

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(95) 13 final
Brussels, 20.02.1995

THIRD AND FOURTH ANNUAL REPORTS FROM THE COMMISSION **TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**on the implementation of Community assistance to the countries
of East and Central Europe (PHARE) in 1992 and 1993**

**THIRD ANNUAL REPORT FROM THE COMMISSION
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ON

**THE IMPLEMENTATION OF COMMUNITY ASSISTANCE
TO THE COUNTRIES OF EAST AND CENTRAL EUROPE (PHARE)**

IN 1992

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PREAMBLE

This is the third report on Community assistance under the PHARE Programme to the Central and Eastern European Countries, which was extended in 1992 to Albania, Estonia, Latvia, Lithuania and Slovenia. It deals with the general context of the assistance in 1992. It covers economic aid measures including regional co-operation aid and describes humanitarian aid. It reviews the 1990-1992 measures in addition to two specific issues of particular interest : the progress of reform in PHARE countries in 1992 and the impact of PHARE. Finally it describes the new guidelines which were adopted in 1992 and which constitute the framework for future PHARE support.

I - GENERAL CONTEXT FOR EC ASSISTANCE IN 1992

1.1 Legal basis

Council Regulations n° 3906/89 of 18 September 1989 ⁽¹⁾ as amended in 1990 and in 1991⁽²⁾ represent the legal basis for PHARE assistance. Following the recognition by the Community and the Member States of Slovenia and Croatia as independent republics, the Commission presented a proposition to the Council in order to formally include these republics amongst the beneficiary countries of the "PHARE Regulation". The European Parliament having given a negative opinion in respect of Croatia, the Council finally adopted a Regulation including only Slovenia ⁽³⁾.

1.2 Financial framework

The initial allocation foresaw a budget of 1.000 MECU for 1992 (budget line B7-600-Aid for economic restructuring of the countries of Central and Eastern Europe -CEEC's -).

During the year the Commission asked for the transfer of 25 MECU in order to finance the incorporation of Estonia, Latvia and Lithuania in the PHARE programme, in addition to the reconstitution of the appropriations used for the balance of payments grant to Albania. Following the Budgetary Authority's approval of a transfer of 15.5 MECU, the final budget amounted to 1.015,5 MECU, of which 1.015,3 MECU was committed.

The breakdown of the commitments was :

National Programmes ⁽⁴⁾	733.0 MECU
Regional Programmes	116.0 MECU
Multidisciplinary measures	44.8 MECU
Humanitarian Aid	121.5 MECU

TOTAL	1.015.3 MECU

Under budget line B8-760 "mini-budget" appropriations of 15 MECU appeared. This was used to cover administrative expenditure in support of the PHARE operations.

1 L 375 of 23.12.89, p.11

2 Second Annual Report on the implementation of Community assistance to the countries of East and Central Europe, p.4

3 L 277 of 11.8.92, p.1

4 Including balance of payments (MECU 35) to Albania

1.3 Policy Orientations

The Commission's approach to programming for the period 1991-1992 was defined at the beginning of 1991 and was applied for the first time during that year's programming exercise. A synthesis of the developing ideas on programming in the form of draft guidelines 1991/1992 was discussed and given a favourable opinion by the PHARE management Committee on 21.02.1991, and formally adopted by the Commission on 15.05.1991.

In addition to the extension of the aid programme to Albania, Estonia, Latvia, Lithuania and Slovenia the Commission therefore intended in 1992, as in 1991, to focus PHARE assistance on its fundamental objective which is to support the transformation of a market economy to one based on market forces. In order to increase the efficiency of the assistance, the emphasis was on concentrating on key sectors of the reform process. The "core areas" identified in this transformation process were notably the restructuring of public enterprises, the modernisation of financial services, the promotion of the private sector and the development of the labour market and the social sector. Assistance in the core areas would be complemented by support in related priority areas such as energy, environment, telecommunications, transport, health, housing, training and agriculture. In addition programming would also make due allowance for ongoing schemes of co-operation in the domain of human resources development such as TEMPUS and ACE, as well as supporting institution building efforts.

Assistance which would focus on technical assistance, training and studies as well as financial assistance within the framework of sectoral programmes aimed at supporting the development of a market economy.

While the bulk of the PHARE resources (75 -80 %) would be used for national programmes in accordance with the above mentioned orientations, 10-15% would be used to encourage programmes of a regional significance which can only be implemented on a regional basis or enable economies of scale if implemented on a regional basis. In addition, 5-10% would be reserved for humanitarian aid in response to the increasing economic difficulties and critical hardships experienced in some central and eastern European countries.

1.4 Programming

The core areas were identified in the context of programming dialogues with the beneficiary states on the basis of country priorities related to the objective of transformation and sustainable development as well as the emerging economic strategies. Attention was paid to the evolving or often transitional nature of many of the beneficiary governments and the need for flexibility to be supported under the PHARE assistance for 1992.

Following from this phase, Indicative Programmes were signed with the relevant authorities of the beneficiary countries during the first half of 1992 : CSFR 14.02.1992, Estonia 31.03.1992, Hungary 31.01.1992, Latvia 02.04.1992, Lithuania 03.04.1992, Poland 28.05.1992, Romania 31.01.1992, Slovenia 26.03.1992. The Indicative Programme for Albania was approved in the form of an exchange of letters on the 26.03.1992. Bulgaria had already signed a multiannual Indicative Programme on the 08.02.1991 covering the period 1991/1992. In that context the allocation of the indicative amount for 1992 to projects and other operations was therefore agreed upon on 29.01.92.

The Indicative Programmes while not being formal binding agreements with the Commission are working documents indicating priorities and providing a framework for the identification, formulation and appraisal of projects to be financed. They are summarised in tables 1 and 2.

The priority area identified as requiring most assistance in the majority of beneficiary countries was economic restructuring covering notably enterprise restructuring and privatisation, private sector development, and modernisation of the financial system. In addition human resources, particularly the social and health sectors, as well as agriculture and infrastructure were figuring as areas requiring assistance. Education, notably in the form of support for the TEMPUS programme figured also prominently among the key areas.

In several countries a general technical assistance facility was identified as being a flexible multidisciplinary instrument which would allow the beneficiary countries to respond relatively quickly to urgent need for TA with a view to develop reform policies and provide institutional support across a wide range of areas. In three countries, Estonia, Latvia and Lithuania, the bulk of the assistance was provided in the form of this facility, thus reflecting the early phase of the transformation of these countries. A fundamental characteristic of this is that basic technical assistance is required for a multitude of core areas.

II - 1992 MEASURES

2.1 Preparation and decision making

The total number of PHARE financing decisions on the 1992 budget was 96. These included 11 decisions under the heading of humanitarian aid in addition to 64 national sector programmes and 15 regional cooperation programmes, and also four global authorisations for small scale multidisciplinary actions.

The PHARE Management Committee met on ten occasions and gave a favourable opinion on all financing proposals except for an import support guarantee programme for Albania of 40 MECU which was discussed at an extraordinary meeting of the Committee. The proposal was then converted to an humanitarian aid programme of smaller size and approved by the Committee.

The draft general guidelines for PHARE 1993/97 were discussed in detail at various meetings of the Committee.

2.2 National Programmes

During 1992 the number of PHARE programmes grew to ten with the addition of Slovenia and Albania and the transfer to PHARE of Estonia, Latvia and Lithuania which had previously received Community assistance under the CIS programme. Total assistance on national programmes - that is, excluding humanitarian assistance and regional programmes - amounted to nearly 698 MECU (see Table). The largest PHARE recipient was Poland with 200 MECU, equivalent to 28.6% of total national allocations, followed by Romania (130 MECU, 18.6%), Hungary (101.5 MECU, 14.5%) and Czechoslovakia (100 MECU, 14.3%).

Table 4 shows the broad sectoral pattern of assistance by country. The figures should be treated with a little caution mainly because for some general technical assistance programmes not all the assistance is allocable by sector. Subject to this, roughly a quarter of total national allocations (167 MECU, 23.5%); was committed to enterprise development covering privatisation, enterprise restructuring, assistance to small and medium enterprises (SMEs), investment promotion and export development; this may understate somewhat the true extent of support since regional development programmes also include components designed to stimulate local enterprise. The ratio compares with approximately 28% in 1991 and underscores the continuing primacy of this area of activity for PHARE assistance.

Agriculture continued to receive substantial support (85 MECU or 12% of national allocations) reflecting the importance of this sector in the economies of Eastern Europe; this compares with approx. 15% in 1991. Although agricultural supplies continued to make up a proportion of such assistance, there was more emphasis during 1992 on assistance for agricultural strategy development and transformation including farm privatisation, agro-industrial restructuring, advisory services and the development of credit channels for the new private farmers.

Allocations to the social sectors and education (including the TEMPUS programme) which absorbed about 27% of national programmes, represent a relative increase as compared to 1991. The growing importance of the social dimension in the reform programmes of CEECs, including the need to restructure social security and health budgets, has been evident in the growing number of PHARE programmes addressing social policy and social sector reorganisational issues. These include support for labour market development to cope with the inevitable rise in unemployment resulting from restructuring measures. There was somewhat less emphasis on the environment in 1992 national programmes although significant commitments continued to be made to this area in Poland and Hungary.

Although technical assistance remained a central plank of PHARE support, particularly for countries at a relatively early stage of the reform process, other forms of assistance during 1992 continued to draw on the range of instruments available. These include: training, manpower development, equipment supply, the provision of essential inputs in exceptional cases (mainly in agriculture and health), and - increasingly - support for investment. The latter has included PHARE contributions, typically on a cost-sharing basis with the Government or local institutions, to developing financing mechanisms for newly emerging private agents including loans and credit guarantee schemes for SMEs and private farmers, as well as concessional financing schemes to promote environmental and/or regional development goals.

Finally the PHARE Programme contributed 35 MECU for balance of payments support to Albania.

2.3 Multidisciplinary measures

In addition to the sectoral programmes several operations were financed under the heading Multidisciplinary Measures.

First of all a commitment of 18.8 MECU for "multidisciplinary technical assistance" was agreed in several successive tranches as in 1990 and 1991. This is the enabling device giving a global authorisation to finance, within given parameters, small-scale operations such as feasibility studies and technical assistance without requiring a specific Management Committee opinion and Commission decision on each operation.

As in previous years, in 1992 the multidisciplinary facility was used to finance much of the identification, appraisal and auditing work for sector programmes. Planning studies were also financed for instance for telecommunications and infrastructure.

After the so-called "Bangkok Agreement" between the EBRD and the EC in 1992, a new cooperation was established between both institutions. This enabled the implementation of measures in the beneficiary countries, which are approved and financed by the Commission and are technically managed by the EBRD. This collaboration is considered to be successful and spent up to 18.5 MECU, in actions mainly related to the financial sector.

Two complementary activities started in 1992 under the multidisciplinary heading. The first one is PHARE Information Action, the objective of which is to inform the business and political milieux of the EC Member States about the Community's relations with, and assistance for the countries of Central and Eastern Europe. The amount committed for this programme was 2.5 MECU.

The other activity concerns the PHARE Democracy Programme, to which 5 MECU was allocated for the first time in 1992. The Commission followed in accordance with the budget line B7-600 comment of the European Parliament, which states that "An appropriation of ECU 5 million must be earmarked for the continuation of the democratisation process in Central and Eastern Europe. It must enable financial and technical aid to be provided on a non-party basis, through parliamentary institutions, for general civic education and democratic principles to be stabilised and reinforced in countries with close or developing links with the European Community".

The multidisciplinary measures amount to 44.8 MECU, for which the breakdown is as follows:

Multidisciplinary technical assistance	18.8 MECU
EBRD	18.5 MECU
Information Action	2.5 MECU
Democracy Programme	5.0 MECU

	TOTAL 44.8 MECU

2.4 - Regional Cooperation

During the course of 1992, increasing emphasis was placed on developing regional cooperation amongst the five PHARE beneficiary countries (Bulgaria, Czechoslovakia, Hungary, Poland and Romania) on issues of common concern and interest. Thus 116 MECU was allocated for regional programmes.

In 1992, considerable progress was made in strengthening the demand driven approach to programme/project formulation with much greater participation by the beneficiary countries. In December 1991, following a meeting of the 6 National Aid Coordinators in Brussels, a Regional Coordination Group was established with a rotating annual Presidency commencing with Bulgaria. This group was provided with technical assistance by the Commission and became responsible for defining the core areas for assistance, for evaluating proposals submitted by the beneficiary countries and by PHOS, and for achieving a consensus on the sectoral allocation of the budget which was then agreed with the Commission. In this respect detailed discussions were held in each of the countries with the National Aid Coordinators and sectoral ministries.

Furthermore, to ensure participation in the implementation of programmes, Sectoral Coordinators were nominated by the Group with the role of ensuring coordination and programme monitoring amongst the sectoral ministries and between PHOS and the Regional Coordination Group. The sectoral Coordinators are: Bulgaria (Telecommunications), Czechoslovakia (Transport), Hungary (Environment), Poland (Nuclear Safety/Ace) and Romania (Energy and industrial Property)

For the 1992 Regional programme, there were effectively 3 principal areas of assistance, Infrastructure (35 MECU), Environment/Nuclear Safety (46 MECU), and Education/Training (24 MECU) together with a number of Miscellaneous Programmes amounting to 11 MECU.

Within the Infrastructure Sector, by far the largest component was allocated to Transport (21 MECU) of which the major proportion (15 MECU) was directed to the alleviation of acute bottlenecks at border crossings on key transit routes between the Community and the CEECs. This was in response to requests from the CEECs to reduce extensive delays which were hampering trade. A crucial element in the assistance provided was the allocation of funds for direct investment for the improvement of border crossings using local contractors.

Other components in the Infrastructure Sector included Telecommunications (7 MECU) with the emphasis on training and Energy (7 MECU). The latter involved a wide range of initiatives to study the potential for improving electricity and natural gas interconnections between the Community and the CEECs, to rationalise oil refining and transportation facilities as well as to develop management twinning and improve the regulatory environment in accordance with the European Energy Charter.

For the Environment/Nuclear Safety component, 26 MECU was allocated to the Regional Environmental Programme reflecting the CEECs' increasing concern with issues of a truly regional nature which could only be addressed by concerted action. Whilst some elements involved extensions to existing 1991 programmes (Danube River Basin, Black Triangle, CORINE/Remote Sensing), others addressed environmental issues in the Baltic Sea and the Black Sea, for which the latter involved coordination with the TACIS Programme and with the Global Environment Facility being organised by the UNDP, UNEP and the World Bank. A crucial element in this programme is the Post-Dobris Environmental Action Programme for which 10 MECU has been allocated to form part of an overall fund supported by other donors to target specific projects for investment support.

The allocation of 20 MECU for Nuclear Safety was in response to the increasing pressure to provide assistance to improve safety standards for the Soviet designed nuclear reactors and to develop alternative waste management facilities and explore decommissioning possibilities.

For Education/Training, 24 MECU was allocated for ACE and TEMPUS. For ACE, substantial improvements have been made in developing much more transparent selection and evaluation procedures with participation by representatives from all PHARE beneficiary countries as well as in the management of the programme with a consultancy firm appointed to support DG II. For TEMPUS, a major proportion of the funding was allocated to a continuation of support for JEPs (Joint European Projects) and for the operational costs for managing the programme.

Finally, a number of miscellaneous programmes have been supported including the extension of the 1991 Statistics, Customs and Standards programmes to Estonia, Latvia, Lithuania, Albania and Slovenia as well as the Statistics programme to Poland. Additionally, a pilot programme for the Fight Against Drugs was launched in response to the growing concern at illicit drug trafficking in the CEECs ; and a Regional Industrial Property Programme jointly funded by the European Patent Office designed to harmonise legislation and upgrade facilities to protect industrial property rights.

In general terms, 1992 saw a strengthening of the coordination of regional programmes with much greater participation by the beneficiary countries.

III. - PHARE HUMANITARIAN AID

PHARE Humanitarian aid in 1992 was dominated by the situation in Albania as well as by the conflict in the former Yugoslavia. Preparations for a follow-up programme to complement the 1990-1991 operation for children in Romania were made in addition to the implementation of the food aid programme. The total PHARE budget of 121.5 MECU necessitated an increase of the budget reserved for humanitarian aid. This increase was approved by the Council on October 30, 1992.

10 MECU was reimbursed to FEOGA for the food aid provided to Albania. The Commission also decided exceptionally to finance a critical industrial import programme to help the Albanian industries to re-start production and so contribute to reduce the very high rate of unemployment. This programme totalling 30 MECU was decided in two stages : the first one in March for 10 MECU and the second one in June for 20 MECU. Counterpart funds deriving from the sale of the imported spare parts and raw materials were generated in accordance with the general protocol agreed with the Commission. A further allocation of 10 MECU was decided in July mainly for the rehabilitation of hospitals and dispensaries throughout Albania, the supply of basic medical equipment and for the building of houses for ex-political prisoners. The humanitarian aid provided to Albania has to be set in the context of support for the reform programme as the supplies provided were a necessary condition for starting up the transformation process.

PHARE contributed 39 MECU to emergency aid for refugees in the Former Yugoslavia. This operation was complemented by an additional 35 MECU mobilised from the 1990 PHARE Yugoslavia financial sector programme which had never started. PHARE also contributed 0.5 MECU for the financing of the Peace Monitoring missions. At the end of the year, the European Council in Edinburgh decided on a 100 MECU support programme for the Former Yugoslav Republic of Macedonia to assist in coping with the consequences of the blockade against Serbia. Thus, the Former Yugoslav Republic of Macedonia received an initial grant of 10 MECU from PHARE for an import programme of medicines, raw material and basic medical equipment which was complemented by a 15 MECU emergency grant provided by the European Office for Humanitarian Aid (ECHO.)

Concerning ROMANIA, a medium term humanitarian aid programme of 12 MECU was decided in December to complement 1990-91 actions for the rehabilitation of the orphanage and the training of the personnel in charge of the orphanages. The 1992 programme consists of the establishment and implementation of a global policy for the protection of children in liaison with the Romanian Government. In addition PHARE also financed food aid to Romania for an amount of 10 MECU.

IV.- IMPLEMENTATION OF 1990-1992 MEASURES

Once the financing decision has been taken, the normal procedure as explained in the 1990 Annual Report is for a financing memorandum to be signed by both the Commission and the Implementing Authority, usually the line ministry in the country concerned, specifying the respective responsibilities for management of both parties. As a general rule the use of decentralised implementation systems continued in 1992 with line ministries being required to set up Programme Management Units, designate an authorising officer, open a bank account and draw up a detailed work plan and cost estimates for the first six months.

4.1 Tenders and contracts

In accordance with Commission Regulations Technical Assistance contracts are normally awarded after restricted invitation to tender, i.e. on the basis of a selection of a limited number of firms (shortlis) which are asked to submit a proposal. The criteria for the final choice rely strongly on quality and to a lesser extent on price. For smaller TA contracts and for non profit organisations the contract can be negotiated by direct agreement. For supply contracts an open invitation to tender is published in the Official Journal of the EC.

All contracts can be awarded under either of two implementation systems used by PHARE :

- the direct implementation where contracts are awarded and managed from Brussels on behalf of the recipient countries
- the decentralised implementation system where contracts are approved and managed under a "work programme/advance payment " system by the recipient country.

Under both systems the same procedures have to be used, and under the decentralised implementation system the Commission monitors the respect of these procedures by the recipient institutions.

In late 1992 the Commission started the creation of procedural manuals, giving a complete new set of standard texts and guidelines for contracts (supply as well as services contract) and tenders (international as well as restricted).

Since data on contracts awarded under decentralised implementation reach the Commission only with some delay, the information given in the table below is still essentially based on contracts awarded under the direct implementation system. They show that 672 contracts have been awarded in 1992 of which 155 were awarded after tendering (total tendered amount of circa 70 MECU, i.e. 60% of the overall contracted total of circa 117 MECU)

The table below attempts to give a breakdown by nationality for contracts awarded from Brussels. This breakdown does not include those awarded under the decentralised implementation system. Information on these contracts will be available later.

CONTRACTS SIGNED DURING 1992

1. No. of cases	672 contracts
2. Total volume of contracts	117 MECU
3. National % in terms of volume	

COUNTRY	x 1000 ECU	in %
Belgium	16.117	13.7
Germany	10.528	9.0
Denmark	7.501	6.4
Spain	2.114	1.8
France	16.527	14.1
Greece	734	0.6
Ireland	7.395	6.3
Italy	2.227	1.9
Luxembourg	27	
Netherlands	5.350	4.6
Portugal	50	
United Kingdom	15.878	13.5
PHARE countries	8.449	7.2
International Organisations & Others	24.430	20.9
Unclassified	53	
TOTAL	117.380	

4.2 Payments

In 1992 a total amount of 434 MECU was disbursed under the budget line B7-600. This is almost the same amount that was paid during the two previous years (454.9 MECU). The breakdown by programme is the following :

Programmes of 1990	48.9 MECU
Programmes of 1991	169.4 MECU
Programmes of 1992	215.7 MECU

TOTAL	434.0 MECU
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Together with the disbursements made in 1990 and 1991, the total amount effectively disbursed by the PHARE programme at the end of 1992 was 888.9 MECU, or 38.81% of the total commitments taken with the beneficiary countries. An overall view of disbursements is given in Table 8.

Out of disbursements made in 1992, 311.7 MECU were paid directly to the contractors by the Commission in Brussels, and 122.3 MECU were advanced to the PIU's (Programme Implementation Units) in the beneficiary countries. The total amount advanced to the PIU since 1990 until the end of 1992 was 259.9 MECU representing 29.3% of the total 888.9 MECU disbursed.

The advances to the PIU reflect the particular aspect of the PHARE implementation system. They refer to the decentralised implementation procedure, under which the recipient countries are given a share of responsibility for execution. The recipient institution in charge (PIU) receives an advance payment based on an estimated work plan and budget allocation for the six month period ahead. This advance enables the PIU to conclude contracts and to make payments provided certain Commission approvals are given.

While this implementation system is very desirable because it shifts responsibility increasingly to the PHARE recipients, it also takes more time to set up the local units. However, it allows the acceleration of disbursements once the local institutional capacity has been established, which is usually in the second year of the programme cycle.

