage trade cooperation and assistance programmes in a way that strengthens overall political and security relationships. In short, the PCA is the reference framework from which the relationship between the European Union and the partner country can grow. It should be stressed that Tacis is the major tool to facilitate cooperation under each Agreement.

In practical terms, the PCAs mean the following:

- Annual meetings between the European Community and the partner country at ministerial, parliamentary and civil servant levels.
- EC companies which invest in a country with a PCA should receive treatment at least as good as any national or third-nation company. Likewise, any national company in a partner country which has invested in EC markets should receive treatment at least as favourable as European companies.
- Elimination of trade quotas.

Summary of PCAs

Country	PCA	Interim Agreement
Armenia	Entered into force 01.07.99	Entered into force 01.12.97
Azerbaijan	Entered into force 01.07.99	Entered into force 01.03.99
Belarus	Signed 06.03.95	Signed 25.03.96
Georgia	Entered into force 01.07.99	Entered into force 01.09.97
Kazakhstan	Entered into force 01.07.99	Entered into force 01.04.97
Kyrgyz Republic	Entered into force 01.07.99	Entered into force 01.08.98
Moldova	Entered into force 01.07.98	Entered into force 01.05.96
Russia	Entered into force 01.12.97	Entered into force 01.02.96
Turkmenistan	Signed 24.05.98	Initialled 24.02.98 Sig. foreseen 2 nd quarter 1999
Tajikistan	-	-
Ukraine	Entered into force 01.03.98	Entered into force 01.02.96
Uzbekistan	Entered into force 01.07.99	Entered into force 01.06.98

N.B. As soon as the PCA enters into force it automatically replaces the Interim Agreement.

Regulation and Consultation

The current regulation governing assistance to the countries of the former Soviet Union and Mongolia will expire at the end of 1999. At the end of 1998, the European Commission submitted its formal proposal to the Council of Ministers and the European Parliament for a new regulation. The new regulation builds on the experience of the Tacis Programme to date, and proposes a number of significant innovations to match changing conditions in the partner countries and within the EC.

The basic objectives remain the development of market economies and the promotion of democracy. But Tacis was established in a very different context from today's. Agreement on an overall context for Tacis assistance has only gradually emerged over the years, giving rise eventually to the Partnership and Cooperation Agreements that are now entering into force.

The proposal for the new regulation was the outcome of a detailed reflection and consultation within the Commission and with a wide range of interested parties: industry, consultancies, NGOs, academics, and the partner countries themselves, with meetings in Moscow, Kiev, Almaty and Tbilisi. In order to draw the lessons of the past, this consultation process looked at the past performance of Tacis in order to evaluate its strengths and weaknesses to date. It also looked to the future, to see how the programme could best respond to the evolving needs and priorities in the partner countries.

The reflection ranged widely, over issues such as whether there should be distinct objectives for different countries (should there be the same type of programme in Russia as in Tajikistan, for instance), how to achieve greater impact and visibility from EU assistance as well as the most appropriate means or instruments of assistance (in terms of advice, twinning, investment promotion and other mechanisms), how to link areas of cooperation more closely to objectives and simplify and improve management.

The new priorities for assistance set out in the Commission's proposal focus on;

- greater concentration of assistance to achieve maximum impact
- clearly differentiated country programmes
- support for the objectives of the Partnership and Cooperation Agreements.

These objectives are to be promoted through improved implementation of the assistance, notably

- a move from 'demand-driven' to 'dialogue-driven' programming
- increased promotion of investment
- greater emphasis on regional and crossborder cooperation
- an increase in the number of assistance instruments available, including greater use of twinings between EC and NIS institutions and industrial cooperation
- improving the quality of the assistance, notably through the creation of an 'incentive scheme'.

The proposed regulation will be discussed in the European Parliament and the Council of Ministers during 1999, with the aim to have it come into effect in time for the new cycle of EC assistance to the NIS and Mongolia due to begin at the start of 2000.

Armenia

A Partnership and Cooperation Agreement with the EC was signed in April 1996, and enters into force on 1 July 1999. An Interim Agreement, containing the trade and economic provisions of the PCA, was signed in December 1996 and entered into force on 1 December 1997. The fourth annual EC-Armenia Joint Committee took place in Yerevan in December 1998.

Economic reforms

The major economic reforms have included price and trade liberalisation, and privatisation - Armenia's economic reform programme is articulated around promotion of the private sector. The budget deficit and inflation have been brought downwards, and GDP is growing, despite the effects of the Russian crisis. Armenia is expected to join the WTO in 1999. But the economy suffers from limited access to outside markets, on account of a blockade by Turkey and Azerbaijan because of the Nagorno-Karabakh issue. Foreign direct investment is low. Armenia has no major debt problem, but it does need to diversify its energy sources and close down the Medzamor nuclear power plant by 2004, which is situated in a seismic zone. An interstate energy strategy for Armenia is under development.

Armenia's key needs include public investment, particularly in transport, energy and communication links; increased foreign investment and trade; an improved business climate, with development of business skills and international business disciplines, and the provision of services to support entrepreneurs and defend their interests in the political arena; upgrading of the civil service, an adequate legal, regulatory and fiscal framework, and full implementation of the reforms achieved so far - including measures to deal with the social consequences of reform.

Supporting the energy strategy

Tacis responses include a major project providing assistance to the Energy Strategy Centre in the Ministry of Energy, for completing restructuring and demonopolisation of the sector, and attracting foreign investments - which builds on earlier Tacis work on energy efficiency policy and investment promotion. Alternative power has been developed to that point that Armenia is now exporting electricity. The new strategy covers national energy security and diversification, decommissioning of the Medzamor plant, and structural reforms, and takes into account open market economy rules.

Finding finance for agriculture

Enterprise support is vital to help Armenia upgrade its agriculture, after early privatisation of land left it with many private farmers who need training and finance. The Agricultural Cooperative Bank of Armenia, set up by Tacis in 1996 in response to a direct request from the government for help in enterprise development, has continued to help increase arable land use (by as much as 30%) with small-scale loans of as little as \$500 so that farmers can buy fertilisers and seeds. 6,000 private farmers, organised in 125 village associations, are now shareholders of the bank. It has

achieved a 100% pay-back rate for its loans, and in 1998 the bank started to broaden its financial services activity, opening more branches and offering new lending services. Under Tacis' regional agricultural reform project, local farmers are also helped to operate credit unions. The venture has combined technical assistance with provision of seed capital, and it has benefited from strong commitment from regional authorities and local farmers in Armenia.

Providing policy advice and consultancy

A major Tacis project started early in 1998 to create an independent economic policy and legal advice centre, to help Armenia in meeting its PCA and WTO commitments. It has assisted the Armenian authorities in their negotiations on accession to the World Trade Organisation, and will help in the implementation of the impending PCA. Tacis programming in 1998 included projects on post-privatisation, such as creating an Accountancy Training Centre, consultancy and in-house advice for companies, and developing support organisations so entrepreneurs can exert influence on political decision makers.

Other Tacis projects include support for an inter-institutional education information system; the reform of the health system; and feasibility studies on exploiting minerals valuable in the construction sector (such as basalt and granite), with an investment plan to attract foreign investors. New projects agreed in 1998 include assistance to the development of employment policy, reform of public administration, and support for legal and judicial reform.

Developing human resources

Tacis already provides the Armenian School for Public Administration with experts to upgrade the curriculum and the skills of local teaching staff, with the ultimate aim of tuning the curriculum to a new framework for civil service training. But a programme was agreed in 1998 for the creation of a personnel management directorate within the government to boost such considerations as merit based recruitment and service delivery standards within the civil service. In addition, in 1998 a new project was agreed to develop local government capacity via a pilot programme in one of the larger regions, Lori Marz.

Tacis is delivering human resources projects to upgrade the judiciary and public administration - particularly to deal with health and social security, and with unemployment, one of the social consequences of reform. One project has helped broaden the spread of reforms to the regions, with the decentralisation of the social security system in the new territorial structure of Armenia. Tacis has helped reorganise social security offices, upgrade staff, and develop a nation-wide information system. The project recognised that merely reallocating staff to new agencies and local centres could not guarantee efficient delivery of services to beneficiaries, so it set up systematic staff development, effective targeting of beneficiaries and management of data, and staff guidelines for implementing the necessary legislation

Improving nuclear safety

In the field of nuclear safety, Tacis is providing assistance for safety at the Medzamor Nuclear Power Plant, in support of the commitment to complete closure by 2004. Upgrading safety has included help in licensing the operation of the remaining unit, and in tasks such as replacement of safety valves and steam valves, verification of primary circuit integrity, and seismic evaluation studies. The EC and Armenia agreed in December to create a joint working group to liaise with international donors on the next steps in the process to close down the plant.

The Tacis interstate programmes such as TRACECA and INOGATE have built confidence as well as promoting sustainable development across the Caucasus. One important example was the attendance of Armenia's Prime Minister at the Transport Summit in Baku, the capital of Azerbaijan, in September 1998, where he signed a Multilateral Transport Agreement supported by TRACECA. Armenia has also asked the EC to prepare a project to rehabilitate the railway between Armenia and Azerbaijan.

Azerbaijan

A Partnership and Cooperation Agreement between the EC and Azerbaijan was signed in April 1996. An Interim Agreement, containing the trade and economic provisions of the PCA came into force on 1 March 1999. An EC-Azerbaijan textile agreement has been extended by common agreement until 31 December 1999. The fourth Joint Committee between the European Union and Azerbaijan took place in December 1998, when the EC granted exceptional aid of € 11 million to fund key projects with a social and environmental impact. During 1998 the European Commission appointed a Special Envoy to act as its diplomatic representative in Baku. The PCA entered into force on 1 July 1999.

Economic and political developments

Growth was strong through to 1998, driven by the services and construction sectors and the boom in the oil industry. Inflation, budget-deficit, and external debt are low, and the national currency stable. After a slow start, structural reform has advanced in banking, privatisation, tax collection and legal reform; market economy institutions have been created, subsidies reduced, and the trade regime has been liberalised. However, the economy continues to be put under strain by the Nagorno-Karabakh issue, the occupation of Azerbaijani territories, and the presence of over a million refugees.

Azerbaijan has remained politically stable since 1995, when a new parliament was elected, and the country adopted a new constitution. President Aliev won a further term of office in autumn 1998 elections. Azerbaijan applied for WTO membership in 1997, and for Council of Europe membership. Azerbaijan's main trade partner is Turkey, and Russia remains Azerbaijan's second most important trade partner; furthermore, Azerbaijani oil passes through Russia to the Black Sea.

Other priority needs include reform of public administration, more privatisation, industry restructuring, reform of financial services and of external trade policy, and the development of smaller firms and of agriculture. Competitive and transparent operating conditions, including taxation, are needed across the economy, and a proper role for the government in a market economy needs defining. In addition, while the social effects of reform have been limited because reform started relatively late, the growth of the private sector means that social security and pensions need reforming accordingly.

Energy and transport

Azerbaijan's high energy potential suffers from obstacles in exporting production. Its role as a transit country for east-west trade and communications between Europe and Central Asia is limited because of low investment and outdated management systems for the transport system, and inadequate communications networks.

Tacis work in the energy sector includes not only regional projects through the horizontal INOGATE programme, but helping create clearer divisions of duties and authority between policy-making, regulatory and operational functions at national

level. The Prime Minister endorsed a Tacis recommendation on planning for a Ministry of Fuel and Energy, and Tacis has helped design efficient and economically viable operations for the sector, and a stable legal and tax regime, with conditions to attract investments. The new authority is to replace the conflicts and overlaps of the past with sole responsibility for policies on energy, industry structure, tariffs and pricing, investments and financing, environmental protection, energy savings, and renewable energy. In parallel, Tacis is setting up an energy saving centre and a management training centre, helping modernise energy distribution systems in the region of Baku and Sumgait, and rehabilitating oil-contaminated land. By the end of 1998, construction of the Baku to Supsa oil pipeline was nearly finished. When complete the pipeline will provide an alternative route for the transport of oil from the Caspian Basin to world markets.

In September 1998, Azerbaijan was the host for the Transport Summit in Baku, organised under the Tacis TRACECA programme, at which all countries of the region signed a Multilateral Transport Agreement. This event not only contributed to opening transport links, but was also an example of the cooperation essential to economic recovery and political stability in the region. Within the TRACECA framework, Azerbaijan also indicated its readiness to discuss with Armenia a joint project to rehabilitate the railway to Nakhitchevan.

National transport projects in Azerbaijan included development of the Caspian shipping company, maritime training for staff in the Baku Port Authority, investigation of road transport services, railway maintenance, a joint-venture for the trans-Caucasian railways, the study of a new ferry terminal in Baku, railway reconstruction planning, and reorganisation of the transport sector administration with a view to creating a ministry of transport. Tacis has provided assistance in telecommunications in terms of policy advice to the responsible ministry, creation of a training centre, and input to high level network planning and investment analysis.

Supporting agriculture and enterprise

Tacis has supported agriculture with four regional agro-support units set up since 1996 to train and advise farmers and processors in managing their business, and in applying for credit. This Agro Business Support Centre project aims to improve the links between farmers and their markets. Loan finance for farmers has been made available from complementary rural credit funds set up through the Tacis regional programme on agriculture, known as RARP. A new project is developing RARP's role further, from merely helping commercial banks in risk assessment, to becoming a financial institution in its own right, specialised in rural credit. Tacis involvement in business restructuring continued via the Kosia development agency for smaller and medium sized firms in Baku, one of the few places in the country where entrepreneurs are trained in business-related issues such as management, marketing and business plans. Successive Tacis contributions have allowed for extension of its scope and regional coverage, and in 1998 plans developed to make the agency financially self-sustaining, by developing new services which Kosia will market to local clients to provide a revenue stream.

Focusing on human resources

Human resources development has been supported by Tacis higher education projects such as the School of Public Administration, and the creation of local MBA programmes, a telecommunication school, an energy management institute, and a school for tourism and hospitality development. Help has been given to strengthening the labour market. And assistance is now being targeted on pension system development and labour protection. A high incidence of accidents at work and vocational diseases has given the impetus to advice on improving health and safety at work under new responsibilities assigned to the Ministry of Labour and Social Protection. And an Azerbaijani Policy and Legal Advice Centre has been set up.

Rehabilitation

Tacis has been heavily involved in the rehabilitation of the Fizuli district, partially destroyed in the Nagorno Karabakh conflict, and largely deserted by its former population. The region has good agricultural potential, so Tacis has helped in restoration of the irrigation network, drinking water supply, and transport and electricity networks; it has helped rehabilitate damaged housing, and instal or restore basic services such as schools and bakeries. The project could facilitate the eventual restoration of traditional communications links with Armenia, with the Azeri enclave of Nakhitchevan, and with Georgia and Turkey, and provides a good model of the link between relief, rehabilitation and development.

Belarus

Bilateral relations recorded a step back since November 1996. Since February 1997, the European Community suspended talks and procedures for the conclusion of both the Partnership and Cooperation Agreement and the Interim Agreement with Belarus. And in September 1997, the EU restricted technical assistance programmes in Belarus to regional programmes (e.g., Tacis Interstate, Cross-Border, Nuclear Safety), programmes that directly benefit the democratisation process (e.g., Democracy, Tacis Tempus, Tacis LIEN, Tacis City Twinning), and humanitarian aid (ECHO).

The conditions that led the EU to scale down relations with Belarus in 1997 did not change in 1998. EU concerns over political developments there remained profound, and were aggravated in June 1998 when Belorussian authorities evicted three, out of five, EU ambassadors from their residences which were located in the Minsk district of Drozdy. This flagrant violation of the Convention of Vienna on Diplomatic Relations, brought first Member States to recall their ambassadors and then the EU to adopt on 9 July a Common Position imposing a visa ban on more than 100 high-level Belarus government officials. The five EU ambassadors returned to Minsk only in mid January 1999, as a result of an agreement reached between the EU and the Belarus government on December 1998 on the diplomatic row.

As a result, Tacis involvement in Belarus remained strictly limited. Belarus remains the only Tacis partner country for which no Indicative Programme was agreed for the 1996-1999 period, and for which no Action Programme has been developed in the current programming cycle.

Civil society

The EU position remains that it does not wish to further isolate Belarus, and it remains open to cooperation for the necessary democratisation process. On this basis, and in line with the Council position, the Commission proposed to develop an ad hoc Tacis Programme for Belarus of € 5 million exclusively targeted at civil society. The Council approved the Commission proposal on December 1997, and the Commission could therefore identify relevant activities for the three key target groups of the Programme: the NGOs, the media, and the youth.

The Tacis Committee gave its favourable opinion on the Programme in February 1998. The Commission submitted the Tacis Civil Society Development Programme to the Belarus government at the end of March 1998. First discussions on the Programme between the Commission and the Tacis National Coordinator started in June 1998 but were immediately suspended in relation to the diplomatic conflict between the EU and Belarus. They were restarted in October but no agreement could be reached with the Belarus side.

In the meantime the Democracy Programme continues to provide assistance to the civil society in Belarus, in particular through NGOs activities in the field of human rights and basic freedoms.

