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The Phare Programme Annual Report 1996

(presented by the Commission)

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Commissioner's statement

For the European Commission, 1996 was primarily a year of consolidation of its relations with the countries of Central and Eastern Europe (CEECs) in particular, through the instruments of the pre-accession strategy: the Europe Agreements, the Structured Dialogue and the Phare programme all of which are designed to assist the CEECs in their preparation for membership of the European Union.

1996 was also a year of great challenge, as Phare, for the first time, was rapidly mobilised to provide essential aid to war-torn Bosnia-Herzegovina immediately after the signature of the Dayton Agreement.

1996, was lastly, a year of reflection within the Commission on how to adapt the pre-accession strategy and its constituent instruments to best meet the needs of the candidate countries as they prepare for membership of the European Union.

This Annual Report describes the activities of the Phare programme in 1996. A particular effort has been made this year, to include descriptions of results achieved under programmes initiated in earlier years as well as the difficulties encountered in the implementation of a programme with such challenging objectives and high visibility. This new approach to the annual report aims to provide the reader with a clearer overview of the Phare programme, and responds to the comments received on the 1995 Annual Report.

I would, nevertheless, like to touch on the most recent developments in relations with the candidate countries and their impact on the Phare programme in particular. With regard to the Phare programme the Commission elaborated new orientations for the Phare programme in the candidate countries in March 1997. The main thrust of the orientations are to turn Phare into an "accession-driven" programme, focusing on the most pressing needs of the candidate countries in their preparation for accession. They will not affect the non-associated countries that have not applied to join the European Union and whose programmes, therefore, are not directed towards preparation for EU membership.

Two priority areas are identified in these orientations, as a result of the Commission's analysis of the situation in the candidate countries, set out in the Commission's Opinions on each country's application for EU membership which were published in July 1997. First and foremost, Phare will henceforth focus on institution building, that is the strengthening of the administrative capacity of the candidates to implement and apply the *acquis communautaire* with the same guarantee of effectiveness as in the current Member States. Second, it will support investments needed in the candidate countries to address *acquis*-related sectoral, regional and structural imbalances in their economies, and help bring their industry and infrastructure up to EU standards.

These new orientations for Phare form part of the re-inforced pre-accession strategy which the Commission has proposed to the European Council in "Agenda 2000" in order to offer practical support, irrespective of each candidate country's current state of preparation in introducing reforms entailed by accession according to the priorities identified in the Opinions.

As well as this ongoing political process, the Commission has reviewed the manner in which Phare operates. In July 1997 the Commission issued an interim evaluation of the Phare programme which highlighted the strengths and weaknesses of the Phare programme since its creation in 1989. Whilst in its conclusions the overall contribution that the Phare programme has made was evaluated positively, shortcomings were identified, particularly in the construction of the programme. In order to address these problems, the Commission has taken decisions to improve the manageability and financial performance of the programme, in addition to the new policy orientations mentioned above. Phare will henceforth focus its efforts on precise objectives and on larger projects. This should enable Phare to avoid a multiplication of small projects and the fragmentation of its effectiveness. In addition, timetables for programme implementation will be closely monitored and respected.

With enlargement set to profoundly reshape the European continent, the Phare programme, as the main financial instrument of the pre-accession strategy, will face new challenges in the years ahead. The new orientations elaborated by the Commission in 1997 will streamline and improve the efficiency of this instrument designed to meet the mutual objectives of the European Union and the candidate countries. As the European Commissioner responsible for the Phare Programme, I commend this Annual Report to you and hope that it will provide useful information to contribute to a better understanding of the Phare programme in general, its objectives and results.

Hans van den Broek
Member of the European Commission

The Phare Programme

The Phare Programme is the main channel for the European Community's financial and technical cooperation with the countries of central and eastern Europe. Set up in 1989 to support reform in Poland and Hungary, by 1996 Phare had been extended to include 13 partner countries from central and eastern Europe.

Initially designed to support these countries in their transition towards democracy and a market economy, Phare's role has gradually evolved. At the Essen European Council of December 1994, it was decided that Phare would be the main financial instrument supporting the ten associated countries in their preparations for accession to the EU. In addition, for the non-associated countries in the region, Albania, the Former Yugoslav Republic of Macedonia (FYROM) and Bosnia-Herzegovina, Phare provides support in their transition to democracy and a market economy.

Originally allocated a budget which totalled ECU 4.2 billion for the 1990-1994 period, the Phare budget was increased to ECU 6.693 billion for the 1995-1999 period, following the European Council in Cannes in 1995. Phare assistance takes the form of grants rather than loans, and its work encompasses a wide range of activities, such as supporting partner countries as they adopt the 'acquis communautaire', inter-regional cooperation, nuclear safety, promotion of civil society, financing or co-financing of infrastructure investment, often in close co-operation with IFIs.

Throughout the 1989-1996 period, Phare has shown a continuing flexibility in adapting to the changing priorities and limitations of the economic and social reform process. The evolving distribution of funding by sector illustrates the way in which Phare has responded to changes in needs and political direction. In the period 1994-1996 Phare has increased its support for the approximation of EC legislation and administrative reform, as well as projects promoting democratisation and civil society, and investment in infrastructure, including cross-border cooperation.

Conceived as a technical assistance programme to provide direct support to the partner countries, Phare was organised on a demand-driven basis. This meant that the projects financed have generally been those put forward by the beneficiary country. As the objectives evolved, however, it became necessary to make a thorough appraisal of the Programme so as to re-direct Phare towards the essential task of the coming years, namely, preparing the candidate countries for accession. During 1996, the Commission carried out a review of Phare, which led to the elaboration of new orientations for the programme in March 1997. While the new orientations appeared in 1997, and thus outside the period covered by this Report, they are inseparable from the Phare Programme and its political context, and it was felt necessary to include them in the Report. The same reasoning applies to other developments that took place in 1997, but which have nonetheless been included in this Report in order that Phare's objectives can be properly understood.

In July 1997, the Commission presented its Agenda 2000, together with its opinions on each of the applications for membership by ten associated countries of central and eastern Europe. In a single framework, the Commission outlined the broad perspective for the development of the European Union and its policies beyond the turn of the century, the impact of enlargement on the EU as a whole, and the future financial framework beyond 2000, taking into account the prospect of an enlarged Union. The Agenda 2000 documents, taken together, offer a clear and coherent vision of the EU as it enters the 21st century.

I Phare in 1996

Developments in EU-central European relations

In 1996 , the Phare partner countries continued their efforts to reform their political and economic structures in preparation for accession to the European Union. The pace of change was uneven across the applicant countries. The EU for its part continued its activities that assist these countries in their efforts, while at the same time concentrating on the reforms it has to undergo itself if it is to be able to welcome new members.

Phare also provides support to Albania, Bosnia-Herzegovina, and the former Yugoslav Republic of Macedonia. As non-associated countries, they are not covered by the pre-accession strategy. During 1996, Phare supported these countries in their efforts to reform their economies and political structures, and to overcome the ravages of war and social upheaval.

The EU's pre-accession strategy

Phare is at the centre of the political and economic relations between the European Union and the countries of central and eastern Europe. Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia have applied to join the European Union. The pre-accession strategy, adopted at the Essen Council in December 1994, is designed to help them align their political, economic and legal systems with those of the European Union. The pre-accession strategy has three main components: the Europe Agreements, the Structured Dialogue, and the Phare Programme.

Europe Agreements

The Europe Agreements set the framework for bilateral relations between the European Communities and their Member States on the one hand, and the individual candidate countries on the other. Developed by the European Community in 1990 and signed with individual countries over subsequent years, the Europe Agreements cover trade-related issues, political, economic and cultural cooperation.

Under the Agreements, the associated countries prepare for progressive convergence in a wide range of areas and commit themselves to approximating their legislation, particularly in the areas relevant to the internal market, to that of the European Union.

In June 1996, Slovenia became the tenth country of central and eastern Europe to apply for accession to the EU. The signing of a Europe Agreement on 10 June 1996 meant that Slovenia formally became part of the pre-accession process. An Interim Agreement, enabling the implementation of the trade chapter of the Europe Agreement prior to ratification of the Europe Agreement, was signed in November 1996.

Country	Europe Agreement signed	Europe Agreement came into force	Official application for EU membership
Bulgaria	March 1993	February 1995	December 1995
Czech Republic	October 1993	February 1995	January 1996
Estonia	June 1995		November 1995
Hungary	December 1991	February 1994	March 1994
Latvia	June 1995		October 1995
Lithuania	June 1995		December 1995
Poland	December 1991	February 1994	April 1994
Romania	February 1993	February 1995	June 1995
Slovakia	October 1993	February 1995	June 1995
Slovenia	June 1996		June 1996

Key instruments of the Europe Agreements are the Association Council, Association Committee meetings and Joint Parliamentary Committees. Association Councils are bilateral meetings at ministerial level between the European Union and an associated country, where progress in all areas of approximation towards the EU is discussed. The Association Councils are complemented by Association Committees at senior official level, which review in more detail all areas under the Europe Agreements. These are supported by a series of sub-committees, which allow for more regular and detailed in-depth technical discussions on all areas covered by the agreements. Furthermore, there are Joint Parliamentary Committees, which bring together parliamentarians of the national parliaments of the associated countries and members of the European Parliament. In 1996 a full cycle of Association Councils, Committees and sub-committees was completed with the countries with which Europe Agreements are in force, i.e. Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia.

The Europe Agreements aim gradually to establish free trade in industrial products over a transition period, on the basis of asymmetry: the European Community opens its market more rapidly than the associated country. As a result, industrial products from the associated countries have had virtually free access to the European Community since the beginning of 1995, with certain restrictions in only a few sectors such as agriculture and textiles.

Following the Uruguay Round and EU enlargement with Austria, Sweden and Finland, the Europe Agreements with Poland, Hungary, and the Czech and Slovak Republics were adapted to reflect institutional as well as commercial changes. Similar work is continuing in order to adapt the agreements with Romania and Bulgaria. Appropriate adjustments have also been made to the free trade agreements with the Baltic States.

Structured dialogue

The second instrument of the pre-accession strategy is the structured dialogue. Agreed at the European Council of Copenhagen in 1993, the structured dialogue provides for a multilateral framework of regular meetings between the institutions of the European Union and the associated countries. In the conclusions of the European Council of Essen in 1994, the structured dialogue was listed among the instruments of the pre-accession strategy together with the bilateral Europe Agreements, the Phare Programme and the White Paper on the Internal Market. At Essen it was agreed to hold regular meetings at ministerial level in order to exchange views on issues of interest to both European Union Member States and the associated countries.