4.3 Monitoring and Evaluation

The major part of the programme is implemented under the decentralised management system. There are now more than 60 PMUs in place in PHARE recipient countries. Given this situation monitoring and evaluation have become an essential management tool.

While financial monitoring is being done through a standardised financial accounting and reporting system (PHACSY) technical and operational monitoring is done through an established planning and reporting system. Regular six monthly work programmes setting out targets, activities, contacts, payments, etc. provide the basis for a regularly comparing the plan with the achievements in the progress reports. This internal monitoring is being supplemented by audits and missions if necessary.

Technical monitoring will further be improved by integrating the logical framework into all planning and reporting documents (i.e. financial proposal, plan of operations, work programme, progress report, end of programme report). The logical framework method will allow the monitoring of achievements based on objectively verifiable indicators. Furthermore it will provide a sound basis for evaluation of programme objectives and assessment of impact.

While the monitoring is primarily geared towards an improvement of programme operations, evaluation is meant to provide information which allows improving the programme through better selection and design.

At the end of 1992 a first evaluation was prepared for the environmental sector in Poland and Hungary. More sector and programme evaluations will follow. Evaluations will be either undertaken during programme implementation or at the end of a programme. The evaluations will be undertaken by outside experts based on clear terms of reference and evaluation criteria in order to limit the bias.

4.4 Counterpart funds

In 1991 agreements on the use and generation of counterparts funds were drawn up with Albania, Bulgaria and Romania. In 1992 agreements were drawn up with the governments of Estonia, Latvia and Lithuania.

The legal basis for the utilisation and the management of the PHARE Counterpart Funds (CPF) is the Memorandum of Understanding which was signed between the Romanian Government and the Commission of the European Communities in September 1991 and the Government Decision 470/1992. This decision transfers the financial administration of the Counterpart Funds in Romania from the Romanian Development Agency to the Ministry of Finance and the Department for European Integration of the Council for Co-ordination, Strategy and Economic Reform. On October 29 1992 a Protocol was signed between the Ministry of Finance and the R.D.A. to this effect. A programme for the use of Counterpart Funds was approved by the Romanian Government and was presented for agreement by the Commission of the European Communities in February 1992. The breakdown of the use of Counterpart Funds was agreed through an exchange of letters between the Commission and the Government of Romania. Counterpart Funds were generated by the sale of food-aid and commodity supplies provided in the context of the PHARE Programmes for transport, agriculture and humanitarian aid (medecines). Following agreement, part of the funds have, however, been used *inter alia* for humanitarian aid programmes, directed specifically to orphanages and children in care.

In Albania Counterpart Funds were generated by the sale of food-aid, industrial supplies and agricultural equipment. As a result of the large budget deficit and in accordance with the recommendations of the IMF, the Commission decided -in concertation with the major donors- to use the Counterpart Funds for budgetary support.

Poland's Counterpart Funds have mainly come from the sale of animal feed and agrichemicals. The funds were generated within the context of 1990 PHARE National Programme, and their use was set on an annual basis according to the Indicative Programme. The task of management of the counterpart funds has been assigned to the Co-operation Fund, an institution separated from the government. Part of the funds have been used for the pre-financing of PHARE programmes and the promotion of the opening of the new branch of the College of Europe in Natolin. Funds have also been allocated to training programmes and in support of economic/legal research in the context of the Europe Agreement.

Bulgarian Counterpart Funds were generated by the sale of agriculture, medical and energy supplies delivered as from the end of 1990. The funds are managed on behalf of the Government by a state Fund for Reconstruction and Development. Awaiting the agreement on an Indicative programme some of the funds have been used for health care programmes.

Estonia, Latvia and Lithuania agreed on Counterpart Funds in December 1991. Prior to the first deliveries, memoranda of understanding, setting out general principles for receipt and distribution of EC supply programme assistance, and aides memoires, setting out details specific to the cereals supply programmes, were negotiated and signed with each republic. All funds generated from the first tranche of sales have been allocated to income supplement schemes targeted at the most needy socially deprived groups. An exception was made in Latvia where the funds were allocated to agricultural reform and development measures.

V - SPECIFIC ISSUES

5.1 Assessment of the reform efforts in PHARE countries in 1992

In the transition to a market economy, whereas liberalisation and stabilisation can be accomplished quite quickly, structural reform takes much longer to achieve. This draws a clear line between those PHARE countries that have already dealt with liberalisation and its repercussions before 1992, and those that were still struggling with the price and exchange rate shocks and were launching structural reform in an unstable macroeconomic environment. The group of early starters included Poland, Hungary, CSFR, Bulgaria, and Slovenia.

5.1.1 Economic performance in 1992

In 1991, the collapse of the CMEA generated large losses of external markets for PHARE countries, which aggravated the recession throughout the region. 1992 was still a depressed year, except for Poland, which achieved slight GDP growth. However, there was a sharp contrast between the two groups of PHARE countries. In the advanced countries, GDP growth, though still negative, indicated a bottoming out of the recession: growth rates lay between 1% for Poland and -8% for Bulgaria, against a range of -8% and -17% in 1991. Except in Albania, the less advanced countries experienced a sharpening of the recession in 1992 with GDP declines of between -6% (Albania) and -35% (Lithuania) against a range of -3.5% and -27% in 1991. The macroeconomic dynamics and imbalances underlying this growth performance reflect the different stages in reform reached by the various countries.

For the early starters, the relatively better performance in 1992 over 1991 was mainly driven by the successful reorientation of exports towards western markets which had started in 1991, and the correlated export growth. All countries ended the year with a trade surplus. Investment, however, still has shown no sign of recovery. One of the positive features of the advanced countries is the slowdown in inflation after the completion of price liberalisation. Except Slovenia, all countries in the group had two-digit inflation in 1992. However, the combined effects of the prolonged recession and the impact of the restructuring reform are generating new macroeconomic imbalances, which risk becoming medium-term features for these economies and which present major challenges for governments. Unemployment was increasing very rapidly, exceeding 10% of the work force at the end of 1992. This increased the burden of social protection in public expenditures. Simultaneously the tax base was shrinking. In some countries, such as Hungary, Bulgaria and Poland, this has already resulted in an open fiscal crisis with public deficits repeatedly exceeding 5% of GDP.

In the less advanced countries, the macroeconomic environment did not stabilise or began to do so only late in the year. Inflation was still a three or four digit figure in 1992, and during the year anti-inflationary policies relying on instruments such as excess wage tax were implemented. The current account was in deficit, or if there was a constraint on the availability of foreign exchange, the external balance was achieved through drastic import restrictions. The current account imbalances were particularly acute for Estonia, Latvia and Lithuania which only became independent in late 1991 and suffered acutely from the disintegration of the Soviet Union and subsequent collapse of the Soviet internal market. In these countries, unemployment and public deficits have not yet become an issue, except in Albania and in Romania which experienced serious fiscal imbalances in 1992.

The progress in structural reform in 1992 was highly dependent on the initial macroeconomic conditions described above. There are, however, two areas where the implementation of reform encountered difficulties throughout the region: launching large scale privatisation and the financial sector reform.

5.1.2 Stabilisation, liberalisation and legislative framework

The wide liberalisation and deregulation of the PHARE economies encompassed liberalisation of prices, a new legal and regulatory framework, an opening up of the economies to international markets and a switch to convertible currencies.

For all PHARE countries, the liberalisation of prices, the removal of administrative allocation mechanisms and subsidies were largely completed within two to three years. The early starters had already achieved this by the end of 1991, and in 1992 most of the less advanced countries caught up, although Romania kept price controls on a number of goods. Most of the remaining price controls and consumer subsidies in PHARE countries are on household energy, utilities or transport services, and can be considered as compatible with market economy standards.

Simultaneously, PHARE countries undertook the major task of adjusting their legislation to the standards and requirements of a market economy. New company, accountancy and auditing laws, together with competition legislation, were in place at a very early stage of the reform process. Estonia, Latvia and Lithuania adjusted their legislation during 1992, and Albania is lagging behind. The legislative and regulatory framework being put in place is broadly adequate. The main deficiencies and challenges for the future lie in the enforcement of the laws and the capacity of administration in charge of implementation and supervision. The dispute resolution mechanisms are also often very weak. This may be a source of confusion in practice, which becomes a serious deterrent to investment.

One of the priorities in setting up the legal framework was to lay down a clear basis for the acquisition and protection of property rights. Although this was achieved relatively quickly, in some cases rights are still unclear or restricted. The restitution issue is a source of confusion in some countries, even two years after the enactment of the law. Everywhere restrictions on the purchase of property by foreigners were introduced and are, in some cases, disincentives to business. In several countries the legislation on land ownership needs to be amended or modernised. In addition, in all PHARE countries the systems for the recognition of property rights are underdeveloped, which restrains the development of real estate, housing or mortgage markets.

On the external front, the opening up and liberalisation were also far-reaching, with a rapid dismantling of tariffs, quotas and licences. Restrictions were still in place in 1992 in Lithuania and Albania. In countries, which are more advanced, governments are having some second thoughts on the merits of rapid and comprehensive trade liberalisation. In 1992, revisions in tariffs or the introduction of an import surcharge were implemented in the Central European countries. But trade policy is, anyhow, bound by various trade agreements that PHARE countries are concluding.

Trade liberalisation was supported by a rapid switch to current account convertibility of PHARE countries' currencies, which gave domestic operators free access to foreign exchange and allowed exchange rates to be adjusted to sustainable levels. Only minor restrictions were still in force, such as ceilings on travel allowances in the Central European countries. The advanced countries implemented these changes before 1992 together with trade reform. In Estonia, Latvia and Lithuania, the currency reform began in 1992. In Romania, because of a sustained gap between the official and parallel exchange rates, there is insufficient foreign exchange to meet import demand and some sort of rationing is applied. The exchange rate regimes remain extremely diversified across the region.

Finally, most countries have opened their economies to foreign investment through very liberal legislation, allowing full foreign ownership, transfer of profits and repatriation of capital. Bulgaria established the legal basis for foreign investment only in 1992, and Albania has still a very poor and restrictive legislation.

5.1.3 Privatisation and restructuring

PHARE countries have generally given priority to privatisation to enhance the development of a competitive productive sector. Restructuring has been less actively pursued, although there is a growing awareness of the urgent need for restructuring plans. This is partly related to the fact that privatisation has often resulted in a kind of appropriation of firms by the workers and the management without generating any improvement in efficiency. Moreover, it is now clear that privatisation will be a slow process and that a large state-owned sector will dominate the economy for some years. More urgently, the accumulation of inter-enterprise arrears and bad loans is now raising acute problems for the sustainability of ongoing reform programmes.

Privatisation has not progressed uniformly throughout the region. Although by the end of 1992 the legal basis was in place in all countries, there were some impediments to implementation, such as the issue of restitution or compensation, which has slowed down the small-scale privatisation in Poland and the privatisation of agricultural units in Hungary, Romania and Latvia. In most countries, small-scale privatisation, together with privatisation of housing and agriculture, is under way. Large-scale privatisation had hardly begun, except in Hungary, Lithuania, Estonia and more recently in 1992, in the CSFR, and, to a very limited extent, Romania. Of the other countries, Poland, Bulgaria and Slovenia, finalised legislation only late in 1992 or early 1993. In Albania the privatisation agency was set up recently, but legislation is still lacking. Apart from drawing up a list of eligible companies for privatisation, Latvia did not initiate anything in this field in 1992. In most countries, however, the first major step in large-scale privatisation was the transformation of state-owned enterprises into companies. In some countries, this process entailed some restructuring through dismantling of large companies into smaller units, as in Bulgaria, but it generally did not improve enterprise behaviour. Nowhere is privatisation a smooth process, all countries encountering obstacles, from the inadequacy of legislation in Albania, to the lack of political consensus in Bulgaria, or the levelling-off of demand for state-owned firms in Hungary.

Once state subsidies have been withdrawn, access to preferential sources of credits has been stopped, and a credible bankruptcy law is being enforced, restructuring of the non-privatised part of the economy is expected to occur through market forces. However, in most PHARE countries these three conditions have not yet been met, although the dismantling of direct production subsidies is fairly complete in all countries by now.

Bankruptcy legislation was still very weak, except in Slovenia and Hungary, which experienced massive bankruptcy waves in 1992. In Poland a comprehensive Enterprise and Financial Sector Law was being finalised in 1992 which would establish the necessary regulatory framework for bankruptcy procedures as well as for solving enterprise bank debts. However, no proper bankruptcy legislation existed yet in Bulgaria or Romania. It is not enforced in the CSFR, lacks the institutional framework for implementation in Estonia, Latvia and Lithuania, and had begun to be applied only recently in Albania.

Financial discipline has been lax everywhere, and inter-enterprise arrears and bad loans in the banks' portfolios are becoming an acute problem, amounting in all countries to several percentage points of GDP. The chain reaction of liquidity problems makes the screening of profitable and non-profitable companies difficult. At the same time, banks are prevented from making resources available for new investments. Some countries began to address the issue of bad debts in 1992. Most countries opted for a strategy of substituting bad loans with State bonds, as in Hungary, Slovenia, Estonia, Bulgaria, and soon in Albania and Romania. In the CSFR, a consolidation bank to which bad loans were transferred was set up. In Poland, part of the stabilisation fund was converted for recapitalization purposes at the end of 1992. Lithuania did not initiate any action, and Latvia intends to address the issue of inter-enterprise arrears through the confiscation of inventories.

The difficulty of enforcing any financial discipline without generating massive closures of companies has prompted some governments to adopt a cautious restructuring policy. This often leads to a kind of wide screening of state-owned companies to select companies which need temporary support or companies which can be reorganised or those which will be liquidated. Such a screening has been initiated in Hungary, leading to some temporary sectoral support programmes and to the selection of companies to remain permanently state-owned. Similar actions will start in Poland, with the forthcoming Pact on State Enterprises, and for 100 companies in Romania.

In spite of the slow progress in restructuring and privatisation, the private sector is expanding fast in all PHARE countries, as a result of the sustained creation of small and medium-sized enterprises. This indicates the ability of these economies to generate a supply response and suggests that the prospects for investment may improve.

5.1.4 Financial sector reform

The financial sector has a key role to play, in the transition, as it is expected to be an important channel for allocation of resources according to market rules and the main support for an upturn in investment.

All PHARE countries have overcome the first step of the reform, i.e. setting up a two-tier banking system where the financial intermediation functions are separated from the central bank functions of monetary control. It seems to have been easier to adapt monetary policy than to develop an efficient banking sector. All countries except Albania have deregulated interest rates and all except Estonia, Latvia and Lithuania have removed administrative allocations of credits. Some countries have kept, however, credit ceilings or preferential credits for some specific purposes.

However, the efficiency of the banking sector is very low. Although small banks have mushroomed, the banking sector is still dominated by the large state owned banks which are highly specialised and not familiar with commercial practices. Except in CSFR where the voucher scheme implemented in 1992 covered banks, bank privatisation did not start except for small banks in Romania, Poland, Slovenia and Hungary. Overall the sector is still highly non-competitive. Starting from very low capital/asset ratios, all banks are now suffering from the high share of bad loans in their portfolios. The recapitalization of the banks will remain the priority of the reform programmes for at least the next two years. Thus, it is unlikely that the banks will be able to participate more actively in the restructuring and privatisation process and to enhance the development of financial markets in the near future.

5.1.5 Fiscal reform and social sector issues

For the government sector, the transition to a market economy implies major shifts away from the legacy of central planning: an overall reduction of the size of the government, an extension of the tax base to other sources than companies, a streamlining of social benefits to target them to the vulnerable groups and a regrouping of social activities, which were in the previous system split between companies and other public institutions. Most of the countries are at the very beginning of this reorganisation process.

All PHARE countries have made significant progress in the modernisation of their tax systems, except Bulgaria, Albania and Romania which is expected to start in 1993. Apart from Hungary, which introduced personal income tax, VAT and corporate tax at a very early stage of the reform and Estonia, Latvia, Lithuania and Slovenia which initiated the reform already in 1990 and 1991, most of the changes in the tax area occurred in 1992. But independently of the progress in tax reform, all countries experienced recently a collapse of their tax base and the accumulation of large tax arrears as a result of the sharp recession in the region. In addition, tax administrations are so weak that they do not succeed in enforcing new laws and tax evasion is particularly acute in the new expanding private sector. Under these conditions, a fiscal crisis as experienced in Hungary, Bulgaria and Poland seems unavoidable at one stage or another of the transition.

On the expenditure side, even less progress was made. All countries have now a social safety net in place, including a system of unemployment benefits, although this is very recent in Albania. However, this social safety net is still strongly biased towards a system of benefits awarded across the board without redistribution or targetting considerations. PHARE countries have so far made very little progress, if at all, with the streamlining of the generous social security systems, although countries facing a fiscal crisis such as Hungary, Poland, Bulgaria, Romania or Albania cannot avoid painful measures any longer. These are prerequisites for the social sector reform, which will probably necessitate an increase in public expenditures if the education and health sectors are to be upgraded. Other areas of traditional state interventions will also very soon absorb more public resources. The next priorities will be an active labour market policy and the rehabilitation of infrastructures so much needed for the improvement of the business environment.

5.2 - IMPACT OF PHARE - ACHIEVEMENTS AND PROBLEMS

The PHARE programme was initiated with Poland and Hungary. It has since grown to cover eleven states of Central and Eastern Europe. Between 1990-92 some 2.3 billion ECU have been committed to Community actions in support of the economic, social and political transformation of these countries. Of this amount some 1.6 billion ECU (approximately 70% of the total) have been allocated to national programmes; the remainder has financed a variety of regional programmes as well as humanitarian and emergency aid. The national programmes thus constitute the main focus of PHARE involvement in the transformation process and of related Community grant assistance

Since its inception PHARE had two broad aims: (a) to ensure that in each country Community assistance helps to promote the key restructuring priorities; and (b) to respond flexibly to the variety of needs at many levels (both in and outside the Government/state sector) which systemic transformation generates. The latter include the requirements deriving from the goal of progressive integration of CEECs in the European economy including specific assistance for legal approximation and the harmonisation of standards for those countries having Association Agreements with the Community. The grant nature of PHARE assistance and its ability to draw on the wealth of Community expertise and resources have made it a particularly desirable form of assistance for these purposes. This has resulted in a pattern of assistance characterised by enormous diversity within a broadly sector-oriented framework.

Progress may be gauged from the sectoral analysis of national programmes. It is not possible to provide other than a selective indication of the kind of activities supported and results achieved. Within and across programmes assistance covers the spectrum from TA for policy definition, strategy development and establishment of the legal and institutional structures to help in actual policy implementation (e.g. for active privatisation transactions, agricultural and business advisory services, financing schemes).

Up to 1992 over 400 MECU or nearly a quarter of total national allocations have been for enterprise development covering privatisation, enterprise restructuring, support for small and medium enterprises (SMEs), investment promotion and other related activities (e.g. export development). In Romania PHARE has been the major actor in the privatisation process, helping to prepare and implement the country's voucher privatisation scheme including setting up the Private and State Ownership Funds and preparing share sales guidelines and asset valuation seminars for companies; PHARE assistance has been instrumental in the active privatisation of some companies and the preparation for privatisation of others. In Poland, PHARE assistance helped to set up the Ministry of Privatisation and to develop the legal framework for its operations; it has contributed to a number of major privatisations, some involving foreign investment, as well to promoting the privatisation of thousands of small firms.

Similarly, in Hungary the PHARE programme has helped with the establishment of the State Privatisation Agency as well as the State Holding Company (charged with managing enterprises in which the state intends to retain an interest) and related training alongside assistance for active privatisation transactions. In Bulgaria the programme has involved assistance with setting up the Privatisation Agency and legal framework, leading to the adoption of the law on privatisation as well as the screening of all major enterprises and completion of major sectoral restructuring studies.

Alongside assistance for privatisation/restructuring several programmes have initiated schemes for channelling financial assistance to the newly emerging private economic agents, notably SMEs and small-medium sized farmers. Such schemes, ranging from the provision of advisory/support services to concessional loans and credit guarantees have been established in Romania, Hungary, Poland, Bulgaria, the Czech and Slovak Republics and Albania. In Poland business support centres have been set up in several regions with almost 1900 entrepreneurs receiving training. In Hungary Local Enterprise Agencies have been established in twelve of the nineteen counties providing advice and support to SMEs; the LEAs work alongside appointed bank branches offering specialised credit facilities and services and through which PHARE financial assistance is channelled.

In the area of agriculture PHARE assistance has helped with implementation of the land reform/restitution programmes in Romania and Bulgaria (essential to promote a market in land as a necessary but not sufficient condition for raising agricultural productivity) as well as in the formulation of an agricultural policy for these countries. In both Hungary and Romania PHARE is supporting the development of advisory services for the new private farmers alongside the provision of credit (para 6 above), as well as helping with restructuring of the agro-industrial sectors. Poland, Romania, Bulgaria and Albania have been recipients of significant amounts of assistance for agricultural inputs and supplies.

PHARE support to the social sectors is helping with policy definition and institutional reforms in the areas of: health care (Romania, Poland, Bulgaria, Lithuania); education and vocational training (Hungary, Czech and Slovak Republics, Poland); labour market and employment development (Romania, Poland, Hungary, Bulgaria, Czech and Slovak Republics); social policy and social security/social safety net (Poland, Hungary, Romania, Latvia); community development and self-help initiatives (Hungary).

Most PHARE programmes are still in process of implementation. For a number of reasons the lead time involved in programming and implementation has in many cases been longer than expected. Since PHARE's inception decisions on how the PHARE national allocation should be used has relied on a demand-led approach in which Governments largely determine priorities in the framework of a continuing policy dialogue with the Commission. In each country the National Coordinator (usually the senior official or Minister in the Department responsible for coordinating external grant assistance) plays a leading role in coordinating internal demands from line ministries and other institutions for PHARE assistance. This approach has ensured internal consensus on allocations to high priority areas. However, in certain CEECs the allocations have not always reflected an optimal use of resources. This is particularly due to: (a) a lack at central policy-making levels of well-defined medium term strategies and related decision-making authority on relative sectoral priorities; (b) limited capacities for, or resources devoted to, economic analysis and public expenditure/investment planning; (c) changes of government which have caused priorities to change and/or difficulties in clarifying strategy objectives, sometimes necessitating reallocation of commitments; and (d) separate arrangements for coordinating grant and loan assistance. In addition, systematic transformation can mean that while there is agreement on broad objectives, detailed implementation policies or the precise application of them may still be being worked out, perhaps in the teeth of political opposition.