Support for NGOs

The NGO Support Programme aims to strengthen the institutional capacity of Belarusian NGOs and enhance public awareness of democratic issues by providing support for the monitoring and informational activities of organisations working in key fields, such as respect for human rights and the rule of law. The Programme's budget is € 2.4 million. It targets more than 30 NGOs across Belarus, aiming to develop their capacity through different activities (focusing on youth, children, the unemployed, women, environment, teachers, etc.). A micro-project facility will be used to provide micro-grants to NGO project proposals developed during the implementation of the Programme.

Developing the media

The Media Support Programme aims to address the needs of independent Belarusian journalists by providing them with training and know-how designed to strengthen their professional abilities as well as to expose local media to the experiences of counterpart organisations in other European states. The Programme's budget is € 1.25 million, and it is anticipated that more than 300 journalists will benefit from it in all media fields (press, TV, radio, Internet). The activities proposed will be of long-term benefit to the journalism profession in Belarus.

Investing in education

The Institutional Twinning Programme aims to support east-west cooperation between institutes providing education and training to the younger generations – who represent the future of Belarus, and should therefore be helped to learn the principles and values that govern an open democracy. The Programme's budget is € 1.25 million. It will develop an MBA programme, the first of its kind in Belarus, in two Belarusian academic institutes with a twinned European Union institute. The Programme will also strengthen the capacity of the European Documentation Centre in Minsk to provide information on the European Union to a wide public and to develop academic exchanges with EU counterparts. However, by the end of 1998, the proposed programme was still awaiting finalisation and formal approval.

1998 also saw the conclusion of an enterprise restructuring and development project, covering restructuring and privatisation of state-owned enterprises, with a budget of € 1 million coming from the Tacis Action Programme 1995. Tempus also continued to be active in 1998 and two additional projects were developed (through financing coming from the 1995 Action Programme).

Regional cooperation (Tacis Cross-Border, Nuclear Safety, Interstate Programmes)

Belarus continues to be covered by a number of horizontal Tacis projects. The international dimension of the projects covered by Tacis interstate and cross-border programmes is a response to challenges that cannot be met by national programmes alone. For instance, nuclear safety projects in preparation during 1998 included defining and implementing measures to improve and support public information in the Chernobyl-affected regions – Belarus, as well as Ukraine and Russia. Belarus is also

covered by a project to develop the early warning system for off-site emergency preparedness in Ukraine and Belarus. Support to the efficiency of Border Crossings is being continued, with the development of a major study to examine the most effective structure to deal with the traffic moving between Terespol (Poland) and Brest. This border crossing received 0,7 million of funding (small-scale infrastructure). However, concrete implementation of all border crossings works will begin in second half of 1999.

In the environment sector, a cross-border programme prepared during 1998 covered the development of international cooperation on the implementation of trans-boundary water quality assessment and improvement, through cooperation between Belarus and Poland, with a budget of € 1,900,000. Another project agreed during the year is aimed at river basin management and the environmental status of the Daugava/Zapaknaya Dvina Basin in northern Belarus and Latvia. And Belarus remains involved in discussions in the INOGATE programme on hydrocarbons transport, and also in the TRACECA transport network development programme.

Georgia

A Partnership and Cooperation Agreement between the EC and Georgia was signed in April 1996. It is expected to enter into force on 1 July 1999. An Interim Agreement, containing the trade and economic provisions of the PCA, came into force in September 1997. Three political dialogue meetings have taken place. The fourth meeting of the EC-Georgia Joint Committee took place in December 1998. Relations with Europe are a primary focus of Georgia's foreign policy - the Parliament has called for all new legislation to be harmonised with the EC. Georgia is important to the EU as a transit country and as a bridge for trade, and also as an influential force in regional cooperation. Russia remains the principal trading partner of Georgia, followed by Turkey.

Despite efforts to install a stable democratic society, instability persists, because of the separatist movements in South Ossetia and Abkhazia - where lives were lost in fighting in May. Georgia has now joined the Parliamentary Assembly of the Council of Europe.

Progress with economic reform

Until the effects of the Russian crisis hit it in 1998, the economy grew strongly from 1995, aided by a stable currency, an expanding service sector, and the recovery of agriculture. Liberalisation of prices and trade, land reform, and privatisation of smaller firms have progressed well. New foreign investment and anti-monopoly laws have been adopted. Georgia is expected to join the World Trade Organisation in 1999.

However, Georgia suffers from a serious trade deficit, low levels of international trade, and lack of the foreign investment to develop its economy. Tax collection is very limited, public finances are weak, privatisation of large firms started only in 1998, and restructuring among firms that have been privatised is much needed. Institutional capacity to implement new laws is still low, there is little ability to attract and facilitate private savings, and there are persistent infrastructure bottlenecks.

Promoting energy, transport and telecommunications

In the energy sector, Tacis has helped the Georgian International Oil Corporation, responsible for the oil pipeline. It supported management of Georgia's international energy contracts, the newly-created Ministry of Fuel and Energy, the creation of an Energy Efficiency Centre, and development of a study to improve exploitation of oil, gas and renewable energy sources, including hydro-electric power. Electricity distribution companies are now being privatised with Tacis assistance.

In transport, new projects cover port safety and investments in Poti and Batumi. And since the EC wants to ensure full competition among operators using Poti as a gateway to the Caucasus and Central Asia, Tacis has also helped develop privatisation there, starting with the most important and profitable activities - such as the container terminal and the ro-ro unit; this approach allows for better control by Georgia of what is a strategic asset for the country. In telecommunications, Tacis has helped design a sector development strategy and investment planning programme through to 2005,

with the identification of specific investment projects covering such areas as adoption of international standards and procedures, and a regulatory framework.

Supporting enterprise and entrepreneurs

In business development, Tacis projects included assistance for smaller firm support centres and business communication centres in the capital and now in the provinces. These centres help companies draft business plans and acquire private business disciplines. They improve access to finance, including EBRD credit lines, and offering contact with EU firms and expertise via the Enterprise Support Facility Group. A new business centre in Zugdigi will help provide skills in a region with many internally people displaced from the Abkhazia conflict.

In cooperation with the World Bank, Tacis continued to back a post-privatisation managerial support centre, CERMA, whose stated aim is to restructure 100 firms and train 200 local consultants by 2000. Other enterprise restructuring & development projects under way include export promotion support. And a project on development of the tourism sector was also agreed in 1998.

Helping farmers find financing

Agriculture projects included a programme of credit to private farmers and traders, which has proved so successful it has been institutionalised through the creation of a new Agricultural Credit Bank. This has developed out of the food aid donated by the EC; the proceeds from the sale were channelled into funds to set up credit unions for farmers. Now systematic training and advice is available to farmers on skills such as accounting, project budgeting and evaluation, credit applications, management techniques and marketing.

Supporting democratisation

One important human resources project in 1998 assisted the Georgian Parliament to create a skilled staff to manage the legislative process effectively, through contacts with the European Parliament. Tacis also helped through the creation of a civil service training centre, and accounting training for commercial banks (at the Tacis-sponsored bank training centre in the Tbilisi Business School).

An important new project on development of local and regional government was agreed in 1998, geared to assisting the democratisation process by training staff and representatives. Tacis also agreed to assist the government to increase collection rates for customs duties through modernisation of the service. And Tacis is also preparing training of judges who have passed re-qualification examinations as a contribution to the government's fight against corruption.

Upgrading skills and standards

The Georgian-European Policy and Legal Advice Centre (Geplac) has provided advice on WTO accession and on harmonisation of Georgian legislation with European legislation (on standards and certification, customs and statistics, and other

disciplines necessary both for WTO and PCA compliance); it has also continued to publish independent reviews on Georgian economic trends and legal developments.

Regional cooperation bears fruit

Horizontal Tacis programmes also benefited Georgia. Notably, the € 2 million investment by the TRACECA programme in building a new bridge near the 12th century "Red Bridge" linking Georgia and Azerbaijan (and work on rehabilitating the masonry arches of the old bridge) came to fruition in June, when Commissioner van den Broek, Georgian President Edward Scheverdnaze, and Azerbaijan Prime Minister Artur Rasi-Zade attended a ceremonial opening. Regional environmental centres are being set up in Georgia as part of the coastal zone management of the Black Sea Environment Programme, and journalists have been trained in environmental matters and video libraries set up in schools to improve public awareness.

Monitoring of Tacis projects has been facilitated by the move from Kiev to Tbilisi of the unit responsible for monitoring the Caucasus. An evaluation of Tacis actions in Georgia from 1991 to 1997 was completed in 1998, and gave an overall positive assessment of Tacis.

Kazakhstan

In 1995, the EC and Kazakhstan signed a Partnership and Cooperation Agreement which is expected to enter into force on 1 July 1999. An Interim Agreement was signed in December 1995. Kazakhstan is populous, with 17 million people, and is the largest country in Central Asia, with high economic potential and large energy stocks. Kazakhstan applied to join the WTO in January 1996, and the EC is actively supporting its accession, to aid integration of Kazakhstan into the world economy. An agreement between Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan reinforces also links between former Soviet Union countries, notably through a new customs union.

Macroeconomic stabilisation

A programme of macroeconomic stabilisation introduced in 1993 showed the first signs of success in 1995. Inflation has been curbed, GDP decline has been slowed, interest rates have come down, and a positive trade balance was achieved. Despite a slow start to structural reform, significant progress has been achieved in price and trade liberalisation, privatisation of the economy, and legal, regulatory and institutional reform. Administrative structures across public services are now being reduced, and market processes are being substituted, in an attempt to create an environment favouring the private sector in production, trade, savings and investment.

But problems remain in many areas, such as inter-enterprise debt, non-payment of salaries and pensions, production of low quality goods and services, and the need for enterprise restructuring and privatisation in heavy industry. Effective restructuring of Kazakhstan's enormous agricultural resources remains elusive, and there has been a constant decline in the real income of the vast majority of the population. There is also widespread criminality and serious environmental problems arising from both pollution and radioactivity.

In 1995 an overwhelming majority of the electorate approved the extension of President Nazarbayev's mandate to the year 2000 and approved a new Constitution, which reinforces the powers of the President and limits that of Parliament. In late 1998 the President called elections for early 1999 – which he won, although their timing and conduct provoked some criticism from the EU.

Privatisation and restructuring

Democratic reforms lag somewhat behind the market economy reforms. The entire transformation depends on creating political and business structures compatible with market conditions and processes. So Tacis has supported the restructuring of the central administration, the privatisation process, banking reform and the creation of development agencies and information centres, and has helped transform the business training system. Over 50 per cent of Tacis funds for Kazakhstan are aimed at supporting the emergence of a market economy.

Projects within the government have included training of public administrators through the Higher Diplomatic School, and strengthening the planning and forecasting

capacity of the Ministry of the Economy: Tacis evaluated existing data collection procedures and planning and policy-making capacity, recommended new structures and relationships with other national agencies, trained research personnel, and provided essential equipment. Assistance to the restructuring of larger enterprises has been provided through the Almaty Post-privatisation Centre, and the emergence and development of small and medium-sized enterprises has been fostered by creating links with key actors from the SME development centre in Almaty, to explore opportunities for access to core funding and subsidies.

Supporting growth in agriculture

Because investment in the agricultural sector is urgently required, particularly in the processing and packaging of local produce, Tacis has supported the government in the transformation and privatisation process, and in planning, and has focused on key issues in the food chain from the farm to the consumer, with emphasis on the core activities of milk, meat, other fresh produce and animal feed. But there is a risk that the farm restructuring process may stall unless it receives further impetus through local-level initiatives. For instance, farmers still have difficulty accessing credit, and sometimes fall victim to unfavourable credit relationships with informal lenders. Even where finance is available through commercial banks, farmers are often unable to present viable business plans and bank employees often have insufficient knowledge of agriculture. So Tacis has improved the interaction between farmers and commercial banks through the provision of training in order to improve credit flows, farm profitability and total production. Other Tacis projects have focused on provision of farm services, distribution of farm produce, supply of farm machinery and equipment, and promotion of the efficient use of irrigation water.

Focusing on energy

Energy has become a priority area in Tacis' work with Kazakhstan. Tacis has provided advice to the government on a legal, fiscal and financial framework, established an Energy Centre and studies on the sector, and provided aid to energy enterprises. Recently it has become more actively involved, through assistance in the upgrading of the current system of oil and gas extraction, processing and transport of oil and gas products, including training and the introduction of environmental considerations into planning. Because Kazakhstan is heavily dependent on foreign investment for the exploitation of its oil and gas resources, many contracts have been entered into with international investors. But the government has not established a formal structure for monitoring the performance of these contracts or compliance with them. Therefore, Tacis has helped the government set up a control system, with training for government staff on modern drilling technology, safety standards, and environmental impact.

From telecoms to nuclear safety

Telecommunications, vital for integrating Kazakhstan into the international economy, has received Tacis assistance in setting up a national register of radio frequencies and a monitoring system for their use, as well as in harmonising the use of equipment and procedures through the setting of official standards and certification in the telecommunications sector.

Tacis' work in nuclear safety has included support to the Kazakhstan Atomic Energy Agency for licensing and waste management activities at the Aktau nuclear power station, and establishment of facilities for mass-volume containment/surveillance and training at the Ulba fuel fabrication plant.

Kyrgyz Republic

A Partnership and Cooperation Agreement between the EC and the Kyrgyz Republic was signed in February 1995 and entered into force on 1 July 1999. An Interim Agreement was signed in January 1996 and came into force in August 1998. Although EC trade with Kyrgyzstan is only small, there is strong EU interest in helping ensure political stability there, through economic cooperation, growth and development. Kyrgyzstan is a member of a customs union with Russia, Kazakhstan and Belarus. The principal foreign investors are Canada, Turkey, the US and China.

Rebuilding the economy

Kyrgyzstan is one of the poorest countries among the NIS, still heavily dependent on agriculture. Its transport and other infrastructure are inadequate, particularly for exploitation of its natural resources: mining, hydrocarbons, and hydroelectric generation potential. After independence it suffered a sharp decline in GDP, soaring inflation, and a severe deterioration in its external trade balance, partly as a result of rising imported oil prices, and partly because its industry was formerly concentrated largely on military equipment.

The Kyrgyz government adopted a far-reaching medium-term economic programme in 1994, aimed at reviving economic growth through price stability and structural reforms, reducing state control of the economy and privatising state enterprises, so as to transform the economy into a market-oriented system. GDP has since risen, and inflation has fallen; declining industrial production is now being offset by growth in the services sector. Price controls have been eliminated and central bank and commercial bank laws have been adopted. The country is diversifying its economic activity and there has been some privatisation of land and smaller enterprises. Trade is moving away from reliance on former Soviet Union countries and towards other nations. Accession to the WTO in October 1998 symbolises the government's desire to participate in global trade and the international community on equal terms. Kyrgyzstan was the first former Soviet republic in Central Asia to join WTO.

After a constitutional crisis in 1994, with de facto dissolution of Parliament and a short period of presidential rule, the constitution was amended and Parliamentary elections took place in 1995, installing a relatively stable government. Government institutions need reform to organise economic and social development and to foster an open, democratic and free-market society in which the private sector can grow and international trade and investment can take place. Expertise is needed in foreign affairs as the country forges new relationships. And the infrastructure needs development. Environment, political transparency, combating international crime (money laundering, illegal immigration, trade in fissile materials and narcotics trafficking), and human rights also need attention.

Public administration reform

The new demands on the administration, accustomed to implementing centralised decisions, have been enormous. New capacities in policy-making and new administrative structures are required to discharge the new functions. Tacis sustains

the efforts of government with human resources development, including through restructuring and retraining of the civil service, assisting in social insurance reform, and language training. It sends European civil servants to help Kyrgyz officials develop the mechanisms needed to deal with the fast-changing dynamics inherent in an open democracy and free market.

But Tacis projects are not only aimed at improving civil service effectiveness; they are also aimed at the development of a fair system of civil service appointments, a civil society and an open democracy. Democratic reforms are still trailing economic reforms, and there is a need to reduce the size of the state apparatus and move further towards market processes.

Projects have included assisting the Ministry of Finance in budget creation, implementation and control, by developing ways of predicting economic and social developments; helping the Ministry of the Economy establish a policy and planning unit; and training for staff at the State Agency on Technical Assistance and Cooperation, to achieve better coordination of Kyrgyz relations with foreign donors. And Tacis is helping to strengthen the capacity of the Kyrgyz Republic's Foreign Ministry, which has had to develop in such a short space of time. Institution building and human resources development continued during 1998 with the development of projects for training unemployed and disadvantaged groups, and in converting the pension accounting system.

Support for enterprise and banking

Assistance to enterprise has taken many forms, ranging from promotion and fostering of legislation and policies which will underpin the privatisation and enterprise reform process and create a hospitable environment for foreign investment, alignment of national legislation with international rules and practices, through to support of education development through the creation of an enterprise philosophy and the provision of technical and entrepreneurial skills to ensure the emergence of a market economy, with integration of educators and students into the international academic community.

