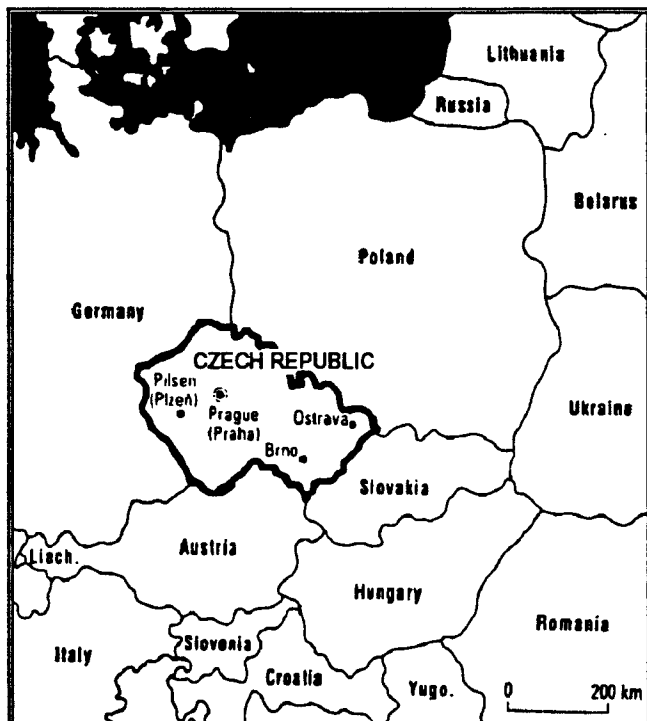




PHARE *Czech*

1993 INDICATIVE PROGRAMME SUMMARY

Since the Velvet Revolution, the Czech Republic has made substantial progress both in establishing an independent market-oriented economy and in restoring democratic rights. The Government and the Commission of the European Communities both agree that PHARE assistance will continue to focus on the provision of transferable expertise to help mobilise national and foreign resources, including multilateral and bilateral aid flows, to achieve sustained reform, economic growth and a stable democracy.



Past PHARE assistance

PHARE assistance to the Czech Republic from 1990 to 1992 was provided under the Czechoslovak PHARE programme. Total commitments to Czechoslovakia amounted to 233 million ECU (34 million ECU in 1990; 99 million ECU in 1991; and 100 million ECU in 1992).

With the exception of TEMPUS, all sector programmes were still being implemented at the time of the dissolution of the CSFR. The existing PHARE programmes had to be split into separate national programmes. Calculating an exact figure for the benefits accrued to each Republic from PHARE is thus fraught

with unavoidable difficulties. Based on the agreements reached between the two Republics and the Commission about the split of individual sector programmes and on estimates of the benefits accrued from already implemented components, total PHARE assistance for the Czech Republic so far amounts to roughly 145 million ECU.

Out of this total of 145 million ECU, some 44 million ECU were allocated to the development of the private sector, including restructuring and privatising state enterprises, assisting the development of SMEs, promoting foreign investment, and supporting regional development.

Some 34,2 million ECU were earmarked to develop the physical infrastructure (environment, energy, and telecommunications). Smaller allocations were agreed for educational reform (5,5 million ECU) and for the development of Civic Society (2,6 million ECU). The TEMPUS programme for the Czech Republic amounted to 16,8 million ECU. The Labour Market Restructuring Programme (15 million ECU) is still operating as a joint programme of the Czech and Slovak Republics and as such is the only programme which was not divided at the end of 1992.

In addition to the sector programmes, two General Technical Assistance Facilities were established for the CSFR amounting to a total of 50 million ECU; the Czech share of which is about 33,1 million ECU. These funds are used to initiate reform policies in a series of sectors like finance, transport, health, agriculture, social security, science and technology, and to complement and reinforce initial technical assistance from regional PHARE programmes like customs, statistics, and public administration reform.

At the end of 1992, only 29% (excluding TEMPUS: 17,4%) of the total allocation for the Czech Republic had been contracted for. This low usage rate is mostly due to the fact that none of the sector programmes drawn up in 1992 could start in that year because of the split. For the same reason, considerable delays occurred

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in the implementation of programmes funded from the 1990 and 1991 allocations.

Future Priorities

The Private Sector

The main focus of the 1993 Programme is on the development of the private sector. This will involve three strategic planks:

- financial support for SMEs;
- technical assistance in restructuring larger enterprises; and
- the preparation of a new regional development programme.

In addition, there are two aspects of private sector development - trade promotion and foreign direct investment (FDI) - which are of fundamental importance to the transformation process.

SMEs

The support for SMEs will continue along the lines charted by the programme that started in 1991. Technical support to SMEs is being provided through Business Innovation Centres (BICs) and Regional Advisory and Information Centres (RAICs). This network will be completed, and further support provided to make these centres fully effective.

PHARE finance will mainly be channelled through three funds: the Small Loans Fund, the Loan Guarantee Fund and the Seed Capital Fund. The first two started operating in 1992 and will receive additional finance from the 1993 programme. The third fund is a new one. It will provide venture capital, eventually repayable, to firms selected as showing potential for growth in either output, exports or employment.

The range of beneficiaries will be widened to include SMEs engaged in market gardening, tourism and local transport services.