These issues should be addressed in general through the putting into practice of the principles contained in the new PHARE Guidelines 1993-1997 (see paragraph VII) and more specifically through future PHARE financed activities. This in turn is expected to lead to a further strengthening of the demand led approach.

At the level of programme implementation it has taken time to establish the structures, relationships and familiarity with Community procedures required for efficient programme management and implementation. Institutional weaknesses and problems in attracting qualified local staff for project management units have affected some programmes. To an extent these problems reflect the 'growing pains' of institutions adapting to a new framework of economic cooperation. At the same time the Commission's own procedures may have been time-consuming. The problem is how to ensure the most rapid access to Community expertise and resources consistent with preserving aid quality and accountability, recognising that the procedures have themselves helped the transfer of know-how in important areas. A review of PHARE procedures is currently under way with the aim of reducing lead times in the cycle from programme approval through implementation.

VI - COMMISSION ORGANISATION

During 1992 the workload of PHARE almost doubled its tasks, including the execution of the 1990 and 1991 budgetary commitments in the order of MECU 127,5, together with the programming and implementation of the 1992 programme amounting to MECU 1015. A "mini-budget" allocation was used for a variety of staffing, equipment and operational requirements related with PHARE assistance and aid co-ordination in accordance with the Commission regulation governing its use.

Staffing of PHARE staff increased during 1992 as follows :

	END 1991	END 1992
Officials (all grades including secretarial staff)	36	48
Non-statutory staff (all grades including secretarial staff)	72	85

Staff is organised into four units essentially on sectoral or functional lines :

1. Agriculture, environment, infrastructure, nuclear safety.
2. Enterprise restructuring and privatisation, SMEs, investment promotion, banking and financial sector development
3. Employment, social policies and health, public administration and infrastructure, humanitarian aid and NGOs country co-ordination and programming.
4. Administration and finance ; secretariat of the PHARE Management Committee.
5. Legal and public affairs

In the latter part of 1992, following the reorganisation of some of the DGI's services, the PHARE operational service became Directorate L of DGI and was granted a number of permanent and temporary statutory staff post in response to the abolition of the mini-budget and the accompanying reduction of non-statutory staff. However, as indicated in the two previous year's reports, the constraint on staffing level has been a major preoccupation. Thus the total number of staff during 1992, excluding the staff responsible for the implementation of the Europe agreements only increased by 5% whereas the workload in financial terms increased by 80%.

VII - PHARE Guidelines 1993-97

During 1992 new guidelines for PHARE covering the period 1993-97 were agreed by the Commission with member states. Related 'Conclusions' were adopted by the Foreign Affairs Council in November 1992. The two documents, which are complementary, are referred to together below as 'the Guidelines' and will constitute the framework for further support under the PHARE programme for Central and Eastern Europe countries (CEEC's)

The Guidelines reaffirm PHARE's general mandate to promote the political, economic and social transformation of the countries. They contain a number of elements or principles designed to govern PHARE's operations over the next phase. Among the chief of these are:

- a. a continuing flexible response to the differing needs of countries reflecting their different levels of development, stage of transformation reached and progress with reforms;
- b. the assessment of progress with reform efforts as a factor in determining both the annual national allocation to a country as well as commitments to particular sectors within the national allocation;
- c. the incorporation of explicit policy objectives and related performance measures in sectoral programmes while ensuring that PHARE actions properly support priority restructuring needs;
- d. greater concentration of effort in a limited number of areas at a time coupled with a forward-looking multiannual approach to the programming of PHARE assistance;
- e. increasing support for investment alongside a continuing emphasis on TA and training for policy definition and institutional development;
- f. strengthened donor coordination including seeking out opportunities for co-financing where appropriate and practicable;
- g. streamlining implementation procedures with a view to increasing decentralising of programme management to implementing agencies consistent with maintaining aid quality and accountability.

The thrust of the Guidelines is thus towards a more 'performance oriented' approach in the determination of assistance levels and the design of sectoral programmes, combined with greater flexibility in the range of aid instruments and greater involvement of beneficiary institutions in the management of programmes.

The point of aspect (d) is that by planning activities ahead over a two-three year period this can help to avoid excessive 'dispersal' of PHARE effort in any one year. Such planning would be of a provisional/conditional nature (dependent inter alia on the review of priorities at the time and on performance with existing programmes) and without commitment, but would introduce an important element of predictability in PHARE operations; alongside (c) it would help to enhance impacts at sectoral level.

The Guidelines will have implications for PHARE's methods of operation. The Indicative Programme will become an increasingly important instrument of policy dialogue with recipient governments. In addition to adopting a multi-year programming perspective it will review reform efforts and make explicit the linkages between PHARE levels of support and progress with reforms. In some countries the machinery for determining priorities for the use of PHARE resources will need to be reviewed. A stronger emphasis on performance criteria in PHARE sectoral programmes will necessitate more explicit conditionality in certain programmes, requiring appropriate coordination with other donors.

It is recognised that the pace at which Guidelines principles can be applied will vary among countries and will need to be progressive. For the larger recipients faster progress should be expected. Even where 'full' implementation is the goal the scope will partly depend on circumstances outside PHARE's control. The crisis nature of the reform process in some CEECs and complex political and institutional circumstances (including the significant powers of some legislatures vis-a-vis their Governments) can make forward planning an uncertain venture. The required 'medium term' perspective and well defined conception of priorities may be lacking or extend to barely more than a year or two in effective budgetary and public expenditure planning terms, possibly limiting the scope for effective multi-annual programming or increasing the risks associated with it. In general, the multiannual programming approach will need careful handling to take account of the limitations and/or risks in Governments' own planning horizons and, most importantly, to avoid locking PHARE into inappropriate programmes over several years.

TABLE 1

SYNTHESIS OF NATIONAL INDICATIVE PROGRAMMES 1992

	MECU
<u>ALBANIA</u>	
<u>Agriculture</u>	
Animal feed	3
Agricultural Chemicals	3
Veterinary Drugs	1
Seeds	1
Small Equipment	1
Mechanisation	3.5
Aid Coordination Unit	2.5
<u>T.A. for the Economic Reform</u>	
SMEs Programme	1.3
Privat/Restructuring	0.8
Tourism	0.2
Financial sector	0.5
TEMPUS	1.2
Transport	4.4
Various sectors	1.6
<u>BULGARIA</u>	
Enterprise restructuring and promotion of the private sector	20
Integral regional conversion projects and trade unions	2.5
Environment	7.5
Energy	8
Health (Part 1)	15
Health (Part 2)	10.5
Telecommunications	3
Agriculture	10
Human Resources (TEMPUS, ACE)	8
Nuclear Safety	3.5
Transport	1
Coordination Unit/Reserve	1

TABLE 1 continued

	MECU
<u>CZECHOSLOVAKIA</u>	
Privatisation, Restructuring and Private Sector Development	31
Civic Society Development	2
Energy	4
Telecommunications	6
Education	10
TEMPUS	13
General Technical Assistance Facility (GTAF)	30
General Reserve	4
<u>ESTONIA</u>	
Privatisation, enterprise restructuring, private sector and SME development	3.5
Banking and financial sector reform	2.5
TEMPUS	1
Reserve for other technical cooperation actions (including aid coordination - 0.5 MECU)	3
<u>HUNGARY</u>	
<u>Restructuring of the Economy</u>	
Strengthening the private sector, support for SMEs	11
Rural credit and land registration	5
Upgrading of statistical system	10
Research and Development	5
<u>Reform of the Public Administration</u>	
	5
<u>Local and regional Development</u>	
	10
<u>Development of Human Resources</u>	
Social policy, labour market and social dialogue	26
TEMPUS	16
<u>Environment, Energy and Infrastructure</u>	
Environment protection fund	10
<u>Reserve</u>	2

TABLE 1 continued

	MECU
<u>LATVIA</u>	
Privatisation, enterprise restructuring, private sector or SME development	4.5
Banking and financial sector reform	3.0
TEMPUS	1.5
Other technical cooperation actions of which :	
complement to 1991 PHARE Sectors	2
social sector	1.3
other	2.7
 <u>LITHUANIA</u>	
Financial and Banking sector	3.5
Privatisation and private sector development	9.5
Labour Market Development	2
TEMPUS	1.5
Technical Cooperation in other priority sectors and aid coordination	3.5
 <u>POLAND</u>	
<u>Economic Restructuring</u>	
Structural development in selected regions - STRUDER	60
Export promotion - EXPROM	10
Development of tourism industry - TOURIN	4.5
Agriculture - privatisation and cooperatives - APRICOT	18
Land information system - LIS	5
Support to economic strategy and the creation of the Ministry of Economy - SUPEC	3
<u>Support to implementation of the Europe Agreement - SIERRA</u>	10
 <u>Human Resources Development</u>	
Modernisation of vocational education - MOVE	5
Teaching and education in strategically significant areas - TESSA	4
TEMPUS	26
Local administration management building and development - LAMBDA	5.5
Support for the science and technology sector reform - SCI-TECH	7
 <u>Environment</u>	 18
 <u>General Technical Assistance Facility - GFTA</u>	 10
 <u>Reserve</u>	 14

TABLE 1 continued

	MECU
<u>ROMANIA</u>	
Industrial Restructuring and Privatisation	30
Small and Medium Size Enterprises	10
Social Sector	15
Agricultural Sector	32
Environment	5
Financial Sector	5
Human Resources (TEMPUS & Economic research)	14
GTAP	19
<u>SLOVENIA</u>	
Enterprise privatisation & restructuration, small business development, and training in Management & Marketing	2.5
Science and technology, Research and Development	1.6
Financial and Banking Sector Reform	1.6
Public Infrastructure restructuring	1
TEMPUS	2.3

TABLE 2

PROVISIONAL BREAKDOWN BY SECTOR OF NATIONAL PROGRAMMES (1992)
FORESEEN ACCORDING TO INDICATIVE PROGRAMMES

	COUNTRY	AMOUNT (M.ECU)
<u>ECONOMIC RESTRUCTURING</u>		
Privatisation/Restructuring/Private sector development	A	0.80
Privatisation/Restructuring/Private sector development	B	20.0
Privatisation/Restructuring/Private sector development	CS	31.0
Privatisation/Restructuring/Private sector development	ES	3.5
Privatisation/Restructuring/Private sector development	H	11.0
Privatisation/Restructuring/Private sector development	LV	4.5
Privatisation/Restructuring/Private sector development	LI	9.5
Privatisation/Restructuring/Private sector development	R	30.0
Privatisation/Restructuring/Private sector development	SL	2.5
SME	A	1.3
SME	R	10.0
Banking/Finance	A	0.5
Banking/Finance	CS	5.0
Banking/Finance	ES	2.5
Banking/Finance	LV	3.0
Banking/Finance	LI	3.5
Banking/Finance	R	5.0
Banking/Finance	SL	1.6
Export promotion	P	10.0
Trade promotion	CS	4.0
Support to Economic strategy & creation of the Ministry of Economy SUPEC	P	3.0
Structural development in selected regions	P	60.0
Local and regional development	H	10.0
Integral regional conversion projects and trade unions	B	2.5
Tourism	A	0.2
Tourism	P	4.5
Tourism	R	4.5
Standards	CS	2.0
<u>AGRICULTURE</u>		
Import/sector programmes	A	15.0
Privatisation & development of agriculture	B	10.0
Privatisation of agriculture & agro-industries	R	32.0
Agriculture - Privatisation & cooperatives	P	18.0
Agriculture and food production	CS	3.0
Land Information system	P	5.0
Rural credit and land registration	H	5.0

TABLE 2 continued

	COUNTRY	AMOUNT (M.ECU)
<u>INFRASTRUCTURE</u>		
Energy	B	8.0
Energy	CS	4.0
Telecommunications	B	3.0
Telecommunications	CS	6.0
Transport	A	4.4
Transport	B	1.0
Transport	CS	2.0
Energy, Telecommunications, Transport	R	6.5
Public Infrastructure Restructuring	SL	1.0
Nuclear safety	B	3.5
<u>ENVIRONMENT</u>		
Environment	B	7.5
Environment	R	5.0
Environment	P	18.0
Environment protection fund	H	10.0
<u>HUMAN RESOURCES</u>		
TEMPUS	ALL	84.5
Education	CS	10.0
Education	P	9.0
Social Sector	CS	2.0
Social Sector	LV	1.3
Social Sector	R	15.0
Social sector	H	26.0
Social sector	LI	2.0
Science & Technology/Research & Development	H	5.0
Science & Technology/Research & Development	P	7.0
Science & Technology/Research & Development	SL	1.6
Science & Technology/Research & Development	R	1.0
Health	B	25.5
Health	CS	4.0
Statistics	H	10.0
Statistics	CS	2.0
Public administration/Local government	H	5.0
Public administration/Local government	P	5.5
Public administration/Local government	CS	2.0
Public administration/Local government	R	1.5
Civic Society Development	CS	2.0
<u>VARIOUS TECHNICAL ASSISTANCE / RESERVE</u>		
	A	1.6
	B	1.0
	CS	8.0
	ES	3.0
	H	2.0
	LV	4.7
	LI	3.5
	P	34.0
	R	5.5

MANAGEMENT COMMITTEE OR DECISION	Pre-1992	15/17/03	16/20/05	17/08/07	18/28/07	19/16/10	20/02/12	21/14/12	TOTAL
NATIONAL PROGRAMMES									
ALBANIA	49.0	15.0	145.5	52.9	10.1	97.0	126.5	74.00	733.00
AL9201 Import guarantee (cancelled, replaced by A9203)	0.0	15.0	1.2	4.4	4.4	35.0	0.0	0.00	60.00
AL9202 Dev. agriculture & transport infrastructure		15.0							15.00
AL9205 General Technical Assistance Facility				4.4					4.40
AL9206 Transport					4.4				4.40
AL9207 Tempus			1.2						1.20
AL9210 Balance of payments grant						35.0			35.00
BULGARIA	30.5	0.0	8.0	3.5	25.5	0.0	20.0	0.00	87.50
BG9101 Environment 2	7.5								7.50
BG9107 Energy	8.0								8.00
BG9201 Restructuring of health system	15.0								15.00
BG9202 Nuclear safety				3.5					3.50
BG9203 Telecom					3.0				3.00
BG9204 SME & regional reconversion					22.5				22.50
BG9205 Tempus			8.0						8.00
BG92XX Transport (transferred to multidisciplinary)									0.00
BG9206 Agriculture							10.0		10.00
BG9207 Energy, complementary for winter 92(nuclear&therm)							10.0		10.00
BG9301 Restructuring of health system								->'93	0.00
HUNGARY	14.5	0.0	16.0	0.0	35.0	11.0	5.0	20.00	101.50
HU9112 Science & technology	5.0								5.00
HU9201 Statistical information system	9.5								9.50
HU9202 Agriculture (rural credit & land registration)					5.0				5.00
HU9203 Environment protection Fund					10.0				10.00
HU9204 Employment & social dialog					20.0				20.00
HU9205 Tempus			16.0						16.00
HU9210 Local & regional development							10.00		10.00
HU9206 SME: restruct. & privatisation						11.0			11.00
HU9209 Social Policy Development								6.00	6.00
HU9208 Tech. Assist. for the implement. of Eur. Agreement								4.00	4.00
HU9207 Public administration reform & training							5.0		5.00
POLAND	0.0	0.0	25.0	0.0	15.5	36.0	89.5	34.00	200.00
PL9201 Tourism					4.5				4.50
PL9202 Export promotion					10.0				10.00
PL9203 Tempus			25.0		1.0				26.00
PL92XX Supp. to econ. strategy & Min. of Econ. -> PL9208							n.m.		0.00
PL9205 Agricultural and Rural Development						18.0			18.00
PL9206 Land information system T.A.							5.0		5.00
PL9209 Science & technology sector reform							7.0		7.00
PL9208 Public sector mang. coord. & decent.-OMEGA II							8.5		8.50
PL9210 Education Reform							9.0		9.00
PL9204 Environment						18.0			18.00
PL9207 Structural devel. in selected localities - STRUDER							60.0		60.00
PL92xx Support to implem. of Eur. Agreem.-SIERRA								PL9211	0.00
PL9211 Technical Assistance for the implement. of Eur. Agreement								34.00	34.00
ROMANIA	4.0	30.0	46.0	0.0	15.0	15.0	0.0	20.00	130.00
RO9105 Technical Assistance Fund GTAF	4.0								4.00
RO9201 Privatization & restructuring		30.0							30.00
RO9203 Privatization agro-industry			12.0					20.00	32.00
RO9204 Financial sector			5.0						5.00
RO9205 GTAF			16.0						16.00
RO9206 Environment					5.0				5.00
RO9207 SME					10.0				10.00
RO9208 Tempus			13.0						13.00
RO9209 Employment & Social Development						15.0			15.00
CZECHOSLOVAKIA	0.0	0.0	43.0	4.0	41.0	0.0	12.0	0.00	100.00
CS9201 GTAF			30.0						30.00
CS9202 Energy				4.0					4.00
CS9203 Privatisation					31.0				31.00
CS9204 Education					10.0				10.00
CS9205 Tempus			13.0				2.0		15.00
CS9206 Telecom							6.0		6.00
CS9207 Civic society							4.0		4.00

(1) = authorized (fondannacé) ; (2) = approved (visé) ; (3) = not approved

[X] programming not yet formally confirmed

COMMISSION OF THE EUROPEAN COMMUNITIES
DIRECTORATE-GENERAL FOR EXTERNAL RELATIONS
OPERATIONAL SERVICE PHARE

PLANNING COMMITMENTS OF PHARE PROGRAMMES ON 1992 BUDGET

MANAGEMENT COMMITTEE OR DECISION	Pre-1992	15/17/03	16/20/05	17/08/07	18/28/07	19/16/10	20/02/12	21/14/12	TOTAL
EX-YUGOSLAVIA	0.0	0.0	2.3	0.0	6.7	0.0	0.0	0.00	9.00
SL9201 SLOVENIA: Gen. Technical Assistance Facility					6.7				6.70
SL9202 SLOVENIA: Tempus			2.3						2.30
CR92XX Croatia (p.m.)								0.00	0.00
BH92XX Bosnia-Herzegovina								0.00	0.00
MN92X Montenegro								0.00	0.00
MA92X FYROM								0.00	0.00
THE BALTIC STATES	0.0	0.0	4.0	41.0	0.0	0.0	0.0	0.00	45.00
Z79302 Baltic States: Improvement of Animal Production								> 93	0.00
Z792xx Baltic States: Energy Supply								> 93	0.00
LI9201 LITHUANIA: GTAF				9.0					9.00
LI9202 LITHUANIA: Privatisation				9.5					9.50
LI9203 LITHUANIA: Tempus			1.5						1.50
LE9201 LATVIA: GTAF				13.5					13.50
LE9202 LATVIA: Tempus			1.5						1.50
ES9201 ESTONIA: GTAF				9.0					9.00
ES9202 ESTONIA: Tempus			1.0						1.00

(1) = authorized (ordonnance) ; (2) = approved (visé) ; (3) = not approved

[X] programming not yet formally confirmed

Table 4

SECTORAL BREAKDOWN OF 1992 COMMITMENTS

	1992 National Programmes : Commitments by Sector										(MECU)	
	Pol.	Hung	Rom.	Cz-Sl.	Bulg.	Slov.	Alba.	Esto.	Latv.	Lith.	Total	%
Enterprise Development (1)	40(*)	11	40	31	22.5	2.5	2.1	3.7	4.5	9.5	166.8	23.8%
Financial Sector Reform			5	5		1.6	0.5	2.3	3.0	3.5	20.9	3.0%
Agriculture	18	5	32	3	10		15	0.35	0.7	0.6	84.65	12.2%
Infrastructure (2)	5		6.5	12	24.5	1	4.4		1.3	0.9	55.6	8.0%
Regional Development	30(*)	10									40.0	5.7%
Environment	18	10	5		7.5				0.55		41.05	5.9%
Education (3)	16	5	1	10		1.6					33.6	4.8%
TEMPUS	26	16	13	15	8	2.3	1.2	1	1.5	1.5	85.5	12.3%
Social sectors (4)		26	15	10	15		0.7		1.3	3	71.0	10.2%
Public Administration	8.5	5		2			0.9				16.4	2.3%
Miscellaneous (5)	38.5	13.5	12.5	12			0.2	2.65	2.15	1	82.5	11.8%
TOTAL	200	101.5	130	100	87.5	9	25	10	15	20	698.	100%
% Country Allocs	28.6	14.5	18.6	14.3	12.5	1.3	3.6	1.4	2.2	2.9	100%	

(1) Includes: Privatisation, Enterprise Restructuring, SMEs, Investment Promotion, Export Development.

(2) Includes: Energy/Nuclear Safety, Transport, Telecommunications.

(3) Includes: Science & Technology, Scientific Research.

(4) Includes: Health, Employment, Social Policy, Labour Market Development.

(5) Includes: Customs, Statistics, Tourism Development, Land Information Systems, Aid Coordination, Programme Management and Other Multi-Sectoral/Non Sector-Allocated GTA.

(6) STRUDER programme allocated 30 MECU to Enterprise Development and 30 MECU to Regional Development.

(7) Excluding balance of payments assistance to Albania of MECU 35.