The structured dialogue enables discussion of issues of common concern in areas where solutions require action at European level, ranging from cooperation in the fields of energy, environment, transport, science and technology through Justice and Home Affairs to the Common Foreign and Security Policy (CFSP). In February 1996, Foreign Affairs Ministers from Member States and from associated countries agreed to improve the structured dialogue by means of better preparation of the meetings, the establishment of annual programming of the work to be done over a period encompassing two presidencies, and by focusing on a reduced number of topics for discussion. In order to provide common information to all delegations, the Commission prepares the basic document for the dialogue at ministerial meetings and the Presidency of the European Union drafts the concluding remarks.

Phare: deepening and widening

Developed initially in response to the challenges of transition, the Phare Programme has become the main financial instrument of the pre-accession strategy.

In 1996, the scope of Phare assistance was extended to include two more countries. The former Yugoslav Republic of Macedonia (FYROM) became the twelfth Phare partner country in March. Between 1992 and 1995, Phare had already operated under a Critical Aid Programme (ECU 85 million) with the aim of providing the country with essential raw materials, industrial spare parts and fuel for social institutions such as schools and hospitals. Since March, the recent relative economic and political stability in the country has allowed Phare to evolve in harmony with domestic developments. A country strategy was drawn up in 1996 that reflected government priorities and identified activities most appropriate to achieving market reforms, such as the strengthening of the enterprise sector, support of land reform and agriculture, the development of human resources and support for overall restructuring.

In June, Bosnia and Herzegovina followed FYROM to become the 13th Phare partner country. In Bosnia-Herzegovina, the Phare Programme operates in coordination with other donor's activities, and programmes were drawn up in 1996 to reflect the country's priorities such as economic revitalisation, institution-building and democratisation. As with FYROM, Phare was already providing assistance through an Essential Aid Programme worth ECU 125 million before the country officially became eligible for Phare assistance.

During 1996, Albania's position as an established Phare partner country was further developed. Phare assistance worth a total of ECU 32.5 million in 1996 focused on support of the country's market reforms and the medium-term restructuring and modernisation of the Albanian economy as well as the strengthening of links with the European Union.

Phare Programme activities in 1996

In 1996, the Phare Programme focused on programmes aimed at supporting the candidate countries in their efforts and strategies to prepare for membership. The reform efforts of the non-associated countries continued to receive support. The funds made available to the 13 Phare partner countries in 1996 amounted to ECU 1,223 million of grant aid, i.e. 5 per cent more than in 1995, and this in a context where some other donors are phasing out their assistance.

Facilitating the approximation of the EC acquis

Approximation towards and eventually adoption of the 'acquis communautaire' is being pursued by all the associated countries. To assist with the adoption of the single market acquis, the Commission published a White Paper on the Internal Market in mid-1995; subsequently a large number of partner countries elaborated and adopted national strategies.

Programmes providing support for the 'acquis' objective receive important allocations in the multi-annual programmes. In 1996, this priority was also included in national, horizontal and multi-country programmes. These programmes provide support not only for mechanisms to the legislative approximation process itself but also for the reinforcement of the administration and bodies necessary to ensure that this approximated legislation is effectively applied and enforced.

A closer look at the 1996 Phare programmes in this area reveals activities in the following areas:

- upgrading of the administrative and ministerial structures in charge of steering the European integration process
- raising public awareness of the integration process
- contributing to the development of university and professional knowledge of the wide body of European Community law
- rendering public procurement practices more stringent and compatible with the EC model
- facilitating adaptation to EC standards and norms through upgrading labs and services in charge of accreditation and certification
- particular programmes in areas such as the development and strengthening of anti-monopoly and competition bodies, VAT administrations, customs, veterinary services.

Of the many horizontal programmes addressing this area, the following received new budget allocations: Sigma (ECU 5 million) for the continuation of support to public administration upgrading and TAIEX (ECU 6 million) for the office in charge of technical assistance information exchange on internal market issues that became operational in early 1996.

Integration through linking upgraded infrastructures with Trans-European Networks

A second important component of Phare's contribution to the pre-accession strategy involves the integration of the associated countries with the EU through the interconnection of the main communications infrastructure. Programmes in support of infrastructure investment in Trans-European Networks in transport, telecommunication and energy embody that objective. In the transport sector, nine main corridors that ensure the interconnection of the associated countries' transport infrastructure with that of the EU were identified (the Crete corridors) and supported through co-financing.

A large amount of the 1996 budget (ECU 424.4 million including cross-border infrastructure projects) was allocated to such infrastructure programmes. The relevant national programmes will be described under their respective country chapters. Significant funds were also provided under multi-country programmes, which covered notably:

- Transit facilitation

ECU 22 million, providing an integrated approach covering border-crossing infrastructure and customs services.

- Transport

ECU 9 million, for feasibility studies for rail and road infrastructure on the Crete corridors and activities for improving safety in the transport of hazardous materials.

- Telecommunications and post

ECU 7 million, notably to facilitate CEECs compliance with international standards and for the management of the frequency spectra crucial for radio and television broadcasting and mobile telephony.

Although a large proportion of these sector programmes consists of physical investment, they also include funds for project management and supervision, policy, approximation of EC norms and feasibility studies on future investment.

Where investment is concerned, Phare operates as a complement to the normal actors, i.e. the partner country governments, the International Financial Institutions and commercial lenders. The Phare contribution, however, is frequently the part that makes the whole project feasible by helping the country provide the input other lenders require before they engage their funds.

A concrete example of Phare's leverage function is illustrated in the box below. It analyses a sample of seven transport infrastructure projects under the 1996 programme. The analysis reveals that with an input of ECU 183 million of Phare grant funds, investment projects worth ECU 886 million were started, i.e. five times the Phare contribution. Loan finance by the International Financial Institutions (EIB, EBRD, and IBRD) accounted for ECU 489 million of total funding in these projects.

Phare's grant contributions as a facilitator and multiplier for infrastructure co-financing

Hungary: Budapest container terminal and intermodal logistics centre

Romania: railway rehabilitation

Romania: rehabilitation of Constanta port facilities

Albania: Tirana-Durres road

Bulgaria: road rehabilitation on transit roads II project

Poland: modernisation of A4 motorway

Poland: modernisation of E20 railway, Western part

Contributors:	ECU million	% of total
Phare	183	21
IFIs (EIB, EBRD, IBRD)	489	55
Partner government	214	24
Total	886	100
Phare leverage		x 5

Cross-border and intra-regional cooperation

A key element of the pre-accession strategy therefore consists in promoting cooperation initiatives through different types of programmes. Regional cooperation, in particular in regions where obstacles to cooperation rooted in historical or cultural heritages have to be overcome, is of great importance.

In 1996, cross-border cooperation (CBC) programmes between Phare countries and Member State border regions have again supported projects for an amount of ECU 180 million under a specific budget line, with infrastructure projects continuing to have a large share in this programme. A number of these comprise environmental projects such as wastewater treatment projects.

Investment at a local or municipal level in the regions around the Baltic Sea has a direct impact on the quality of life of the macro-region as a whole. The Baltic Sea region has further developed a specific cooperation framework and several Phare-funded programmes underpin this effort. The cross-border programmes of the Baltic countries have been included in an integrated Poland/Baltic cross-border programme thereby creating more synergy and leverage than a bilateral approach. A similar development has occurred in the region encompassing the Czech Republic, Hungary, Poland, Slovakia, Slovenia where a cross-border cooperation programme provides support to multi-country projects involving at least two countries from central and eastern Europe and one EU Member State (ECU 11 million under the 1996 budget).

In addition to the traditional cross-border programmes, 1996 also saw the extension of the cross-border cooperation concept to cooperation between the countries of central and eastern Europe and those to the east (NIS). The Credo programme made available ECU 12 million in 1996 (out of an indicative envelope of ECU 100 million) and aims

to improve 'good neighbourly relations, promote cooperation between 'East-East' border regions and communities and contribute to economic and community development in these border areas. It will fund small-scale activities both of a 'hard' (infrastructure) and 'soft' (people-to-people) nature.

Phare also financed projects in collaboration with Tacis within the framework of Black Sea Economic Co-operation (BSEC), which comprises all Black Sea littoral states, as well as Greece and Albania. The Black Sea region being a future EU border region, is of growing importance for the EU, and the EU aims to strengthen both political stability and economic recovery in this region. The Commission contributed to the establishment of the Black Sea Trade and Development Bank and the International Centre for Black Sea Studies. Phare also provided financial assistance to the energy centre for the Black Sea in Sofia, Bulgaria.

A new Ecos-Ouverture partnership programme (ECU 6 million) promotes good governance at local authority level in the countries of central and eastern Europe with a view to later decentralisation and devolution of some powers from central governments.

Two special programmes have been launched to support the aims of good neighbourly relations and friendly cooperation. The first is the special programme for the reconstruction of the Danube bridge between the Slovak town of Sturovo and the Hungarian town of Esztergom destroyed in 1944 (ECU 5 million from Phare). The second is a special cross-border programme (ECU 10 million) between Romania and Hungary.

Justice and home affairs

The extension of this cooperation in the area of justice and home affairs to the current partner countries has been specifically included as a full priority of the pre-accession strategy.

A horizontal programme on Justice and Home Affairs, funded with ECU 11 million, was launched in 1996 after extensive preparation with experts from the Member States and the associated countries. It will support activities in combating organised and trans-national crime, judicial cooperation, immigration as well as asylum policies and procedures. It will complement Phare support in related areas such as the multi-country drug programme for which an additional ECU 5 million programme was made available in 1996.

A Baltic Eastern Border Management programme was set up during 1996 with a budget of ECU 6 million. This cooperation programme aims at assisting Estonia, Latvia and Lithuania to solve the problems of a wide range of illegal border activities. This Phare Programme is complemented by a similar programme provided under the Tacis Programme for Russia.

Democracy and civil society

Equally important for all partner countries is the objective of developing the stability of the institutions guaranteeing democracy, the rule of law, human rights and the protection of minorities. For the candidate countries, this is one of the Copenhagen criteria against which readiness for the opening of accession negotiations is assessed

Programmes that operate in these areas include support for civil society, NGOs and local structures as well as cooperation among EU and partner country bodies outside the realm of central government. The Democracy programme (ECU 10 million) provides support for projects from non-profit organisations promoting a pluralistic and democratic society. The LIEN programme, (ECU 10.5 million) aims to support disadvantaged groups of the population. The Partnership programme (ECU 10 million) focuses primarily on support for local economic development and cooperation between the private sector, local government and civil society. National programmes mobilised further support in this domain. Examples from 1996 include the Bulgarian civil society programme and language training for minorities in Latvia.