Tacis is working with the Kyrgyz Republic's Central Bank to provide fee-based consultancy to the commercial banking sector, in order to promote the development of commercial banks. It is assisting the development of the young banking sector by the provision of advice on the core functions of banks in a market economy. The objective is the provision of normal day-to-day financial services to businesses, and the mobilisation of national savings to channel them into private enterprises. Tacis is helping set up an advisory service for the banking sector, and is providing hands-on advice to individual banks and meeting specific advice needs of the National Bank.

Helping farming and farmers

Privatisation in the agriculture sector has not succeeded in bringing output back up to earlier levels, and the country is now having to import food. Since improvements in this sector have a direct effect on the lives of the majority of the Kyrgyz people, Tacis has been helping small and medium-sized agricultural enterprises, particularly the privately owned farms now emerging from the break-up of the traditional, large, state-

owned collective farms. It has backed the creation of a rural finance network, which provides credit for newly formed farms and the small private companies ancillary to the agriculture industry, and has encouraged farmers' groups to seek loans on the basis of mutual responsibility.

At the level of individual farms, Tacis has provided direct assistance in improving livestock, in supplying agricultural inputs and services, and through a pilot agriculture and food development programme which showed how to improve all the links in the food chain, from the farm, through processing and distribution, to the ultimate client, under new market conditions. This has involved training in the technical, quality control, marketing and financial management areas of food production, processing and distribution, and investment in food processing and packaging.

Tacis has provided assistance in strengthening the policy-making and sectoral strategy formulation capacity of the Ministry of Agriculture and Food. Notably, it has helped set up an agro-business support unit within the Ministry of Agriculture and Food, responsible for policies and institutional measures to smooth the transition to private farming and restructure the food industry.

Support for the energy sector

Tacis has supported the energy sector at the institutional level through advice on policy, privatisation, legal aspects of the sector and energy savings – for instance, by helping to generate informed assessments of the prospects of the sector. The advice has also covered laws on privatisation and on contracting, energy saving in buildings and management training in energy supply, training in modern mine management and coal marketing. It has also developed a 10-year perspective on the production and transmission of electricity. Tacis is now working with the State Energy Agency of the Kyrgyz Republic to develop a regulatory regime for the energy sector, to reduce wastage and improve sectoral organisation.

Tacis is also helping the Kyrgyz Energy Centre to create a body of expertise to develop environmentally friendly techniques and new practices by setting up training programmes.

Upgrading transport and telecoms links

To develop transport and telecommunications links with the outside world and within the country, Tacis is assisting the Ministry of Transport and Communications to develop infrastructure. It advises, consults and trains the personnel involved in developing the postal service, railways, roads and air transportation systems. It is also advising the government on the privatisation of the national airline. And a project to develop feasibility studies for the rehabilitation of the road from Osh to Sary Tas to Erkech Tam and from Osh to Kyzyl Kyya to Isfana was prepared in 1998. Upgrading of the transport and communications sectors not only meets the internal needs of the country, but also raises Kyrgyzstan's international status as a key country in the Tacis interstate transport project, TRACECA.

In nuclear safety, a project was prepared during 1998 for remediation of uranium mining and milling residues in the Mailuu-Suu district of Kyrgyzstan.

Moldova

Relations between the EC and Moldova have developed well. The President of the Republic of Moldova visited the Commission in January 1998.

The Partnership and Cooperation Agreement between the European Union and the Republic of Moldova entered into force on 1 July 1998. The first EC-Moldova Cooperation Council was held in Brussels in July 1998, and initiated joint work in areas such as approximation of legislation, -intellectual property rights, customs cooperation. The first EC-Moldova Parliamentary Cooperation Committee was held in Strasbourg in October.

Progress with reforms

After a slow start, Moldova's economic reform has made good progress since 1993, with sharply reducing inflation, stabilisation of the exchange rate, and a slowing of negative growth. Structural reforms included mass privatisation programmes and liquidation of some state enterprises. Trade has been largely liberalised, and much legislation has been approximated to international norms. In 1998 new laws improved real estate and land legislation, and the pension system. The energy sector has been reorganised, and farming – representing around 26 per cent of GDP and around 43 per cent of the working population – is gradually being reformed. And while Russia remains Moldova's main trading partner, the importance of non-NIS trade is growing.

However, foreign direct investment remains low, partly because the business environment suffers from a lack of fiscal and banking reform, and partly because of the Transdnestrian issue. Agricultural land reform has suffered from a moratorium on land sales. In all sectors, there is low use of production capacity, compounded by obsolete technology and high energy costs. Capital market institutions have only recently started to function, and credit was expensive even before the Russian crisis of mid-1998 that aggravated the problems. The reduction of high external debt has also been impeded by a dramatic drop in exports to Russia, with unpaid deliveries leading to the bankruptcy of Moldovan suppliers.

Moldova has made significant progress in democratising its political life and building a civil society. It was the first New Independent State to become a member of the Council of Europe, in June 1995. A new centre-right coalition government elected in the spring of 1998 can rely on a political majority in Parliament to continue reforms. Unfortunately the Government resigned in February 1999 because of political and social pressure caused by the economic crisis started in July 1998. A new Government has been formed in March 1999. This should not affect Moldova's foreign policy programme including settlement of the Transdnestrian conflict, withdrawal of Russian troops from Moldovan territory, diversification of energy supplies, accession to the WTO, and integration of Moldova into the EU.

Focusing on key objectives

With the PCA in force, Tacis started to focus on supporting implementation of its objectives, both through action in the areas of the 1996-99 Indicative Programme and through succinct policy advice under the Tacis Small Projects Programme.

In 1998 Tacis' activities extended to efforts to develop the private sector and promote industrial cooperation, and the development of smaller firms; action in human resources development, to promote social cooperation, education, training and the strengthening of public administration; and specific action to promote agriculture and agro-industry development, and to assist Moldova's progress towards WTO accession. Tacis has also supported energy saving, institution building, as well as environment, transport, standards and certification, customs and statistics. During the same year, the 1999 Tacis Action Programme has been prepared focusing on PCA implementation, reform of the regional administration, promotion of exports and agriculture. The activities will be implemented in 1999.

Plans for reopening a bridge over the river Dniestr near Gura Bicului, requested by the Ministry of Transport, moved forward in 1998. Tacis will help repair damage caused by 1992 fighting in the area, and the reopening will not only assist economic development and living conditions for people on both sides of the river, but should also give a political signal that could help advance negotiations on the Transdniestrian conflict, which remain deadlocked because at present the parties perceive little economic interest in resolution.

Restructuring the agriculture sector

Tacis has been closely involved in assistance to the agricultural sector, where production has fallen dramatically. There is good potential for growth, and restructuring here should boost related sectors. Policy formation is hampered because the Ministry of Agriculture's structures remain largely unchanged, but the targeted provision of Tacis policy and economic advice has helped create a more favourable environment for the development of the private sector, land reform, redeployment of staff, insurance against natural disasters, and pricing policy and subsidies. Tacis has particularly focused its assistance on specific projects to provide back-up for the ongoing privatisation and land distribution process.

Farmers are themselves highly motivated, and previous Tacis projects have demonstrated clear involvement and support particularly of the local authorities in project implementation. A pilot scheme has been conducted in the district of Orhei, where small farmers benefited from support in the shape of assistance for developing credit lines, and for the establishment of a federation of farmers' associations to provide them with key services, including suppliers of machinery, transport and storage companies, wholesale businesses and import/export agents. During 1998 Tacis started disseminating information about the results of this project more widely across the country.

Tacis has worked on strengthening the management of private companies in the seed multiplication sector, particularly by improving the supply of quality vegetable and potato seed – and thus helping Moldova to meet international standards in seed legislation. An export promotion bureau has also been established: export-oriented production is being supported in food and agro-industry (notably fruits, berries, tobacco, wine), both to traditional markets in the former Soviet Union and to new markets, where hard currency earnings may generate a virtuous circle of investments in the sector. Marketing efforts are being reinforced and joint venture investment for the agro-industry is being promoted. Tacis has also helped the restructuring of

agricultural enterprises through advice in debt isolation, so that commercial credits can be applied for by insolvent former state farms. Tacis is assisting in the selection of beneficiaries, audits, debt restructuring, drafting of development plans, credit search, and counterpart training programmes, as well as dissemination of results.

Enterprise restructuring and privatisation

The development of the private sector depends to a large extent on complementing government efforts at macroeconomic stabilisation with projects to improve corporate governance, financial discipline and competitiveness, to stimulate the confidence of private investors. During 1998, Tacis attention was increasingly turned towards assistance in restructuring and privatising larger companies, encouraging SME growth, and promoting exports and investment.

Tacis has supported the non-governmental Agency for Assistance to the Restructuring of Enterprises, which coordinates support to restructure individual enterprises, tightening their financial discipline and increasing their competitiveness. The aid has allowed an increase in the volume of ARIA's work, and improved its capacity to manage its bigger workload.

Tacis has been helping the reorganisation of recently privatised companies, many of which are in difficulty because they suffer from negative equity and face bankruptcy. The Tacis-run Enterprise Isolation Programme, within the framework of ARIA, generates plans for the reorganisation of insolvent enterprises, bringing radical changes to their management of production costs and cash flow, or recommending the liquidation of enterprises beyond rescue. The project is creating a consistent and systematic approach to tightening the financial discipline of enterprises and is keenly supported by the World Bank and bilateral donors.

In 1999 Tacis aid to a Competitiveness and Productivity Centre will increase local access to expertise in marketing, exports, and managerial and technical support in various areas, such as quality control or just-in-time systems, to increase companies' international competitiveness – thus simultaneously helping private sector development, applying restructuring programmes to enterprises, and supporting export and investment growth.

Human resources development

Tacis has supported the development of management training courses, the improvement of the operation of the employment services and reform of the social protection system, and the improvement of training for civil servants. Projects have included: the elaboration of strategies for staff development framework plans in selected ministries and local authorities as well as policy advice regarding optimisation of their organisational structure; the training of civil servants; and support to improve inter-ministerial coordination and cooperation. Assistance to reform the vocational training system is needed because macroeconomic stabilisation has led to budget cuts in education and vocational training. So Tacis has been working on the development of consensus on a sectoral strategy and pilot reforms to serve as best practice for dissemination activities.

Mongolia

A 1993 Trade and Cooperation Agreement with the EC, renewed in 1998, provides for most favoured nation treatment. A joint Committee under this Agreement last met in 1997. Mongolia became eligible for Tacis support in 1993, and for EIB loans in 1997. Mongolia's foreign policy promotes good neighbourly relations and cooperation with its two neighbours, Russia and China; but also with the E.

Economic and political developments

Mongolia's efforts to overcome the economic crisis it suffered on the disintegration of the Soviet Union have included liberalisation of prices of goods and services, and privatisation of small and medium-sized industrial enterprises and livestock farming. Up until 1998, an upward trend for GDP growth had been re-established, inflation had been cut, and import tariffs had been abolished. The country had secured accession to the WTO, and the government was planning more structural reforms and consolidation of macroeconomic stabilisation, to permit increased investment and guarantees on living standards. A three-year programme agreed with the IMF was designed as a framework for reform through to the end of the century.

But events in 1998 raised doubts about the durability of the reform policy. Tensions emerged after May 1997, when an anti-reform President, N Bagabandi, was elected. Conflicts with the reform-minded government elected in 1996 led to its dismissal in early 1998. A new government appointed in May 1998 was also dismissed in July, after losing a censure vote over bank reform. For months political tensions (including the brutal assassination of one potential prime minister) then made it impossible to appoint a new government. In December 1998 Janlavyn Narantstasralt was elected Prime Minister, but constitutional disputes over the formation of the government continued to impede the reform process.

Facing ongoing challenges

Mongolia has not yet solved major problems in the fields of energy, raw material processing, and land cultivation. It is not in a position to provide reliable fuel and energy supplies. With unemployment and poverty at high levels, social reform is also urgently required. The challenge is to sustain growth and complete the transition process to a market economy, which was already on the way to establishing the basis for economic growth. Structural and institutional reforms need to be intensified. An adequate infrastructure will be needed for the industrial and agricultural sectors to become more competitive and to expand investment. Tacis has enjoyed cooperation from the national authorities and partner organisations from the outset. Tacis projects have emphasised policy advice to government ministries, strengthening educational institutions in business and economics training, upgrading the education information system, and addressing the energy and labour problems, in particular unemployment.

Diversification in the energy sector

The poor state of the energy sector in what is one of the coldest nations in the world is aggravated by an energy intensive industrial structure, and reduced capacity to import

oil. Up till now, the bulk of petroleum imports have been from Russian refineries. Both for strategic reasons and to introduce competition into procurement negotiations, Mongolia is now trying to diversify its sources of supply. A new project in 1998 covered the preparation of a feasibility study and investment component for a petroleum trans-shipment facility at Zamyn Uud, the most important station for all rail trade exchanges between Mongolia and China. The project is also investigating how to promote and attract investment from the private sector and from the international financial institutions. Tacis has already provided assistance to this sector for improving the efficiency of two provincial thermal electricity generation plants, and further projects in 1998 addressed energy conservation in Mongolian industry and the production of energy from renewable energy sources.

Small business development

Tacis has provided support to help Mongolia develop competitiveness and promote its international trade through enterprise restructuring and support. Mongolia has emphasised the role of small and medium-sized enterprises in spearheading the reconstruction of the economy, and Tacis has provided assistance to boost their business planning and information access, and to enhance their capacity to attract foreign investment, through the establishment of a network of regional Business Advisory Centres.

Focus on tourism

In its bid to identify sectors that can deliver a significant growth/investment ratio, Mongolia has singled out the tourism industry, and, in response to a specific government request, Tacis is now backing a master plan for this industry. This is aimed at strengthening the government's tourism policy department, providing overseas training for staff, and supplying equipment and materials. Support has also been given to a system to allocate savings to investment projects, to enhance investment and enterprise expansion, and to develop an insurance sector which facilitates risk-taking but provides protection to the risk.

Education and health

Early on, Mongolia identified the need to strengthen the capacity of its human resources to develop the economy, and the Tacis response has included strengthening economics teaching. In a project that was completed in 1998, the School of Economic Studies was restructured, its courses reformulated and its curriculum revised, while five specialised centres were created to support faculties and enterprises. The concept is being continued under a 1998 project to extend the experience to the other eight faculties of the National University of Mongolia. A Management Information System developed by Tacis initially delivered training programmes to policy-makers, university management and final users; this has since been expanded to the higher education sector, supporting planning, monitoring and control, administration and information exchange. Tacis has also developed projects that strengthen the health sector by improving financial management, as the government is trying to focus resources on the primary health care systems and to redesign the delivery mechanism for health services.

Support for agriculture

In the light of the recent policy guidelines of the government's own Action Programme, specific support is being given to agriculture. Part of the aid is going to farming enterprises, in order to increase wheat and vegetable production, with the goal of satisfying domestic food requirements – urgently needed as cereal production has declined by some 48 per cent since 1990. The project also deals with cadaster, registration and the development of a land market. New projects include helping staff of the Ministry of Agriculture and Industry with policy development and implementation, and improving the technical, agronomic and business knowledge of farmers and managers of agricultural service enterprises, with a pilot demonstration unit to encourage the development of input supply and output marketing. Advice at central and local level covers crop production, food security and supply, and land reform.

Russian Federation

The Partnership and Cooperation Agreement (PCA) which came into force in December 1997 provided the institutional framework for EC-Russia relations during 1998. The PCA replaced the 1996 Interim Agreement reinforcing its work in supporting the reform process in Russia, strengthening political and economic freedoms as well as developing close political relations by starting a regular dialogue on political issues.

Russia-EU cooperation

The ministerial-level Cooperation Council set up under the PCA held its first meeting in January 1998. It stressed that the European Community and Russia are strategic partners for peace, stability, freedom and prosperity in Europe and share responsibilities beyond, and that Tacis, as the largest grant-based technical assistance programme operating in Russia, would continue to support all priority strands of EC-Russia relations.

A joint work programme agreed for 1998 foresaw the focussing of work on PCA implementation on approximation of legislation (Art. 55), competition (Art. 53) and law enforcement; intellectual property (Art. 54 and Annex 10); customs cooperation and customs procedures (Art. 78, Protocol 2); standards and conformity assessment, consumer protection (Art. 60); cooperation between EC and Russian industry (Art. 57) and foreign direct investment; science and technology (Art. 62); space (Art. 67); environment (Art. 69); nuclear safety (Art. 68); transport; cross border cooperation; training (Art. 63); President Yeltsin's initiative for training Russian managers; telecommunications and information (Art. 71, 72); justice and home affairs (Art. 84). Tacis was given a particular role in strengthening implementation and enforcement of legislation relevant to economic operators. Attention was focused on the areas highlighted in the Joint Work Programme.

Political uncertainty in Russia made follow-up of the Cooperation Council difficult, but a September call from the EC for a senior Russian minister to oversee PCA implementation led in October to the appointment of then Deputy Prime Minister Vladimir Bulgak to coordinate EC-Russia relations.

The PCA Cooperation Committee (at senior official level) met for the first time in April, at which time it established 9 Sub-committees to oversee PCA implementation, and again in December. The EC-Russia Parliamentary Cooperation Committee met several times during the year.