Table 5
REGIONAL COOPERATION PROGRAMME 1992

Sector	Budget (MECU)
A) INFRASTRUCTURE	
i) <u>Transport programme</u> Key components :	
• Transit Infrastructure	15.0
• Trans-European North/South Motorway and Trans-European North/South Railway	2
• Integrated Training-cum-Technical Assistance Programme	2
• Sectoral Studies	2
	<hr/> 21
ii) <u>Telecommunications programme</u> Key components :	
• Special case studies/training needs	5.6
• Management/coordination	0.7
• Evaluation/management	0.1
• Contingency	0.6
	<hr/> 7
iii) <u>Energy Programme</u> Key components :	
• Electricity Interconnections	2
• Natural Gas Interconnections	2
• Oil Refining/Transportation	1
• Management Twinning Training	1
• Legislation/Regulation	1
	<hr/> 7
B) ENVIRONMENT	
i) <u>Environment Programme II</u> Key components :	
• Integrated Environmental Programme for Danube River Basin	4
• Black Triangle	3
• Black Sea Programme	1
• Baltic Sea	2
• Remote Sensing	5
• Support for Regional Environmental Centre	1
• Post-Dobris Environmental Action Programme	10
	<hr/> 26

ii)	<u>Nuclear Safety Programme</u>	
	Key components :	
	• Safety Authorities, Emergency preparedness	6
	• Fuel Cycle, Waste Management, Decommissioning	2
	• VVER 230 Operational Safety	7
	• VVER 213/1000 Operational Safety	5
		<hr/> 20
C)	EDUCATION/TRAINING	
	• ACE for all PHARE countries	6
	• TEMPUS (JEPS)	12.5
	• TEMPUS (Technical Assistance)	5.5
		<hr/> 24
D	MISCELLANEOUS	
	• Extension of 1991 statistics programme to Baltics, Albania, Slovenia and Poland	2.5
	• Extension of 1991 customs programme to Baltics and Albania	1.5
	• Extension of 1991 standards programme to Baltics, Albania and Slovenia	2
	• Fight against Drugs	2
	• Regional Industrial Property Programme (RIPP)	3
		<hr/> 11
		<hr/>
	TOTAL	116

TABLE 6**PHARE - HUMANITARIAN AID 1992**

<u>Country</u>	<u>Nature & Operation</u>	<u>Amount (MECU)</u>
ALBANIA	Import support I	10
	Import support II	20
	FEOGA	10
	Hospitals/ex-political prisoners/NGO's	10
ALBANIA TOTAL		50
BOSNIA-HERZEGOVINA	Emergency help	1.5
	ECHO	37.5
BOSNIA-HERZEGOVINA TOTAL		39
FYROM	Import supply drugs	10
FYROM TOTAL		10
ROMANIA	Food aid	10
	Children	12
ROMANIA TOTAL		22
YUGOSLAVIA	Monitor mission	0.5
YUGOSLAVIA TOTAL		0.5
TOTAL HUMANITARIAN AID 1992		121.5

	Date of	Number of	Country
	Official Journal	Official Journal	
Information System	17/12/92	S 245 p.07	CS
Computer Equipment	08/12/92	S 238 p.06	HU
Survey Equipment	25/11/92	S 229 p.07	BG
Computer Equipment and Software	10/11/92	S 218 p.07	CS
Equipment for Blood Collection and Production	19/09/92	S 183 p.09	RO
Monitoring system for water quality	16/07/92	S 136 p.05	CS
Computerised Operations Support System	09/07/92	S 131 p.07	HU
Upgrading of the information system	27/06/92	S 123 p.05	RO
Mobile Air Quality Monitoring Station	19/06/92	S 118 p.07	RO
Computer System	18/06/92	S 117 p.06	BG
Information Centre for Hazardous Waste	13/06/92	S 114 p.12	CS
Equipment for a Toxicological Centre	13/06/92	S 114 p.11	CS
Laboratory Equipment	03/06/92	S 107 p.07	RO
Computer System	21/05/92	S 099 p.08	BG
Emission Monitoring System	20/05/92	S 098 p.07	HU
Stack Emission Monitoring Vans	16/05/92	S 096 p.06	PL
Bending Roller	16/05/92	S 096 p.06	PL
Computer Equipment	06/05/92	S 088 p.05	BG
Equipment for Water Quality Measurement	05/05/92	S 087 p.05	HU
Equipment for the Ecotoxicological Center Bratislava	05/05/92	S 087 p. 05	CS
Upgrading of the Information System	28/03/92	S 063 p.07	HU
Various Supplies	26/03/92	S 061 p.05	RO
Computer Equipment	24/03/92	S 059 p.07	RO
Various Supplies	21/03/92	S 058 p.07	RO
Medical Equipment	19/03/92	S 056 p.06	BG
Various Supplies	18/03/92	S 055 p.07	RO
Certificates of ownership	29/01/92	S 020 p.07	RO
Air Pollution Monitoring Network	04/01/92	S 003 p.07	HU
Improving the monitoring of drinking water quality	04/01/92	S 003 p.06	CS

GENERAL OVERVIEW OF THE PHARE PROGRAMMES as at 31/12/92
PAYMENTS

	Programm year	Committed	PAID ON BUDGET YEAR (in million ECU)					Balance to be paid
			1990	1991	1992	Total	Total %	
National programmes	(1) 1990	399.1	95.2	113.1	45.1	253.4	63.49%	145.7
	(2) 1991	616.0		97.6	120.0	217.6	35.32%	398.4
	1992	708.5			140.2	140.2	19.79%	568.3
	Total	1 723.6	95.2	210.7	305.3	611.2	35.46%	1 112.4
Humanitarian aid	(3) 1990	66.5	53.7	11.3	1.3	66.3	99.70%	0.2
	1991	72.7		30.4	29.3	59.7	82.12%	13.0
	1992	121.5			48.2	48.2	39.67%	73.3
	Total	260.7	53.7	41.7	78.8	174.2	66.82%	86.5
Regional programmes	1990	21.5	19.3	1.4	0.3	21.0	97.67%	0.5
	1991	99.9		22.1	14.5	36.6	36.64%	63.3
	1992	116.0			16.3	16.3	14.05%	99.7
	Total	237.4	19.3	23.5	31.1	73.9	31.13%	163.5
Multidisciplinary	1990	10.0	1.9	4.3	2.1	8.3	83.00%	1.7
	1991	10.0		1.8	5.4	7.2	72.00%	2.8
	1992	37.3			10.9	10.9	29.22%	26.4
	Total	57.3	1.9	6.1	18.4	26.4	46.07%	30.9
Others	1990	3.4	0.9	1.8	0.1	2.8	82.35%	0.6
	1991	0.4		0.1	0.2	0.3	75.00%	0.1
	1992	7.5			0.1	0.1	1.33%	7.4
	Total	11.3	0.9	1.9	0.4	3.2	28.32%	8.1
Total	(1) 1990	500.5	171.0	131.9	48.9	351.8	70.29%	148.7
	(2) 1991	799.0	0.0	152.0	169.4	321.4	40.23%	477.6
	1992	990.8	0.0	0.0	215.7	215.7	21.77%	775.1
	Total	2 290.3	171.0	283.9	434.0	888.9	38.81%	1 401.4

Budgets: Alloc. payments

350.0	470.9	(*) 437.0
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(1) includes 515.980Ecus committed in 1991 for H9011 Infrastructure commerce extérieur

(2) includes 24.5 MioEcus balance of '91 programmes committed in 1992 (BG9101, BG9107, HU9112, RO9105)

(3) includes 51 MioEcus FEOGA-garantie

(*) 537 Mecu, reduced to 437 after Notenboom transfer

TABLE 8

Macroeconomic Indicators of PHARE Countries - 1990 - 1992

			Albania	Baltic states			Bulgaria	CSFR	Hungary	Poland	Romania	Slovenia
				Estonia	Latvia	Lithuania						
GDP at constant prices	(a)	1990	-13.1	-3.6	-0.2	-5.0	-9.1	0	-3.5	-11.6	-7.4	-3.4
	(a)	1991	-27.1	-11.8	-3.5	-12.8	-16.7	-16	-11.9	-7.8	-13.0	-9.3
	(a)	1992	-6.0	-32	-32.9	-35.0	-7.7	-8	-5.0	1.0	-15.0	-6.5
Agricultural production	(a)	1990	-7.4	-18.0	-17.2	-11.5	-6.7	-2	-8.4	-2.2	-3.0	2.8
	(a)	1991	n.a.	-20.8	-3.6	-8.0	-13.2	-14	-5.0	-0.9	-5.0	-1.0
	(a)	1992	13	-21.3	-13.0	-30.0	-12.9	-12	-23.0	-11.0	-9.2	-17.0
Industrial production	(a)	1990	-7.5	-5.6	7.4	0.3	-16.3	-4	-9.2	-21.3	-17.4	-10.5
	(a)	1991	-40.0	-9.5	0.0	-1.3	-27.5	-21	-19.1	-14.0	-18.7	-12.4
	(a)	1992	n.a.	-38.7	-35.1	-56.9	-22.0	-12	-9.8	4.2	-21.8	-13.2
Consumer price index	(a)	1990	n.a.	23.1	10.5	8.4	21.6	10	28.9	249.3		550.0
	(a)	1991	36.0	210.0	124.5	275.0	333.5	58	35.0	60.4	473.7 (f)	118.0
	(a)	1992	226.0	1075.9	909.6	1020.5	91.1	12	23.0	43.0	199.0	201.0
Unemployment rate, in %	(b)	1990	8.6	0.0	0.0	0.0	1.7	1	1.7	6.3	0.0	6.9
	(b)	1991	n.a.	0.0	0.0	0.0	10.2	7	8.5	11.8	2.9	10.1
	(b)	1992	32.0 (g)	1.5	2.3	1.0	15.6	5	12.2	13.6	8.4	13.3
Budget balance, % GDP	(c)	1990	-20.0	3.1	2.2	-2.9	-9.1	0	-0.1	3.1	-1.1	n.a.
	(c)	1991	-44.0	4.7	6.3	2.6	-14.9	-2	-4.6	-5.6	-2.0	2.6
	(c)	1992	-22.0	1.7	-1.4	2.2	-14.0	-2	-7.4	-6.0	-5.0	0.6
Exports in \$	(a)	1990	-7.5	n.a.	n.a.	2.1	n.a.	11.7	-1.6	43.4	-44.8	25.0
	(a)	1991	-40.7	n.a.	n.a.	35.3	-36.7	10.6	7.0	17.5	-29.3	-5.0
	(a)	1992	-4.1	-88.0	-85.4	92.7	12.9	11.4	6.3	9.7	4.9	4.8
Current Account \$ bn		1990	-0.1	.	0.1	.	-1.2	-1.1	0.1	0.7	-1.7	0.7
		1991	-0.3	0.5	0.1	n.a.	-0.9	1.0	0.3	-2.2	-1.4	0.2
		1992	-0.4	0.0	0.0	0.1	-0.4	0.2	0.3	-0.3	-1.3	0.9
Debt-export ratio, %	(e)	1990	284	n.a.	n.a.	n.a.	299	135	335	251	8	n.a.
	(e)	1991	593	n.a.	n.a.	n.a.	271	91	245	346	54	46
	(e)	1992	953	n.a.	n.a.	n.a.	255	84	214	357	80	43
IMF programme			Stand by (Aug92-Jun93) on track	Stand by (Jul92-Jun93) on track	Stand by (Jul92-Jun93) on track	Stand by (Jul92-Jun93) on track	Stand by (Apr92-Mar93) off track	Stand by (Apr92-Dec92) on track	EFF (Feb91-Feb94) off track	EFF (Apr91-Apr94) off track	Stand by (May92-Apr93) off track	no programme

(a) Percentage increase over previous year

(b) End of period

(c) General government budget deficit, accrual basis

(d) On a balance of payment basis, except for Albania on a custom basis

(e) Gross hard-currency debt as a percentage of hard-currency exports

(f) December 1990 to December 1991

(g) End of March 1993

**FOURTH ANNUAL REPORT FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

ON

**THE IMPLEMENTATION OF COMMUNITY ASSISTANCE
TO THE COUNTRIES OF EAST AND CENTRAL EUROPE (PHARE)**

IN 1993

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PREAMBLE

This is the fourth report on Community assistance under the PHARE Programme to the Central and Eastern European Countries (CEECs) which was extended in 1993 to eleven countries - Albania, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

1993 saw a number of key developments of considerable impact on the Phare programme. The 1993-97 Guidelines were adopted by the Commission in July 1993 and the implementation of Phare programmes reflected their adoption. Considerable progress was made in introducing the multi-annual approach into programming in order to integrate Phare assistance more effectively into the process of medium term restructuring of the beneficiary country. Steps have been taken to streamline implementation procedures, including more decentralisation.

The Copenhagen Council in June 1993 came to two decisions having considerable impact on the Phare programme. The Council confirmed the prospect of future EU membership for the associated countries. This meant that Phare, as one of the principal financial instruments in the implementation of the Europe Agreements, would henceforth be directed and focused on measures aimed at transforming the economies of the associated countries within the perspective of their preparation for future membership of the European Union. Secondly, a decision was made at the Copenhagen Council to allow up to 15% of the Phare budget to be used in support of infrastructure programmes. This increased emphasis in the Phare programme on investment recognises that the demand for the type of assistance required by the Countries of Central and Eastern Europe (CEECs) changes as the restructuring of the economies progresses from classic technical assistance to investment support programmes.

The report looks at the policy and programming aspects of assistance in 1993. It reviews the national assistance programmes, regional programmes, humanitarian assistance, activities in the area of the Europe agreements and Phare information activities. The implementation of the Phare programme over the period 1990-93 is examined as are issues of specific concern - the assessment of the reform efforts in the CEECs, the Copenhagen initiative on infrastructure investment, health, public administration reform, cross-border cooperation, donor coordination and the direction of the Phare programme.

I - GENERAL CONTEXT FOR EC ASSISTANCE IN 1993

1.1 Legal basis

Council Regulation n° 3906/89 of 18 September 1989¹ as last amended in 1993² represents the legal basis for Phare assistance. In 1993, the Commission transmitted a proposal to the Council in order to formally include³ "The Former Yugoslav Republic of Macedonia" (FYROM) in the regulation. The proposal has not yet been adopted.

1.2 Financial framework

The Phare programme is the largest source of grant financing mobilised in support of the economic transformation of the CEECs. In 1993, the initial appropriations under the budget line B-7600 - Aid for the Economic Restructuring of Central and Eastern Countries reached 1040 MECU for commitments and 447.7 MECU for payments.

During the course of 1993 a number of modifications to the Phare budget were approved. 30 MECU were transferred to the "Emergency Humanitarian Aid" budget line B-7514, 5 MECU to the Nuclear Safety Multilateral Fund for the CEECs and the CIS which is managed by the EBRD, and 0.3 MECU for the purposes of the Common Foreign Policy and Security Pillar of the European Union. The Phare budget was increased in December 1993 by 1 MECU from the budget line B 3-1025 for actions in the field of training.

The final amount available for commitments was, therefore, 1,005.7 MECU, out of which 1,003.9 MECU were committed, 1 MECU was carried over to 1994, and 0.8 MECU were not committed.

The breakdown of the commitments was:

National Programmes	801.0
Regional Programmes	112.2
Multidisciplinary and other measures	70.8
Humanitarian Aid	19.9

	1,003.9 MECU

Appropriations for payments were reinforced by the end of the year by a transfer of 108 MECU. Taking into account the modifications in the budget mentioned above, the net reinforcement for payments in the PHARE Programme during 1993 was 73.4 MECU. This meant that the final amount available for payments in 1993 was 521.1 MECU, an amount completely used by the end of the year.

1.3 Policy Orientations

Two key developments, the adoption of the 1993-97 Guidelines by the Commission and the decisions of the Copenhagen Council in regard to membership for the associated countries and support for infrastructure investment, shaped Phare policy orientations in 1993. The Copenhagen Council in June 1993 came to two decisions having considerable

¹ OJ L375 of 23 December 89, p. 11

² OJ L162 of 3 July 93, p. 1

³ OJ C231 of 27 August 93, p. 15

impact on the Phare programme. The Council confirmed the prospect of future EU membership of the associated countries. This meant that Phare, as one of the principal financial instruments in the implementation of the Europe Agreements, would henceforth also be directed and focused on measures aimed at transforming the economies of the associated countries within the perspective of their preparation for future membership of the European Union. Secondly, a decision was made at the Copenhagen Council to allow up to 15% of the Phare budget to be used in support of infrastructure programmes.

1993 marked the first year of the implementation of the Phare guidelines. The Guidelines, adopted by the Commission in July 1993, reaffirmed Phare's mandate to contribute to the process of economic reform, structural adjustment and sustainable development in the recipient countries and to show a flexible response to the differing needs of the recipient countries, reflecting their different levels of development, stage of transformation and progress with reforms.

For countries at relatively early stages of reform where the key priorities are macroeconomic stabilisation involving rigorous monetary and fiscal policies, progressive liberalisation of prices and foreign trade and establishment of the legal, regulatory and institutional framework necessary for a market economy, Phare assistance is used to complement balance of payments financing through for example import supply programmes and "classic" technical assistance (studies, training, provision of expertise) for institution building and initiating reforms. Exceptionally a balance of payments grant was extended to Albania in 1993.

As a country proceeds through its reform process, needs shift from that for classic technical assistance to that involving more direct support for the process of long term restructuring of the economy. Long term restructuring involves consolidation of private ownership and an increase of the share in the economy of the private sector, reorganisation of remaining state enterprises, modernising banking and financial systems, restructuring of the educational and vocational training systems, reform of public administration and the mobilisation of infrastructure investment. In this phase of development, countries increasingly need investment/structural assistance as opposed to classical technical assistance.

In 1993 the conclusions of the European Summit of Copenhagen permitted Phare assistance to adapt to the needs of this long-term restructuring phase with an increasing focus on investment and related operations. It was decided that a significant portion, up to 15% of total Phare commitments spread over Phare countries, can be used for capital expenditure for infrastructure projects which are jointly financed by the EIB and/or International Financial Institutions and beneficiary countries. Phare assistance is as well being used to facilitate investment in the private sector for projects which have a positive economic return but face transitional problems of market failure. This type of support is usually directed toward SME development, regional development, environmental improvement and agricultural restructuring. Phare supports financial intermediaries in the provision of certain types of financing such as small loans, seed capital and guarantee schemes.

In addition to investment support, the Copenhagen summit provided impetus to Phare support for the implementation of the Europe agreements. Programmes were introduced in a number of beneficiary countries to assist signatories to the Europe agreements to support a full range of measures including the facilitation of the approximation of laws and their implementation, the identification of barriers to the integration with the EU, the improvement of technical understanding and know-how of the public sector in relation to the above issues; the enhancement of the quality and effectiveness of public education and information activities about the EC, and; the effective monitoring of the process of the implementation of the Europe Agreements.

1.4 Programming

The 1993-97 guidelines defined some new principles on which PHARE support should be provided. The most important are:

- The need to ensure greater coherence and integration of PHARE into the national strategy and the general reform programme of the beneficiary country. To that end a multiannual approach in the context of an ongoing dialogue on priorities and policies would be adopted.
- Continuing flexible response to the differing needs of countries reflecting their different levels of development, stage of transformation and progress with reform.
- The importance of an assessment of progress with reform efforts and the performance of the PHARE programme by maintaining its focus on support for the development and implementation of policy reforms and structural change, notably in areas directly linked with economic reform.
- A concentration on a limited number of areas so as to achieve the critical mass necessary to achieve impact. This combined with a more thorough assessment of needs and absorptive capacity should lead to an acceleration of the rate of disbursement.

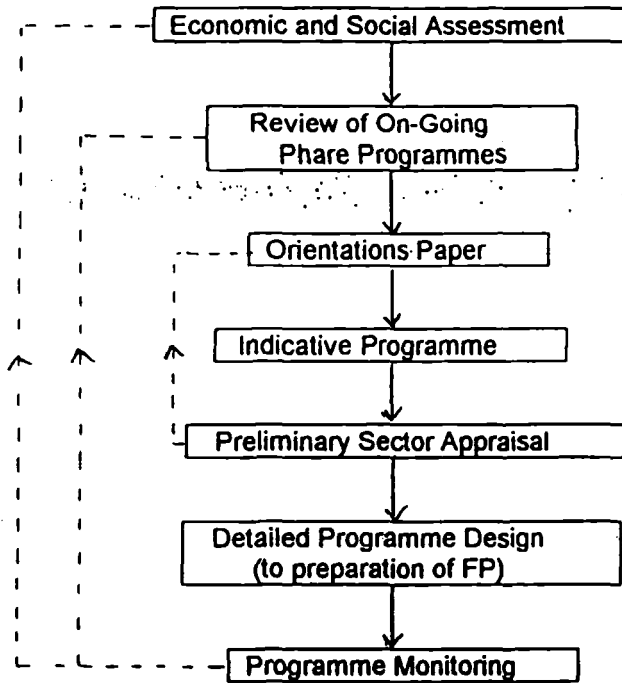
In order to put these principles into practice the Commission started in 1993 to strengthen the programming process. Thus the multiannual approach was introduced in a number of countries and where its implementation was not possible, preparatory work for such an approach from 1994 onward was initiated. Moreover, efforts were made in the 1993 programming exercise to concentrate assistance in a limited number of areas linked with policy reform and structural change and to better assess needs and absorptive capacities. Finally, to put more emphasis on a discussion with member states on country programmes, Orientations Papers describing the assistance orientations were drawn up and discussed with member states. These papers serve as a basis for member state input into the programming process.

Indicative Programmes were signed with all beneficiaries and while not being formal binding agreements with the Commission they are working documents indicating priorities and providing a framework for the identification, formulation and appraisal of projects to be financed. They are summarised in Table 1.

The indicative programmes established the sectoral priorities which were eventually reflected in the sector programmes presented in the form of financing proposals to the management committee. Priority continued to be granted to economic restructuring and private sector development programmes. However, infrastructure, human resources development (particularly through the TEMPUS programme on higher education reform) and social sector programmes gained in importance in 1993 relative to the private sector programmes.

In several countries a general technical assistance facility was identified as being a flexible multidisciplinary instrument which would allow the beneficiary countries to respond relatively quickly to urgent needs for technical assistance with a view to develop reform policies and provide institutional support across a wide range of areas. In three countries, Estonia, Latvia and Lithuania, the bulk of the assistance was provided in the form of this facility, reflecting the early phase of the transformation of these countries and the need to conduct a range of preparatory work prior to launching sectoral programmes.