Improving the environment

Support to improve the environment has been present in the Phare Programme since the very beginning. Both the Inter-Ministerial Conference of Luzern in 1993 and Sofia in 1995, which brought together EU, EFTA, Phare, and European Tacis beneficiary countries, stressed the need for environmental investment.

A major part of EC environmental legislation is not covered by the White Paper on the Internal Market, and help from TAIEX in this sector is currently limited by its mandate. Therefore in order to close this gap, the Commission decided to allocate ECU 10 million to the creation of an environmental approximation facility (Development of Implementation Strategies for Approximation in Environment) for small projects dealing with the implementation of legislation and enforcement. In addition, ECU 15 million has been allocated for the third environmental project preparation facility.

The true extent of environmental support cannot be assessed in the sector tables at the end of this report, since direct and indirect environmental projects are also included in energy and cross-border programmes, and in regional development and local authority programmes. Projects tend to be classified under headings which reflect the nature of the largest component of the programme concerned. For example, the 1996 Czech-German cross-border programme (ECU 25 million), although classified as infrastructure for its main purpose, also comprises environmental support worth ECU 9 million, notably in sewage and wastewater treatment projects. A less typical example under the 1996 programmes is a comprehensive disposal programme for unwanted and dangerous pesticides (ECU 1.7 million) which forms part of an agricultural programme in Albania. Analysis of the sector classification reveals that within the 1996 budget more than ECU 100 million was mobilised to serve clear environmental purposes.

Consolidating economic reform

A functioning market economy capable of coping with global competitive pressures remains a fundamental objective for every Phare partner country. Therefore programmes aimed at consolidating economic reform and supporting restructuring and the creation of enterprises continued to receive full attention under the Phare 1996 allocations (ECU 190 million approximately).

Programmes supporting the privatisation and restructuring processes, helping the institutions for trade and investment promotion, maintaining or restoring sound banking and financial sectors and furthering SME development were all present in the

1996 programmes.

They were completed with regionally focused development programmes that have the twin characteristic of being instruments for fostering economic development and key elements of current EC policies (cohesion and regional development). Such programmes help the associated countries programme for accession.

Education, training, research and social policy

Physical infrastructure networks facilitate the integration of the structures of the central and east European countries into those of the EU, as do networks in the fields of research and education. The Tempus programme supports links among universities and higher education institutions in the CEECs and in the EU through exchanges of teachers and students and common projects. It has maintained a strong presence within the Phare Programme. In 1996, ECU 83 million were made available for projects in this area. The network of economic research being supported by the ACE programme also received a new allocation of ECU 10 million. In 1996, the European Training Foundation managed 16 projects over ECU 50 million in the field of vocational education and training.

The gradual opening up of Community programmes is an important aspect of the pre-accession strategy and is expected to lead to the participation of the Phare countries in more than 10 Community programmes in the fields of human resources, audiovisual and culture, environment and energy saving. However, the process of enabling third countries, even associated countries, to participate legally and financially in Community programmes has proved administratively complex.

A number of new programmes in support of social development and employment were launched. By their nature containing a high level of so-called 'soft' measures, their budgetary cost remains moderate.

Summary of the 1996 programme focus

Sectors concerned primarily with EU integration and pre-accession have received most attention in the 1996 programme package, as illustrated in the table below.

Shift towards priority sectors of pre-accession strategy in 1996

(Sector allocations, as percentage of total Phare budget-commitments)

SECTORS:	1990-94:	1995:	1996:
PROGRAMMES WITH PREDOMINANT EU INTEGRATION AND PRE-ACCESSION CONTENT:			
Public administration, EU integration, legislation (including consumer protection)	5.1	2.6	12.9
Civil society and democratisation	0.8	0.9	1.9
Infrastructure: energy, transport & telecom (of which under CBC)	13.7 (3.5)	39.6 (13.4)	34.7 (13.1)
Integrated regional measures	0.8	4.0	6.4
Environment and nuclear safety	9.4	7.1	4.5
Subtotal:	29.8	54.2	60.4
PROGRAMMES WITH PREDOMINANT TRANSITION AND REFORM CONTENT:			
Agriculture	9.1	3.5	2.2
Private - and financial sector	21.8	15	8.7
Social development and public health	5.3	4.2	1.4
Education	14	12.7	10.3
Subtotal:	50.2	35.4	22.6
OTHER PROGRAMMES:			
Humanitarian and critical aid	8.6	2.2	10.2
General technical assistance and miscellaneous	10.6	7.4	6.3
Subtotal:	19.2	9.6	16.5

There has been strong growth in the allocations for administrative reform (legislation and institutions).

Infrastructure, either under direct programmes or under cross-border programmes, continued to feature strongly in budget allocations. There has been a common tendency towards front-loading in the infrastructure budgets, i.e. allocating already in 1995-1996 most of the funds foreseen for infrastructure under the multi-annual framework up to 1999. This can be explained by the fact that Phare's grant contribution in public works is frequently that which unlocks the loan funds of the International Financial Institutions.

The importance of the humanitarian aid component is mainly due to the Bosnia-Herzegovina programme.

Budgetary allocations are an indicator of the relative importance given to the various areas of support, albeit an imperfect one: the instrumental importance of an activity frequently bears no direct relationship with its budgetary costs. The sector allocations,

as used in this report, are also an imperfect indicator of the sector coverage of the programmes, although they are the best indicator available. Most of the programmes consist of integrated approaches and pursue multiple objectives.

Over the second half of 1996 and in early 1997, the Commission developed, notably through the exercise of preparing the Opinions on the countries having applied for membership, a closer knowledge of the status of the partner countries in the various relevant areas. This exercise revealed that, although a change in direction had been initiated, there remained a number of problems in relation to Phare's capacity to function as an effective tool and help achieve its ambitious pre-accession objectives. Still operating under the 'demand-driven' principle, the Programme continued to disperse its efforts over too wide a range of subject areas and beneficiaries. The need to address the immediate and urgent needs of reform had also led to the mobilisation of a large variety of support mechanisms and operators. This dispersion of objectives and instruments, while unavoidable and necessary in the first phase of transition is now inappropriate to the new goal. It was therefore decided to strengthen the accession focus of the programme and new orientations were subsequently elaborated by the Commission in 1997.

Multi-country programmes

A large part of the work done in 1996 by Phare staff and officials, as well as by experts and consultants, concerned the implementation of pre-1996 programmes. The individual country sections below pay specific attention to progress and achievements made in 1996 in those earlier Phare national programmes. In this section, a brief overview is given of the most significant achievements of the three main sectors supported by the multi-country programmes.

Phare multi-country support in the area of transport, worth ECU 86.5 million over the past few years, has produced a comprehensive training programme for the air-traffic controllers of all Phare countries, implemented by Eurocontrol. A substantial number of strategic and pre-investment studies have been prepared, now underpinning many of the effective investment projects under national programmes. The largest part of the budgets was spent on investment aimed at the elimination of border-crossing bottlenecks. Due to a number of difficulties related to the fact that authorities of different countries as well as various layers of government must coordinate and reach an agreement before a specific project can start, this component was faced with severe delays, which have now been addressed.

In the energy sector, Phare has developed through its multi-country programmes (ECU 40 million) an overall integrated approach that addresses three crucial areas of action, namely energy policy, energy supply and energy efficiency. Capacity-building has been achieved through training and twinning arrangements. Strategies have been prepared for the gas and electricity sectors, which have led to concrete projects being implemented (UCPTE/CENTREL electricity grid connection and works initiated in south-east Europe). The study of an integrated approach to promote clean coal technology has been completed.

Phare's multi-country assistance for the environment (ECU 56 million) has focused on a number of key programmes including the integrated environmental programme

for the Danube river basin, the Baltic Sea programme and the Black Sea environmental programme. The Danube programme has provided for the development of an enhanced monitoring strategy and Accident Emergency Warning System, support to NGOs and the development of river-basin management techniques. Under the Black Sea programme, which has been funded jointly by Phare and Tacis, support has been provided to Romania and Bulgaria for the implementation of the Bucharest Convention and the Black Sea Action Plan, which is designed to adopt a unified approach to the control of pollution in this region. Finally, in the context of the Baltic Sea programme, activities are related to the implementation of the Helsinki Convention and address the 'hot spots' identified by the Helsinki Commission. They have led to improvements in wastewater treatment and, as a result, in the condition of the Baltic Sea in general.

In addition, 1996 saw important progress in the area of statistical analysis in all Phare countries, with the exception of Bosnia-Herzegovina. The basic tools of the CEEC statistical systems, such as the adoption of international classifications, building of basic registers (population, businesses, etc.), were further developed. The general CEEC data processing capacity increased as a result of training provided by the multi-country programmes, and investment in hardware and software through the national programmes. The quality of basic macro-economic data such as national accounts, prices and basic labour related data such as costs and employment much improved. Some very specialised surveys launched in areas of particular interest to EU policies, such as road transport, newly created enterprises, and the retail trade, revealed data that were of comparable quality to those produced by the Member States' statistical offices.

Developments in operational management

Multi-annual programming

The European Council in Essen of December 1994 asked that Phare should be developed "into an indicative medium-term financial instrument". During 1996, multi-annual indicative programming was completed for the majority of the Phare countries with the negotiation and signature of Multi-Annual Indicative Programmes. These included Albania, Estonia, Latvia, Lithuania, Romania, and Bulgaria with Multi-Annual Indicative Programmes covering the period 1996 to 1999.

Multi-annual indicative programmes set out the basic objectives and strategy for reform in each country, establish the priority areas for Phare financial assistance and actions, and include broad sector allocations of funds for the period covered.

The Multi-Annual Indicative Programme does not constitute an official budgetary commitment on behalf of the EC. The Multi-Annual Indicative Programmes are implemented through successive annual Country Operational Programmes which, through individual Financing Memoranda, constitute the formal EU financing commitment for a given budget year. The indicative nature of the Multi-Annual Indicative Programmes offers Phare the flexibility to vary annual allocations according to the countries' absorption capacity and sector requirements as they develop.

Nevertheless, the Multi-Annual Indicative Programmes have increased the predictability of Phare assistance and resulted in improved programme design and preparedness of programmes when the commitments are made.

Financial management

In 1996 improvements in the financial management and operation of Phare were introduced in accordance with the overall objectives of the Commission's SEM 2000 initiative (Sound & Efficient Management 2000).