Two EU-Russia summits were held, in Birmingham in May, and in Vienna in October. The Council of Ministers issued a statement in June and conclusions in October underlining the importance for the EU of economic stability in Russia. In December, the Council decided to supply around € 400 million of agricultural products free of charge, in response to a request from Russia to alleviate shortages in some regions. The European Council in Vienna in December 1998 agreed to develop a Common Strategy for relations with Russia – the first such use of this new mechanism created under the Amsterdam Treaty – and emphasised EU solidarity with

Russia and its people in the economic crisis. The European Parliament responded favourably in April to the Commission's 1996 Action Plan, and backed an expansion of partnership in all fields; and in September it insisted on priority being given to solving structural problems in the Russian economy, and to embarking on economic reform. In April the EC removed Russia from its list of non-market economies – thus, notably, allowing the European Commission to use domestic Russian price information for the first time in anti-dumping cases.

In May the second EU-Russia Round Table of Industrialists was held in Brussels, producing substantial joint recommendations addressed to authorities on both sides. Unfortunately, implementation by the Russian side has suffered from the Russian crisis and subsequent political instability.

The Russian financial crisis

EU-Russia relations were inevitably dominated during much of 1998 by the Russian financial crisis that came to a head in the summer, and that conditioned economic and political life in Russia from then onwards. And EU concern extended to the implications of the Russian crisis for the entire NIS region, particularly for those countries with important trade links with Russia. The EU indicated immediately in August that it was ready to consider with the Russian authorities how to refocus existing EC instruments to the new situation, particularly Tacis, and the message was repeated right through to the end of the year.

In September the EU made clear its belief that the rouble devaluation and ensuing loss of confidence was the consequence of large foreign financing of the structural fiscal deficit, combined with insufficient privatisation efforts and an unstable legal and regulatory framework, although the Asian crisis and the low oil prices equally played a role. It insisted that a credible and sustainable economic policy programme was essential to address pressing social needs, meet existing financial obligations and restore confidence in the markets and stability of the currency while stimulating investment, including foreign investment. Across a series of high-level meetings, the focus was increasingly on restoring investor confidence, on resolute structural reform, expanding bilateral trade and investment, keeping EC and Russian markets open to each other's products, and advancing the process of negotiations for Russia's WTO accession.

The European Commission had already identified on 3 September that the first path of action was to reorient Tacis towards priority sectors, particularly aid in institutional, budgetary and financial spheres. Subsequent discussions on technical cooperation included exchanges about refocusing the Tacis Programme: mobilisation of European experts in public finances, fiscal reform, economic forecasting, debt management and control of public spending; assistance in supervision of reform in the financial sector; reinforcement of capacities and efficiency of the administration

Meeting clearly identified priorities

Already prior to the crisis, Tacis had been delivering aid across a wide range of programmes and projects to meet needs that had been identified as priorities in earlier analyses of Russia's transition process: support for enterprise restructuring, social

protection and human resources development, food production, processing and distribution, transport and telecommunications, and environment and energy, and, as has been the case for many years, the environmental dimension was taken into account in the design of the proposed projects. The focus was on policies to revive industry, particularly through upgrading management skills and promoting new investment, so as to make Russia more competitive in trade. Social consequences of the transition were equally addressed.

Projects from previous years' programmes, still ongoing in 1998, were similarly designed in response to clearly identified needs, ranging from practical cooperation in cross-border programmes, through twinning in the banking sector, to well-received projects focusing on trade. In many of the areas identified later in 1998 as of added urgency, Tacis projects were already under way: notably assistance on WTO accession, or – through the European Expertise Service, which provides high-level policy advice – short-term assistance in taxation and public finance management.

Education, training and social protection

Support in enterprise and human resources development has met needs arising from the still imperfect transition in education, public administration, social protection, and the development of the business climate. Implementation of education reforms is uneven, in content and in management. Tacis assistance has focused on helping develop appropriate policies and a suitable legal framework, retraining specific population groups (for instance demobilised military personnel), strengthening individual education institutions (especially in management and economics training), legal training to help strengthen the rule of law, and cooperation through Tempus to support higher education reform. Following President Yeltsin's call in 1997 for enhanced training of young Russian managers, preparation was advanced sufficiently to implement Tacis and Member States' bilateral programmes to provide over 1,000 such training places annually in EC firms.

Retraining of military officers

Right at the end of 1998, a € 4 million project won approval for support for officers retraining, under which demobilised Russian army officers will receive help to find work in military industries being converted to civilian production and in small and medium-sized enterprises. Training in job skills, including management, banking, ecology, insurance, investment, logistics and production, will be provided by a total of 600 teachers in a network of 23 retraining centres run with the Russian Ministry of Education and the Ministry of Defence. The project will pay special attention to municipal development of former military towns and the reintegration of military people into these local economies. This shift in focus, from mere retraining to reintegration, is a direct reflection of the current situation and needs in Russia. The Tacis officers retraining programme was launched in 1994, and the first phase of the programme, totalling € 24 million, involved the establishment of retraining centres and the retraining of 17,000 officers, some 60 per cent of whom have already found permanent jobs. In addition, the EU has provided teaching equipment and computers to build a network linking the retraining centres. This network covers 10 joint retraining centres of the Russian Ministry of Defence.

Work is needed on clarifying roles, responsibilities and resources at federal, regional, and local levels; strengthening administrative capacity; developing personnel policies – including incentives – to create a reliable cadre of civil servants; redefining the tasks of the civil service to reflect the changing relation of the state to the economy and society; and suitably equipping and training staff of institutions responsible for the supervision, regulation and management of a market economy. Tacis has helped in restructuring, training, and improving efficiency in the Ministries of Labour and Economics, the public administrations of Tacis priority regions, the permanent staff of the Federal Assembly, and customs and statistics authorities.

Social security has suffered during the reforms, because the old delivery systems have been abolished at the same time as needs have increased and resources have diminished. The authorities recognise the need for social protection and cohesion to sustain the transformation process, and some steps have been taken. The transition process has decentralised some elements of social policy, and shifted some social assets from enterprises to regional and local authorities. Pension, social security and health insurance laws have been adopted as have specific programmes to help vulnerable groups. Tacis has helped policy formulation and legislation, on pensions, social housing, social security of vulnerable groups, and occupational safety. It has helped create new delivery structures, improve management of social assets, and enhance provision of health care and training for the unemployed. Recent projects have emphasised cost-effective health care, preventive health, the management of insurance schemes, improvement of labour conditions and social partnership, and specific local actions such as upgrading municipal administrations in towns dominated by a single company.

Restructuring and private sector development

Restoration of economic growth depends largely on private sector development and investment. But early transfer of state property rights gave insufficient attention to the structure of privatised companies, and restructuring is crucial to attract investment for their modernisation. In addition, modern management skills are needed in marketing, production, accounting, and financial instruments. Many of the natural monopolies remain, most of which also need restructuring. There are low levels of competition, soft budget constraints, and insufficient mechanisms for efficient corporate governance. Obstacles continue to keep the cost of doing business in Russia high, hampering investments and depressing economic activity. And the weaknesses of the financial sector and its supervision have been graphically demonstrated in 1998.

To develop enterprise, Tacis has delivered advice and training to companies, and assistance to improve the business environment and investment climate, including aid to the financial sector, and advice on reforms in the spheres of anti-monopoly, taxes, insurance, accounting and auditing, and foreign direct investment. Specific projects have aimed at improving company and trade legislation, shareholders' and investors' rights, and competition rules. Support has been given for the Foreign Investment Promotion Centre, set up to promote Russia as an attractive location for investment and to advise and assist foreign investors and already established foreign companies.

Privatised enterprises have been restructured as pilot cases. And the conversion of defence industry complexes has been supported.

In July, a Space Dialogue between the EC and the Russian Federation was set up – as a part of the implementation of the Partnership and Cooperation Agreement with Russia – to upgrade cooperation and coordination in space-related projects. An overview of on-going activities, planned projects and cooperative arrangements between EC and Russia was made as the basis for a high-level review to open the Space Dialogue. This Tacis-financed report “EU–Russia Space Cooperation Inventory” listed 87 joint projects between the space industry in the EC and the Russian Federation (including launchers, telecommunications, navigation, earth observation, space sciences, space stations and human space flights), and identified potential activities in priority sectors. The study has shown that several projects display a strong complementary and demonstrated economical interest and could serve as a basis for future development of the Space Dialogue.

Recent projects include the introduction of international accounting standards, the development and implementation of appropriate tax legislation, and legislative and regulatory advice to insurance companies. Sector-specific projects have included development of the wool and flax-based textile industry, by helping improve the supply of raw materials to textile mills and garment makers and developing efficient market relations; helping the steel industry increase competitiveness through implementing international accounting standards, developing benchmarking systems, and improving marketing (alongside support for implementation of the EC-Russia steel agreement); assisting factories that produce chemical weapons to prepare conversion plans under the Chemical Weapons Convention; and promoting cooperation between the European and Russian wood and furniture industry through a pilot industrial cooperation initiative.

Tacis has targeted special support on smaller firms, because they still suffer from serious management deficiencies in their capacity to cope with a difficult administrative and legislative environment (including the difficult tax system), marketing, business planning and lack of access to finance. Tacis has worked through SME Development Agencies and Business Communication Centres, through practical policy advice to policy-makers in the State Committee for the Support and Development of Small Entrepreneurships, and through direct assistance in training and consultancy via the regional Enterprise Support Centres, Senior Executives Programme, Work Attachment Programme, and the Europartenariat/NIS Partenariat.

Upgrading transport and telecoms

Transport and telecommunications have received Tacis support not only because of their key role in a market economy based on trade, but also because accessible networks are an important element in fostering the development of an open society, and can contribute to social reform. Russian transport depends heavily on rail and air, and little on road, imposing heavy costs on industry, and damaging competitiveness. Transformation has started but still needs assistance, particularly so that road transport can support the emerging private market economy. New transport enterprises experienced market access difficulties because privatised large carriers continued to

operate under monopoly conditions. Telecommunications networks had low density and accessibility, and their recent growth created numerous unconnected networks with short-term operating licences.

Tacis assistance has been aimed in part at creating regulatory frameworks that reduce the weight of monopolies, in an environment in which government institutions are policy-makers, not operators. Tacis also seeks to help trade and to facilitate introduction of EC harmonised standards. In road haulage, Tacis has helped the emergence of appropriate support services, such as forwarding agents and maintenance organisations, and has supported private firms. In road and rail, Tacis is helping improve economic efficiency, with links to Trans-European Network Corridor projects, and aid to combined road-rail transport. Rail projects have helped in improving the railway infrastructure, signalling system and rolling stock. Inland waterways development has been assisted. And small-scale infrastructure projects have been supported in various transport modes.

In telecommunications, the emergence of large-scale information services and access has been helped by Tacis (in line with standards on such areas as digital radio communication). Training has been provided for telecommunications, frequency spectrum management, development of information services, and related business management; and the introduction of advanced technologies has been promoted through pilot actions for service providers and operators.

Environmental management

Better resource use and energy savings in industry, agriculture and transport provide economic benefits, and reduce pollution and health risks. But even where the law has been tightened up, institutional conflicts of interest and overlaps of responsibilities are far from resolved, and implementing regimes remain weak.

Tacis has helped develop effective regulation and better management – which have in turn improved conditions for investment, offering the prospect of greater competitiveness and further reduction in pollution. There have been notable successes, where regional and city administrations have an interest, as in the Volga Basin revival programme, a management training project complementing federal action to improve the quality of water, with both health and economic benefits. And demonstration technologies aiming at improved energy efficiency, quality of product and reduction of losses were introduced at the Izhorski Zavod steel mill in St.Petersburg.

Focusing on energy issues

Energy has a pivotal role in the Russian economy, but its exploitation is hampered by difficulties. There is inefficiency of production methods and lack of investment. Reform of the gas sector is needed. Essential investment in the electricity sector is difficult to obtain because privatisation is impeded by the non-payment crisis, and generation remains linked to transmission. The municipally operated heat sector suffers from the weakness of company structures, with complicated and inefficient ownership structures.

Tacis has increasingly focused its activities in the energy sector on structural and institutional questions. It has been working, for example, to ensure that adequate provision is made in electricity market project design to encourage investment. Tacis has assisted in development of the legal and regulatory framework (including regulation of the natural monopolies, the creation of conditions for an open energy market in line with the European Energy Charter Treaty, and action on standards and certification). It has reinforced management capacity and the financial stability of sectoral enterprises through helping reform-oriented heat and power utilities in the regions to operate effectively in the new economic conditions (with training and advice on regional energy planning, tariffs, billing and payments policies and systems, demand-side management, maintenance management, and the economic evaluation of investment needs). The promotion of energy savings has consisted of advice to regional administrations and support to industrial end-users: the geographical area of activity of existing Tacis Energy Centres has been extended to promote energy savings in large industrialised regions of the Urals and Western Siberia.

Restructuring the agriculture sector

Russia has largely privatised its farms, food processing factories, and farm service enterprises, but the process needs completing: at the local level with action on credit, rural cooperatives for small family farms, domestic rural trading of inputs and outputs, and farm management practice; and at national level with land property legislation, and adaptation of standards and norms in the sector to the country's new international trade relations. The lack of legislation at national level on private land ownership and transactions prevents security of holding and the development of credit facilities, a situation aggravated by the weakness of rural banking institutions and their lack of understanding of farming needs.

Tacis has been aiming to assist the transformation of the sector so that it can cater efficiently to the needs of the market. It has supplied policy and legal advice, assistance to farm restructuring (especially in cereals and animal production – for instance shifting animal feeding away from cereals and towards a diet based on grass and roughage), help in access to farm financing, and development of dealer and wholesale networks to ensure effective trade in inputs and produce. Tacis has built on its accumulated expertise in providing local advice on dairy farming and processing; meat processing; farm accounting and financial analysis; food retail and wholesale marketing; commercial distribution of fertiliser, pesticides, and farm machinery; and adapting staff training and education methodology and curricula to the reform process.

A regional approach

Tacis activity is allocated to certain regions in recognition of the geographic and political realities of Russia. Tacis mostly operates in ten specific regional concentration areas, to which around a third of its budget for Russia is directed. The first to be established were Moscow and its wider surroundings; St Petersburg; Tyumen; and Samara. They were followed by others in the Urals; Western Siberia; South-West Russia; Kaliningrad; North-West Russia; and Lake Baikal. Tacis has also set up technical offices in St Petersburg and Petrozavodsk (with special involvement in the Cross-border Programme), Krasnodar, Novosibirsk, Ekaterinburg and Irkutsk.

The Tacis Technical Offices, which opened in April 1997 as one of the steps towards decentralising Tacis in Russia, became regional reference points for information and a first-stage contact for local authorities, as well as helping in coordination of existing projects, identification of new ones, dissemination of Tacis experience and promotion of the Tacis Programme. In 1998 the Offices focused particularly on cooperation programmes such as the Tacis City Twinning Programme, Productivity Initiative Programme, LIEN, Tempus and perceived a growing interest among regional leaders in direct cooperation with Europe through this programme.

Some major Tacis projects in 1998

In addition to the projects mentioned above, a wide range of other assistance was being delivered to Russia by Tacis in 1998, including the following examples:

Energy

- Moscow city heat and waste services
- Strengthening energy efficiency in housing
- District heating restructuring
- International certification of energy equipment
- Feasibility for gas distribution network extension (supporting a World Bank loan)

Enterprise restructuring and development

- Financial-Industrial Groups
- European Banking Advisory Service
- Accounting and audit reform
- Tacis Enterprise Restructuring Facility
- Support to SME innovation audit
- Technical assistance to the RECORD Rocket Engines Programme
- Advice for non-ferrous metals mining
- European Russian Aviation Centre

Environment

- Institutional support to the State Committee for Ecology
- Improvements in forest fire response systems
- Oil industry environmental code of practice

Food production, processing and distribution

- Farm restructuring in the Central Black Soil region
- Support to improve quality control of selected farm food products
- Restructuring the Plant Protection Service in South-West Russia
- Support to the establishment of a land market

Human resources development and social protection

- Teaching law and economy
- Support to the State Duma and the Federation Council
- Non-governmental social welfare organisations
- Support to public health management
- Municipal Economic and Social Reform Initiative of Tacis (MERIT)

Regional policy addressing economic and legal asymmetries
Preventative health care policies
Russian-European Centre for Economic Policy (RECEP)

Transport

Support to road transport safety and efficiency
Training for the transport of hazardous and dangerous goods
Internal waterways and river-sea transport
Support to improve airport efficiency and safety (Sheremetyevo 2)
North West regional transport development

Telecommunications

Regulatory framework for the telecommunication and postal services, legal and policy support
Creation of an information system for the Russian State Library
Telecommunications and business training centres in Novosibirsk and Samara

Nuclear safety

In addition to extensive support for nuclear safeguards and nuclear material accountancy and control in the Russian Federation, and on-site assistance at all nuclear power plants, Tacis also provided, amongst others:

At Balakovo, upgrading of return valves in main steam pipes, upgrading of feed water booster pumps, replacement of pilot valves for pressuriser safety valves, supply and installation of filtration equipment for inlet of pumps in emergency core cooling systems for four units.