PROGRAMMING AND APPRAISAL CYCLE



II - 1993 MEASURES

2.1 Preparation and decision making

The total number of PHARE financing decisions on the 1993 budget was 87. These included 66 national sector programmes and 10 regional cooperation programmes. The remaining financing decisions concerned mainly EBRD projects, humanitarian aid and authorisations for small scale multidisciplinary actions. The General Guidelines for 1993-97 were adopted by the Commission in July 1993. The PHARE Management Committee met on six occasions concentrated in the latter part of the year and gave a favourable opinion on all financing proposals.

2.2 National Programmes

During 1993 the number of PHARE beneficiary countries grew to eleven given the dissolution of the Czechoslovak Federation and the creation of two republics. Total assistance on national programmes - that is, excluding humanitarian assistance and regional programmes - amounted to nearly 801 MECU. The largest PHARE recipient was Poland with 225 MECU, equivalent to 28.0% of total national allocations, followed by Romania (130 MECU, 16.2%), Hungary (100 MECU, 12.5%) and Bulgaria (90 MECU, 11.2%).

Table 2 shows the broad sectoral pattern of assistance by country. The figures should be treated with caution mainly because the general technical assistance programmes include significant sectoral components such as banking and finance, social protection, public administration, Europe agreement implementation and so on, meaning that the shares of these specific sectors in the total is actually higher than the table suggests. Bearing this in mind, the 1993 programmes reflected a continued focus on support for the development of the private sector and economic restructuring. Roughly 25% of total national allocations (190 MECU), was committed to enterprise development covering privatisation, enterprise restructuring, assistance to small and medium enterprises (SMEs), investment promotion and export development.

In recognising that a modern banking system is crucial to a properly functioning market economy, there was an increased emphasis on support for the financial sector and banking institutions in 1993. Funds have been provided for strengthening the newly created central banks, for legislation, training, portfolio audits, banking associations, information systems, payment systems and bank restructuring. Phare support has been provided as well in schemes dealing with the problem of bad debts and re-capitalisation of banks, both key issues in the reform.

Agriculture continued to receive substantial support (78.5 MECU or 10% of national allocations) reflecting the importance of agrarian reform in the economies of Eastern Europe. There was increased emphasis in 1993 on assistance for agricultural strategy development and transformation including farm privatisation, development of land reform and registration systems, agro-industrial restructuring, advisory services and the development of credit channels for the new private farmers.

An increasingly important task of the CEEC governments in 1993 was to maintain the momentum of economic reform while preserving a social consensus. Phare assistance played an increasingly important role in helping these governments deal with the social implications of the transformation process. Assistance was provided for institutional and organisational change in the labour market and social protection sectors. This included support to pro-active labour market programmes addressing the problem of high unemployment resulting from the restructuring process and assistance for the reform of

the social benefits system involving the development of unemployment insurance, pension and health care schemes as well as social assistance programmes.

Support for human resources development and the reform of public administration was an increasingly important part of the 1993 programmes. In regard to the first, a significant commitment continued to be made in 1993 to the reform of higher education through the TEMPUS programme. Vocational education training schemes and education system reform programmes were important components of some of the 1993 national programmes. In the public administration field there was a continued focus on institutional development and training at both the national and local government levels.

In regard to the infrastructure sector, there was somewhat less emphasis on the environment in 1993 national programmes although significant commitments were made in Bulgaria and Albania. This reflects in part the substantial allocations made in previous years to most Phare beneficiary countries. Environmental support has evolved towards support for policy formulation and the preparation and implementation of environmental strategies for specific sectors. There has been an increased focus on the promotion of investment related to the environment either through the support for investment funds or through co-financing operations with International Financial Institutions (IFIs).

Support of infrastructure (energy, telecommunications and transport) focused in 1993 on restructuring and adaptation to the circumstances of the market economy. Allocations were made to Bulgaria, the Czech Republic, Poland and Slovakia and included support for the restructuring of the railway companies, the preparation of the regulatory framework for the telecommunications and transport sectors and the establishment of energy saving funds. The shift towards investment in infrastructure development, is reflected by the 30 MECU Phare contribution for a railway development project in Poland.

Additional measures covered under the 1993 Phare programme were a 35 MECU balance of payments support grant to Albania and assistance to the Former Yugoslav Republic of Macedonia (FYROM). At the end of 1992, the Edinburgh Council decided on a 100 MECU support programme for FYROM to assist in coping with the consequences of the blockade against Serbia and non-recognition by the international community. The assistance given to FYROM in 1992 was complemented in May 1993 by a 25 MECU programme in support of the import of industrial raw materials and equipment as well as technical assistance in the field of customs, statistics, health and agriculture.

2.3 Multidisciplinary and other measures

In addition to the sectoral programmes several operations were financed under the heading Multidisciplinary Measures.

First of all a commitment of 26.4 MECU for "multidisciplinary technical assistance" was agreed in three tranches in 1993. This is an enabling device giving a global authorisation to finance, within given parameters, small-scale operations such as feasibility studies and technical assistance without requiring a specific Management Committee opinion and Commission decision on each operation.

After the so-called "Bangkok Agreement" between the EBRD and the EC in 1992, a new cooperation scheme was established between both institutions. This enabled the implementation of measures in the beneficiary countries, which are approved and financed by the Commission and are technically managed by the EBRD. This collaboration received an allocation of 11.7 MECU, in actions mainly related to the financial sector.

PHARE Information Action which has the objective of informing the business and political milieu in the EC Member States about the Community's relations with, and assistance for the countries of Central and Eastern Europe received 2.7 MECU.

The PHARE Democracy Programme received an allocation of 10 MECU in 1993. This amount supports the continuation of the democratisation process in Central and Eastern Europe. It enables financial and technical aid to be provided on a non-party basis, through parliamentary institutions, for the reinforcement of general civic education and democratic principles.

A new initiative was approved in 1993 entitled the Phare Partnership and Institution Building Programme which aims at supporting the development of sustainable partnerships between EU and CEEC non-profit organisations. This programme is a cost sharing scheme and is operating as a pilot programme focusing on a number of sectors notably economic development, business promotion, local/regional government, community development and worker/consumer interests. It will support some 90 projects in the CEECs with each project requiring the participation of at least one organisation based in the EU and one in a Phare beneficiary country. The European Union will provide matching funding to equal contributions secured by the partner organisations themselves. The EU Member States are responsible for preselecting projects and can decide to which extent they will participate themselves in the projects. The initiative was allocated 10 MECU in 1993.

These multidisciplinary and other measures amount to 70.7 MECU, for which the breakdown is as follows:

Multidisciplinary technical assistance	26.4 MECU
EBRD	11.7 MECU
Information Action	2.7 MECU
Democracy Programme	10.0 MECU
Tempus "Overhang" ⁴	9.9 MECU
Partnership/Institution Building	10.0 MECU

TOTAL 70.7 MECU

2.4 - Regional Cooperation

Regional cooperation is seen as playing an important role in developing an economic and political dialogue among the countries of Central and Eastern Europe (CEEC) and between the CEECs and the Member States of the European Union. It is seen as promoting political stability in Europe and closer economic integration among the CEECs. The Europe Agreements, the conclusions of the Edinburgh and Copenhagen summits and the proposed Pact on Stability all stress the importance of enhanced regional cooperation building on existing relationships such as Visegrad. In this context, the Phare regional programmes initiated in 1991 have played a major role in stimulating such a dialogue and promoting cooperation on a wide range of issues of common concern and interest in the CEECs.

⁴ This amount covered the remaining financial commitments from TEMPUS projects selected over the period 1990-93, prior to the commencement of the second phase of TEMPUS (TEMPUS II)

1993 saw a continued emphasis on the development of regional cooperation amongst the now enlarged group of eleven beneficiary countries with an overall allocation of 112.3 MECU for regional programmes. This approach has been further reinforced with the adoption by the Regional Coordination Group of orientations for future programming which endorse the principles of a multi-annual programming approach, and on concentration on a limited number of core areas, for programmes which are inherently regional in nature and which focus on enhancing regional co-operation between beneficiary countries.

For 1993, the focus was on three key areas:

An extension/consolidation programme to enable the new beneficiary countries to benefit from existing programmes and to build on established programmes in the original countries of the Regional Coordination Group. Some 29 MECU of additional support was provided in this way for the Drugs, Transport, Customs and Energy programmes.

Support for a limited number of core area programmes. A substantial allocation (20 MECU) was made to the Transport sector, principally to continue the programme of support for the elimination of a limited number of high priority border crossing bottlenecks. This element is complemented by activities under the 1993 Regional Customs programme to ensure a well-balanced approach in resolving infrastructure, administrative and customs problems in a coherent way. A further allocation of 20 MECU for Nuclear safety was made in 1993 in recognition of the urgent need to continue and reinforce the activities begun in 1992, in particular with respect to the improvement of safety standards for the Soviet designed nuclear reactors. The TEMPUS programme was allocated 15.8 MECU in 1993 to complete the Joint European Projects launched in earlier years, and to support the operational costs of managing the programme. The Joint Venture PHARE Programme (JOPP) which was initiated in 1991 and assists the creation of new, or expansion of existing, joint ventures between companies from EU Member States and PHARE beneficiary countries received an additional allocation of 27.5 MECU.

As well, a number of preparatory studies were launched for the medium term programming period in particular in the areas of human resources (concentration on distance learning and higher education) and to explore the potential for developing cross-border co-operation between PHARE beneficiary countries and trade development initiatives.

The Regional Coordination Group has continued to play a key role in the programming and coordination of the regional programmes. Participation by the beneficiary countries in the implementation and monitoring of regional programmes has been assured in 1993 through Sector Coordination meetings to plan implementation of programmes and identify future needs. This process has been further extended with the appointment of Sector Coordinators for Customs (Slovenia) and Trade development (Slovakia).

The process of decentralisation of the day to day management of regional programmes also began in 1993 with the creation in Prague of a Regional Transport Coordination Unit, responsible for implementation of the Transport programmes, and the establishment in Bulgaria, within the existing national PMU, of a Secretariat for the coordination of the Telecommunications programme. Similar Coordination Units, established wherever possible alongside existing PHARE management units and staffed by local staff assisted by technical advisors, are also planned for the Energy, Customs and Drugs programmes.

2.5. - Humanitarian Aid

Phare humanitarian assistance in 1993 was dominated by the difficult situation in Albania, the problems entailed by the drought in Romania as well as by the conflict in the former Yugoslavia.

For Albania, a decision was taken in December 1993 to extend an extraordinary allocation of 10 MECU for the rehabilitation of schools and prisons throughout Albania and for the continuation of programmes for building houses for ex-political prisoners. For Romania, because of the continuation of the crisis in agricultural production related to the drought in 1992, Phare financed food aid in the amount of 9.9 MECU.

The war in ex-Yugoslavia and the dramatic situation of the refugees was the focus of activities and funding allocations of the European Office of Humanitarian Aid (ECHO) in 1993. A total of some 300 MECU was spent in 1993 for emergency aid for refugees. This was organised and implemented through UNHCR, ICRC and other NGOs. Phare contributed to this operation through the transfer of 90 MECU from the Phare budget to the new "Emergency Humanitarian Aid" budget line mentioned in Section 1.2.

2.6 - Europe Agreement Activities

The Europe Agreements provide a legal, political, and economic framework for the relationship of the signatory CEECs (Poland, Hungary, Bulgaria, Romania, Slovakia and the Czech Republic) with the European Union. Phare is one of the principal vehicles for providing financial assistance to the signatory countries. The decision taken at the Copenhagen Council in June 1993 which confirmed the prospect of future EU membership for associated countries had implications of considerable importance for the Phare programme. It means that Phare must also give priority to the transformation of the economies of the associated countries within the context of their preparation for membership.

The implementation of the Europe Agreements is supported through the provision of technical assistance covering specific provisions of the agreements aimed at facilitating integration. There are a number of both national and regional programmes which provide support in implementation of the Europe agreements. In regard to the former, building on the Euro-GTAF (92) in Hungary and the Sierra (92) programme in Poland, Euro-GTAF's were agreed upon in 1993 for Bulgaria, the Czech Republic, Romania and Slovakia. These multi-sector financial instruments support a wide range of activities, insofar as assistance is not otherwise available under Phare funded sectoral reform programmes, including:

- (i) the preparation and implementation of strategies designed to lead to laws which are compatible with EC laws,
- (ii) funding the technical assistance required for each key area of policy concerned by the Europe Agreements,
- (iii) training, targeted study visits (for instance to appreciate legislative and institutional methods of implementation in the Community) and public information initiatives including the establishment of documentation centres.

Additionally there are a number of Phare regional economic legislation programmes having components supportive of the implementation of the Europe Agreements. In the area of approximation of economic legislation, framework programmes in Latvia, Estonia, Lithuania and Slovenia were started in 1993 with the aim of approximation of financial service law, commercial law, labour law and trade law. In regard to competition and state aids, general programmes of assistance are being provided to Bulgaria, Estonia, Hungary, Lithuania, Romania, Poland, Slovenia and Slovakia for the provision of experts to assist in the process of reform of the relevant laws, regulations and implementing procedures, to prepare inventories of the existing state aids and monopolies of a commercial character and to provide training. A further regional programme in the area of consumer protection provides for institutional and legislative assistance for the approximation of laws, training and the setting up information systems. A regional intellectual property programme, cofinanced with the European Patent Office addresses the development of trade mark, patent and industrial design protection in all Phare beneficiary countries. Finally, the European Committee for Standardisation (CEN) is implementing a regional Phare programme on quality assurance which provides for the provision, translation and transpositions of European norms, standards and technical EC directives and regulations. It also provides for the auditing of quality assurance systems and training.

2.7. Information Activities

In an effort to increase the transparency of the Phare programme and to provide timely information to interested parties on Phare activities, an increased focus was placed on information activities in 1993. This involved the broadening of the constituency for Phare information activities beyond the business community, an initial target group, to a wide variety of opinion leaders in the Member States and in the beneficiary countries. The information strategy aimed not only at explaining the Phare programme and providing information on tenders and contract procedures but as well at addressing certain public misconceptions and misunderstandings about the programme. The funding for the expanded information programme was increased to 2.7 MECU.

The Phare information office produced a series of documents over the course of the year, including continued publication of an operational programme compendium, the indicative programme summaries and the operational programme updates as well as new publications such as country profiles, sector profiles, a "success story" compendium, newsletters, a mission statement and information on contracts. A database of some 5000 interested parties was used for three mailings.

In addition to these publication activities, the Phare information office undertook some 150 speaking engagements over the course of 1993 and met with an average of 50 visitors per week. In the audio-visual field, meetings were organised with CIRCUM, the umbrella organisation for East and Western European TV stations to investigate the potential of broadcast sponsoring for Phare related documentaries. Finally, Phare participated for the first time in 1993 at a number of trade fairs - the Hannover Fair, the Brno Fair and "Simplanter" in Paris.

III.- IMPLEMENTATION OF 1990-1993 MEASURES

The reforms in the CEECs have involved fundamental economic and political changes. While there has been a consensus on the principle of establishing a market system, there are wide divergences within and between the CEECs on the content and timing of the actual measures needed to achieve this. Phare has thus faced the challenge of dealing with frequent changes in government and basic policies as well as in the institutions and the counterparts responsible for implementing the programmes. Despite this the programme responded rapidly to the needs of the reform process and has made a substantial contribution to the transformation of the CEECs.

3.1. Commitments

Once the financing decision has been taken, a financing memorandum is signed by both the Commission and the Implementing Authority, usually the line ministry in the country concerned, specifying the respective responsibilities for management of both parties. The amount specified in the financing memorandum is the commitment. In 1993 all funds available, 1004 MECU, were successfully committed. This brings the total amount of Phare commitments since 1990 to 3294 MECU.

The commitment of funds is only a first step. Progress in implementation is reflected in contracts signed and by the subsequent expenditure.

3.2 Tenders and Contracts

Tendering and contracting are undertaken in accordance with the Phare Council Regulation 3906/89, the Financial Regulation (Title IX/External Aid) and the General Regulations for tenders and award of contracts financed from Phare/Tacis funds.

In accordance with these regulations, service contracts are normally awarded after a restricted invitation to tender. The criteria on which the final choice of a project is made are weighted towards quality rather than simply price. For supply contracts, an invitation to tender is normally published in the Official Journal of the EC. For smaller service and supply contracts with a value of below 50,000 ECU, a contract can be awarded by direct agreement.

Individual Phare programmes are increasingly implemented through a Decentralised Implementation System where the execution of the programme including the launching of tenders and the signing of contracts has been transferred to an Implementing Agency in the beneficiary country. Based on approved work programmes, funds are regularly transferred to these agencies to finance the activities. For other programmes, however, the tendering and contracting is done by the Commission on behalf of one or several beneficiary governments.

In a number of different sectors - banking, taxation, training, customs, regional development - Phare programme implementation in certain beneficiary countries has been contracted to associations, professional organisations and other non-profit making organisations. In certain cases contracts have been won by these organizations through the tendering process; in other cases, and specifically in regard to the European professional associations, contracts have been extended directly. An overview of the non-profit organisations and the programmes in which they are involved is provided in Annex 1.

The overall amount of contracts concluded in 1993 was MECU 572.1. Of this amount MECU 450.7 correspond to contracts awarded by the Commission on behalf of the beneficiary governments and 121.4 MECU are contracts concluded directly by the recipient institutions.

In the period 1990-93, of the 3294 MECU committed under the Phare programme, 1566 MECU or 48% has been contracted. The breakdown for each programme year (Table 5) shows that 77% of 1990 commitments, 64% of 1991 commitments, and 23% of 1993 commitments have been contracted. These contracting figures together with the payment/disbursement figures mentioned below reflect the nature of PHARE programmes which are normally implemented over a three to five year period. Funds committed for programmes in any given year will normally be contracted and disbursed in subsequent years. Contracting starts in the first year of programme implementation and is followed by disbursement which builds up significantly in the third to fifth year of programme implementation.

3.3 Payments

As has been the case in previous years, 1993 saw an important increase in payments. The total amount disbursed was 521.1 MECU, representing 20% more than the disbursements in 1992.

There were insufficient appropriations for payments in 1993. From an initial 447.7 MECU allocation, the budget was increased to a final amount of 521.1 MECU. Despite this, ± 50 MECU could not be paid because of a lack of appropriations, and was deferred for payment to 1994.

The breakdown of payments in 1993, per programme year is as follows :

Programmes of 1990	68.6
Programmes of 1991	148.0
Programmes of 1992	161.5
Programmes of 1993	143.0

Total	521.1 MECU

In 1993, of the 521.1 MECU in payments, 328.7 MECU was paid on contracts by the Commission and 192.4 MECU was advanced to the Programme Management Units (PMU's) in the beneficiary countries.

At the end of 1993 total payments by the PHARE Programme were 1,412.2 MECU, or 42.9% of the total commitments to the beneficiary countries. The total amount advanced to the PMUs in the 1990-93 period was 451.1 MECU, 32% of total payments. An overall view of disbursements is provided in the tables in annex. It is important to note that the tables show payments made on contracts awarded by the Commission and the advance payments made to the beneficiary countries (rather than payments actually made on contracts locally).

3.4 Monitoring and Evaluation

Monitoring and evaluation received considerable attention in 1993. Three major sector assessments were conducted for Phare support to SME development, to banking sector reform and to privatisation and restructuring⁵. The recommendations of those assessments provided key input into further programme design.

Additionally, in the context of a major initiative in 1993 to streamline and consolidate Phare procedures, very careful attention was paid to the subject of monitoring and evaluation. The result of this initiative was the preparation of two manuals: (1) the manual for decentralised implementation, and (2) the manual for contracts and procurement rules.

In the first manual, a monitoring and evaluation system has been defined. The main innovation in this system is the creation of a general document, the strategic plan, which is the basic instrument covering the entire duration of the programme. It is based on the content of both the Financing Memorandum and the Monitoring and Evaluation Matrix attached to the Financing Proposal and translates the two documents into operational terms. One of the elements of this document is the Plan of Operations which summarises the implementation arrangements and the major milestones of the programme. An annual monitoring and assessment report reviews the extent to which targets have been met, analyses main constraints and identifies corrective action. The monitoring report provides a review of the overall achievement of the programme, lessons learned and recommendations for the future. In addition, external independent mid term and end of project evaluation will continue to be carried out to supplement the internal monitoring system.

The preparation of the manuals is an important step towards the strengthening of the management and control functions of the beneficiary institutions and an increased decentralisation of the Phare programme. In addition, the planning and monitoring tools contained therein contribute towards better project design and improved programming.

3.5 Counterpart funds

In 1991 agreements on the use and generation of counterpart funds were drawn up with Albania, Bulgaria and Romania. In 1992 agreements were drawn up with the governments of Estonia, Latvia and Lithuania.

The Counterpart Funds in Romania are managed by the Ministry of Finance and the Department for European Integration. Counterpart Funds in Romania were generated by the sale of food-aid, and commodity supplies provided in the context of the PHARE Programmes for transport, agriculture and humanitarian aid (medicines). An Indicative Programme for the use of Counterpart Funds has been agreed by the Romanian Government and the Commission of the European Communities.

In Albania Counterpart Funds were generated by the sale of food-aid, industrial supplies, agricultural equipment and transport equipment. As a result of the large budget deficit and in accordance with the recommendations of the IMF, the Commission decided -in cooperation with the major donors- to use the Counterpart Funds for budgetary support.

⁵ These assessments are reviewed in a recent Phare publication "Phare - A Performance Review 1990-93", March 1994, Annex 2

Poland's Counterpart Funds have mainly come from the sale of animal feed and agrichemicals. The funds were generated within the context of 1990 PHARE National Programme and their use was set on an annual basis according to the Indicative Programme. The task of management of the counterpart funds has been assigned to the Co-operation Fund, a State Treasury Foundation. Part of the funds have been used for the pre-financing of PHARE programmes and the promotion of the opening of the new branch of the College of Europe in Natolin. Funds have also been allocated to training programmes and in support of economic/legal research in the context of the Europe Agreement and for emergency actions such as saving national heritage in the context of the Wileczka flooding and providing equipment for animal transport notification (Foot and Mouth outbreak).

Bulgarian Counterpart Funds were generated by the sale of agriculture, medical and energy supplies delivered as from the end of 1990. The funds are managed on behalf of the Government by a state Fund for Reconstruction and Development. Awaiting the agreement on an Indicative programme some of the funds have been used for health care programmes as well as energy equipment.