New Financial Directorate

These improvements were characterised at the organisational level by the creation of an independent financial Directorate within DG IA responsible for the financial and human resources of all programmes managed by DG IA, including Phare. This meant the creation of a 'counterweight' to the operational Directorates on aspects related to the allocation of human resources, financial management and awarding of contracts.

The main functions of the Financial Directorate, which came into operation in October 1996, are

- human resources
- global coordination of the management of the budget including budgetary performance and audits

- financial management
- development of procedures and verification of their application
- evaluation, notably ex-post
- information.

Increased transparency

In 1996 the Commission launched a significant initiative to further improve the transparency and efficiency of tendering and contracting under Phare. This initiative was a response to a modification in October 1995 of the arrangements in the EC Financial Regulation relating to the award of service contracts.

In a bid to make Phare more accountable to the taxpayer and more transparent to its partners, the European Commission decided to publish a notice on every upcoming Phare tender. While this did not affect the tendering for supply and work contracts, which have always been published in the Official Journal, it affected the award procedure for service contracts significantly. Service contracts will continue to be awarded following a restricted tendering procedure, but the way shortlists are compiled was changed.

Information on all upcoming service tenders including a standardised expression of interest form was published from October 1996 on the Internet. This enabled companies and organisations to submit their expression of interest and thus be taken into consideration in a fully standardised and official pre-qualification procedure.

Apart from announcing specific tenders on Internet, the procedure introduced during 1996 also meant that general project and contract information (programme summaries, budgets still available for contracting, etc.) relating to services and technical cooperation is published in the Official Journal. Finally, the new procedure ensures that a list of awarded contracts will be published in the Official Journal on a regular basis.

The new system implies that any company wishing to be short-listed for a particular tender will have to express interest in that tender using a standardised expression of interest form, also available on the Phare Internet site. On the basis of the expressions of interest submitted, the short list is established through a standardised pre-qualification procedure. This has increased not only the transparency of this procedure but also ensured that only companies having indicated specific interest will be invited to tender.

New standard procedures

During 1996 the Commission undertook a detailed review of the tendering and contracting procedures used in Phare. The process included the introduction of new standard tender and contracting documents, new procedures for tender evaluation committees, clearer definition on the rules concerning the formation of consortia and strengthening of the rules stipulating that firms participating in project preparation and design cannot participate in the subsequent tender. These improvements, prepared in

1996, were decided by the Commission in early 1997.

The objectives behind these initiatives go far beyond the simple issue of tendering. The Commission is now assisting the ten associated countries in their efforts to prepare for membership of the EU. This daunting task will only be feasible if the Commission and its programmes, such as Phare, rely on the two driving principles of maximising transparency and involvement and of striving for greater efficiency.

Human Resources

With the 1996 budget fully committed, the total volume of funds to be managed by the same level of staff increased by around 40 per cent and the ratio between human resources and commitments to be managed decreased.

In response to this situation the budgetary authorities for the first time allowed that a small part of the Phare budget (2 per cent) be used by the Commission to supply technical support and cover relevant administrative expenditures for the mutual benefit of the Commission and the partner country. Following agreement with the partner countries, in 1996 these 2 per cent were allocated, amongst others, to the recruitment of external staff supporting the European Commission Delegations in the supervision of programme implementation for the total duration of the 1996 programmes. Thus a direct link was introduced between the total size of a programme budget and the resources available for its implementation.

This development, together with an internal redeployment of staff from Headquarters to the EC Delegations in the Phare partner countries, will make it possible gradually to increase the responsibility of the Delegations in supervising the implementation of Phare and thus simplify procedures.

The new orientations will also lead to a significant increase in the average size of Phare contracts and, therefore, a reduction in the number of contracts to be managed and supervised.

Some further organisational shifts in respect of the competence of the various Directorates within DG IA took place. Directorate B is now responsible for relations with the associated countries of central Europe, while Directorate D is in charge of co-operation with Albania, Bosnia-Herzegovina and the former Yugoslav Republic of Macedonia, and a number of other European countries. At the same time, the democracy programmes have been brought under the aegis of the Human Rights and Democracy Unit within Directorate A.

Monitoring and assessment

During 1996 the chain of monitoring-assessment-evaluation structures and activities was rearranged with a view to reinforcing Phare's potential for ensuring qualitative performance, substantive achievements and impact.

As part of the newly created financial department, an Evaluation Unit, independent of the Operational Directorate has been created. The Unit's remit covers all DG IA's programmes, of which Phare is, in terms of budget, the most important. The

Evaluation Unit establishes at the beginning of each year an evaluation plan which is part of the overall Commission's evaluation plan covering all internal and external policies with a budgetary impact. Evaluations under this plan will start in 1997.

During 1996, a system was introduced through which all programmes are assessed regularly with the input of external assessors. This system aims to facilitate early corrective action and redirection of activities under ongoing programmes. Teams of external assessors have been recruited and took up their assignments between May and September. By the end of the year the systematic release of operational assessment reports became effective. Before that, a specific effort had been made by programme management to conduct individual ad hoc evaluations as and when needed for the operational progress of the programme and for the effective definition of new programmes.

More than 40 such operational reviews and reports were produced in 1996. Their immediate and main outputs have consisted of operational conclusions fed back to the various relevant levels of programme management including the partner country. They have also influenced the updates of sector strategies, like those on the use of financial instruments in support of SME's or the environmental strategy.

The Phare Programme has developed into the single largest source of donor financing of know-how transfer to the Phare partner countries. Its objectives and activities have been relevant in addressing important issues of the transition process. Its contribution, particularly in areas in which other donors have shown little interest and have devoted limited resources, such as democracy and civil society, has overall been positive. The Programme has shown remarkable flexibility in adapting to the rapidly changing political and economic environment of the Phare countries.

The demand-driven nature of the Programme has been both a strength and a weakness; it may have enhanced ownership by the partners but it has also led to fragmentation of effort and dispersion of resources with adverse effects on programme performance. The Programme has realised less than its full potential: its effectiveness and impact have, to an extent, been diluted by lack of leverage to ensure good programme performance, by deficiencies in project cycle management and by a preoccupation with financial and procedural control to the detriment of substantive programme design and performance.

Information and communications activities

The Phare Multi-Country Information Programme, providing finance for a total of ECU 8.7 million, was approved in July 1995. It comprised a foundation programme, covering a visual and written identity and including strategic counselling and advice, public opinion research, and database maintenance. It also provided for a publications programme comprising operational, financial, management and business information; promotional publications; an annual report; European Dialogue magazine; the Together in Europe newsletter; and one-off publications linked to themes or events. Also included in the programme were internal communications and training in Brussels for Delegations and PMUs; a media programme, including support to central European journalists; visits; audio-visual sponsoring and production of TV dossiers; a Parliamentary programme, including visits; and an in-country communications programme linked to partner countries' own efforts and those of Delegations.

The principal achievement of 1996 was to put Phare information on-line, which came into effect at the beginning of April. All programme and contract information, as well as background information, news and general data are being transposed, as well as 1995 and 1994 programme information. In addition, regular updates on programmes and contracting status are published on Internet. Information appears within one week of the Commission's decision.

Another new service is the advance publication of tender opportunities. From mid-July 1996, notices of upcoming service tenders were published on the Internet within 24 hours of task managers issuing the relevant notice. This service, which helps companies to express their interest in participating in a tender, is a result of the Commission's strategy to introduce greater transparency into Phare and helps it satisfy the transparency requirements (of Article 118) of the Financial Regulation. First indications are that the service is in considerable demand, and this is likely to increase as the Internet gains momentum amongst central European countries.

The Information Unit also produced brochures to explain wider policies, such as "The European Union's pre-accession strategy", a summary of the various pre-integration initiatives undertaken with the associated countries of central Europe, published in June 1996. The Unit carried out research into press reactions to the Second Donor Conference on Bosnia and Herzegovina, and made proposals to ensure more balanced and positive press coverage in future. It responded to over 60,000 external telephone calls, 5,000 visitors and well over 100 speaking engagements at conferences, workshops and visitors' programmes.

The 1995 Financing Proposal set aside ECU 2 million for reinforcing the information capacity of EU Delegations. Research is underway to establish the exact information needs notably the establishment of European Information Centres in city-centre locations. These Centres would be under Delegation control.

However, in July, the European Parliament approved the rectificatory and supplementary budget on the eve of the presentation of the 1996 Financing Proposal, which involved a temporary suspension of financing for information. This meant that in effect no funds were available after the 1995 budget had run out. From the end of

September 1996, no further activities involving the production of newsletters, brochures or material for events were undertaken either in Brussels or in the candidate countries, although essential services such as speeches and the reception of visitors were maintained until the framework contract expired in November. Since that time, a skeleton Internet service continued until approval was given for a 1997 budget at the end of November 1996.

The Commission made several proposals, notably in October 1995 and May 1996, to increase MEPs' awareness of the information resources available and to research and monitor potential areas of conflict. A first high-level exchange took place at the end of October with a parliamentary audience of approximately 50 MEPs, staff and others.

Financial overview and performance

The financial performance of the Phare Programme is summarised by the level of the funds committed, contracted and paid, and by the relationship between these three over time. The box on page 27 explains the technical meaning of the terms 'commitment', 'contracting' and 'payment'.