At Kalinin, re-engineering of electric power supply of 6kV, upgrading to EC standards of safety valves, check valves and relief valves, upgrading of the emergency cooling system pumps, morpholine conditioning implementation on the secondary circuit, and an automated system for maintenance and reconstruction management.

Tajikistan

Relations in 1998 were difficult to develop because of the persistent instability in Tajikistan. Moreover, a clear contractual framework is lacking because Tajikistan has not initialled exchanges of letters by which it agrees, as a successor state to the Soviet Union, to continue to apply the 10-year trade, economic and commercial agreement signed with the Soviet Union in 1989, which came into force in April 1990.

The EC is the main provider of technical assistance on a grant basis. Tajikistan benefited directly from Tacis programmes in 1991-1995 for an amount of € 8 million. The allocation for the 1996-1999 Indicative Programme was € 14 million, supplemented by other non-country Tacis programmes. But Tacis' activities in Tajikistan were suspended in 1997, and, because of the situation there, they did not resume in 1998. Humanitarian aid programmes were continued, however. Tajikistan also participated in a number of horizontal Tacis programmes, including INOGATE, and a textiles agreement gives access to EC markets.

Tajikistan was one of the poorest Republics of the former Soviet Union, and reform and economic development have been impeded by internal conflict since the outbreak of civil war in 1992. Tensions have been resolved only intermittently, and are repeatedly fuelled by regional rivalries with religious overtones, linked to unsettled conditions in neighbouring Afghanistan. The Tajik authorities have sought to resolve their difficult security and economic problems primarily by relying on close political, military and economic links with Russia, with whom they have been negotiating entry into a monetary union. The peace process launched under a UN umbrella should allow the return of stability if all the elements of the peace agreement reached in June 1997 are implemented in due course.

A five-year reform programme launched in August 1995 to foster "a socially oriented market economy" has made little progress with regard to trade liberalisation, privatisation, restructuring of enterprises or land reform. The economy is primarily agricultural, but production has fallen sharply, particularly of the principal commercial crop, cotton. The major industry, aluminium smelting, has also suffered cuts in production and capacity. Lack of food, medicine and heat during very cold winters means that even survival is difficult. Living conditions have deteriorated in some regions and improved in others, principally the industrial heartland in the north. Because of the absence of any democratic tradition and the lack of infrastructure to hold fair elections, democracy may be unattainable in present circumstances.

Turkmenistan

The Partnership and Cooperation Agreement with Turkmenistan was signed in May 1998. An Interim Agreement was initialled in February 1998. Turkmenistan's President visited the Commission in February 1998. Turkmenistan has been running a surplus in its bilateral trade with the Community – mainly on cotton exports – but the overall volume is low. At the international level, Turkmenistan has adopted a cautious approach to multilateral cooperation. Its foreign policy is based on the concept of 'Permanent Neutrality'.

Macroeconomic developments

The country is rich in oil and gas, but export revenues have been disappointing, as traditional markets – such as Russia – no longer require supplies or – such as the Caucasian countries or Ukraine – are unable to pay, while there is no longer access to world markets. Agriculture – largely cotton – accounts for a fifth of GDP, and employs over 40 per cent of the population, but, owing to state controls, farms are largely unprofitable and yields are low. Foreign trade is highly regulated. High inflation has created price uncertainty, and the currency has consistently depreciated, while the country has been running a high annual fiscal deficit. GDP has declined rapidly since independence, and is still largely accounted for by the state sector.

From 1995 the government took further measures to stabilise the macroeconomic situation. It adopted a programme of economic reform, 'Ten Years of Prosperity', with priorities and targets through to 2002, including reform of land ownership, investment in new pipelines for the export of gas and oil outside the NIS, and privatisation of state enterprises and collective and state farms. Progress has been difficult.

Supporting structural and institutional reform

Significant gaps, inconsistencies and lack of transparency remain in the country's legal framework. In the past, policy decisions and information processing originated in Moscow, and the local administration was only in charge of implementation. Now, new structures and processes are required to enable the administration to discharge the changed responsibilities.

Advice on privatisation policy and implementation is being complemented by the creation of a tax collection system appropriate to a market economy, so that government revenues are maintained, and the prospect of loss of control over state assets does not create resistance. In order to prepare the domestic banking system to become the conduit for external investment funds and for domestic savings, restructuring and training is being delivered by Tacis to the National Bank through the Interbank Training Centre. Tacis is now helping make the Centre self-sustainable and is developing its expertise in the provision of training for bank management in a market economy. It is identifying local trainers and developing their skills, and is developing a curriculum for the training activities, building on material already developed by EBTRA, a Tacis project that has produced such material through other training projects in Tacis countries. Another project, called SHEDA, is aiming at

supporting the development of SMEs through training and assistance to business development.

Developing agriculture and agro-industry

Under a second priority area, agriculture and agro-industry, Tacis has been helping remedy some of the factors that have contributed to the fall in output. In part the problem has arisen from loss of export markets, which is itself partly related to issues like growing the wrong varieties (such as seeded grapes), or the lack of capacity to produce exportable value added products, such as dried fruit and wine. The poor performance of food processing – food processors are operating at less than half capacity – is attributable to the lack of suitable raw materials, low capital investment and poor maintenance.

During 1998 Tacis expanded support for newly emerging private farms and ancillary activities that was initiated under previous Tacis projects. Productivity in the livestock sector is low, largely due to poor animal nutrition. So one project is aimed at investigating and demonstrating practical improvements in the feeding and management of livestock by private farmers in one area of the country and by attracting complementary investment. It links into another Tacis project on the sale of meat and milk to processors, and their quality requirements.

Tacis has also demonstrated technologies and structures that can help develop private enterprise in the food processing sector, and improve the quality and quantity of food products on the local market. It has supported food processing enterprises with good commercial prospects and has helped create an appropriate economic environment, with contributions such as the purchase and demonstration of technologies and management systems within selected enterprises, and training of management and operators in the new techniques introduced, complemented by study tours to observe modern European practice and to make contact with potential investors.

Building capacity in the energy sector

The third priority area is development of infrastructure, with the main emphasis on energy. Turkmenistan has to rely heavily on foreign investment to exploit its resources, so Tacis has been helping the country develop its own capacity to conclude and implement contracts with international investors. Skills imparted by Tacis projects have helped the Turkmen authorities to monitor and control the flows of oil and gas and to negotiate from a position of full information and know-how with foreign partners. It has strengthened tendering procedures, licensing contracts and arbitration. Elements in the project included foreign investment promotion, with assistance in the preparation of promotion packages, and putting in place structures to evaluate and select investment opportunities and to negotiate appropriate terms with adequate legal status.

Turkmenistan must also address internal issues like alternative sources of energy supply for domestic use, energy pricing and energy saving. So Tacis has been developing projects to strengthen the local capacity to market energy products and to conclude sound, long-term commercial contracts, with training in energy saving, environmental issues and quality assurance.

Ukraine

The EC Partnership and Cooperation Agreement with Ukraine entered into force on 1 March 1998. It had been signed in June 1994, replacing the 1989 Trade and Cooperation Agreement between the EC and the Soviet Union. The first Cooperation Council meeting took place in June, and the first Cooperation Committee meeting in November. An EU-Ukraine summit in Vienna in October "reaffirmed our common attachment to Ukraine's independence and sovereignty, to her democratic development and integration into the world economy, as well as our commitment to strengthening our relationship".

The Vienna European Council in December reaffirmed the fundamental importance it attached to the partnership linking the European Union and Ukraine. Ukraine's accession to the WTO is a joint priority. The EU is Ukraine's main trading partner outside the New Independent States. Ukraine has indicated its wish for closer relations with the EU.

Economic and political developments

Reform began to pay dividends in the first half of 1998, with the first GDP growth for six years. But the economy proved vulnerable to the Russian crisis in mid-year, which exposed fragilities caused by delays in implementing structural reforms, a structural budget deficit, and heavy short-term borrowing. Production slowed, GDP contracted, the Hryvna devaluated, and inflation accelerated. Banks suffered liquidity problems, and external trade dropped. By the end of 1998, the situation had been temporarily contained, but the government was left facing crucial decisions on budgets and on compliance with the terms of macro-financial assistance from international donors.

Ukraine has made progress in establishing a pluralistic society, and the elected legislature has a greater role in policy-making than in many other former Soviet countries. A new constitution, adopted in 1996, enhanced citizen rights and clarified the powers of the executive, legislature and courts – although the rule of law is still imperfectly implemented, and there is a large black economy. Parliamentary elections in March 1998 were followed by lengthy disputes over electing a Speaker, and the positioning of potential candidates for Presidential elections scheduled for October 1999 impeded clear government during 1998.

The October summit confirmed that the Tacis Programme would continue to focus on institutional reform and development; economic reform and private sector development; and energy reform and environment. It also promised to step up specific assistance to strengthen the financial system and increase the National Bank's supervisory capacity to reinforce sound commercial practice among commercial banks. From 1998, Tacis is also being increasingly focused on PCA implementation, including the harmonisation of economic laws and regulations.

Developing human resources

In the area of institutional reform and development, valuable experience was gained through the network of 11 regional centres for employment that Tacis set up to

support retraining of military officers, and a more focused programme was designed to succeed it in future years. In July, the EC acceded to the Agreement establishing a Science and Technology Centre in Ukraine, which redirects the research and development activities of Ukrainian Nuclear scientists and engineers from the military field to pacific uses.

Joint PCA Work Programme for 1998/1999

The PCA contains commitments in a wide range of areas. The first meeting of the EC-Ukraine Cooperation Council, in June, identified sixteen specified areas for cooperation which should be given special priority in the year to come including:

- approximation and enforcement of legislation on competition
- intellectual property rights
- developing links between EC and Ukrainian industry, and promoting foreign direct investment
- science and technology
- environment
- nuclear safety and energy
- cross-border cooperation
- training
- public procurement
- standards and conformity assessment
- financial services
- combating organised crime
- customs
- barriers and obstacles to trade
- transport.

To help develop human resources, support was given for the development and financing of social policy, local economic development in the Donbass region, the creation of a tourism development agency in Crimea, raising productivity levels through support to improve occupational health and safety, public administration reform, management education in Crimea, civil service reform and training, and development of an active employment policy.

The Ukrainian European Policy and Legal Advice Centre (UEPLAC) again demonstrated its value. Tacis support since 1995 – in response to direct requests from the most senior levels of Ukrainian government – has allowed the Centre to achieve a unique status as a repository of economic, policy and legal advice. The involvement of local experts has helped strengthen local capability in the formulation, development and drafting of high quality legislation. But UEPLAC has also acquired a powerful collective memory of Ukrainian policy development, and has established itself as independent and trustworthy. A new two year phase of the project is planned for 1999 and it should provide the sort of assistance that will be needed for implementation of the PCA.

Supporting banking and business

Economic reform and private sector development has taken many forms. One of the most urgent projects has been directed at strengthening the financial system and increasing the National Bank's supervisory capacity. It is introducing accounting reform in the banking sector, supported by specific accounting pilot projects in some of the largest banks. This is a direct response to the need to assess the structure and operational capacity of the seven largest commercial banks in the country – which account for some 80 per cent of the total banking assets in Ukraine – because there is a real risk that management problems at the micro level may trigger major macroeconomic harm to the country. Further economic reform depends on the stability of the financial sector. So, since August, the National Bank has been evaluating – with Tacis funding and IMF coordination – which banks should be supported as having the potential to be the most viable. The project is likely to lead to follow-up in the form of restructuring aid.

Support has also been made available through Tacis for the implementation of a wide range of other projects. Some have had specifically financial applications: accounting reform for enterprises, development of financial markets, international accounting standards, and bankruptcy procedure for banks. Others have been focused on particular sectors or areas: tourism and business development in the Carpathian region, restructuring the pharmaceutical industry, post-privatisation support to the construction industry and agriculture, or restructuring of the steel industry. Other projects have dealt with questions of privatisation, management, and general promotion of enterprise and smaller firms and continued privatisation through the sale of blocks of shares to foreign investors.

Chernobyl – a special case

The first EC-Ukraine Cooperation Council, in June, underlined that the Tacis Programme had made an important contribution to the safety of nuclear power plants in Ukraine, and that it would continue to do so in the future. EC assistance to Chernobyl represents a priority in this context. In June the decision for an EC contribution of \$ 100 million to the EBRD managed Chernobyl Shelter Fund was taken. This makes the EC the largest provider of financial assistance for this complex project. In addition to the Shelter Fund grant, the EC grant assistance of € 100 million decided in 1994 at Corfu in support to the Chernobyl closure programme continued to be implemented. This includes a € 40 million grant for the preparation of decommissioning of Units 1-3 (solid waste disposal, retrieval and processing facilities, and project management assistance) as well as technical assistance for the authorities dealing with the social consequences of the plant's closure.

The EU and Ukraine reconfirmed their commitment at their summit in 1998 to implement the Memorandum of Understanding signed by the G7, the European Commission and Ukraine in December 1995 on the closure of the Chernobyl Nuclear Power Plant by the year 2000. They agreed that the Memorandum is crucial in guaranteeing the development of a modern, safe, efficient and environmentally sound energy sector in Ukraine. In support of Ukraine's decision to close the Chernobyl plant by the year 2000, the EU reconfirmed its readiness to support the energy sector reform and to provide substantial loan financing for a major energy investment and

nuclear safety project, the completion of the Rovno 4 and Khmelnytsky 2 reactors, provided that these projects satisfy the necessary due diligence procedures.

Meanwhile, Tacis also helped in safety improvement at other Ukrainian nuclear power plants. It provides on-site assistance at the Rovno Nuclear Power Plant, and conducts such tasks as supply of primary pump vibration monitoring equipment, equipment for Steam generator control, a computer information system, replacement of steam generator safety valves and spare parts. On-site assistance is given to the South Ukraine nuclear power plant, along with improvement of its fire protection system, a review of normal/emergency operation procedures, management of plant documentation, and provision of spare parts for safety-related foreign equipment. On-site assistance is also supplied to the Zaphorozhye plant. Fire protection measures, hydrogen monitoring equipment, safety-related spare parts, a test bench for safety valves adjustment are deliverables there. On-site assistance is also given to the Khmelnytsky Nuclear Power Plant.

In October, the EC and Ukraine initialled agreements in nuclear safety and controlled thermonuclear fusion which will lead to enhanced cooperation on radiation protection, waste management, decontamination and dismantling of nuclear installations, and studies in the field of fusion technology.

Energy efficiency and diversification

Non-nuclear energy in Ukraine was also the focus of Tacis support during the year, with new projects in thermal generation companies, for maintenance and repair systems, or for accounting aid to improve billing and collection systems. There were specific energy efficiency measures, including development of a national information network for energy conservation, support to the government in the setting up of an energy-saving financing scheme, strengthening energy management training actions throughout Ukraine, development of an energy plan for Crimea, a pilot project in energy saving and efficiency in the chemical industry, and creating a strategy to increase the energy efficiency of the railway sector.

In addition, assistance was given to the establishment of a natural gas market, and know-how was transferred for coal sector restructuring in the Donbass region, alongside a project to address the social impact of coal restructuring there. During 1998, plans for new energy projects with a specifically environmental dimension were developed, including the demonstration of cost-effective small-scale combined heat and power installations in the food and related industrial sectors of Ukraine, a technical audit of the Ukrainian oil export pipeline network, and environmental management of the Donetsk region.

From environment to transport

New environmental projects that got under way included water/waste water technical assistance for Mariupol, strengthening regional capacity for industrial waste treatment and management, and strengthening the State Ecological Inspectorate at the Ministry of Environment of Ukraine.

The EU-Ukraine summit endorsed greater cooperation in the field of customs and in the fight against crime, focusing in particular on the fight against drugs and money laundering.

In addition, in the transport sector, the EC decided in 1998 to provide € 15 million to the development of a container facility linking the Ukrainian port of Odessa to the Georgian port of Poti, opening new opportunities for the transport of resources from the Caspian Sea region.

Uzbekistan

A Partnership and Cooperation Agreement with the Republic of Uzbekistan was signed in June 1996, and entered into force on 1 July 1999. An Interim Agreement was signed in November 1996, and came into force in June 1998. An agreement on trade in textile products entered into force in January 1996 and will apply until the end of December 1999. Trade between the EC and Uzbekistan has grown, making it the fourth largest trading partner of the EC among the NIS. Uzbekistan's external policy accords high priority to further integration into the global economy and closer links with the west, especially the EC, a major market for cotton, gold and uranium. Uzbekistan has applied for WTO membership.

Economic progress

After a gradual start, Uzbekistan has begun privatisation of medium-sized and large enterprises, liberalisation of foreign trade, and implementation of laws designed to attract foreign investment. It has rich resources in agriculture and fossil fuels – it is one of the largest cotton exporters in the world - and is a major supplier of gas to its neighbours. Its objectives are to stabilise the macroeconomic situation, reverse output decline, improve productivity and attain sustainable development over the medium term, and protect vulnerable social groups. However, most of the economy, including the entire cotton sector, remains in the hands of the state, and the currency will not be made convertible until the year 2000.