Estonia, Latvia and Lithuania agreed on Counterpart Funds in December 1991. Prior to the first deliveries, memoranda of understanding, setting out general principles for receipt and distribution of EC supply programme assistance, and aides memoires, setting out details specific to the cereals supply programmes, were negotiated and signed with each republic. All funds generated from the first tranche of sales have been allocated to income supplement schemes targeted at the most needy socially deprived groups. An exception was made in Latvia where the funds were allocated to agricultural reform and development measures. A higher proportion of allocations from second tranche receipts has been used to support PHARE and national reform programmes, particularly the development of private agricultural business.

IV - COMMISSION ORGANISATION

Following a reorganisation of DG I's services at the end of 1992, Directorate L was created comprising 6 units (L1 to L6). Two separate units (Public Relations and G24 coordination) also report to the Chief Advisor in charge of Directorate L. The original PHARE Operational Service Units (formerly PHOS 1, 2, 3 and 4) are therefore now to be known as units L3, L4, L5 and L6. The newly created units L1 and L2 are involved in general relations with the beneficiary countries, in particular, the development of the European agreements and trade matters.

In spite of a considerable increase in the funds managed by the Phare programme, staffing remained essentially constant in 1993 as compared to 1992. The replacement in 1993 of non-statutory staff by Commission officials as shown in the table below, while a positive step in a long term perspective, caused various problems and dislocations inherent in a period of large staff turnover.

A. DG I/L, only ex-"PHARE OPERATIONAL SERVICE" UNITS (Principal Counsellor and Staff, Units L3, L4, L5 & L6)

	END 1992	END 1993	DIFFERENCE
Officials (permanent and temporary, all grades, including secretarial staff)	39	66	+ 27
Non-statutory staff (seconded national experts, service, contracts, all grades including secretarial)	84	59	- 25
TOTAL	123	125	+ 2

V - SPECIFIC ISSUES

5.1 **Assessment of the reform efforts in PHARE countries in 1993**

Stabilisation and liberalisation have been largely completed in all the PHARE countries. Nevertheless macroeconomic policy continues to be dominated by the need to control inflation and, in those countries faced with fiscal crisis, by the need to reduce budget deficits. The Visegrad countries (the CSFR, Hungary and Poland) had accomplished stabilisation and liberalisation by the end of 1991 and began to focus more attention on structural reform. Slovenia has since caught up with them, and Bulgaria, Estonia and Latvia are following with somewhat of a lag. Slovakia since it became independent at the start of 1993 has tended towards a more interventionist and gradualist approach. Albania, Lithuania and Romania have been more hesitant about adopting and pursuing a coherent reform strategy.

5.1.1. Economic performance in 1993

Only two countries experienced growth in 1993: Poland, where GDP rose by 4.5%, and Albania, with growth of 11%, which resulted from the continued recovery of agriculture after its collapse in 1990 and 1991. In the other countries output again declined, though in all of them by less than in 1992: the fall in GDP ranged from about -1% in the Czech Republic, Hungary and Romania to -17% in Lithuania. Fixed investment continued to fall in most countries, and in some the decline even accelerated.

Inflation slowed everywhere except in Romania. It was relatively low (between 20% and 35% year-on-year) in Hungary, the Czech and Slovak republics, Poland and Slovenia, but remained very high in Lithuania (410%).

Unemployment has stabilised, at least temporarily, at 14-16% in Bulgaria, Poland, the Slovak Republic and Slovenia and 10-12% in Hungary and Romania. In Latvia it is lower but rising, while it is still very low in the Czech Republic, Estonia and Lithuania. In all of these three countries this reflects significant hidden unemployment, although in the Czech Republic it is also explained by a particularly tight labour market. Within most countries there are sizeable differences among regional unemployment levels. Productivity improved significantly in Poland and Slovenia in 1993, and to a lesser extent in Hungary.

Serious fiscal imbalances face Albania, Bulgaria, Hungary, Poland and Slovakia, though the situation improved in Poland in 1993, as the strong performance of the economy helped generate increased revenue. The trade balance deteriorated acutely in 1993 in Hungary and Poland, and less sharply in Bulgaria and Slovenia. In Hungary's case the positive aspect of this development is an increase in imports of investment goods. Most other countries have seen a slight improvement in their external accounts.

5.1.2 Liberalisation and deregulation

The far-reaching liberalisation and deregulation of the PHARE countries' economies encompassed liberalisation of prices, a new legal and regulatory framework, an opening up of the economies to international markets and a switch to convertible currencies.

For almost all countries, the liberalisation of prices and the removal of administrative allocation mechanisms and subsidies were largely completed by the end of 1992. In Romania this liberalisation process was completed by the end of 1993. Most of the remaining price controls and consumer subsidies in the PHARE countries are on rents, household energy, utilities or transport services, and can be considered largely compatible with market economy standards.

Simultaneously, the PHARE countries undertook the major task of adjusting their legislation to the standards and requirements of a market economy. New company, accountancy and auditing laws, together with competition legislation were in place at a very early stage of the reform process. In Bulgaria and Romania some legislation still has to be passed by Parliament. Albania is lagging further behind. The legislative and regulatory framework being put in place is generally adequate. The main deficiencies and challenges for the future lie in the enforcement of the laws and the inadequate administrative capacity for implementing and supervising them. The dispute resolution mechanisms are also often very weak. This can cause confusion and may be a deterrent to investment.

A priority in the reform process was to lay down a clear basis for the acquisition and protection of property rights. Although this was achieved relatively quickly, in some cases rights are still unclear or restricted. The restitution issue is a source of confusion in some countries, such as Poland, where the main law has yet to be enacted. Almost everywhere restrictions on the purchase of land by foreigners were introduced and are, in some cases, disincentives to business. In several countries there is room for further amendment and modernisation of legislation on land ownership. In addition, in all countries there is room for improvement of the systems for the recognition of property rights so as to promote and sustain the development of real estate, housing or mortgage markets.

External liberalisation has also been far-reaching: tariffs, quotas and licences have been rapidly dismantled, except in Albania, where restrictions are still in place.

Trade liberalisation was supported by a rapid introduction of current account convertibility, which gave domestic operators access to foreign exchange and allowed exchange rates to be adjusted to sustainable levels. Only minor restrictions such as ceilings on travel allowances remain in force. In Romania, because of a sustained gap between the official and parallel exchange rates, there is insufficient foreign exchange to meet import demand and rationing is applied. The exchange rate regimes are extremely diversified across the region.

Finally, most countries have opened their economies to foreign investment through very liberal legislation, allowing full foreign ownership, transfer of profits and repatriation of capital. In Albania, although a suitable legislation exists, the treatment to which some foreign investors are subjected acts as a disincentive.

5.1.3 Privatisation and restructuring

The PHARE countries have generally focused on privatisation as one of the means to enhance the development of a competitive productive sector. Restructuring has been less actively pursued, although there is a growing awareness of the urgent need for enterprise restructuring. Privatisation of itself does not generate improvement in efficiency and the newly privatised firms must often be restructured to operate effectively in a market system. Moreover, it is now clear that with the exception of the Czech Republic, privatisation will be a slow process and that a large state-owned sector will dominate the economy for some years. More urgently, the accumulation of inter-enterprise arrears and bad loans is now raising problems for the sustainability of reform programmes.

Privatisation has not progressed uniformly throughout the region. Although by the end of 1992 the legal basis was in place in all countries, there were some impediments to implementation, such as the issue of restitution or compensation, which has slowed down small-scale privatisation in Poland and the privatisation of agricultural units in Hungary and Latvia. In most countries, small-scale privatisation, together with privatisation of housing and agriculture, is under way; in the Czech and Slovak republics it is almost complete.

Large-scale privatisation has advanced in the Czech Republic under the voucher scheme, where it has been most rapid, and in the Slovak Republic, Hungary, the Baltic states and, to a more limited extent, Romania. In most countries, however, the first major step in large-scale privatisation was the transformation of state-owned enterprises into joint stock limited liability companies. In some countries, this process entailed some restructuring through dismantling of large companies into smaller units, as in Bulgaria, but this generally did not improve enterprise behaviour. Nowhere is privatisation a smooth process; all countries have encountered obstacles, from the inadequacy of legislation in Albania, to the lack of political consensus in Bulgaria, or the levelling-off of demand for state-owned firms in Hungary.

Only following the withdrawal of state subsidies, the removal of preferential access to credit and the enforcement of credible bankruptcy laws can the restructuring of enterprises take place through market forces. In most PHARE countries these three conditions have not yet been met, though in all of them the dismantling of direct production subsidies is fairly complete.

Bankruptcy legislation in most CEECs is still weak. It is non-existent or inadequate in Bulgaria and Romania; is not enforced in Albania and the Czech and Slovak republics and Slovenia; and lacks the institutional framework for implementation in the Baltic states. In Poland, legislation "The Enterprise and Financial Sector Law", was passed in 1993 to facilitate out of court settlement of enterprise debt cases. This law is designed to avoid the situation which arose in Hungary in 1992 when rigorous bankruptcy legislation was introduced but the commercial courts did not have the capacity to process the massive wave of bankruptcy proceedings triggered by this legislation.

Financial discipline has not been rigorous and inter-enterprise arrears and bad loans in the banks' portfolios are becoming an acute problem, amounting in all countries to several percentage points of GDP. The chain reaction of liquidity problems makes it difficult to distinguish profitable and unprofitable companies. At the same time, banks are prevented

from making resources available for new investments. Some countries have begun to address the problem of bad debts. Hungary and Slovenia opted for a strategy of substituting state bonds for bad loans. In the CSFR, a consolidation bank to which bad loans were transferred was set up. In Poland, the major banks have established units to manage the bad loan portfolios as a part of a comprehensive national scheme to deal with the bank-enterprise debt problem. In the Baltic states, some progress has been made with restructuring and consolidation of banks.

The difficulty of enforcing financial discipline without generating massive closures of companies has prompted some governments to adopt a cautious restructuring policy. This often leads to a kind of wide screening of state-owned companies to select companies which need temporary support or companies which can be reorganised or those which will be liquidated. Such a screening has been initiated in Hungary, leading to some temporary sectoral support programmes and to the selection of companies which will remain permanently state-owned. Similar actions are to be initiated in Romania.

In contrast to the slow progress in restructuring and privatisation, the expansion of the private sector has been rapid in all PHARE countries as a result of the sustained creation of small and medium-sized enterprises. This indicates the ability of these economies to generate a supply response and suggests that the prospects for investment may improve. The share of the private sector in GDP ranges from about 20% in Bulgaria to 50% in the Czech Republic and Poland. The private sector dominates construction and retail trade, with shares ranging from 50% to over 80%, but is much less present in industry, with shares of 13% to 33%.

5.1.4 Financial sector

The financial sector has a key role to play in the transition, as it is expected to be an important channel for allocation of resources according to market rules and the main support for an upturn in investment.

All PHARE countries have taken the first step of the reform, i.e. setting up a two-tier banking system in which the financial inter mediation functions are separated from the central bank functions of monetary control. All countries have ended administrative allocation of domestic credits and many have deregulated interest rates. Some countries, however, have kept credit ceilings or preferential credits for some specific purposes.

However, there is still considerable room for improving efficiency in the banking sector in most countries. Although small banks have mushroomed many of these banks focus on short term trade and foreign currency operations. The banking sector is still dominated by the large state-owned banks, which tend to dominate certain regions or sectors of the market (e.g. agriculture). They are highly specialised and not familiar with commercial practices. Except in the Czech and Slovak republics, Estonia and Poland, where at least some large state banks have been privatised, bank privatisation is only beginning in other countries. Overall the sector is still uncompetitive. Most banks began with very low capital/asset ratios and continue to suffer from the high share of bad loans in their portfolios. Until the banks have been recapitalized they will be unable to participate more actively in the enterprise restructuring and the privatisation process and to enhance the development of financial markets. A comprehensive recapitalisation scheme is underway in Poland and is being launched in Hungary.

5.1.5 Fiscal reform

For the government sector, the transition to a market economy implies major shifts away from the legacy of central planning: an overall reduction in the size of the public sector, an extension of the tax base to sources other than enterprises, a streamlining of social benefits to target them on vulnerable groups, and the transfer to the state of those aspects of social protection that previously were the responsibility of enterprises.

All the PHARE countries have made significant progress in modernising their tax systems, except Albania which has begun only recently. Apart from Hungary, which introduced personal income tax, VAT and corporate tax at a very early stage of the reform and the Baltic states and Slovenia, which initiated the reform in 1990 and 1991, most of the changes in tax systems occurred in 1992 and 1993.

Most countries have experienced a collapse of their tax base and the accumulation of large tax arrears. This reflects the steep fall in output, particularly in the state-owned sector, which until recently was the main source of revenue. Furthermore, because of weak tax administration, the new systems are not being effectively implemented; in particular, the expanding private sector generates less revenue than it should, because of widespread tax evasion. This heightens the risk of fiscal crisis.

On the expenditure side, all countries have difficulties in restructuring the social protection system. Although basic social insurance legislation is in place, social benefits still have to be targeted more narrowly on needy groups. The Phare countries have, at best, made limited progress in streamlining their generous social security systems. Reforms in the areas of social assistance/social work and the development of occupational/private insurance schemes are still outstanding. Other aspects of social sector reform, notably improving education and health services, will probably necessitate an increase in public expenditures. The next priorities will be an active labour market policy and the rehabilitation of infrastructure that is so necessary to improve the business environment.

5.2 The Copenhagen Initiative - Phare Support for Infrastructure Development

The Phare 1993-97 Guidelines, while maintaining the emphasis on the role of Phare in supplying technical assistance for the transformation process, defined the possibility for an increased use of Phare funds for investment purposes. The Guidelines identified the following sectors as the most relevant: environmental improvements, energy savings, regional reconversion, job creation, SME development, research, education, health, housing and infrastructure.

The most important initiative in 1993 in this respect was that the European Council at its meeting in Copenhagen in June 1993 decided that as from 1993 up to 15% of the total Phare budget could be made available in support of the implementation of infrastructure investments, notably in the areas of energy, telecommunications and transport.

Through the Copenhagen Co-financing scheme financial support will be provided for a limited number of major infrastructure investments. The main criteria for eligibility are that (i) the intervention is linked with progress in restructuring or reorganising the sector in question; (ii) the project is bankable according to normal criteria applied by international financing institutions (IFIs); (iii) the project is cofinanced with one or several of the IFIs

and the Government; (iv) that the Phare contribution is a necessary part of the Government contribution and advance the date of project finalisation or make the project feasible at all; (v) Phare will not replace private financing and (vi) the project is of Community interest.

The Copenhagen Co-financing scheme was used in 1993 in support of the upgrading and integration into the European network of the E-20 railway line in Poland between the German border and Warsaw. Phare through the 1993 National Programme for Poland financed 30 MECU out of total investment costs of approximately 450 MECU. It is envisaged that approximately 100 MECU will be used for co-financing of transport and energy infrastructure investments in CEECs in 1994.

In addition to the Copenhagen Co-financing scheme, Phare provided approximately 35 MECU in 1993 for the elimination of border crossing bottlenecks in the region. These projects, concentrating on high impact, urgent interventions, supported the upgrading of basic infrastructure in the border crossing area, the establishment of and equipment for customs clearance and control facilities. By focusing on the main international corridors, coherence and complementarity with larger ongoing or planned infrastructure investments have been ensured. The projects have generally been cofinanced with recipient countries and with Phare providing 50% of financing.

5.3 Health

Health care systems have been placed in a precarious position due to the difficult socio-economic situation faced by the countries of Central and Eastern Europe. Reform of these systems is essential if they are to become viable and affordable in the context of a market economy while at the same time being socially acceptable. Health care restructuring is a key priority of Central and Eastern European governments.

This need for restructuring has come at a time at which the countries in question find health standards in decline and the gap between East and West growing. Health care systems are deteriorating with unsuitable infrastructure, shortages of medicines and inadequate staff. The financial situation in the health care sector is critical with seriously shrinking resources and badly targeted and uncontrolled spending.

Priority areas are: (i) reform of planning and management, (ii) decentralisation of health care, (iii) the development of community health care (family practitioners, etc.), (iv) the introduction of ways of keeping access to health care as open as possible, (v) improvement of the qualifications of health care staff and (vi) the development of preventive medicine and action to tackle the causes of disease.

Phare's first activities in the health sector sought to ensure that various basic health services continued to be available, while at the same time supporting the first steps in institutional reform and the definition of new health care policies. The health care systems at greatest risk were therefore supplied with consumables. However, this type of assistance, similar to humanitarian aid, was limited to the early phases of reform.

By encouraging CEECs to adopt a strategic approach to health care, Phare is now aiming to support reforms which will provide the foundations of systems which can develop in a new social and economic setting and take on board the concepts of cost/benefit and comparative advantage. Such strategies are becoming a part of these countries' medium-term health care policies.

Priority areas for Phare support are (i) financing of health care expenditure (budgetary practices, cost control, personnel salaries, contribution systems), (ii) the reorganisation of health services (particularly the movement from a centralised hospital system to one focused on family medicine, ambulant care and privatisation); (iii) pharmaceutical policies (legislative framework, price policies, reorganisation of supply and distribution, including privatisation), (iv) training of personnel, (v) activities related to the promotion of preventative medicine.

Phare is now operating in all of Central and Eastern Europe apart from Slovenia, either through sectoral programmes (Romania, Bulgaria, Poland, Albania and Hungary) or through a GTAF (Lithuania, Latvia, Estonia, Czech Republics and Slovakia). Phare commitments by the end of 1993 were ECU 100 million (excluding humanitarian aid); for programmes lasting an average of three years.

With a view to concentrating assistance resources in the health care sector, Phare has recently put together programming guidelines intended for aid coordinators, health ministries, Commission delegations, multilateral partners, Community Member States and technical assistance staff involved in drawing up Phare health care programmes.

5.4 Public Administration Reform

Whilst the pivotal objective of PHARE has been to contribute to the process of economic reform, structural adjustment and sustainable development through the provision of support focused on the four core areas defined in the 1993-97 guidelines, it has been necessary to broaden the range of sectors and issues implicated in the process of economic reform. Assistance for reform in the area of public administration has during 1993 taken on a greater urgency and a higher profile than was previously the case in the first years of PHARE.

The process of decentralisation, deconcentration and transformation of the state involves a complex range of interventions, and the reform of public administration has already been a feature of some sectoral programmes. Subsequently, the need has arisen to develop fully-fledged stand-alone assistance programmes in order to introduce reforms into the structures of central and local governments in a more concentrated form. Thus, PHARE support in the area of Public Administration has been directed at two levels: i) local and regional government ii) central government. In addition to the programmes already underway in the Czech Republic, Hungary, Poland and Slovakia support amounting to 7.2 MECU is being provided through the respective GTAFs within the framework of the National Programmes in Bulgaria, Estonia, Latvia and Lithuania. A first phase of assistance has also been approved for Albania in the form of a package which combines support to both central and local government. As a necessary part of co-ordinated support, all the above National Programmes work in conjunction with the Regional Programme SIGMA.

A horizontal approach to public sector management and public administration reform is at the forefront of assistance towards institutional development and change, but it is a sensitive sector susceptible to political whim, sometimes requiring unpopular decisions and with an impact on civil servants who are traditionally conservative by nature. Therefore in some instances, implementation has been delayed or slowed down by lack of political will and change of circumstance. Reform of the public administration should be viewed as a slow process requiring sustained support over the years as it tackles the core

issues of central government reform, public finance and budget, decentralisation of public services, reform of management systems, civil service reform and training. In addition, with the recently acquired powers and responsibilities of local authorities, a massive effort in terms of human resource development is required as new legislative frameworks emerge and local governments assume greater autonomy.

In 1993, further to the EURO-GTAF of Hungary and SIERRA (Poland) four new programmes in support of the implementation of the Europe Agreements were initiated in Bulgaria, the Czech Republic, Romania and Slovakia. The underlying importance of support to public administration reform is further evidenced by the emergence of the Europe Agreements as the new legal and political framework for Community assistance. The ability of the central administrations to draw up policies, administer, approximate and implement legislation effectively and efficiently within agreed time frames will be essential. Therefore the strengthening of administrative capacities of the CEECs and the creation of satisfactory conditions of employment for the civil service during the forthcoming years will be crucial.

During 1993 important initiatives were taken with the Council of Europe in the realisation of two joint programmes totalling some 2 MECU: a programme in Albania covering legal system reform and assistance to local government reform and legal reform in Estonia, Latvia and Lithuania within the framework of the Council of Europe's LODE and THEMIS programmes. Both of these programmes financed from multi-disciplinary funds are viewed as experimental models of co-operation with the Council of Europe incorporating the cost-effective pooling of resources to satisfy a common need in the CEECs in the area of local democracy.

5.5 Cross Border Cooperation

In recognition of the specific development problems normally faced by border regions and of the key role that cross border cooperation initiatives can play in the creation and development of networks between the CEECs and the member states of the EU, the European Parliament (EP) requested in the commentary to the 1993 budget that up to 15 MECU of the Phare programme budget (B 7600) be set aside for CEEC/EU cross border cooperation and that at least 5 MECU be used for similar CEE/CEEC measures. The EP request was based on the positive results generated by the Community's structural funds initiative INTERREG which is aimed at cooperative development across national borders with the EU.

Early in 1993, the Commission services (DG I in close cooperation with DG XVI) started a process of project identification, involving the receipt of initial project proposals from the Member States which were subsequently discussed with the CEECs in the Phare programming process. A number of these projects were selected in addition to those proposed by the CEECs, with the result that by the end of 1993 some 14 MECU was committed for projects of cross border cooperation between Albania, Bulgaria, the Czech Republic and Poland and their respective bordering EU member state and over 40 MECU committed for cross border initiatives between the CEECs. Both groups of projects involved primarily infrastructure (border crossing) and environmental projects. Most of the CEEC/EU initiatives linked up directly with projects included in INTERREG. An overview of the CEEC/EU projects is provided below.