Figure 1: Funds committed, contracted and paid 1990-1996 (in ECU million)

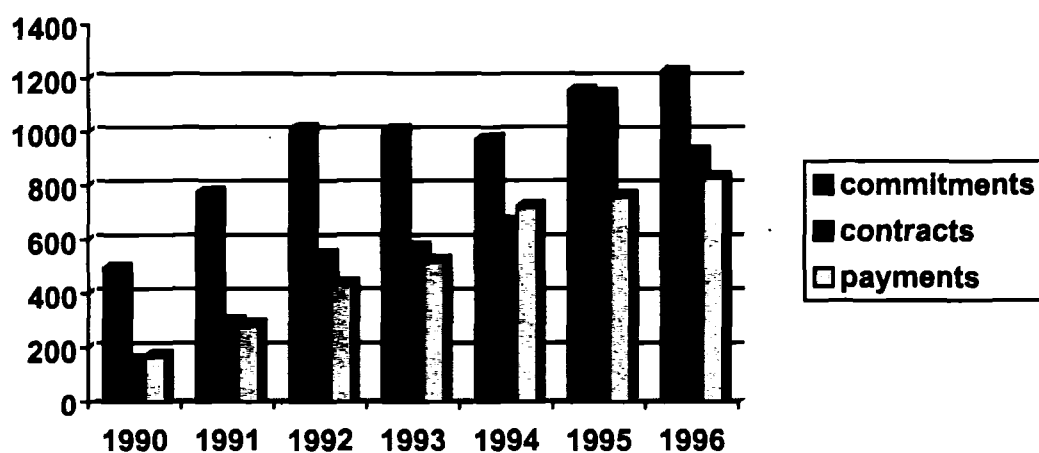
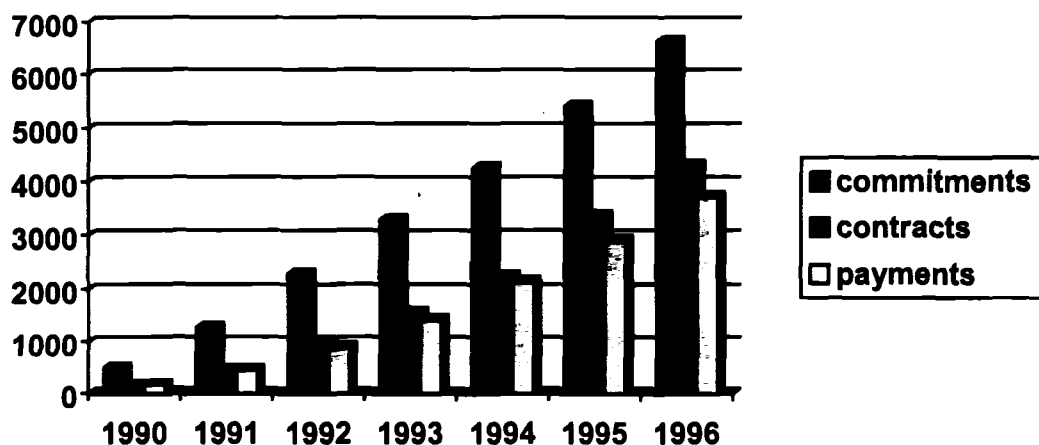


Figure 2: Cumulative funds committed, contracted and paid 1990-1996 (in ECU million)



Funding procedure

As part of the Phare Programme, there are three steps that take the annual budget approved by the Budgetary Authority through to the point where projects are implemented and funds disbursed.

Phare has a financial management procedure that matches this process.

Commitment

Each year a Phare budget is agreed, indicating the funds which the Commission is prepared to commit through the Phare Programme in each country. Country operational programmes are then designed and financing proposals prepared. Once these financing proposals have been given a favourable opinion by the Phare Management Committee and decided by the Commission, the relevant funds associated with these proposals are said to have been 'committed'. Phare must commit its entire annual budget within the year to which that budget applies.

Contracting

Once funds have been committed, tenders are issued so that the activities outlined in the operational programmes can be put into practice. As soon as a tender has been successfully completed and a contract signed, the relevant funds are said to have been 'contracted'. Contracting is a key measure of the implementation of the Programme, as it is via the contracts that Phare funding is unlocked and real implementation on the ground can start.

Payment

Payment is the final stage of the funding process. It takes place over the period of each contract, reflecting the completion of each component of the project. As projects may take several years, payments are often spread over the same time. It is for this reason that payments always lag behind the committed and contracted amounts.

Committed funds

In 1996 the Phare Programme committed via various national, multi-country, horizontal and cross-border cooperation programmes a total of ECU 1,222.9 million (including Budget line B7-7000) to its partner countries. This represents an overall record and an increase of 5.9 per cent on 1995. The commitment rate was 100 per cent. Total commitments cumulated over the life of the programme now equal ECU 6,636.1 million.

Contracted funds

The sum of the contracts concluded in 1996, through the PMUs in the partner countries and via the Commission services, amounted to ECU 927.5 million. This is in Phare's history a very high total. However, the 1996 performance did not match the 1995 record (ECU 1,142.9 million) and the total of new contracts initiated remained below that level needed to keep pace with the increase of funds coming from new 1996 programme budgets (i.e. the total of new commitments). As a result, the stabilisation of the contracting backlog realised for the first time in 1995 could not be repeated in 1996.

The contracting backlog, defined as the difference between the programmes committed and the activities contracted, amounts over the period 1990-1996 to ECU 2,335 million. Only 65% of the activities included in the programmes approved during that period actually had been contracted. This backlog originated mainly in the early years of the programme. It has its origin in the complication of the programming cycle, the time-consuming procedures and the large number of small projects. Additional factors having contributed to the persistence of the backlog are linked to the absorption capacity of the partner countries and to the comparatively low ratio of staff resources in relation to the programme portfolio.

After a stabilisation in 1995, the contracting backlog grew again in 1996, thereby demonstrating that the cumulative effect of a number of programme measures taken have not been able to yield a sustainable improvement. This conclusion led the Commission in 1997 to propose a number of measures as part of the Phare reorientation to clear the past backlog and prevent the development of a new backlog in the future.

Figure 3 allocates the contracting activity deployed during each calendar year to the year of origin of the funds. It appears that in 1996 ECU 351 million, or 38 per cent of the total contracted, related to 1990-1993 programmes. This indicator of relatively slow implementation progress is largely explained by delays incurred in the reform process itself (as can be seen from the sector composition of those programmes, i.e. mainly programmes supporting reform) and by limits on the absorption capacity of the partner countries. Being aware of the impact of this overhang on the performance of the programme, the Commission decided in the new Orientations that it elaborated for Phare not to continue with extending systematically the slower programmes and to close 1990-93 programmes.

Paid funds

Payments reached ECU 829.9 million, which is an overall record and an increase of 8.9 per cent compared with 1995. The initial budgeted amount of ECU 1,139.1 was subsequently reduced during the budget year to ECU 1,002.4 million. The payments effectively executed were 82.8 per cent of this budget appropriation. Figure 4 relates the payments made in each calendar year to the year of origin of the programme. In 1996, ECU 297 million, or 36% of the total payments, related to activities undertaken under 1990-1993 programmes.

Figure 3: Contracts concluded by calendar year (in ECU million)

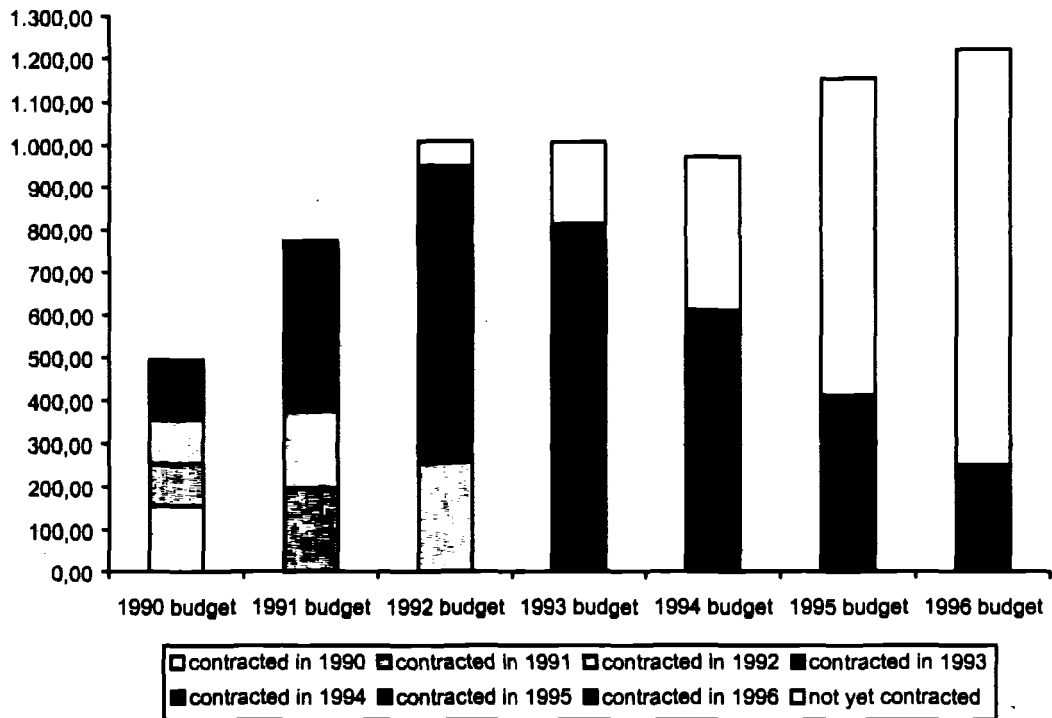


Figure 4: Payments in each budget year (in ECU million)

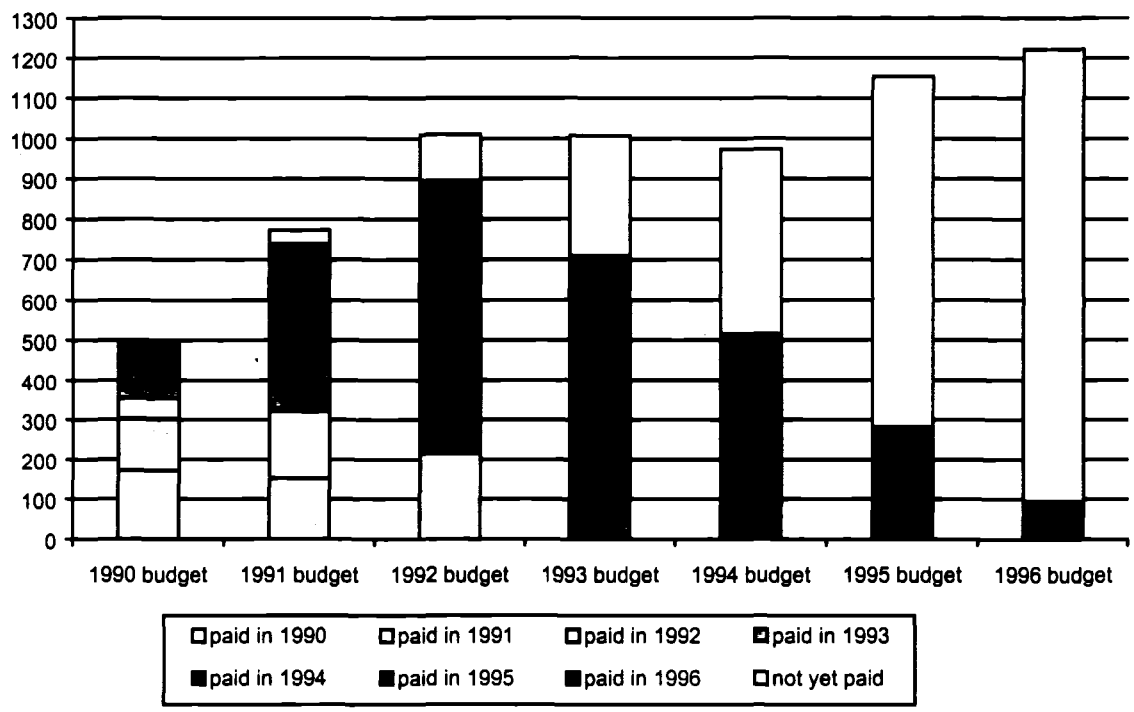


Figure 5: Cumulative contracts and payments 1990-1996 (%)

	1990	1991	1992	1993	1994	1995	1996
Cumulative contracts as percentage of cumulative commitments	31.0	36.0	44.0	48.0	52.0	62.0	64.8
Cumulative payments as percentage of cumulative commitments	35.0	36.0	39.0	43.0	50.0	53.0	56.2

II Phare in the individual partner countries

Albania

Year in review

Albania has generally made considerable progress in its transformation to a market economy since 1992. Implementing a series of reforms under the guidance of the International Monetary Fund, Albania had annual growth rates of about 9 per cent during the period 1993-1995. However in 1996 there was slippage. Inflation rose from 8 per cent (1995) to 18 per cent (1996) and due to slippages in budgetary and monetary policies in the pre-election period. The crisis, which occurred in late 1996, can be traced back to two particular developments.