Disincentives to investment continue to pose problems, including restrictions on currency movements, and for security reasons, on the movement of personnel. Exporters are obliged to exchange convertible currency earnings at the official rate while there is an increasing divergence between the official rate of exchange and black market rates.

The country faces particular challenges: in energy (both in exploiting its mineral reserves and in assuring self-sufficiency), in developing enterprise, in food production and agriculture, in developing human resources, in creating the institutions to progress transition, and in communications.

Widespread support in the agriculture sector

Agriculture is the single most important sector in the Uzbek economy. Privatisation and farm restructuring are changing the role of the state and agricultural support institutions, and are creating a need for farm advice, planning and market support programmes. The privatisation of the processing and distribution sections of the food chain means efficient market mechanisms need to be created to replace the integrated, planned system.

Tacis has been heavily involved in supporting the Uzbek policies of self-sufficiency in food production, and efficiency in production and export of its main crop, cotton. Tacis is also supporting the development of agriculture-based industries and social and economic structures in a rural society adapting to a new market-oriented environment. Tacis' measures have included strengthening of planning and policy-

making, land reform, and training of trainers in the technical, quality control, marketing and financial management areas of food production, processing and distribution. Other measures focus on the development of dealer and wholesale networks, to ensure the availability of inputs and security of markets to support farm activity; promotion of better access to finance for farms; support for the development of processing and other agricultural enterprises; restructuring to allow fuller exploitation of rural resources; and the provision of an adequate social support system in rural society.

Tacis has also got involved in the ecological aspects of agriculture, since development in Uzbekistan has taken place with limited regard to the environmental impact of agriculture and related industries. Tacis prepared an integrated programme, which included assessing the impact of current farming practices (particularly the impact of the use of fertilisers, insecticides and pesticides on water and soil quality) and existing and proposed agro-industry. It also conducted pilot actions on water management to reflect the future restructuring of farms, providing models that can be replicated throughout Uzbekistan and in other countries in the region. The project was tied in to the existing Aral Sea and Food and Agriculture Policy Unit projects on national policy for land and farm restructuring, on-farm water management and development of the food industry. A further project provided support to a Committee for Nature Protection.

Upgrading public administration

To assist institutional reform, Tacis has provided advice on policy and legislation, and has given support to the Academy of State and Social Construction for the training and upgrading of civil servants in Uzbekistan. It designed a training system relevant to the needs of the civil service and consistent with the reform objectives, it trained trainers for the Academy, it strengthened the capacity of the Academy to organise itself and to draw up a long-term business plan, and it proposed strategies for strengthening the Academy's links with the central and local authorities and its capacity to contribute to the preparation of legislation and policy initiatives. The project also linked the Academy to an international network of public administrations, providing an understanding of international standards in the public sector.

Investing in enterprise and banking

Tacis has supported efforts to entrench privatisation and develop capital markets, both important precursors to attracting foreign direct investment. It has continued to fund the medium scale Privatisation Investment Funds programme, which draws in private Uzbek capital and puts an emphasis on better corporate governance in enterprises. Tacis has also supported the restructuring efforts of enterprises in developing business skills suitable for a market economy, including marketing skills – building on the action already taken in a previous Tacis project in establishing a Market Skills Development Centre in Tashkent.

Tacis has also assisted the Banking Association in its attempts to restructure the commercial banks so they can provide the sorts of banking services that are part of a normal market economy. The project provided structures, rules and procedures for the Association so that it could develop a political role vis-à-vis the government and the

Central Bank, and established a Bank Advisory Service which will provide strategic advice to the banks in their restructuring efforts. And within education, to ensure the long-term success of the transformation process and to underpin the growth of the economy, Tacis is helping with planning and policy-making for a radical overhaul of the educational system, from pre-school to third level.

Developing energy and telecoms networks

In infrastructure development, the main Tacis emphasis has been on energy, assisting efficient production and internal use, and facilitating profitable exports. Tacis helped create an Intelligence and Expertise Unit within the national gas company, Uzbekneftegas, so that it can prepare and evaluate upstream and downstream projects to international standards. Tacis has helped enhance the efficiency of the electricity sector. It has also supported experimentation in finding and implementing the most cost-efficient system of domestic heating. This energy efficiency project identified the most environmentally friendly options and technologies, and helped establish joint manufacturing in Uzbekistan of selected equipment, as well as implementing related training programmes in Tashkent.

In telecommunications, Tacis has helped with the certification and licensing of systems and equipment, training, and implementing a network deployment plan in the field of international communications. Part of the assistance was delivered via the Central Asian Telecommunications Training Centre which Tacis had already helped to set up.

Regional programmes

To complement its work with individual countries, Tacis aims to find solutions to problems that are of an interstate nature, through actions best undertaken on a multi-country level. Modern transport, energy and telecommunications networks – over-centralised or deficient in the Soviet era – are needed so that new trading and investment opportunities can be exploited and the NIS can access international markets under competitive and open conditions. Intergovernmental cooperation in the region is essential if the rich natural resources of, for instance, the Caspian basin are to be effectively exploited and securely transported to international markets.

In addition, many problems in the region arise from conflicts and interstate tensions, which can be effectively addressed only via interstate mechanisms to enhance stability, security and economic development. At the same time, since improved cross-border links also offer increased opportunities for international illegal activities, there is in turn a need for an international response to this threat. And many of the major environmental challenges in the former Soviet Union transcend the new national borders, through water- or air-borne pollution, or, most menacingly, in the legacy of nuclear power plants in need of closure or upgrading, and the problems of untreated nuclear waste.

Unsurprisingly, the PCAs that are now coming into force across the NIS specifically mention the importance of interstate cooperation for the development of the region. The Tacis response to these challenges has taken the form of the so-called Interstate Programme. From a broad approach initially, which extended across enterprise development, financial services, and agriculture, Tacis has increasingly focused its attention on networks (energy, transport and telecoms), environment, and justice and home affairs.

TRACECA

TRACECA (Transport Corridor Europe Caucasus Asia) was launched in 1993 to help develop a transport/trade corridor on an east-west axis from Central Asia, across the Caspian Sea, through the Caucasus, and across the Black Sea to Europe. Since then TRACECA has extended its coverage to Mongolia, Ukraine and Moldova. During 1998 it demonstrated its ability to effect regional cooperation as well as improve transport links with such breakthrough events as the Baku summit in September. Attended by senior government figures from all three Caucasian Republics to sign a Multilateral Transport Agreement, the summit also had an important political dimension in that it was attended by Armenian Prime Minister Darbinian – the first visit by an Armenian head of government to Azerbaijan since the outbreak of the conflict over Nagorny-Karabakh. Similarly, the ceremonial opening in June of the new road crossing – the TRACECA Bridge, as it is called – at the Red Bridge on the Georgia-Azerbaijan border brought together different senior representatives from the regions of both sides of the border, to inaugurate a project of common interest.

Concrete transport-related results from other projects during the year included agreements to keep transit fees at competitive levels, easier border crossings,

simplified customs procedures, and the facilitation of joint ventures between European private investors and local transport companies.

INOGATE

Another major part of the Tacis Interstate Programme is INOGATE (Interstate Oil and Gas Transport to Europe), which supports efforts in rehabilitating, rationalising and modernising regional gas transmission systems and oil and supply systems for refined oil products. It also assesses the possible complementary options for the transport of hydrocarbons from the Caspian and Central Asia regions to European and western markets. The aim is to produce a number of large-scale, bankable project proposals so that the necessary investments can take place. The programme has been developed in close cooperation with the international financial institutions and builds on previous support provided under the Interstate Programme.

The aims of the INOGATE programme were underlined by the General Affairs Council Declaration on Caspian Energy in April 1998: "The Council considers that secure export routes for Caspian oil and gas will be crucial to the future prosperity of the region, to the foreign companies investing in exploitation of those reserves, and to international markets. The construction of multiple pipeline routes is therefore logical and desirable. Foreign investors will need to take account of all the relevant factors – political, geographical and financial – in reaching strategic decisions on pipeline routes. The Council believes that the timing of those decisions and the specific routes chosen should remain essentially a commercial one for the companies concerned. The Council also attaches importance to revitalising the existing regional pipeline network. In this context, the EC's Interstate Oil and Gas Transport to Europe Programme (INOGATE) should be an important contribution to ensuring security of supplies."

During 1998 INOGATE helped rehabilitate regional gas transmission systems in Central Asia, the Caucasus and eastern Europe (including data collection, field audits, training, and equipment installation; short-term priorities were identified, such as improving gas quality and corrosion protection, modernisation of metering stations, and improvements in efficiency and safety of compressor stations). It conducted a feasibility study on a Caspian Sea pipeline, and drew up a business plan for rehabilitating crude oil and oil products pipelines and processing and transport systems (the first phase of the project was completed and discussed with the beneficiaries, and discussions started on related projects, including existing infrastructure, other means of transportation, and interconnections to rationalise existing systems). INOGATE provided technical assistance on institutional and financial aspects of regional cooperation, and started planning an assessment of hydrocarbon potential among participating countries, further feasibility studies on oil and gas transport from the Caspian Sea region to central and eastern Europe, and emergency investments in oil and gas infrastructures. Also during 1998 INOGATE's scope extended still further, to take in Bulgaria and Romania, as well as a study of new links to Russia.

Work progressed under INOGATE on the creation of an 'Umbrella agreement on the institutional framework for the establishment of interstate oil and gas transportation systems', designed to overcome some of the difficulties in management of energy

infrastructure that have arisen since the interstate oil and gas transmission system was split into separate parts after the disintegration of the Soviet Union in 1991. The agreement - to be signed mid-1999 - sets common principles, rules and mechanisms for all countries involved, and provides for sovereign states to cooperate when establishing interstate oil and gas transportation systems that cross their territory.

Prioritising nuclear safety

In March 1998, the European Commission adopted a Communication to the Council and to the European Parliament aimed at reinforcing the European Union's efforts to improve nuclear safety in central and eastern European countries and the New Independent States (NIS). The Commission indicated that a reorientation of assistance to the NIS was envisaged, to focus more tightly on improving power reactor safety, preferably on those sites seen as more problematic, and to address management of radioactive waste, notably in North West Russia. Nuclear safety would be a high priority on the agenda of the PCAs, with objective and measurable commitments and conditionalities, in particular the PCA with Russia. Meanwhile, assistance to local operators, and on policy and institutional issues, such as regulatory support, safeguards, emergency preparedness and structural reforms, would continue, as would EU efforts to assist Ukraine in the closure of Chernobyl by the year 2000. Furthermore, Tacis will continue to promote the introduction of energy saving and energy efficiency technologies.

By the end of 1998 Tacis had helped in finding solutions to the most serious safety problems associated with the upgradable reactors, the VVER¹ 440-213 and VVER - 1000. It had also helped identify the major problems with the VVER 440-230s and the RBMK²s. The international conference scheduled for mid-1999 at the International Atomic Energy Agency (IAEA) should review the progress of the implementation of measures taken for improving the situation.

The Commission reminded the European Parliament in November 1998 that work on nuclear safety in the NIS was subject to serious constraints, including political, because the partners are sovereign, with different cultures, with the result that it has been difficult to find a common language on safety issues. In some cases, beneficiary countries have proved reluctant to cooperate, and, in Russia, not only is the early closure of the oldest generation reactors not foreseen, but there are even plans to extend their operating life further. Financial constraints have also limited what could be achieved with a problem of such scope, with more than 60 nuclear reactors of Soviet design on more than 20 sites across the NIS and CEEC. But the Commission insisted that, from the outset, the strategy it was following had been discussed regularly with the other institutions and the Member States; European Councils have regularly endorsed the approach, and there have been regular exchanges with the European Parliament.

The Commission equally highlighted other achievements: the creation of a legal framework and an improved safety culture, strengthening technical capabilities of the national safety authorities, plans for the decommissioning of units 1 to 3 at Chernobyl and the shelter for the destroyed reactor 4, technical solutions to major design

¹ VVER is a water-moderated, water-cooled energy reactor (Vodo Vodenoj Energetičeskyj Reaktor)

² RBMK is a channel-reactor of large power (Reaktor Bolshoj Mochtnosty Kanalny)

deficiencies, improvement of operational practices and some plant modernisation, raised awareness of the problem of waste management, and helping ensure completion of partially constructed reactors to a high level of safety. Plans for the immediate future include continued efforts to obtain closure of Chernobyl in Ukraine and Medzamor in Armenia.

Nuclear projects under way in 1998 included development of early warning systems for off-site emergency preparedness, assistance in strengthening the Nuclear Safety Authority Projects aimed at strengthening the Control and Accountancy of Nuclear Material were continued and the Russian Methodological and Training Centre was officially opened in November with the participation of Minister Adamov. During 1998, the Council of Ministers also adopted a new programme of actions in the nuclear sector, the SURE programme, relating to the safe transport of radioactive materials and to safeguards and industrial cooperation to promote safety of nuclear installations in Tacis countries.

Environment

In environment, the overall aim is to promote collaboration – between the NIS and Mongolia, among local and international investment sources, and among economic planners, so that they take account of environmental considerations. That is why the current Tacis Regulation contains a so-called ‘integration obligation’, that is, the requirement to take into account environmental considerations in the design and implementation of Tacis-funded projects. Since the European Ministerial conference on environment in Sofia in 1995, Tacis funding for the environment has increased. Tacis also establishes programmes to bring immediate relief to regions where human health or natural ecosystems are severely jeopardised by environmental hazards, and it works to raise public awareness. Projects under way include

- the Joint Environment Programme to assist further implementation of National Environmental Action Programmes, by catalysing follow-up IFI lending through funding pre-feasibility or feasibility studies
- new Regional Environment Centres (REC) – the third phase of the initiative agreed by Environment Ministers in Sofia in 1995, which has already established a REC in Moldova, are in the process of being established in Georgia and Ukraine and a REC in Russia is planned. These will help environmental interest-groups and NGOs provide public access to environmental information, and to advise central and local governments on inter-regional cooperation – with preparations under way for a new Centre to cover Central Asia
- the Hazard Analysis Critical Control Point food testing centre, covering environmental and health and safety issues arising from industrial pollution, the Chernobyl accident and the consequent environmental damage; it has helped prepare national plans in Ukraine, Belarus, and Russia, and a pilot project in three food processing plants
- the Tacis Regional Seas Programme, which has continued support for ongoing programmes in the Black Sea, the Caspian Sea and the Danube River Basin.

The European Council in Cardiff in June 1998 reiterated the commitment of the EC to help Russian efforts to tackle the problem of spent nuclear fuel and nuclear waste in

North-West Russia, and this work will be incorporated into the tasks undertaken under the EU's Northern Dimension strategy.

Work is now under way to implement the Black Sea Strategic Action Plan, which was endorsed by Black Sea Environment Ministers in Istanbul in October 1996. Tacis (alongside Phare) has been active in the development of the international Black Sea Environment Programme.

Other projects advancing in 1998 include the development of a pilot Information System for Agro-Environmental Monitoring to help counter the insufficiency of the current agricultural system, environmental deterioration and the lack of a proper information system in Central Asia. Planning and management can be dramatically improved by independent and accurate monitoring and forecasting of crop production in the region, incorporating data on the use of water resources and fertilisers, and their impact on watersheds. Success with this pilot system could lead to extension of the scheme to the rest of the NIS and Mongolia.

Regional environment projects promote intergovernmental cooperation among NIS, and yet enhance their political and economic independence, as well as promoting economic and political links with the EU and EU candidate countries in central and eastern Europe. In June 1998 the Commission indicated to the 4th European Environment Ministers Conference in Denmark that EU enlargement will bring the countries of the former Soviet Union closer, imposing a "special responsibility on all of us to adopt a collaborative approach to seeking joint solutions to common environmental problems."

The success of Tacis activity in many of these interstate programmes often depends on securing investment follow-up by the IFIs, particularly the World Bank and the EBRD: long-term improvement of network infrastructure and environmental protection need significant capital investment. Tacis can help create the technical, institutional and organisational conditions in which investment can take place. For its spending of € 50 million, TRACECA has already leveraged commitments totalling € 250 million from the EBRD and the World Bank.

Cross-border cooperation

The Tacis Cross-border Cooperation (CBC) Programme funds actions of a cross-border nature between the NIS and the EU, and between the NIS and central European countries. It was introduced primarily in response to the creation of the EU's first border with the NIS, following Finland's accession to the EU in 1995, and the prospect of further EU enlargement in central and eastern Europe as well as the increased importance of the Baltic Sea Region to an enlarged EU. Reinforced cross-border cooperation is designed to ensure stability, where the difference in living standards on either side of the border is extreme, and where cooperation between the communities on either side can lay the foundation for sustainable economic and social development and encourage business development. The development of effective and efficient border crossings, using modern methods, is important to facilitate trade and investment, increase revenue collection for the state, reduce criminal activity, and improve the local environment (several kilometre-long queues of lorries in winter, with their engines running for warmth, is not conducive to local health).

Environmental projects are also important, since obsolete and inefficient environmental technology in some industrial sectors has produced waste, which has a harmful effect reaching well beyond border regions.