The programme proposed for SMEs will require strong management, preferably in an institutional environment closer to the business community than a Government ministry. For the time being, however, the existing PMU within the Ministry of the Economy will be greatly strengthened, and will be prompted to act as an agency rather than as a department.

Enterprise restructuring

Previous programmes helped prepare enterprises for privatisation. With the privatisation process now well under way, attention must be shifted to firms already partially or fully privatised. The criteria used to select firms will continue to stress the larger ("intermediate") enterprise not receiving foreign investment. An additional facility will be provided for firms needing help in negotiating successfully with potential foreign partners.

The programme will continue to concentrate on manufacturing industries (including food processing). It will also be widened to cover other enterprises where the expertise available makes this possible. Greater attention will be paid to assisting enterprises to overcome their environmental problems, especially those concerned with liabilities for past pollution. The management advisory and training services available in the Turnaround Management Programme (TAM) will be used as an additional measure where appropriate.

Preparatory work will be undertaken on the possible establishment of a special restructuring investment fund aimed at medium-sized enterprises, with participation from other financial institutions such as EBRD.

Banking

In 1993, a review of priorities for the banking sector will be undertaken. This will look in particular at the banking needs of small businesses. The review will also consider the possibility of additional support for the Central Bank

Technical assistance and training will be provided to the banking sector, especially to the many new, small banks, to help them develop sound, modern banking principles, profitable and adequately supervised. This is a necessary step to generate more competition in the sector. Consideration will also be given for training and technical assistance to set up and strengthen SME credit facilities in commercial banks.

Regional development

The 1992 regional development project for Ostrava is now becoming operational. A similar project is now being proposed for Northern Bohemia, a region suffering from serious environmental degradation and the prospect of heavy unemployment as the coal mining industry is wound down. The region has already been the subject of many external assistance studies and schemes, including a PHARE regional environmental project (The Black Triangle programme).

Infrastructure Development

Environment

Environmental problems are seriously worrying the Czech Republic. Spending on environmental projects has been difficult, and financial resources allocated to previous programme are being reallocated to set up an Environment Fund. Particular attention will be given to the provision of assistance to Northern Bohemia, which is facing serious environmental degradation. Additional funding may be considered under the 1994-1997 programme once this Fund has been established and is operating successfully.

In the meantime, new project proposals to be considered for the 1994-1997 Programme will be

prepared by the Ministry of Environment, based on its environmental policy.

Energy

The emphasis here will be on energy efficiency and conservation. A Fund is to be established for the benefit of small businesses and local administrations. This will draw on results obtained by earlier PHARE-financed studies. Energy audits will be offered. These will make recommendations for efficient and clean technologies and outline the options available for alternative energy sources. The Fund may offer loans on concessional terms to finance the resulting investments if alternative sources of finance are not available. A preparatory study for establishing the Fund will be undertaken from available resources.

A major problem for the sector, and for the economy as a whole, is the projected run-down of the coal industry. Technical assistance will be provided to analyse various technological 'fixes' that could result in the cleaner use of coal. The 1993 programme will undertake the necessary preparatory studies, to establish a substantive programme of assistance for 1994.

On this front too, special attention will be given to Northern Bohemia.

Transport

The 1991 and 1992 programmes (running under the GTAF framework) have focused on technical assistance and training activities, some of which are expected to continue in 1993. In addition, 5 million ECU have been allocated from the 1992 Regional Programme for direct investment in border crossings in the Czech Republic.

Provision will be made in the 1993 Programme for pre-investment actions related to the Trans-European Transport Network. This facility will be used when other International Financing Institutions have already committed themselves to specific projects.

Finance

For financial administration, a range of activities are underway through GTAF, some of which will need additional financing from the 1993 Programme. The focus now will be on taxation, accounting and auditing.

Human Resource Development

The reform of higher education will be supported through continued commitments for TEMPUS. About 8 million ECU of the programme will be allocated to cover the "overhang" from 1991 and 1992 projects in respect of 1993 and 1994 and various complementary activities, but no new projects will be initiated.

The TEMPUS II programme, to be taken up under the 1994 Programme, will be prepared with a clear focus on key priorities in the context of the higher education reform policies.

On the basis of the results of the on-going Labour Market Restructuring Programme, the 1993 programme will support the implementation of reforms in the areas of vocational education and training and of adult training & retraining. In addition, it is intended to establish a Training Fund to support selected institutions to provide specialised training courses which will cover priority areas such as banking and finance, business management, technology transfer and other areas relevant to the growth of thriving private sector. The Fund may also be used for the organisation and delivery of training measures as components of existing and future sector programmes.

Institution Building and Reform

Social security

New systems of social insurance and social assistance are being introduced in the Czech republic. PHARE will continue providing support for the development of the new social security system and for the strengthening of the related institutional and management capacities. Preparatory studies will be undertaken with a view to launch a full-fledged reform programme under the 1994 to 1997 programme.

Europe Agreement

Implementing of the Europe Agreement is a priority for the Government. The approximation of legislation to the *acquis* and many other actions in a wide range of sectors are required. Under the 1992 Programme, a special facility will be created (alongside the existing GTAF) to provide technical assistance and other support to help the Government meet its obligations under the Agreement.

1993 Funding

The financial assistance necessary for the accomplishment of the programmes and operations decided above is estimated at 60 million ECU.