The first involved a setback in the process of democratisation. There were serious irregularities during parliamentary elections in May 1996 and although the local elections which took place in October 1996 were generally considered by the international community to have been fair, they did not lead to a normalisation of the political process (continued boycott of the new parliament by main opposition parties and continuing controversy over the drafting of a new constitution).

The second trigger was the collapse of a number of "pyramid" savings schemes which had worked on a speculative basis with remittances from emigrant workers reflecting the absence of a reliable banks. Following the collapse of several schemes in November 1996 the situation in Albania was marked by major unrest and the break-down of additional schemes at later stage brought the country into a major state crisis during early 1997.

Phare 1996 Programme in Albania

Phare assistance for the period 1996-1999 is provided under the Multi-annual Indicative Programme, which allocates ECU 145 million for Phare national programmes. These programmes will focus on developing

- closer links with the European Union (including the modernisation of the structures of state and society and the approximation of standards, legislation and regulations)
- the domestic productive base (including infrastructure development)
- human and natural resources.

From these broad strategy areas, a number of priority areas of assistance can be identified.

European dimension

The development of an EU dimension to the reform process in Albania had so far been approached on an ad hoc basis, as elements of individual programmes or activities. There was therefore a need for a more structured and strategic approach. In this respect, the development and implementation of a sector strategy will need to take into account the need to establish an institutional framework, the definition of tasks to be accomplished together with an indicative calendar. The main area of concentration will be the approximation of legislation and technical standards, with emphasis also on public administration reform, at central and local level, which will provide the effective means to implement and enforce legislation.

Development of the domestic productive base

It will not be possible in the medium term to maintain the progress achieved so far in macroeconomic stabilisation unless Albania can develop a viable productive base. Phare projects in a number of key economic sectors are being developed.

Agriculture

Since more than half of Albania's GDP comes from the agricultural sector, Albania's economic growth in the short and medium-term will depend critically on the performance of this sector. Since 1991, the Government has been pursuing a policy of privatisation and price reform. The challenge is to devise a sector policy that creates the conditions for the development of a competitive and viable agricultural sector based on a large number of very small family farms.

SME Support, Trade Development, Investment Promotion and Tourism

In parallel with Government actions to create conditions for successful private sector development, Phare is seeking to develop appropriate facilities and services aimed at overcoming any existing constraints for developing the private sector.

Banking and Finance

In supporting the development of the productive sector, the financial system is of crucial importance since it should be able to service the credit needs of SMEs. Phare support to this sector contributes to the creation of a modern and efficient market-oriented banking sector capable of inducing financial discipline and mobilising long-term financial resources.

Transport

The poor state of the transport infrastructure has acted as a constraint on private sector development. The upgrading and improvement of the country's transport infrastructure is a key priority of the Albanian Government and this is reflected in the Phare allocation of financial resources to this sector. To date, most Phare assistance has concentrated on the rehabilitation of the east-west and north-south corridors which are of primary importance to Albania in terms of its national transport infrastructure.

Human and Natural Resources

This core area relates to interventions in the spheres of the labour market and education; health, water infrastructure and environment; and local community and regional development. In terms of the proposed indicative allocations for the period 1996-1999, the water/environment sectors receive most resources given the urgent

requirements in this area, including the rehabilitation of the drinking water and sewer networks, the construction of sewage treatment plants and the development of the legal and institutional frameworks for environmental protection.

Within the framework of the Multi-annual Indicative Programme, Phare approved the 1996 Country Operational Programme, which provided ECU 30.5 million of assistance. An additional ECU 2.5 million were allocated under a separate financing proposal for the Tempus Programme.

The 1996 Country Operational Programme devoted more than half of its allocation to the **transport** sector (the rehabilitation of the Durres to Vore section) in recognition of the significant deficiencies in infrastructure which Albania faces and which constrain its potential for economic development.

Funding was also approved for actions relating to the **approximation of legislation**, the restructuring of public agencies (customs and statistics), the provision of practical support to the various authorities involved in the justice sector, the strengthening of the capacities of three administrative units in the Department of Economic Development and Aid Co-ordination: ACU, responsible for aid co-ordination; EDU, responsible for Public Investment Planning, and the Project Management Unit to be established for the European Dimension.

As part of the development of the **domestic productive base**, support was also approved for the agricultural sector. Small allocations were also approved for education and vocational training and water and environment (development of human and natural resources).

In addition to the national programme, ECU 20 million of assistance were approved under the 1996 cross-border cooperation programmes designed to improve Albania's links with its EU neighbours, Greece and Italy. These cross-border funds were devoted mainly to the transport sector, and the rehabilitation of the country's main road axes.

Phare achievements

Albania has become an established partner of the Phare Programme and the Albanian authorities are familiar with the programming and implementation procedures. Moreover, increasingly Phare programmes of assistance are being managed through the Decentralised Implementation System. This requires the involvement of local Programme Management Units, which serves to develop Albania's capacities to make proposals, manage and implement Phare programmes and strengthen its institutions. It also eases the implementation of new programmes in each programming cycle.

Phare assistance in 1996, in line with the wider objectives of the 1996-1999 Multi-annual Indicative Programme, supported the country's market reforms and the medium-term restructuring and modernisation of the Albanian economy as well as the strengthening of links with the European Union. There was a strong emphasis on addressing the country's deficiencies in transport and infrastructure and strengthening institutions in key areas. Phare investment in transport infrastructure represents by far the most significant contribution of overall Phare investment to date, with

considerable impact on employment and incomes as well as secondary investment effects.

Overall implementation of Phare assistance remains satisfactory: 69 per cent of total funds allocated in the period 1991-1996 have been contracted. This figure surpasses 80 per cent if only national programmes are included.

Bosnia and Herzegovina

Year in review

In 1996, Bosnia and Herzegovina showed some signs of social and economic recovery. Wages and costs remained relatively low, offering the short-term possibility of competitive prices, and a number of companies have expressed interest in establishing or re-establishing trade and investment links.

Following the national elections in September 1996, state institutions were reorganised and new appointments made. However, much effort is required from them to recreate a stable and integrated socio-economic environment.

The efforts of the new Government of Bosnia and Herzegovina will focus not only on economic and social reconstruction and the reintegration of refugees and displaced persons, but the overall regeneration of a viable economic fabric in an open and integrated economy, different from the one that existed before the war. It will be necessary to strengthen common institutions to support the economic reforms and reinforce the Dayton-Paris Peace Agreement. The conduct of economic policy will be of critical importance to the future reintegration of the country, as well as to the stability of the domestic political and social environment during the next few years.

In July 1996, the Commission opened a Delegation in Sarajevo.

Phare 1996 Programme in Bosnia and Herzegovina

The overall allocation for the Country Operational Programme in 1996 was ECU 14.2 million. A financing proposal of ECU 12 million in the form of a Country Operational Programme (COP) for economic regeneration and institution-building was confirmed by the new, democratically elected Government. The balance of ECU 2.2 million was the subject of already-approved financing proposals under Phare Democracy (ECU 700,000), Lien (ECU 500,000) and Pre-Tempus (ECU 1 million) programmes.

The projects chosen in the 1996 Country Operational Programme remain in line with the priorities put forward by the donor community under the coordination of the High Representative and are

- support to SMEs and economic recovery
- support to the banking system and the establishment of a Central Bank
- strengthening institutions and public administration.

A component of the Pre-Tempus programme has the objective of preparing the restructuring of the higher education system in order to provide students with a variety of specialisations such as the teaching of European languages, law, engineering and technology in order to give students an education adapted to local and international

job markets.

Funds were allocated to the Democracy and Lien programmes with the objectives of contributing to the development of a democratic civil society and providing health and social assistance to war victims and the most disadvantaged people, such as the elderly, the homeless and street children).

Phare achievements

Before Bosnia and Herzegovina became a fully eligible partner country in June 1996, the Phare Programme was operating in the country through an Essential Aid Programme worth ECU 125 million and allocated in two equal tranches. The objective of the programme was rapidly to provide the country with supplies of essential items such as medicine and medical equipment, animal feed, tractors, water pipes, electrical cables, mining equipment, buses, spare parts, building material for housing, computers, etc. Phare's Essential Aid has been the first step in a major reconstruction programme, and has acted as a stabilising factor in the implementation of the peace process.

The relative political stability in the country has allowed the Phare Programme to evolve in coordination with the donor community's actions. Different programmes were drawn up in 1996 which reflected the country's priorities.

Support to the reconstruction process

The European Commission programmes funded out of the 1996 budget have aimed primarily to foster the reconstruction process, encourage reconciliation and regional economic cooperation, and create the institutional, economic and social conditions which will facilitate the development of Bosnia and Herzegovina and encourage the return of refugees and displaced persons.

These actions have aimed to

- revive the local economy and provide large numbers of families with an economic basis during the present transition period
- provide the population made jobless by the war (demobilised soldiers, refugees and displaced persons) with a minimum income through labour-intensive projects
- restore basic physical and social infrastructure to improve the living environment and the lines of communication damaged during the conflict
- reinforce inter-entity relations.

Ten projects for rehabilitation in eight major areas of activity (telecommunications, agriculture, water, housing/return of refugees, energy, transport, health and institutions) have been developed under the Essential Aid Programme.

Support to economic revitalisation

This programme aims to promote the regeneration of economic activity in Bosnia and Herzegovina on a sustainable basis through the development of market-oriented

systems of restored economic management, promotion of entrepreneurship, and employment generation.