The 1998 programme concentrated on support for border crossings, and environmental and economic projects. It was developed via a series of preparatory workshops in the eligible beneficiary countries – Russia, Belarus, Ukraine and Moldova – to provide potential applicants with general information and individual support for their project ideas. For the three border-crossing projects on the Russian-Finnish border under CBC programmes for previous years, feasibility studies were finalised at the beginning of 1998, and tenders for works, supervision and procurement were launched. The 1998 programme continues work at the same crossings, with an emphasis on complementary construction and, in particular, technical assistance to the services at the border crossings, including border guards, customs, and veterinary and phytosanitary services. In addition, preparatory work was agreed for potential new border crossings, in particular at Brest-Terespol (Poland-Belarus), where there is a history of major delays to traffic, in particular freight.

The Cross-border Cooperation Programme has developed new areas of Tacis activity, by involving partner countries in construction and works contracting under new procedures, which require new levels of responsibility. These have required time to be introduced, but will facilitate other similar activities in the future.

New CBC projects agreed include

- developing international cooperation on trans-boundary water quality assessment and improvement between Belarus and Poland, aimed particularly at improving the quality of the river Bug
- river basin management and environmental status of the Daugava/Zapadnaya Dvina Basin in northern Belarus and Latvia
- environmental review and development of protection options for the Prut river tributaries in Moldova (linked to an ongoing Phare project of a similar nature in Romania)
- water quality management in Kaliningrad's coastal zone and its borders with Lithuania and Poland (linked to ongoing or upcoming projects from EBRD and Interreg)
- an environment quality management system for the Patsojoki/Paz river, which flows through Russia, Finland and Norway
- habitat restoration and ecological safety improvements in the Lower Danube lakes – to remedy the causes of mass fish deaths in Ukraine, Moldova and Romania
- small and medium-sized business support in the Zakarpatska region of western Ukraine, closely linked to Hungary and other countries in the Carpathian area.

The work programme adopted at the first EC-Russia Cooperation Council was explicit on cross-border cooperation, which it said “shall be reinforced in order to promote stability and economic development at the common border and at the borders of central and eastern European countries, for instance through cooperation between communities and regional authorities on both sides of the border, multilateral regional cooperation (including in the Baltic, Barents, and Black Sea regions) and through

improved border controls and transit procedures". And it went on: "Both sides shall seek active participation of Russian partners in the Tacis Cross-border Programme."

Justice and home affairs

The objectives of actions in Justice and Home Affairs (JHA) are to strengthen the capacities of NIS through targeted technical assistance, and to increase cooperation between the NIS, and between the NIS and the EC.

Following the mandate of the European Council of Dublin in December 1998, the Commission is currently concentrating on the fight against illegal drug production and trafficking in the Central Asian Republics. A first batch of seven projects to be financed under the 1997 Interstate budget has been identified. Project definition missions visited the region in May-June 1998 to produce detailed terms of reference for those projects, which include law approximation and reinforcement of the institutional capacity to combat drug trafficking, reinforcing technical capabilities of the police, and controls at border crossings, airports and ports; while also reinforcing border management; and support for a regional centre for training sniffer dogs used for detecting drug smuggling. 1998 programming allowed for a broadening of the geographical and thematic scope of JHA fields of activity, to include the fight against money laundering, and for links to parallel activities in the Phare Programme.

Small project programmes

Alongside its major programmes linked to individual countries or regional strategies, Tacis also provides assistance through closely targeted and flexible small-scale projects, which may be for sums of as little as € 100,000, but which supplement the major thematic programmes, and can be implemented relatively quickly. These so-called small project programmes provide an umbrella for initiatives which share a common theme. These programmes operate predominantly at local level with individual entrepreneurs, non-governmental organisations, or local government administrations, helping to foster a pluralistic civil society at the grass-roots level. The programmes are financed through allocations from national Tacis budgets, thereby making sure there is a genuine demand for the local initiatives financed.

Productivity Initiative Programme (PIP) and Managers' Training Programme (MTP)

Developing economic activity depends on companies in the NIS changing many of their operating methods. They have to increase their efficiency so that they can function successfully in an open market economy. Under the Productivity Initiative Programme, by the end of 1998 over 800 senior managers from the NIS had received on-the-job training in companies in the EC, with a deliberate focus on managing change. This practical mechanism is geared towards understanding market-economy management systems and processes – not as a matter of theory, but in terms of seeing the implications of introducing them.

Eight such three-month training placements, supported by seminars and management training, took place in 1998, each for around twenty carefully selected candidates from among middle and top NIS management. Participants came from private and state-owned companies in the NIS, in manufacturing, banking, insurance, leasing, transport, and tourism. The EC host companies provided experience across the full range of business management – from sales and pricing, through customer service and human resources, to manufacturing disciplines such as production planning, total quality management, and inventory control.

A special version of the programme was also operated for small and medium-sized enterprises. The Work Attachment Programme (WAP) provided four batches of three-week placements in 1998, designed to give participants a clear picture of SME management in a market economy environment. Experience covered production, quality management, financial management, and sales and marketing, with a particular focus on how a company interacts with its external key players such as suppliers, customers and financial institutions. WAP participants were also required to conduct analytical studies of how their training has assisted their ability to introduce and manage change.

In response to the success of the PIP programme, back in 1997 the Russian government set its training institutes and companies the task of training 25,000 young managers over a period of five years with the aim of facilitating economic development in Russia, by increasing the capability of managers, by strengthening management systems and processes, and by developing domestic management

training institutions. The training in Russia is on practical business and management issues and foreign languages. Of the 5,000 managers to be trained per year, a substantial number will go on a traineeship abroad. The Russian government asked the international donor community to make traineeship places available in public and private companies.

The EC responded to this scheme by deciding to replace the current PIP, with the Managers' Training Programme (MTP). The MTP goes beyond the PIP, it is larger, offering a higher degree of flexibility. The MTP will provide a minimum of 1,000 traineeships in EC companies and seminar training for NIS managers. 800 internships are for participants from the Russian Federation and 200 internships for Ukraine, Mongolia, Azerbaijan, and Uzbekistan. The MTP shall provide for joint seminars and programme follow-up in order to facilitate the development of a management culture among alumni and to support monitoring and sustainability of results.

The MTP programme was developed during 1998, involving EU Member States' bilateral programmes and by closely involving the secretariat of the Russian programme. The programme went for public open tendering in February 1999 and a contract should be in place by September 1999. This timing will ensure a proper hand-over from the present PIP contract to the new MTP programme.

European Senior Service Network (ESSN)

The European Senior Service Network helps fill gaps in management expertise in enterprises in the Tacis countries as they make the transition to a market economy. The programme allows owners and managers to directly access the know-how and experience of 30,000 retired EC managers and professionals, who make themselves available as senior experts for on-the-spot analysis and advice, and for follow-up assistance.

The programme helps strengthen the performance of enterprises that have been recently privatised or are planning to privatise. ESSN experts have fostered new ideas, improved management practices, helped in the identification and evaluation of new markets and encouraged employment in the private sector. They also provide a potential link for improving industrial and commercial relations with partners in the EC.

The experts focus on enterprise privatisation and restructuring, but the programme also conducts workshops in the Tacis partner countries for selected trainers and local managers of smaller firms, to help give companies the tools for developing their own staff training.

The European senior experts provide voluntary services and receive only daily expenses. NIS enterprises make a contribution to local costs. Technical assistance funded from the ESSN programme may be carried out in cooperation with bilateral or international donors.

Joint Venture Programme

The Joint Venture Programme, designed to promote productive EC investment in the NIS, has encouraged the development of a competitive private sector there. One recent outcome of the programme is the creation of a ready-made meals business in Russia, where a UK poultry breeding company and a Russian frozen food supplier pooled their expertise to offer a new type of value-added product to the emerging Russian market. Specialist oils and lubricants for civil and military aviation are the focus of another recent joint venture, split between a French specialist manufacturer and a trio of Russian partners linked to the aviation industry.

Firms creating EC-NIS joint ventures have obtained preliminary information from Tacis-sponsored research events and seminars geared to generating initial contacts. But the assistance goes further, in the form of feasibility studies, market analyses, business plans, the preparation of contractual documents, and even the possibility of equity co-financing or guarantees in the future, occasionally linked to funding from the European Bank for Reconstruction and Development. And established joint ventures have been supplied with training and technology transfer.

The programme was initially limited to Russia, but in 1998 its geographical scope was widened to include Azerbaijan, Georgia, Armenia, Uzbekistan, Mongolia, Ukraine, Moldova and Kazakhstan.

LIEN

LIEN, the Link Inter European Non-governmental Organisations (NGOs) programme, has continued to stimulate citizens' initiatives and strengthen non-governmental organisations in the social sector. The programme encourages exchanges and cooperation between NGOs from the Tacis countries and NGOs based in the European Community. The more than 100 projects selected to date have helped improve the conditions of disadvantaged women and have assisted social reintegration and health support for marginalised groups of the population.

Projects have included an AIDS prevention and education programme in the Russian Federation, development of a model housing and agriculture project to house orphans and displaced families in Kaluga in the Russian Federation, establishment of a treatment centre for the physically disabled in the Babushkinskaya district of Moscow, and social and economic integration of visually impaired and disabled workers by improving the facilities at two car-accessory production units in Samara, Russia. Other projects have focused on improving the quality of care for mentally handicapped children through a parents' association in Noviki, Belarus, and establishing an effective training programme for mental health workers to provide health care therapy for children in the Ashtrarak region of Armenia. In Mongolia, a project which aims at the reintegration of ex-prisoners continued, along with a project setting up a clinic for the prevention and treatment of eye diseases. A new call for proposals was made in 1998 for the selection of new projects.

In addition to delivering direct assistance to social challenges, the projects also play an important role in developing partnership and quality of NGO management in the NIS. It is a crucial element of the programme that NGOs from the Tacis countries must apply in partnership with an NGO from the European Community, and that projects are chosen on the basis of quality, capacity of partners, viability and cost-

effectiveness. The underlying rationale is that non-governmental non-profit organisations play an important role in reinforcing democracy and developing civil society in these countries. In 1998, the SCR Evaluation Programme called for proposals for an analysis of the LIEN programme, which will be conducted in 1999.

Tempus

The Tempus programme of assistance to higher education in the Tacis countries secured a third phase when the Education Council agreed in principle in December 1998 to extend it from 2000 to 2006³. The aims of Tempus are to promote quality and restructuring of higher education in the NIS and Mongolia and to encourage cooperation with EC universities. Tempus has been the largest technical assistance programme of its type in the former Soviet Union. The programme developed in the face of declining state budgets for university education, a lack of comprehensive education reform policies, low overall efficiency, poor linkages between education, research, and industry, and an educational provision that is no longer in line with national development requirements. Major results have included curriculum development, with new courses, textbooks and teaching materials. Exchanges among staff have helped upgrade knowledge and skills, particularly with new teaching materials and methodologies. Student exchanges were highly appreciated by the participants, in both general and academic terms.

NIS educational authorities have been appreciative of the programme, which has helped compensate for acute shortages in local higher education financing, and dialogue has been intensified to fine-tune Tempus priorities with those of the countries themselves. The 'bottom-up' approach of Tempus, with project proposals initiated and developed by the EC and NIS universities themselves, has the advantage of giving all universities a chance to participate from the start of the project cycle. But attention has turned in 1998 – as the Council decision confirms – to finding ways of ensuring sufficient attention to broader issues of higher education reform and rationalisation and to evolving human resource development requirements in the NIS, and to developing closer links between the Tempus priority areas and those of the regular Tacis Programme.

Following the external evaluation of the Tempus programme in 1998 the new programme will feature several new activities. Institution building projects will be introduced for the development of administrative and institutional structures in the beneficiary countries by providing the framework and resources for universities to train staff from the national/local administrations, semi-public bodies, enterprises and NGOs. Networking projects will enhance the impact of existing Tempus projects working in the same subject area by linking them into a network involving partners from the EC and one or several beneficiary countries. The strengthening of regional cooperation will be encouraged in all types of projects. Individual mobility grants will be introduced in the areas of networking with on-going Tempus projects in the EC and the Associated countries and cooperation through student mobility projects will be continued in the Russian Federation and extended to certain other countries.

³ Adopted by the Council on 29 April 1999

The programme will continue to help the higher education systems in the eligible countries in developing and reshaping curricula in the priority areas, in the reform of higher education structures and establishments and their management, and in the development of training leading to qualifications, with a view to overcoming the shortage of high-level skills needed in the context of economic reform, particularly by improving and increasing links with industry.

Customs

The Tacis programme on customs cooperation took on increased significance in 1998. In the NIS customs services are often the major single contributor to the National Budget, with potential to collect up to 40 per cent of state revenue, although real receipts are often much lower.

In the context of trade facilitation, an effective and efficient customs service is fundamental. Not only will the movement of goods be accelerated but also the climate for inward investment is considerably enhanced.

Tacis customs assistance extends right across the NIS, and is acquiring growing importance as cross-border trade and traffic grows and generates an increasing need for cooperation. Because the level of development in each country is different, the specific programme deliverables vary – but the overall strategy is to provide the necessary expertise to enable customs services to facilitate trade, collect state revenue efficiently, to provide social protection, notably in the fight against illicit traffic, including drugs, weapons, nuclear and other hazardous goods, to combat commercial fraud, and so strengthen the collection of statistics.

Following a meeting between the Russian Prime Minister and the Commission President on 18 July 1997 a joint statement on Customs cooperation was issued, particularly related to enhancing trade, and led to a “new Customs initiative”. This was timely, in that developing efficient customs operations reappeared frequently as a priority in the anti-crisis measures that were discussed in 1998.

In Ukraine, following a meeting between the Ukrainian Customs State Committee and the Commission, a series of working groups took place in 1998 to draw up a strategic work programme for 1999-2001, which is now under implementation. This process is being repeated in other countries.

Elsewhere, where customs are still in an early stage of development, Tacis has aimed at boosting awareness of the role of customs in a market economy and assisting to develop the key tools, such as legislation, institutional development and staff training. Action plans have then been tailored to individual country needs.

For example, one project under way in 1998 stretches from Moldova across the Republics of Central Asia and aims to provide primary customs legislation based on international standards. This prepares the way for follow-up through implementation mechanisms such as instruction manuals and training of officials. In the countries that have advanced furthest, support has been provided for permanent customs training centres (a major project is under way in Ukraine to do this), investigation services, computerisation, specialised services such as auditing, and customs laboratories.

Formal partnerships have also been established, such as a two-year twinning project between customs offices in Vyborg in Russian and Lappeenranta across the border in Finland to improve the flow of cross-border traffic and customs controls.

Statistics

The EC Statistical Cooperation Programme with the NIS has been in operation since 1993. Its goal is to provide support for the changeover to democracy and a market economy by offering the NIS a statistical language that is in line with world standards and by developing the local skills and know-how required for its successful implementation. The assistance provided so far can be divided into three stages:

An initial interstate programme, implemented in 1993-94, was driven by common interstate priorities and organised as two sub-programmes of a regional nature: technical assistance and training. The programme was centred around mutual acquaintance, preliminary assistance with building a national statistical office and the launch of statistical thematic projects. Most activities were organised at interstate or sub-regional level. A second interstate programme (Statistics 1) implemented between 1996 and 1999, also included Mongolia and began to focus more on national priorities.

A third period, presently under implementation, consists of purely national programmes (Statistics 2 and 3). It is more targeted at national needs and at the strengthening of an infrastructure for statistics. The following are specific medium and long term objectives of the programmes with the NIS: to ensure the strict independence of official statistics, to establish priorities in statistical work, to ensure quality standards at an international level, to protect individual data, to reduce the burden on respondents, to develop awareness of the main users' needs, to collect data for joint publications and PCA needs.

In practice, Tacis statistical cooperation is active in a lot of statistical fields: business statistics, external trade statistics, demographic statistics, national accounts and macroeconomic statistics, agriculture, energy, registers, publication and dissemination. The approach used has been 'learning by doing', working alongside officials, pilot projects, on-the-spot training, and support via exchanges and international seminars.

In order to fulfil the PCA requirements, an exchange of statistical information between Eurostat and the Russian Federation was launched in 1998 for a wide range of general indicators and detailed external trade statistics. The same kind of agreement is on the way with Ukraine. For other countries, such as Armenia, Belarus and Moldova, the data exchange will concentrate on external trade statistics.

City Twinning

The Tacis City Twinning Programme has helped local and regional authorities in the NIS improve management, reform their structures, increase efficiency and promote democratic processes. Local authorities in the NIS and the EC have cooperated together in defining changes that could improve delivery of services, and in creating joint programmes to achieve change.

Transfer of know-how is effected by on-the-job experience and practical training for local and regional government officers of the NIS. Trainees stay in the EC, with their twinned authority, to finalise a joint project which is then implemented in the NIS local or regional administration with the assistance of the EC partner.

Since the pilot phase in 1996, the programme has supported 65 projects. In the second half of 1998, a call for proposals for the Tacis City Twinning Programme elicited a wide response, with project proposals across the designated areas of management of social facilities and services, environmental awareness, public administration, local democracy, public participation, and economic development.