**PROJECTS OF CROSSBORDER COOPERATION
WITH MEMBER STATES FINANCED BY PHARE IN 1993**

COUNTRY	PROJECTS	AMOUNT (MECU)
ALBANIA	Border Crossing at Kakavia/Ktismata	0.5
BULGARIA	Environmental Study, Mesta (Nestos) River	0.7
CZECH REPUBLIC	Border Crossing in Fomava and Bavaria	1.5
	Northern Bohemia - Saxony Regional Programme. Includes the following cross border impact activities: <ul style="list-style-type: none"> - Cargo Railway Crossing at Vejprty - Border Crossing at Mnisek - Border Crossing at Moldava - Ferry Connection Reiharsdorf/Schona-Hrensko - Border Crossing at C. Potok-Johstadt - New tourist track Loucna-Oberwiesenthal - Joint sewage system for village Cesky Jiretin - Waste water purification plant Moldava - Disposal of waste water Petrovice-Bahratal - Waste water purification Vejprty-Barenstein - Border tourist path Brandov-Olbernhan - Landscape protection in area Cinovec-Petrovice 	1.722
POLAND	Border crossing (bridge) in Olzynie/Forst	6.8
	Border crossing at Kalboskowo, Route E28	2.8
TOTAL PHARE Funding		14.022⁶

In the process of identifying and launching the cross border initiatives, a number of policy and implementation issues were raised. The CEECs were initially reluctant to take up proposals for projects in border regions with Member States, as these regions were already in a better economic and social position relative to other border areas of their countries, which in their view, needed more support.

Although in several instances and within the context of INTERREG I, there were contacts at local and regional level between a Member State and a CEEC, there was little evidence of such contacts being reflected within the plans and objectives of central government departments dealing with Phare. The cross border exercise should assist in improving the communication channels between regions and the centre within the CEECs in regard to Phare programming.

⁶ This amount is only what PHARE programme contributes to investment that may be of larger value. It does not include contributions from the side of the Community member states.

Although the implementation procedures of Phare and Interreg are different, the experience gained in 1993 showed that with close coordination and cooperation cross border initiatives can be successfully programmed and implemented both between the CEECs and the EU Member States and between the CEECs. The "demand driven" approach of Phare was maintained and the overall exercise will be useful in developing experience for the programming and implementation of similar exercises involving two community assistance programmes.

5.6 Co-ordination with other donors

Aid co-ordination has been a major preoccupation of the Commission since the beginning of the PHARE programme. It has over time strengthened its efforts to achieve complementarity of aid through closer co-operation with the IFI's and bilateral donors at the various stages of the programming and project cycle. In addition, co-ordination contributes towards the sharing of experience among donors. The Commission's commitment to aid co-ordination was reconfirmed in the PHARE guidelines 1993-1997 in which it is underlined that "aid-co-ordination including co-financing with the G-24 countries and the multilateral agencies will continue to be a major consideration for the Commission". In addition, the guidelines stress the importance of the "synergies with major sources of finance such as EIB, EBRD and the World Bank". Although there is a great variety in the nature of co-ordination, it is evident in all sectors, and indeed, for most programmes. Though the key partners are the World Bank, EBRD the EIB and Member States, a number of other bilateral bodies have been involved.

Co-ordination takes place in a variety of ways as indicated below:

The Commission continues to liaise closely through a regular exchange of information, working meetings and joint in-country missions with the IFI's such as the IMF, World Bank, EBRD and of course directly with the EIB. This is aimed at ensuring consistency of views and objectives on macroeconomic policy and sector strategies, as well as a better division of labour in providing assistance. For example the IMF is the main source of the initial advice to central banks on policy and the regulatory and supervisory framework. PHARE support is then provided in close co-ordination with the Fund for the subsequent technical assistance, training and infrastructure, such as computer systems, needed to develop the institution. Such operations have been undertaken in all CEECs. Similar co-operation with the IMF is ongoing in the area of fiscal reform.

Where reform strategies do not exist, the Commission has been instrumental in assisting the national authorities in developing appropriate sectoral policies and strategies which are often followed by financial operations. For instance, in Romania a medium term agricultural strategy has been developed with the assistance from the PHARE programme, World Bank and the EBRD in addition to several bilateral donors. It will form the basis for future financial support. Similar support has been provided for strategy formulation in the agricultural sector in Bulgaria and Poland. In the Romanian banking sector a co-ordinated approach involving a 60 MECU EBRD loan through a local bank combined with PHARE technical assistance was developed. In Albania an operation of this type was carried out for the health sector. In Poland a major programme to recapitalise banks with substantial bad loan portfolios is being cofinanced with the World Bank, EBRD and UK, French and US AID, involving a total donor contribution in excess of 500 MECU. A similar programme is under discussion in Hungary.

PHARE technical assistance for feasibility studies and technical assistance provides opportunities for subsequent loans and investment operations by the EIB and EBRD. The 33 MECU made available in 1992-93 under the Bangkok facility led to an estimated 434 MECU EBRD participation in investment projects ranging from transport, water and waste treatment and energy to capital participation in enterprises. Similarly, studies financed for the EIB resulted in several major loans to a total of some 635 MECU being signed and others being considered in various fields including air transport, telecom and energy.

Under the G-24 mechanisms regular meetings are held at the level of senior officials and sectoral working groups to ensure coherence of policy and objectives, as well as to discuss possibilities of common action in specific sectors. Phare technical assistance has been provided to set up aid co-ordination units in all CEE countries to co-ordinate G-24 assistance at the national level. At the sector level, the management and financing mechanisms put in place for PHARE sector programmes also provide a framework for G-24 aid initiatives. Examples are the four major environment programmes in Poland, Hungary and the Czech and Slovak Republics that co-ordinate bilateral assistance ranging from policy development to specific projects. Similarly, in Hungary the SME programme management provides support to bilateral operations, and thus twelve G-24 donors, including Austria, Finland, USA and Turkey, have cofinanced projects under this scheme. Under the auspices of the privatisation programme in Slovakia, UNIDO, PHARE, French and German bilateral aid are co-operating in creating a subcontracting advisory service for local enterprises.

Other aid co-ordination initiatives include the co-ordination of sector policies and assistance strategies in the context of the discussion on the Orientations Papers. Finally, PHARE is contributing to improved donor co-ordination through its support for public investment planning in Lithuania. Similar assistance is foreseen for Latvia and Estonia.

5.7 Direction of PHARE

The process of economic transformation falls into two stages. The first includes short-term stabilisation through macroeconomic measures (interest rates, credit control, reduction of budget deficit...) combined with liberalisation of trade, prices and current account convertibility. In addition the legal, regulatory and institutional framework required for a market economy needs to be established, together with the formulation and starting up of reforms in key sectors (privatisation, banking, labour market, private sector development...). These are essential prerequisites for economic restructuring.

The focus on PHARE assistance up to 1992 has reflected the requirements of this first stage of the reforms. The concentration was on traditional technical assistance, such as the studies, training and expertise needed for policy formulation, legislation, institution building and for initiating reform programmes. Other forms of support were provided, but up to 1992 these were largely limited to investment schemes for specific purposes, such as credit for SME's or small farmers, or the supply of essential goods to countries facing particular difficulties.

The second stage of reforms is more complex. It concerns the fundamental long term restructuring of the national economy and increasing the share of the private sector. This involves, inter alia, a substantial shift to private ownership, reorganisation of remaining state enterprises, modernising banking and financial systems or measures to mobilise investment and upgrading infrastructure. The dismantling of barriers to setting up and developing private firms is equally important. A major restructuring of the education and training system is required, including large scale programmes for professional and vocational training. Finally, a thorough reform of public administration and the establishment of the basic institutions of a civic society are necessary.

The first phase of transformation is well under way and certain PHARE beneficiary countries are now beyond the initial stages of reform. They are entering the second stage of reform characterised by a diminishing need for classical technical assistance and an increasing requirement for large scale private and public investments with an important multiplier effect. Public investment will, however, due to limited mobilisation of domestic saving and the budgetary restrictions necessary to maintain internal macroeconomic equilibrium, have to be financed by a combination of loans provided by IFI's, budgetary means and external grants.

The Europe Agreement provides the framework for preparing the associated countries for future membership of the EU. This was confirmed by the European Summit of Copenhagen. There will therefore be a need for structural assistance to help to adapt the economic, social and physical structures of the CEEC to the requirements of integration. Examples are the improvement of physical links between the EU and the CEEC (as well as between the CEEC themselves) in fields such as transport, telecommunications or energy and support for regional development in areas facing difficulties due to the reforms. Finally, greater attention could be paid to 'sensitive' sectors such as steel, with the aim of removing potential conflicts through better mutual cooperation. A number of operations along the above lines are underway, but these will need to be developed further within a medium term programming framework.

PHARE has already, or, is in the process of, providing investment support within the limits of the existing guidelines. This support is extended to the private sector in situations of market failure where neither local financial institutions nor external sources can provide the necessary resources. The lending efforts of the EIB and EBRD are supported as are those of appropriate domestic financial intermediaries. In the public sector, PHARE support has been effective in developing and improving the efficiency of national financial instruments. In addition, PHARE has financed urgent infrastructure on a limited scale and infrastructure programmes with a demonstration effect. Finally, PHARE is co-financing infrastructure with IFI's in accordance with the eligibility criteria and within the financial ceilings decided by the European Summit of Copenhagen (see 5.2).

These various avenues of investment support are not sufficient if PHARE is to respond to the needs of the CEECs in a significant way and is to continue to have the impact sought by member states. There is, therefore, a need to increase the existing possibilities for investment support in addition to further developing the investment operations already underway.

A multiannual assistance programme with the twin aims of helping to accelerate the transformation process through support for strategic investment (together with the major lenders of capital, the EIB, EBRD and IBRD and the private sector) and to continue support for structural reform carried out within the context of the implementation of the Europe Agreements would be an effective means to support and sustain the process leading to accession. Such a programme could serve to reduce the costs of membership of the CEECs in the European Union.

PHARE PROGRAMME

SYNTHESIS OF NATIONAL PROGRAMMES 1993

NATIONAL PROGRAMMES	801.0
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	ALBANIA	65.0
AL9301	Balance payments grant	35.0
AL9302	Tempus	2.5
AL9303	Health	6.0
AL9305	Private sector development	7.0
AL9306	Environment	3.3
AL9307	Public administration reform	1.2
AL9308	Agriculture (ARISE)	10.0

	BULGARIA	90.0
BG9202	Nuclear safety reconst. BG9107	4.8
BG9301	Health	10.5
BG9302	Tempus	15.0
BG9303	Private sector	6.0
BG9305	Transform. of customs	8.0
BG9306	Financial sector	5.0
BG9307	Energy	8.4
BG9308	Transport	3.5
BG9309	Telecommunications	2.0
BG9310	Environment	7.0
BG9311	Nuclear safety	3.8
BG9312	GTAF Social & labour market	2.0
BG9313	GTAF Social dialogue	2.0
BG9314	GTAF Education	1.0
BG9315	GTAF Manag. training	1.5
BG9316	GTAF Implem. Europe agr	2.0
BG9317	GTAF Public admn. reform	3.0
BG9318	GTAF Statistics	3.0
BG9319	GTAF Aid co-ordination	1.5

	CZECK REPUBLIC	60.0
CZ9301	Tempus	8.0
CZ9302	Private sector develop.	27.0
CZ9303	Infrastructure	9.0
CZ9304	GTAF III	8.0
CZ9305	Human resources	8.0

	ESTONIA	12.0
ES9301	Tempus	1.5
ES9302	GTAF	10.5

	HUNGARY	100.0
HU9208	Techn. assist.	1.0
HU9301	Tempus	16.0
HU9302	Health	10.0
HU9303	Private sector develop.	31.0
HU9304	Agriculture	30.5
HU9305	Technological develop.	10.0
HU9306	Assistance co-ordination	1.5

	LATVIA	18.0
LE9301	Tempus	2.0
LE9302	GTAF	16.0

	LITHUANIA	25.0
LI9301	Tempus	2.5
LI9302	GTAF	22.5

	POLAND	225.0
PL9301	Tempus	35.0
PL9302	Upgrading statistical inf.	12.0
PL9303	Quality control	5.0
PL9304	Financial sector	10.0
PL9305	Customs	15.0
PL9307	Safe society	10.0
PL9308	Transport	18.0
PL9309	Transport infrastructure	30.0
PL9310	Tourism	8.0
PL9311	Foreign investment	10.0
PL9312	Rural and agricultural	30.0
PL9313	Posts & Telecom.	7.0
PL9314	Training & education ref.	10.0
PL9315	Enterprise restructuring	7.0
PL9316	Flexible reserve T.A.	16.0
PL9317	Fiesta II Commerce	1.0
PL9318	Fiesta II Securities	1.0

	ROMANIA	130.0
RO9302	Tempus	18.0
RO9303	Private sector develop.	70.0
RO9304	Computer, customs	10.0
RO9305	GTAF	27.0
RO9306	Agriculture	5.0

	SLOVAKIA	40.0
SR9301	Tempus	5.0
SR9302	Private sector develop.	19.0
SR9303	Infrastructure	5.0
SR9304	Agriculture	3.0
SR9305	GTAF III	5.0
SR9306	Human resources	3.0

	SLOVENIA	11.0
SL9301	Tempus	3.5
SL9302	GTAF	7.5

	ex-YUGOSLAVIA	25.0
MA9301	FYROM importation	25.0

PHARE

BREAKDOWN OF 1993 COMMITMENTS: BY SECTOR AND COUNTRY

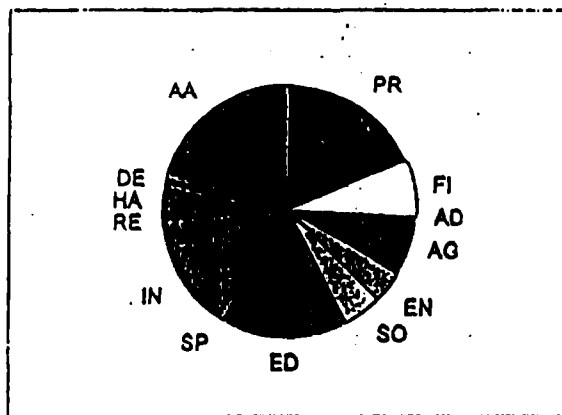
(situation at 31.12.1993)

(Mécus)

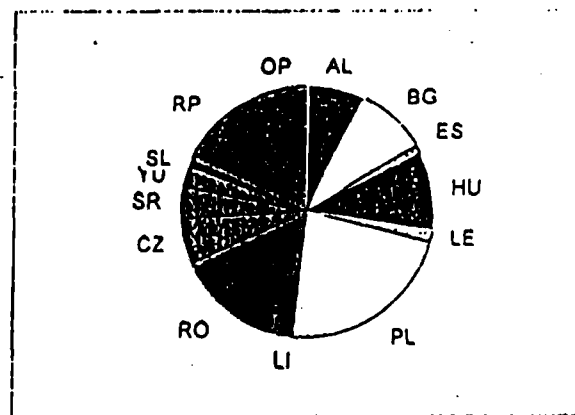
SECTORS		AL	BG	ES	HU	LE	PL	LI	RO	CZ	SR	YU	SL	RP	OP	TOTAL	%
Private sector, Restructuring, Privatisation, SME's	PR	7.0	14.0		31.0		22.0		70.0	27.0	19.0					190.0	19%
Financial sector	FI	38.0	8.0				20.0								10.0	70.0	7%
Administration and Public Institutions	AD	1.2														1.2	0%
Agricultural restructuring	AG	10.0			30.8		30.0		5.0		3.0					78.8	8%
Environment and Nuclear Safety	EN	3.3	15.6											20.0		38.9	4%
Social development and Employment	SO		14.5		10.0					8.0	3.0			10.0		45.5	5%
Education, Training and Research	ED	2.8	17.8	1.8	20.0	2.0	45.0	2.5	18.0	8.0	8.0		3.5	20.8	9.9	182.2	18%
Public health	SP	8.0														8.0	1%
Infrastructure (Energy, Transport, Telecom.)	IN		13.9				75.0		10.0	9.0	5.0			34.0		146.9	15%
Integrated Regional Measures	RE		3.0													3.0	0%
Humanitarian and Food Aid	HA	10.0							9.9			25.0 (*)				44.9	4%
Democratisation	DE														10.0	10.0	1%
Other (Multidisciplinary, QTAF, etc...)	AA		8.5	10.5	2.5	18.0	33.0	22.5	27.0	8.0	8.0		7.5	27.5	40.8	208.8	21%
Total		78.0	90.0	12.0	100.0	18.0	228.0	28.0	139.9	80.0	40.0	25.0	11.0	112.3	70.7	1,063.0	100%
%		7%	9%	1%	10%	2%	22%	2%	14%	8%	4%	2%	1%	11%	7%	100%	

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- OP = Other Programmes

1993 : BY SECTOR



1993 : BY COUNTRY



* This amount has been financed out of the package of National programmes.

PHARE PROGRAMME

SYNTHESIS OF REGIONAL PROGRAMMES 1993

REGIONAL PROGRAMMES		112.3
ZZ9305	Tempus technical assist.	5.5
ZZ9306	Tempus regional projects	10.3
ZZ9308	Regional energy sector	5.0
ZZ9311	Joint venture JOPP	27.5
ZZ9312	Customs	10.0
ZZ9313	Transport extension 92	4.0
ZZ9314	Transport	20.0
ZZ9316	Drug extension	10.0
ZZ9317	Nuclear safety	20.0

Table 4

PHARE PROGRAMME

GENERAL OVERVIEW OF BUDGETS SINCE 1990

(budget line B7-6000 - situation at 31.12.1993 - in Mecu)

Budget Year	Appropriations for commitments			Appropriations for payments		
	Initial Budget	Final Budget	Commitments (1)	Initial Budget	Final Budget	Payments
1990	300.0	500.0	500.0	300.0	350.0	171.0
1991	759.9	775.0	775.0	291.9	307.0	283.9
1992	1,000.0	1,015.5	1,014.3	537.0	437.0	436.2
1993	1,040.0	1,005.7	1,003.9	447.7	521.1	521.1
Total	3,099.9	3,296.2	3,293.2	1,576.6	1,615.1	1,412.2

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(1) After decommitment of unused amounts.

PHARE PROGRAMME

GENERAL OVERVIEW OF CONTRACTS - 1990-1993
situation at 31.12.1993 - in Mecu)

(Contracts concluded by the Commission headquarters and by the recipient countries)

Year	Commitments	Contracts concluded in					
		1990	1991	1992	1993	Total	%
1	2	3	4	5	6	7 = 3 to 6	8 = 7/2
1990	600.0	154.7	99.6	103.6	27.8	385.6	77.1%
1991	775.0	0.0	197.8	179.8	115.3	492.7	63.6%
1992	1,014.3	0.0	0.0	258.8	186.0	444.8	43.9%
1993	1,003.9	0.0	0.0	0.0	243.0	243.0	24.2%
Total	3,293.2	154.7	297.1	542.2	572.1	1,566.1	47.6%

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Table 6

PHARE PROGRAMME

GENERAL OVERVIEW OF PAYMENTS - 1990-1993 (situation at 31.12.1993 - in Mecu)

(Payments on Commission headquarters contracts + advance payments to recipients)

Year	Commitments	Paid on budget year					
		1990	1991	1992	1993	Total	%
1	2	3	4	5	6	7 + 3 to 6	8 = 7/2
1990	500.0	171.0	131.9	51.1	68.6	422.6	84.5%
1991	775.0	0.0	152.0	169.4	148.0	469.4	60.6%
1992	1,014.3	0.0	0.0	215.7	161.5	377.2	37.2%
1993	1,003.9	0.0	0.0	0.0	143.0	143.0	14.2%
Total	3,293.2	171.0	283.9	436.2	521.1	1,412.2	42.9%

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PHARE Programme

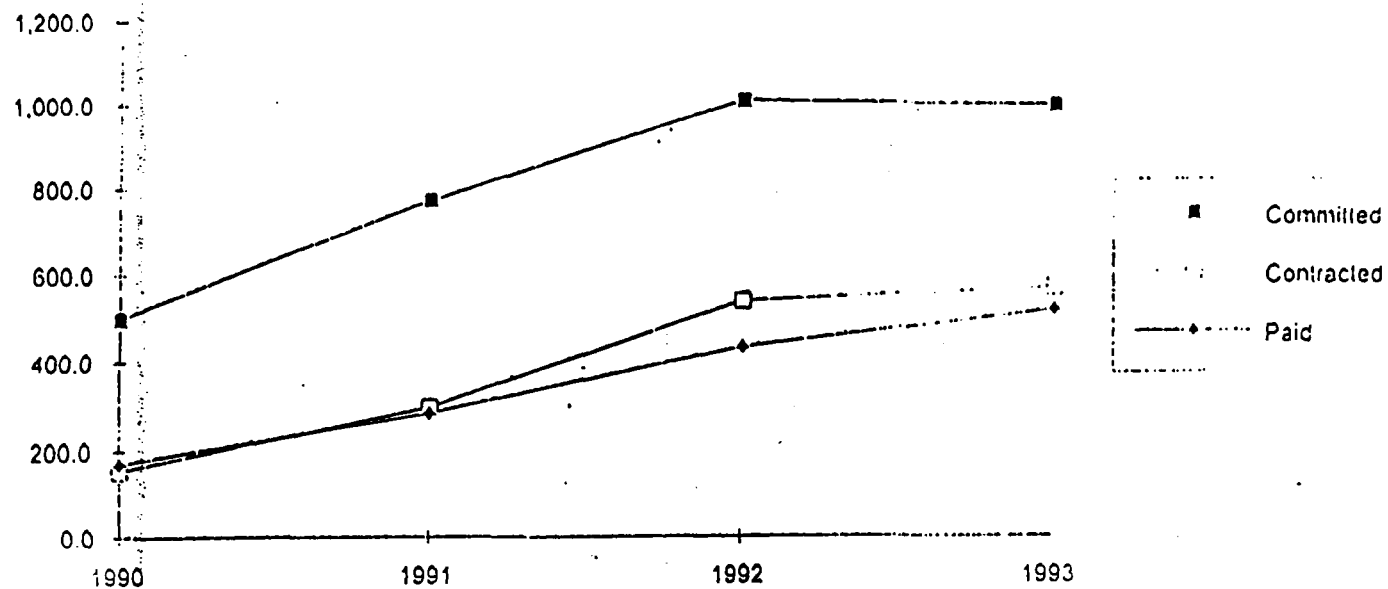
AMOUNT OF OPERATIONS CONCLUDED BY YEAR - 1990-1993

(situation at 31.12.1993 - In Mecu)

Operations	1990	1991	1992	1993	Total
<i>Committed</i>	500.0	775.0	1,014.3	1,003.9	3,293.2
<i>Contracted</i> (1)	154.7	297.1	542.2	572.1	1,566.1
<i>Paid</i> (2)	171.0	283.9	436.2	521.1	1,412.2

(1) Contracts concluded by the Commission headquarters and by the recipient countries.