Institution-building

The objective of this programme is to provide support to a comprehensive Government reform programme for the transformation to a democratic society based on a market economy and the reinforcement of the Dayton-Paris Peace Agreement principles.

Support to education, human rights and democratisation

Programmes in these areas support non-governmental initiatives in the reconstruction of a civil society, as well as in the reconciliation process between the different national and ethnic groups living in the country. At the same time, programmes promote social cohesion by assisting the most underprivileged sections of the population and increasing the education level of young people in adapting the curricula to new market demands. Higher education reforms will be tackled by the Pre-Tempus programme, human rights and democratisation by the Democracy programme and support to the disadvantaged by the Lien programme.

In August 1996, the Commission contributed ECU 2 million to support the Open Broadcast Network (OBN) Project. The main objective of the project was to promote the development of pluralist, professional and multicultural media in the country through the setting up of an independent, multi-ethnic TV network (TV-IN). TV-IN has been broadcasting on a regular basis since 7 September 1996.

The implementation of the Essential Aid Programme (EAP) has been faced with considerable difficulties of a political, technical and organisational nature, as well as absorption constraints on the part of the counterparts. The conditionality and the temporary suspension of this programme in Republika Srpska, the absence of real counterparts, the slippage of scheduled deliveries, the difficulties in controlling the distribution and final destination of deliveries - these have all raised doubts about the suitability of import programmes in the light of current needs. The consolidated figures on contracting and delivery reflect these difficulties: only ECU 83 million (66 per cent of the EAP) were contractually engaged.

Consequently, a consolidated readjustment of ECU 42 million into integrated projects has been approved, with improved implementation mechanisms, and tailor-made measures to meet implementation needs, thereby increasing control over the efficiency, visibility and transparency of the aid delivery process.

Democracy programme

Given that the country has only recently become eligible for support from the Phare Programme, it is too early in the implementation phase to be able to make any reliable evaluation the 1996 programme's success. Nonetheless, it should be noted that the Phare Democracy programme has so far been contracted at a rate of 100 per cent and enabled some 100 micro-projects to promote social and democratic activity in Bosnia and Herzegovina in the following areas:

- transparency of public administration
- development of non-profit organisations
- independent and pluralist media
- confidence-building measures
- human rights and minority rights
- equal opportunities and non-discrimination
- social reintegration
- sustainable health and social support.

Bulgaria

Year in review

In 1996, the Bulgarian economy sharply declined resulting in a major economic, financial and social crisis. This in turn led to the resignation of the Government in December 1996, and elections in April 1997. The crisis, rooted in the inability of successive governments to implement coherent and fundamental structural reforms, was characterised by a fall of almost 11 per cent in GDP; inflation at over 310 per cent over the year; a nine-fold devaluation of the lev; a virtual collapse of the banking sector; and temporary grain and fuel shortages. A steep fall in living standards led to social deprivation for a large part of the population.

Bulgaria's economic transformation has been slow and difficult. While the private sector generated 17% of value added in 1991, increasing to 47 % in 1996, the share of industrial value added generated by the private sector was 9% in 1996.

Despite a relatively liberal legislative framework, Bulgaria has fallen behind its neighbours in terms of foreign direct investment. In addition to political instability and slow reforms, institutional weakness and arbitrary decision-making have also played a role.

While agriculture has traditionally been a mainstay of the economy, value-added has nevertheless fallen from 18 per cent of GDP in 1990 to 12 per cent in 1996. This has been caused by a number of factors, including the collapse of the Comecon trading bloc and recent unfavourable weather conditions, as well as by policy-induced distortions including the slow process of land restitution, and a non-market-based pricing regime. Export restrictions, other restrictions hindering the development of a market in private land sales and prevailing state ownership in the food processing industry, were also contributory factors.

Closely linked to the strengthening of the Bulgarian pre-accession process was the Government's adoption in March 1996 of a strategy for the reform of public administration. A reform department under the Council of Ministers as well as an inter-departmental group chaired by a Deputy Prime Minister were established.

In May 1996 the Bulgarian Government presented a strategy for the implementation of the EU White Paper on adopting the Internal Market 'acquis'.

Phare 1996 Programme in Bulgaria

The 1996 Country Operational Programme for Bulgaria embodied the objectives of the 1996-1999 Multi-annual Indicative Programme which foresees a total budget of ECU 240 million. The overall objective of this Programme is to support Bulgaria's preparations for accession to the EU. The early signature of the 1996 programme meant that the programming cycle was brought forward by six months.

The 1996 Country Operational Programme allocated ECU 62.5 million to the following areas:

The development of **transport infrastructure** received a budget of ECU 30 million. Supported by co-financing from the European Investment Bank, this will provide for the rehabilitation of major transit roads. A total of 900 km of international transit roads will be brought up to European standards. This will be a significant contribution to the completion of Trans-European Network corridors IV, VIII and IX which pass through Bulgaria.

The **energy programme** provides for critical coal imports to secure energy replacement capacity during the testing period of the closedown of Unit 1 of the Kozloduy nuclear power plant.

In the area of **nuclear safety**, Phare is continuing support for vital programmes relating to safety studies, management and accident information systems, on-site assistance and twinning, and support to the Bulgarian Nuclear Safety Regulator involving a consortium of EU nuclear safety authorities in support of the 1993 NSA agreement.

In **education**, support is provided for the Tempus programme for the reform of higher education. A programme was launched to complete the establishment of the National Assessment and Accreditation Agency for higher educational institutions and to create a project for the re-integration of drop-outs from secondary education.

Closely linked to the European integration process, a programme worth ECU 2 million was launched to promote the alignment of the Bulgarian **standardisation and certification** system with that of the EU. This includes approximation of legislation, streamlining of structures and institution-building.

To enhance export performance, assistance was provided to the establishment of an independent Centre for **Export Promotion** as the nucleus for export promotional activities at sectoral and enterprise level.

The **civil society** component aimed at creating the conditions for the activities of NGOs through policy development, project grants and management support. Cultural cooperation was encouraged through institutional strengthening of the Ministry of Culture and support to decentralised cultural institutions and initiatives.

Phare achievements

To assist with the practical implementation of the Government's strategy of preparation for the Internal Market, an ECU 2 million programme was launched in July 1996, providing for legal translations, preparation of Bulgarian draft legislation, technical transposition of the 'acquis communautaire', training of officials, computer upgrading and a Documentation Centre for all Ministries concerned. Under the 1995 Phare transport programme, legal expertise was also provided for the preparation of seven draft laws now awaiting adoption by the National Assembly and which cover a major part of EC transport legislation.

In the area of nuclear safety, the Commission negotiated an agreement with the Bulgarian authorities under which Unit 1 of the Kozloduy Nuclear Power Plant was closed for testing in May 1996. The whole testing programme included removal of samples from the interior of the reactor pressure vessel. Subsequent analysis was financed under the Phare nuclear safety programme, while the Phare conventional energy programme covered the costs for coal imports to help replace the electricity generation capacity that otherwise would have been generated by Unit 1 during the winter 1996-1997. Furthermore, under the Phare nuclear programme, core monitoring equipment was installed and put into operation for Unit 4 and a national strategy for nuclear waste management completed.

Strengthening of private ownership has been the main focus of Phare assistance in agriculture, a sector which is now dominated by private farms (85 per cent of total agricultural area), although the legal nature of much private land occupancy is still uncertain. Agricultural value added (including forestry) generated in the private sector was 9% in 1996. Support has been provided for the land restitution process and privatisation of the food processing industry. Furthermore, given private farmers' lack of access to credits from the financial system, Phare has successfully promoted the establishment of Private Rural Mutual Credit Associations of which 32 were licensed by November 1996. They are the main vehicle for the decentralised management of an ECU 7 million Phare credit line under which more than 730 loan applications have been made and 475 approved within 3 months of the scheme coming into operation.

The programme of cross-border cooperation with Greece continued to make little progress. More than ECU 46 million from the 1994 and 1995 budgets totalling ECU 48 million have not been contracted. Consequently, no new budget was allocated in 1996. The significant implementation delays have been caused by a number of factors including the lack of Bulgarian capacity to fulfil the original co-financing requirements; lack of management capacity and expertise; insufficient cooperation between the central government implementation unit and final beneficiaries; and overly complex programme design involving a large number of sectors and projects. Towards the end of 1996, the Commission agreed to a substantial reduction of the original Bulgarian co-financing requirements and has taken steps towards programme simplification and streamlining of implementation.

Overall Phare programme implementation was not significantly affected by the worsening socio-economic situation, not least since the crisis evolved primarily in the latter half of the year. Good progress has been maintained in most sector programmes.

As a result, the backlog of uncommitted funds from previous years was substantially reduced: the overall contracting rate increased from 56 per cent in 1995 to 67 per cent in 1996. Thus, 1996 was the second consecutive year in which Bulgaria's absorption rate exceeded the rate of new allocations.

Mass privatisation programme

The Bulgarian mass privatisation programme was announced in 1993, legally formalised in 1994 and effectively launched in January 1996. The programme has since become the biggest and most comprehensive privatisation initiative to date in Bulgaria. The programme has gained momentum in a difficult operational environment and succeeded in obtaining wide political and popular support. Its sustainability has been remarkable, respecting a tight time schedule and withstanding the recent economic crisis.

The programme involves 1,050 state-owned enterprises accounting for some 13 per cent of total state-owned assets. Of these, 75 per cent are to be fully privatised, meaning that the state will no longer retain a blocking minority.

The voucher distribution campaign started in January 1996 and lasted for five months. Some 50 per cent of the six million eligible citizens eventually bought vouchers at a symbolic fee.

At the completion of the first auction in December 1996, involving individuals and Investment Funds, 41 per cent of the total capital on offer was bought. As a result, 341 enterprises have been fully privatised. In a further 190 enterprises, more than 50 per cent of their share capital was sold.

The success of the programme to date has relied on substantial and timely Phare support, provided since mid-1994 with a total budget of ECU 4.5 million. Assistance has included

- ongoing expertise for the Centre for Mass Privatisation, the institution established for the programme's implementation
- legal advice
- information technology established at the central and regional levels, including 230 post offices performing the functions of a registration bureau.

The mass privatisation programme constitutes a first important step towards the transfer of enterprise ownership and responsibility from the state. An important challenge remains in ensuring that the evolving ownership situation will indeed result in improved management and much-needed enterprise restructuring. Stabilisation and development of the financial sector and the embryonic Bulgarian capital markets will be important elements facilitating this process.