The short-term objective is to boost efficient management. The long-term aim is to develop and strengthen lasting cooperation and partnerships between the local and regional authorities of the EC and Tacis countries. Experience acquired during each training project is disseminated, along with project results, so that not just the direct partners of the projects benefit, but the reform process is consolidated widely.

Policy Advice Programme (PAP)

Governments, parliaments and other institutions in the Tacis countries still frequently find themselves lacking in expertise for policy-analysis and policy-making. This Tacis programme has been developed to meet requests from senior government officials in the NIS for advice in preparing and implementing policy decisions and legislation. European Union experts are sent to work closely with the officials concerned, and to provide the requested advice and knowledge. A major advantage of the programme is the short mobilisation period of experts (sometimes as little as two months).

A network of EU experts – known as the European Expertise Service – is available to offer short-term specialist and independent advice on the range of subjects that governments are having to deal with, often with limited prior experience. Subject areas have included macroeconomic policy, financial services, sectoral economic policy, investment policy, social affairs, structure of government and of public services or local administrations; codification of laws, civil, economic and business legislation; and environmental policy. Advice has been sought to develop strategies for WTO accession preparations, PCA implementation, and reform-oriented legislation.

Independent economic evaluations provided by the PAP in Russia, Ukraine, Armenia, Azerbaijan, Uzbekistan, Moldova, Belarus, Georgia and Kazakhstan have continued to generate the 'Economic trends' series of regular analyses of performance and policy, through units that both develop local capacity and provide advice to high-level decision-makers. In Georgia, the EES has been advising the offices of President Shevardnadze and his economic reform team. Resident EES experts have provided policy papers on specific aspects of the reform process, and have assisted in negotiations with the international donor community. Moreover, EES experts worked with Kyrgyz counterparts with a view to reassessing and redefining Kyrgyzstan's public investment priorities, facilitating aid financing of public investment projects, and assisting in the presentation of the country's plans at a World Bank Consultative Group Meeting.

The programme also aims to develop local capacity to analyse and tackle specific policy issues. The longer-term objective is to build strong working links between government officials involved in policy-making in the New Independent States, and experts and academics in the European Union.

International Science and Technology Centre (ISTC) and the Science and Technology Centre in Ukraine (STCU)

The ISTC is an inter-governmental organisation set up by an international agreement between the European Union, the United States, Japan and the Russian Federation. It is jointly financed by the EU Tacis programme, the US, Japan and by Norway and the Republic of Korea. Since its inception in March 1994, the Governing Board approved for funding over 700 projects for a total of nearly \$190 million, the EU providing about €72 million, the US \$77 million, Japan \$28 million and Norway and the Republic of Korea \$2 million. The EC participates directly in the funding of 350 projects.

The ISTC projects support the redirection of nearly 23,000 scientists and engineers, over 60% of which are former Soviet weapons of mass destruction (WMD) or delivery system specialists from over 350 institutes in Russia and other NIS, including Kazakhstan, Belarus, Armenia, Kyrgyzstan and Georgia. In addition, over 300 non-NIS research and development institutes, private industry, universities, and international organisations are involved in projects at their own expense.

An essential characteristic of the Centre is its focus on providing opportunities and incentives for the participating scientists and engineers to develop long-term civilian career opportunities. The Agreement states that the success of the Centre requires broad-based support, not only from involved parties, but from other sources. To that effect, the Governing Board established an Industry Partner Programme, which has already attracted more than 40 organisations, and has generated support in excess of \$5 million.

The projects funded under the ISTC directly reflect the objectives of the Agreement both in terms of technical areas and reinforcing economic transition in response to civilian needs. Major technical areas of project activity include environment, energy, nuclear safety, materials development, space and health. Over the past years, the Centre has made significant progress in meeting its broader non-proliferation objectives. These include solutions for national and international technical problems, supporting transition to a market economy, support of basic and applied science, and further integration of Russian and NIS scientists into the international scientific community.

Continued engagement of Russian and NIS scientists through ISTC programmes remains urgent and valid. The Centre continues to receive new project proposals at a steady rate of about 300 per annum. Due to the experience acquired during the first four years by the Secretariat as well as the proposing research institutes, the quality and interest of project proposals is increasing. In addition, with the introduction of private partners in project financing, and also in order to attract new partners, the requirements on proposals have increased, especially in terms of potential use of results.

After four years in operation, the ISTC is achieving its objectives. It enters its fifth year as a diverse, multinational programme, committed to the non-proliferation of weapons of mass destruction (WMD) expertise and technologies. —————

In addition, the Communities have joined the STCU in November 1998. Canada, USA, Sweden, and Ukraine founded the STCU in 1994. The Governing Board approved in the period 1995-98, the funding of 197 projects for a total in excess of \$25 million with the USA as the main donor (\$20 million), Canada \$1.6 million and Sweden \$1.7 million. At the last Governing Board in December 1998, the EC contributed €1.3 million supporting 13 projects.

The Tacis Democracy Programme

The EC strategy towards the NIS is geared to promoting democracy as much as to promoting the market economy. A specific programme operates in parallel to Tacis to help build democratic institutions in the region, and to encourage the development of democratic practices and vigorous multiparty systems. The EC pays expert advisers to help governments and public institutions develop an understanding of parliamentary practice, the rule of law, civic education and the role of an independent media. And it co-finances cooperation among NGOs that are actively promoting democratic practices.

The EC has backed NGOs promoting parliamentary practice and organisation, strengthening NGOs, promoting transparency of public administration and public management, encouraging the development of independent media, promoting and monitoring human rights, developing awareness of equal opportunities in the workplace, providing civilian control over security structures, and training trainers in conflict prevention, mediation and resolution, civic practices, multicultural awareness and tolerance.

The emphasis is put on non-governmental civil society actors. EC or NIS NGOs may propose EC-NIS or NIS-NIS joint projects that meet the needs of NIS partners. NGOs may also obtain assistance from local EC Delegations of up to € 50.000 for local projects.

From human rights to civic education

The scope of the projects is wide. It ranged in 1998 from a legal aid programme for victims of human rights violations in Armenia and democratisation of trade unions among Azeri textile workers to civic education for adults in Belarus and the bringing up of democratically behaved younger generations in Georgia. Two European Union women's groups have been working with a Russian women's organisation to improve its organisational and managerial capacities and to increase its ability to provide information on women's rights. A British institute and the Caucasian Institute for Peace, Democracy and Development have been organising a series of seminars on issues such as relations between society and the armed forces for parliamentarians, administrators and military personnel in Georgia.

While NGOs play a key role in the programme, a "Joint Programme with the Council of Europe" operates in both Ukraine and Russia. In this framework, assistance is given to deepen consistency of approach in a wide variety of judicial and human rights areas to the commitments made in becoming members of the Council of Europe.

Matching the approach to the problem

The institutional framework for the next phase of the programme underwent some changes during 1998. Local emphasis has been differentiated, so that while the key themes for support include judicial training, human rights, civic education, and media independence, the decision was made for the Caucasus, for instance, to enhance

contributions to active conflict prevention. Local conditions and requirements will also be met by increasing allocations to microprojects, in which the Delegations of the Commission are to play a more prominent role, to accord with recommendations of the evaluation conducted on the Tacis Democracy Programme.

In May 1998, during the EU-US Summit in London, winners were announced of the **Democracy and Civil Society Awards**, which gave fifty prizes of \$ 20.000 -- each to outstanding contributors to democracy and civil society in the Central and Eastern Europe and the former Soviet bloc.

US President Bill Clinton, European Commission President Jacques Santer and Council of Ministers' President Tony Blair handed certificates to a selected group of the winners, while similar ceremonies were taking place across the continent. "I am especially pleased that a substantial proportion of the winners of the EU-US Democracy and Civil Society Awards have been associated with the EU's Democracy Programme in the past," commented President Santer. "It proves the value of these programmes and underlines the EU's commitment to developing stable democracies across Europe." The winners included the Moscow Research Centre for Human Rights and the Yerevan Press Club in Armenia.

Financial and Operational Performance

Since 1991 the European Communities' support for transition in the New Independent States has seen € 3,793 million committed through the Tacis programme. More than € 507 million were committed in 1998.

A noteworthy achievement in 1998, underlining the efficacy of the EC to respond to urgent needs, was the flexibility of the Tacis programming cycle with which Tacis was able to adapt the existing programme and to reallocate 1998 funds to boost Russia's and other NIS's capacity in tackling the Russian rouble crisis of August 1998. At the end of 1998 it was proposed to divert € 20 million of Tacis allocations into special aid programmes for population groups in Russia and the other NIS most severely affected by the consequences of this crisis.

During 1998, the most striking feature of Tacis performance was the continued tightening of the time lapse from project planning to project completion. A total of € 461.8 million were paid out during the year on projects that had been completed and verified - the highest total since the inception of Tacis:

The improved performance of Tacis was the result of management decisions taken within the Commission, and against a background of continual and challenging changes both within the EC itself, and in the beneficiary countries. Over the last two years particularly, the management of Tacis has been improved by new measures to overcome the complexity of the programming cycle:

- administrative, and particularly tendering, processes have become more transparent to partners and contractors;
- information about project results and about Tacis itself has been more widely and more effectively disseminated;
- a forward planning system has been set up to track project preparation and launch, and to identify bottlenecks;
- average project size has increased, to strengthen the impact of Tacis actions and to reduce the administrative burden.

The new Regulation that will replace the current Tacis regulation in 2000 builds upon the experience gained over the years since Tacis came into existence. In particular, the recent Tacis trend towards coordination and cooperation with other donors will be further encouraged, with attention increasingly focused on using EC grant financing to mobilise significant new investments. And to enhance the programme's ability to respond to unforeseen political or economic crises, a new formal provision has been proposed to allow for exceptional assistance under carefully defined conditions.

Funding procedure

As part of the Tacis programming process, there are three steps which take the annual budget approved by the budgetary authorities through to the point where projects are implemented and funds disbursed. Tacis has a financial management procedure which matches this process.

Commitment

Each year a Tacis budget is agreed, indicating the funds which the Commission is prepared to commit to the Tacis Programme. Operational programmes - the so-called Action Programmes - are then designed and once the financing proposals have received the favourable opinion of the Tacis Committee and have been agreed by the Commission, the relevant funds associated with these proposals are said to have been "committed". Tacis must commit its entire annual budget within the year to which the budget applies.

Contracting

Once funds have been committed, tenders are issued so that the activities outlined in the Action Programmes can be put into practice. As soon as a tender has been successfully completed and a contract signed, the relevant funds are said to have been "contracted". Contracting is the most important measure of the implementation of the Programme, as it is via the contracts that Tacis funding can be disbursed and real implementation on the ground can start.

Payment

Payment is the final stage of the funding process. It takes place over the period of each contract, reflecting the completion of each component of the project. As projects may take several years, payments are often spread over the same time. It is for this reason that payments always lag behind the committed and contracted amounts. Another reason is that contracts are sometimes cancelled before completion, or that contingencies or reserves do not have to be fully used up.

SUMMARY OF THE ALLOCATION OF TAID RESOURCES, 1991-1998									
Fig. 1									
Taid funds committed by sector 1991-1998 (in million €)									
	1991	1992	1993	1994	1995	1996	1997	1998	Total
Armeds	2.2	9.6	17.8	9.6	9.6	14.8	9.6	19.6	96.8
Aviation	9.2	12.8	9.6	9.6	9.6	19.6	9.6	29.6	77.2
Boiler	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	79.2
Boilers	9.6	14.8	9.6	7.6	19.6	9.6	9.6	9.6	96.8
Coastal	9.6	9.6	9.6	9.6	9.6	19.6	9.6	19.6	96.8
Coastlines	7.6	29.6	14.8	14.8	19.6	9.6	29.6	9.6	96.8
Coastlines	9.6	9.6	19.6	9.6	9.6	9.6	19.6	9.6	96.8
Coastlines	1.2	9.6	9.6	19.6	9.6	9.6	9.6	9.6	47.2
Coastlines	9.6	9.6	9.6	9.6	9.6	9.6	9.6	11.6	96.8
Coastlines	212.8	115.6	199.6	199.6	199.6	199.6	199.6	199.6	1,298.8
Coastlines	9.6	9.6	9.6	4.8	4.8	9.6	9.6	9.6	9.6
Coastlines	9.6	9.6	9.6	9.6	4.8	9.6	11.6	9.6	96.8
Coastlines	29.6	49.6	43.2	29.6	72.8	79.6	99.6	44.8	422.8
Coastlines	1.2	19.6	9.6	19.6	19.6	29.6	9.6	29.6	199.6
Coastlines	199.6	99.6	172.8	131.6	194.8	194.8	199.6	199.6	1,298.8
Coastlines	9.6	24.8	21.6	21.6	49.6	49.6	37.6	49.6	243.6
Coastlines	9.6	24.8	11.6	21.6	29.6	37.6	24.8	31.6	199.6
Coastlines	9.6	9.6	9.6	19.6	19.6	11.6	11.6	9.6	42.8
Total	296.8	418.8	472.8	499.6	611.6	629.6	491.6	697.6	3,793.6
* Includes the inter-state, border, border and inter-border cooperation programmes									
** Includes ERDF Regional, Frontier, Cross-border and Development Programmes, Inter-national Action and Technical Funds									
*** Includes Contribution Units, education, research and innovation									
**** Includes Development Programmes and ERDF-Interregional Action									
Fig. 2									
Taid funds allocated by sector 1991-1998 (million €)									
	1991	1992	1993	1994	1995	1996	1997	1998	Total
Nuclear safety and environment	53.00	60.00	100.00	60.00	100.00	141.00	90.00	118.00	792.00
Restructuring state enterprises and private sector development	37.00	79.00	64.46	78.00	72.00	86.20	99.50	61.00	547.16
Public administration reform, social services and education	109.00	42.20	79.91	63.00	99.00	86.20	44.70	73.20	567.11
Agriculture and food	79.00	60.00	32.19	41.00	49.00	19.00	29.00	29.10	327.09
Energy	66.00	36.00	18.00	43.70	43.70	48.00	43.00	29.00	356.40
Transport	49.00	33.10	32.77	23.00	21.10	43.00	29.70	24.20	257.00
Telecommunications	9.00	9.70	9.00	4.10	7.00	9.00	7.20	9.00	59.10
Policy advice and PPPs	9.00	37.00	9.00	41.00	9.00	91.00	86.20	29.00	229.10
Direct	1.00	9.00	13.00	49.70	49.70	29.20	32.00	19.00	231.60
Donor Cooperation**	9.00	24.00	11.00	24.00	49.00	43.00	37.00	61.00	267.10
Programme Implementation Support***	9.00	24.00	11.11	29.00	29.00	37.00	31.00	42.77	200.00
Total	296.80	418.80	472.80	499.60	611.60	629.60	491.70	697.60	3,793.60
* Includes the Development Programme and inter-border cooperation programmes									
** Includes Inter-national Action, and Technical Funds, Cross-border and Development Programmes and the ERDF Regional Funds									
*** Includes Contribution Units, education, research and innovation and cooperation									
Fig. 3									
Cumulative funds committed, contracted and paid 1991-1998									
	Commitments*	Contracts	Payments	Reserves					
1991	296.8	0	0.4	291.4					
1991-92	615.4	296.8	32.3	606.3					
1991-93	1,287.8	593.6	212.8	732.0					
1991-94	1,797.2	1,071.2	513.7	692.3					
1991-95	2,289.4	1,498.4	847.9	643.1					
1991-96	2,804.4	2,093.4	1,283.6	716.4					
1991-97	3,288.5	2,744.4	1,668.8	641.3					
1991-98	3,793.6	3,231.6	2,130.4	641.3					
* The 1991-1998 committed total commitments and do not take into account possible decommitments after 1998									
Fig. 4									
Payments in each budget year 1991-1998 (in million €)									
	Paid in 1991	Paid in 1992	Paid in 1993	Paid in 1994	Paid in 1995	Paid in 1996	Paid in 1997	Paid in 1998	Total
Budget									
1991	0.4	23.4	120.8	114.4	69.8	24.8	7.4	4.1	364.9
1992		8.7	33.9	118.5	102.1	62.1	27.4	11.2	384.3
1993			15.6	96.8	109.7	62.1	66.8	49.1	397.2
1994				9.4	78.2	68.2	104.8	66.2	357.2
1995					29.6	68.2	124.1	77.2	299.6
1996						11.6	69.6	109.6	179.4
1997							12.6	69.2	81.8
1998								66.7	66.7
Total	0.4	32.1	180.3	300.2	374.6	375.6	408.6	461.6	1,698.4
Fig. 5									
Cumulative contracts and payments 1991-1998 (%)									
	1991	1992	1993	1994	1995	1996	1997	1998	
Cumulative contracts as a percentage of cumulative commitments	1.34%	25.57%	43.28%	61.00%	79.49%	73.27%	63.87%	66.72%	
Cumulative payments as a percentage of cumulative contracts	7.55%	15.99%	33.19%	47.67%	55.61%	61.64%	60.09%	66.57%	

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