(2) Payments on Commission headquarters contracts and advance payments to recipients.



PHARE PROGRAMME

BREAKDOWN OF COMMITMENTS, CONTRACTS AND PAYMENTS BY COUNTRY - 1990-1993 (situation at 31.12.1993 - in Mecu)

1	2	3 (1)	4 = 3/2	5 (2)	6 = 5/2
Country	Commitments	Contracts	%	Payments	%
Albania	195.0	149.5	76.7%	136.3	69.9%
Bulgaria	308.6	139.6	45.3%	124.2	40.3%
Estonia	22.0	8.5	38.7%	5.3	24.1%
Hungary	405.8	149.0	36.7%	196.3	48.4%
Latvia	33.0	11.2	34.1%	7.3	22.1%
Lithuania	46.0	14.9	33.0%	8.0	17.7%
Poland	802.8	270.5	33.7%	277.6	34.6%
Romania	441.7	225.0	50.9%	198.8	45.0%
ex-Czechoslovakia	233.0	102.9	44.2%	111.0	47.6%
Czech Republic	60.0	8.0	13.3%	6.4	10.6%
Slovakia	40.0	5.0	12.5%	3.5	8.7%
ex-Yugoslavia (except Slovenia)	123.9	121.4	97.9%	83.0	67.0%
Slovenia	20.0	11.9	59.7%	8.4	42.0%
ex-GDR	35.0	22.9	65.4%	25.9	74.0%
(Regional Programmes)	389.1	210.0	54.0%	163.8	42.1%
(Other Programmes)	138.3	115.8	83.7%	56.4	40.8%
Total	3,293.2	1,566.1	47.6%	1,412.2	42.9%

(1) Contracts concluded by the Commission headquarters and by the recipient countries.

(2) Payments on Commission headquarters contracts and advance payments to recipients.

PHARE PROGRAMME

Table 9

BREAKDOWN OF COMMITMENTS, CONTRACTS AND PAYMENTS BY SECTOR - 1990-1993

(situation at 31.12.1993 - in Mecu)

1	2	3 (1)	4 = 3/2	5 (2)	6 = 5/2
Sectors	Commitments	Contracts	%	Payments	%
Private sector, Restructuring, Privatisation, SME's	594.5	198.1	33.3%	200.4	33.7%
Financial sector	161.7	89.3	55.2%	98.3	60.8%
Agricultural restructuring	383.5	179.5	46.8%	191.8	50.0%
Environment and Nuclear Safety	312.4	79.4	25.4%	95.7	30.6%
Social development and Employment	220.7	26.7	12.1%	34.3	15.5%
Education, Training and Research	448.4	374.9	84.0%	323.1	72.4%
Infrastructure (Energy, Transport, Telecom.)	307.8	73.5	23.9%	65.9	21.4%
Administration and Public Institutions	40.2	20.7	51.5%	9.7	24.1%
Integrated Regional Measures	20.8	12.9	62.0%	4.4	21.2%
Humanitarian and Food Aid	385.8	339.8	88.1%	286.1	74.2%
Public health	6.0	0	0.0%	0	0.0%
Democratisation	10.0	0	0.0%	0	0.0%
Other (Multidisciplinary, GTAF, etc...)	403.8	171.8	42.5%	102.7	28.4%
Total	2,293.2	1,566.1	68.3%	1,412.2	61.6%

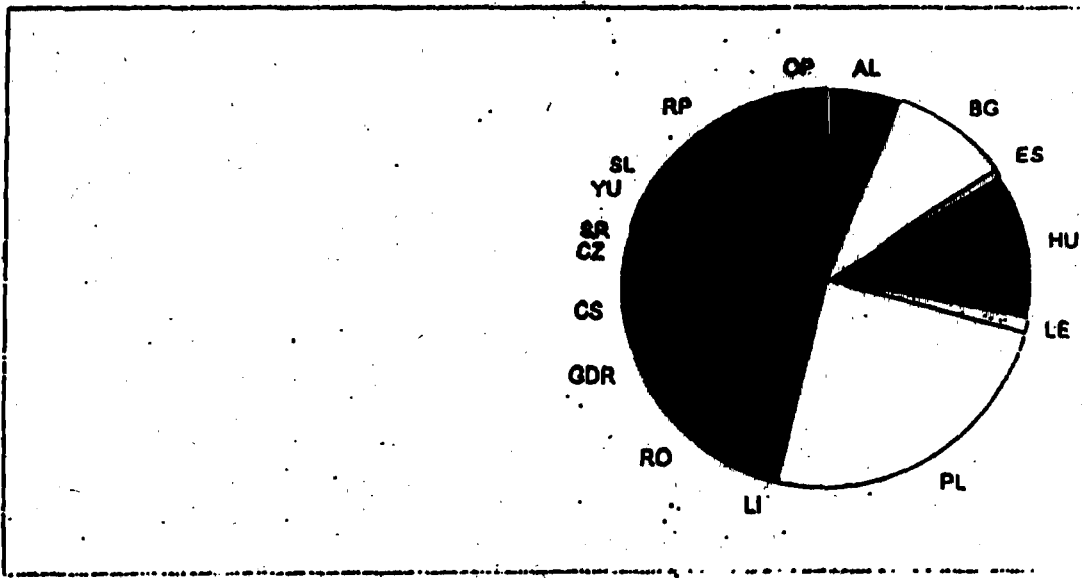
(1) Contracts concluded by the Commission headquarters and by the recipient countries.

(2) Payments on Commission headquarters contracts and advance payments to recipients.

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SECTORS	AL	BG	ES	HU	LE	PL	LI	RO	GDR	RS	CZ	SR	YU	SL	OP	GP	TOTAL
Private sector, Restructuring, Privatisation, SME's	7,000	28,200	0	112,200	0	128,000	8,200	118,800	0	90,000	27,000	18,000	0	0	23,000	0	394,200
Financial sector	78,000	15,000	0	18,000	0	42,200	0	5,000	0	0	0	0	0	0	0	10,000	161,200
Agricultural restructuring	22,000	31,000	0	88,200	0	168,000	0	71,000	0	0	0	3,000	0	0	0	0	293,200
Environment and Nuclear Safety	3,200	27,800	0	47,000	0	78,200	0	8,000	20,000	32,000	0	0	0	0	88,200	0	212,400
Social development and Employment	0	17,800	0	28,200	0	117,200	0	18,000	0	18,000	8,000	3,000	0	0	13,000	0	232,200
Education, Training and Research	2,700	28,200	2,500	88,200	2,500	184,200	4,000	41,000	1,000	28,000	8,000	5,000	6,000	5,000	84,247	18,252	441,434
Infrastructure (Energy, Transport, Telecom.)	4,400	31,400	0	11,200	0	117,400	0	18,000	0	21,000	8,000	5,000	0	0	63,000	0	287,200
Administration and Public Institutions	1,200	2,000	0	13,000	0	8,800	0	0	0	0	0	0	0	0	9,400	1,000	48,100
Integrated Regional Measures	0	0	0	18,000	0	0	0	0	0	0	0	0	0	0	18,000	0	20,000
Humanitarian and Food Aid	78,000	48,000	0	0	0	0	0	108,200	0	0	0	0	117,800	0	31,000	0	381,200
Public health	8,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8,000
Democratization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	18,000	18,000
Other Miscellaneous, OCAP, etc...	4,400	8,800	18,000	8,800	28,400	22,000	21,000	88,000	14,000	28,000	8,000	5,000	0	14,200	28,000	188,200	488,200
Total	192,000	288,200	22,200	488,200	22,200	888,200	48,200	412,200	22,000	222,000	88,000	48,000	122,000	28,000	388,100	122,200	2,292,100
%	8%	12%	1%	21%	1%	38%	2%	18%	1%	7%	2%	1%	4%	1%	12%	4%	100%

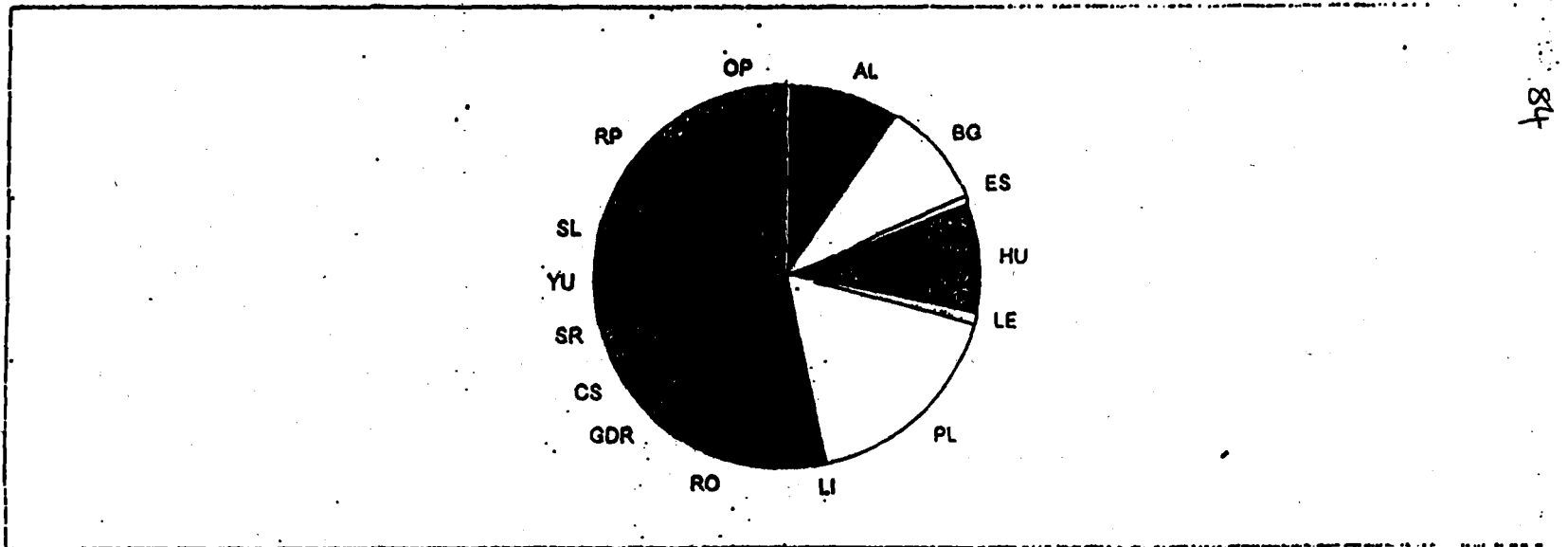
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(K&cus)

SECTORS	AL	BG	ES	HU	LE	PL	LI	RO	GDR	CS	CZ	SR	YU	SL	RP	OP	TOTAL
Private sector, Restructuring, Privatisation, SME's	0	12,774	0	40,237	0	81,849	3,840	19,955	0	36,604	0	0	0	0	23,000	0	199,059
Financial sector	70,000	1,741	0	7,516	0	6,523	0	3,486	0	0	0	0	0	0	0	0	89,266
Agricultural restructuring	8,256	30,775	0	17,548	0	87,374	0	35,820	0	0	0	0	0	0	0	0	179,473
Environment and Nuclear Safety	0	9,415	0	1,740	0	21,825	0	0	11,300	21,905	0	0	0	0	12,455	0	79,445
Social development and Employment	0	1,809	0	9,867	0	7,881	0	125	0	4,147	0	0	0	0	3,000	0	29,729
Education, Training and Research	3,700	28,000	2,500	55,854	3,500	78,868	4,000	41,000	8,700	29,088	8,000	5,000	5,000	5,800	88,788	10,265	374,832
Infrastructure (Energy, Transport, Telecom.)	4,031	27,847	0	7,212	0	8,712	0	8,378	0	7,819	0	0	0	0	9,878	0	73,478
Administration and Public Institutions	0	0	0	8,982	0	0	0	0	0	0	0	0	0	0	9,749	9,000	20,711
Integrated Regional Measures	0	0	0	2,092	0	0	0	0	0	0	0	0	0	0	10,788	0	12,880
Humanitarian and Food Aid	59,498	27,388	0	0	0	0	0	86,344	0	0	0	0	115,358	0	51,000	0	339,994
Public health	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Democratization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (Multidisciplinary, OTAF, etc...)	3,987	0	8,011	0	7,737	0	7,023	30,188	4,000	3,819	0	0	0	8,140	1,800	100,552	171,824
Total	148,482	138,827	8,511	148,028	11,237	278,851	14,863	224,661	22,800	182,881	8,000	8,000	121,358	11,848	209,988	118,837	1,668,129
%	10%	9%	1%	10%	1%	17%	1%	14%	1%	7%	1%	8%	8%	1%	13%	7%	100%

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(1) Contracts concluded by the Commission headquarters and by the recipient countries.

Table 12

PHARE

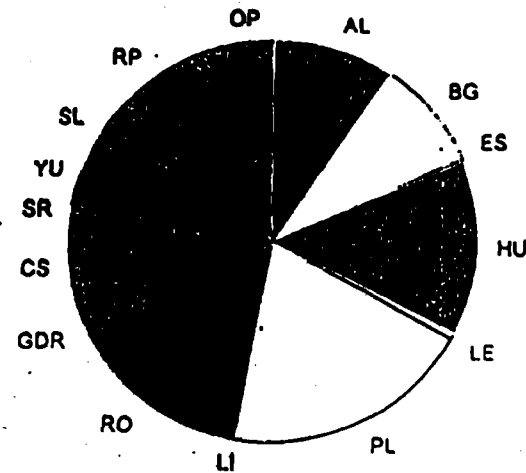
PAYMENTS FROM 1990 TO 1993 (1)

(situation at 31.12.1993)

(Kécus)

SECTORS	AL	BG	ES	HU	LE	PL	LI	RO	GDR	CS	CZ	SR	YU	SL	RP	OP	TOTAL
Private sector, Restructuring, Privatisation, SME's	0	12,082	0	48,565	0	65,228	2,032	14,337	0	48,414	0	0	0	0	1,639	0	200,354
Financial sector	70,000	2,701	0	11,485	0	11,800	0	2,483	0	0	0	0	0	0	0	0	84,269
Agricultural restructuring	0,368	31,404	0	27,082	0	87,823	0	25,000	0	0	0	0	0	0	0	0	191,753
Environment and Nuclear Safety	0	8,100	0	32,970	0	20,007	0	0	14,800	14,654	0	0	0	0	4,625	0	82,056
Social development and Employment	0	488	0	9,100	0	18,840	0	826	0	7,854	0	0	0	0	800	0	34,291
Education, Training and Research	2,483	21,547	2,500	54,440	3,500	85,043	3,785	20,880	927	20,782	8,368	3,482	8,000	5,819	80,103	932	321,144
Infrastructure (Energy, Transport, Telecom.)	1,087	20,359	0	8,878	0	10,785	0	7,221	0	8,812	0	0	0	0	10,095	0	65,928
Administration and Public Institutions	0	0	0	2,751	0	840	0	0	0	0	0	0	0	0	3,597	2,504	6,092
Integrated Regional Measures	0	0	0	1,807	0	0	0	0	0	0	0	0	0	0	2,757	0	4,564
Humanitarian and Food Aid	50,182	27,663	0	0	0	0	0	80,570	0	0	0	0	77,008	0	31,000	0	288,120
Public Health	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Democratization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (Multidisciplinary, QTA, etc...)	2,267	0	2,811	800	3,700	0	1,178	21,271	10,908	3,532	0	0	0	2,708	1,226	52,925	102,871
Total	188,341	124,220	8,311	188,382	7,200	377,887	7,982	188,831	28,885	118,889	8,368	3,482	83,008	8,487	183,848	58,391	1,412,348
%	10%	8%	0%	14%	1%	20%	1%	14%	2%	8%	0%	0%	6%	1%	12%	4%	100%

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(1) Payments on Commission headquarters contracts and advance payments to recipients.

ANNEX 4

**Professional Associations and Non-Profit Making Organisations
Awarded PIARE Contracts**

PROJECT	CONSULTANT
<p>1. <u>Banking and Financial Sector</u></p> <ul style="list-style-type: none"> - Assistance to the Latvian Central Bank - Assistance to the Latvian Savings Bank - Capital Market Development - Czech Republic - Banking Supervision Reform - Slovakia - Banking Training - Insurance Training - Development of EU linked compensation 	<ul style="list-style-type: none"> - European Association of Cooperative Banks - European Association of Savings Banks - Banque Nationale de Belgique - Banque de France - Chartered Institute of Bankers - Insurance Training Association - ECU Banking Association
<p>2. <u>Taxation and Accounting</u></p> <ul style="list-style-type: none"> - Assistance for taxation reform in the CEECS - Accounting training 	<ul style="list-style-type: none"> - Danish, Irish, French, Belgian and Dutch Ministries of Finance (Tax Administrations) - Institute of Chartered Accountants
<p>3. <u>Institutional Infrastructure</u></p> <ul style="list-style-type: none"> - Customs Administration Reform - Statistics Reform - Development and Harmonisation of Industrial Standards and Quality Control - Reorganisation of the Patent Offices 	<ul style="list-style-type: none"> - Eurodouanes (customs association of the 12 EU Member States) - CESD, Unité Conseil d'Eurostat - CEN-CENELEC, Comité Européen de Normalisation - European Patent Office

<p>4. <u>SME Promotion and Regional Development</u></p> <ul style="list-style-type: none"> - Training and Reorganisation of Chambers of Commerce in the CEECs - Creation of BICs (Business and Innovation Centres) - Assistance to SME Associations in the CEECs - Assistance to Regional Agencies in Poland - Support to regional development in Slovakia - SME Development in Romania - Restructuring of the textile industry and SME development Lodz, Poland 	<ul style="list-style-type: none"> - Eurochambers, European Association of Chambers of Commerce and Industry - EBN, European Business and Innovation Centre Network - UAPME, (Union of SME Associations) - Centre de Rencontres et d'Initiatives pour le Développement Local (CRIDEL-DATAR, France) avec le Centre Européen de Recherche sur les Reversions et les Mutations (CERRM, Longwy) - SPRI, Sociedad para la promocion y Reconversion Industrial, Bilbao - CNA Veneto, Confederazione Artiginale e delle Piccola Imprese di Veneto, Italie - Novacité et Chambre de Commerce de Lyon
<p>5. <u>Financial Instruments for SMEs</u></p> <ul style="list-style-type: none"> - Creation of financial assistance schemes - Creation of a guarantee fund for SMEs in Poland - Creation of a Regional Investment Fund, Ostrava, Czech Republic - Creation of a Regional Investment Fund, Zilina, Slovakia 	<ul style="list-style-type: none"> - IAPME, Instituto de Apoio as Pequenas e medies Empresas e as Investimento, Portugal - CEPME, France, Crédit d'Equipment des PME - NEHEM-ING, Netherlands - IBF Belgique (Institut Belge de Formation) with FRIULIA (Société régionale d'Investissement du Frioul)
<p>6. <u>Public Administration and Training</u></p> <ul style="list-style-type: none"> - Training of Public Enterprise Managers, Bulgaria - Industrial training attachment programme - Management training - Chemical Industry - SME Support - Public Administration Reform - Regional Cooperation in Higher Education 	<ul style="list-style-type: none"> - Université Bocconi, Milano with a consortium of 5 Business Schools - Eurochambers (responsible for the selection of placing interims) - CEFIC (European Confederation of the Chemical Industry Federation) - European Senior Service (European Association of Retired Managers established specifically for TACIS and Phare) - OECD - OECD

<p>7. <u>Health, Social Sector, Employment, Democracy</u></p> <ul style="list-style-type: none"> - Healthcare support and training - Health and security in Romania - Development of Social Services - Romania - Worker protection - Poland - Social and employment policy - Bulgaria - Democracy Programme - NGO Programme 	<ul style="list-style-type: none"> - ECPC, European Consortium for Primary Healthcare - Danish Working Environment Service - King's Fund College (UK registered charity) - Health and Safety Executive - ILO (International Labor Organisation) - European Human Rights Foundation - European Volunteer Centre
<p>8. <u>Food Aid</u></p> <ul style="list-style-type: none"> - 250 MECU Food Aid operation to ex-USSR in 1991 - Pesticide Distribution in Poland - Development and training of rural cooperative bank staff in Poland - Training of Cooperative field advisors in Poland 	<ul style="list-style-type: none"> - A number of non-profit organisations were responsible for the distribution e.g. Red Cross, Médecins Sans Frontières, Save the Children Fund - Foundation for the Development of Poland (Rockefeller Foundation) - EC Association of Cooperative Banks - The Plunkett Foundation, UK
<p>9. <u>Environment, Energy, Infrastructure</u></p> <ul style="list-style-type: none"> - Technical assistance to the Romanian Energy Conservation Agency - Development of an Energy Conservation strategy for Slovenia - Research Programme on Air and Health in Central and Eastern Europe - Strengthening the Role of Environmental NGOs and stimulating environmental awareness and education - Institutional Development of the Bulgarian Ministry of Transport - Institutional Development of Lithuanian National Roads Administration - Training of Air Traffic Controllers in Central and Eastern Europe 	<ul style="list-style-type: none"> - Agence pour les Dechets, l'Environnement et la Maitrise de l'Energie, France - Energy Technology Support Unit from the State Department of Environment (UK) - The National Institute of Public Health (NL) and the London School of Hygiene and Tropical Medicine - British Council - Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) - Danish National Roads Administration - Eurocontrol

ISSN 0254-1475

COM(95) 13 final

DOCUMENTS

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Catalog number : CB-CO-95-019-EN-C

ISBN 92-77-85100-7

Office for Official Publications of the European Communities

L-2985 Luxembourg