Czech Republic

Year in review

The macroeconomic performance of the Czech Republic in 1996 was generally regarded as positive. Growth proved solid; foreign investment remained relatively high; the unemployment rate, at 3.1 per cent in 1996, continued to be the lowest in the region; and monetary and fiscal policy both showed restraint. However, the relative downturn that has recently weighed on a number of these trends suggests that the microeconomic problems of restructuring, productivity and technological development now demand greater attention. In 1996, growth was slower than in the previous year (down to 4.1 per cent from 4.8 per cent); the national budget showed a very small deficit ; the trade deficit soared to 10.9 per cent of GDP; and inflation was persistent, averaging 8.8 per cent over the year, compared with 9.1 per cent in 1995).

During 1996, events in the banking sector were a cause for concern. The collapse of Kreditní banka, one of the largest regional private banks, and the imposed supervision by the Czech National Bank of Agrobanka, the largest Czech private bank, exposed the fragility of the banking system's structures.

On the political front, parliamentary elections were held on 31 May-1 June 1996. They resulted in a minority coalition government headed by Prime Minister Vaclav Klaus.

In relations with the EU, the Czech Republic officially applied for membership on 23 January 1996.

Phare 1996 Programme in the Czech Republic

In the context of the EU's pre-accession strategy, a Multi-annual Indicative Programme had already agreed between the European Commission and the Czech Republic in 1995. The Programme, which covers the 1995-1999 period, focuses Phare assistance on the specific needs of the Czech Republic as it prepares for accession. The main objective of support within this framework, and within the EU's pre-accession strategy, is to facilitate the Czech Republic's integration by providing funding for

- institutional integration (approximation of legislation, institution-building)
- infrastructure co-financing
- continuing support for the process of socio-economic transformation.

The Czech Republic's pre-accession priorities were addressed in its 1996 Country Operational Programme (COP), which concentrates on support for the process of socio-economic transformation. The EU thereby committed a total of ECU 54 million, which also includes ECU 7.5 million for the Tempus programme, as well as cross-border cooperation with Germany (ECU 25 million) and Austria (ECU 9 million).

On the national level, the 1996 COP included an ECU 5 million commitment to the creation of a Business Environmental Programme (BEP), establishing a loan facility for environmental investment by SME's and providing technical assistance. ECU 7.5 million were provided for regional development, which includes the creation of a Regional Development Fund, worth ECU 5 million, to support municipality investment in the local infrastructure and thus promote private industrial investment. Funds were also committed to the continuation of support to the development of northern Moravia and Silesia (ECU 2 million) and CzechInvest regional investment promotion (ECU 500,000) for the strengthening of the regional information network in order to attract foreign investors.

Phare achievements

In 1996, Phare produced particularly positive results in the following areas:

- privatisation and restructuring; and support to the development of small and medium-sized enterprises
- regional development
- foreign direct investment
- approximation of legislation
- human resource development.

In the area of **privatisation and restructuring**, support for land registry offices has made a crucial contribution to the privatisation process. The JOP programme has helped more than 100 projects to create joint ventures between EU and Czech firms. In support of SME development, an extensive regional network of 23 counselling and information centres has been set up, while around 400 Czech SMEs were able to participate in trade fairs and make direct contact with their EU counterparts. Under the small loans programme, 800 loans have been granted, facilitating the creation of more than 1500 jobs.

The **regional development** programme launched by Phare in northern Moravia (the Ostrava region) has improved conditions for regional regeneration, while the investment fund set up under the programme is providing much-needed venture capital. The success of the programme has provided a model for the new Government as it sets out the principles of a modern, effective regional policy comparable with EU practice.

The attraction of **foreign direct investment** plays a pivotal role in the transition process. The agency promoting foreign investment in the Czech Republic, CzechInvest, was established in late 1992. In 1996, Phare support amounted to 60 per cent of the organisation's budget. CzechInvest has developed into a highly professional institution that has enjoyed considerable success. Since 1993 CzechInvest has facilitated the start of 262 projects, arranged 815 contacts with Czech companies, performed more than 400

activities in the Czech Republic and abroad and successfully completed 23 projects itself. As a result of these activities, more than 6,000 jobs have been created or maintained. The Agency has expanded its activities both locally, with 10 official regional representatives, and abroad through its foreign office representations (London, Paris and Düsseldorf). In 1996, Phare support focused on the integration of CzechInvest's activities in regional development, helping the organisation strengthen the regional information network in order to attract foreign investors.

Legal assistance, including access to information on European Community law, the organisation of seminars and study visits, and the translation of documents, is being provided through a consortium of EU law firms which continued its work in 1996. During the first phase of the project, over 50 legal consultations took place; more than 40 consortium experts were called upon for their assistance; and more than a dozen Czech legal experts were involved in the approximation of legislation. Over 11,000 pages of European Community or Czech legislation have been translated, while good working relations have been established between the consortium experts and their Czech counterparts.

Human resource development has become a long-term priority for the Phare Programme. In 1996, substantial assistance was provided for the development of management training for the private sector through the National Training Fund. A pilot project for the reform of the vocational and training sector was successfully implemented in 19 pilot schools; it is now expected to lead to policy and legislative reform. Labour market reform was supported by assistance to the Labour Offices, and Tempus successfully supported cooperation between Czech and EU universities.

To support the Czech **banking system** in its difficult period, the European Commission and the Czech National Bank (CNB) rapidly agreed a strategy in the autumn of 1996 enabling Phare to support the development of this crucial sector. Technical assistance is being provided in the field of banking supervision, the privatisation of major banks, the prevention of money laundering, and bad loans management.

Phare's management performance

The performance of the Phare Programme in the Czech Republic, as measured by the contracting rate, improved in 1996. By the end of December 1996, the contracting rate for 1990-1994 programmes had exceeded 90 per cent.

Certain problems in implementation appeared at the beginning of 1996. A number of 1993 programmes, which expired by the end of 1996, showed a poor implementation rate. This problem was resolved through implementation review meetings in Prague held directly with the Centre for Foreign Assistance (CFA) and the Programme Management Units (PMUs) concerned. By 31 December 1996, all funds relating to programmes which had expired by the end of 1996, had been contracted nonetheless.

Civil Society Development Foundation

The Civil Society Development Foundation (CSDF) was established in May 1993 to administer funds from the Phare Programme for the strengthening of non-governmental organisations in the Czech Republic. More precisely, CSDF provides information services, specialised training for NGO employees and volunteers, and grants for projects run by individual civic organisations.

Phare funding for the CSDF initially amounted to ECU 2.6 million; it was then extended until 1997 by a further allocation of ECU 2 million. By the end of 1996, 82 per cent of the budget had been contracted and 74.6 per cent disbursed.

By the end of 1995, 397 grants totalling ECU 2.33 million had been made to NGOs (750 applications were received). Grants ranged from ECU 300 to 25,000.

In 1996, 248 grants worth ECU 1.13 million were awarded to NGO's (546 applications were received). 75 per cent of funds were allocated to projects by individual organisations in the social, health, human rights, ethnic minorities and ecological spheres. The remainder was allocated to the support of information activities and training. Overall, Phare support in this sector has started to enhance legislation in the area of NGO activity and increased the role of the public in solving a wide range of social and ecological issues.

Estonia

Year in review

Following a severe contraction of the economy between 1989 and 1994, national output started to grow again in 1994 and continued to do so in 1996 with an estimated growth rate of 4 per cent. Some sectors performed particularly well, in particular construction, transport, financial services, fishing, and wholesale and retail. Inflation has continued to fall, with the annual rate for 1996 at 15 per cent, considerably lower than the 29 per cent recorded in 1995.

Progress in structural reform has been substantial, and privatisation has advanced rapidly. The majority of state-owned enterprises were sold through competitive tenders and direct sales, thus favouring strategic investors rather than management and employees. By 1996, more than 1,100 small and 400 large enterprises had been sold for a combined total of over ECU 220 million. In 1996, the privatisation programme focused on utilities and infrastructure companies. In many cases, restructuring has been left to investors, mostly through plans submitted at the time of bidding. Privatisation of housing has also proceeded, but the privatisation of land has been less successful mainly as a result of the long restitution process.

The overall objective of Estonia's fiscal policy is to achieve a balanced state budget. However, in 1996 the general government budget recorded a deficit which amounted to 1.5 per cent of GDP. The Estonian kroon has been pegged to the German mark since 1992 and the Government intends to pursue this fixed exchange rate policy. This has led to an appreciation of the real exchange rate. The widening gap between savings and investments is mirrored in a large current account deficit, which approached 10% of GDP in 1996. The trade deficit has grown each year since independence and reached a level of 24 per cent of GDP in 1996. The solid monetary and fiscal framework in Estonia, combined with a liberal foreign trade and payments regime, has nonetheless proved to be very attractive to foreign investors, so that for the time being the large trade deficit is being financed by important capital inflows. Foreign direct investment has been increasing rapidly to a cumulative total of around ECU 360 million for the period 1992-1996.

The Europe Agreement with Estonia had already been signed in 1995 and ratified by the Estonian Parliament later in the same year. A European Integration Office was established in 1996 and is responsible for the monitoring and implementation of the White Paper and the Europe Agreement. In June 1996, Estonia published a National Activity Plan in response to the Commission's White Paper. The Government estimates that all parts of the legislation essential for the adoption of the *acquis communautaire* will be in place by the year 2001. A Ministerial Commission is also being chaired by the Prime Minister to formulate general policy and to submit proposals to the Government in this respect.

Phare 1996 Programme in Estonia

Estonia's Multi-annual Indicative Programme for the period 1996-1999 was allocated ECU 84 million. The main objective of Phare support within this framework is to support the country's socio-economic transformation in order to facilitate the future integration of Estonia into the EU.

The Community, through the Phare Programme, provided ECU 61.8 million of grant aid to Estonia in 1996, of which ECU 5 million were committed to cross-border cooperation. In fact, the 1996 programme constitutes a relatively high commitment and implied front-loading, following the generally high absorption capacity of previous years.

In 1996, a total of ECU 6.5 million was provided by Phare for **European integration**, i.e. approximation of Estonian legislation with that of the EU, including assistance to the Parliament in strengthening procedures for the approximation process. Additional funding will also be provided to advise on policy-making and implement a national training strategy. Funding will also be available to support the legal translation centre and strengthen enforcement bodies.

In 1996, Phare also focused on **institution-building** and strengthening of the public sector bodies responsible for the management of a market economy, as illustrated by the special public administration programme put in place in 1996. This provides further training for civil servants, development of fiscal and budgetary management, and assistance for the social sector ministries.

Export and investment promotion continue to play a dominant role in Phare funding. Technical assistance is being provided for institution-building, promotion campaigns and further development of the Estonian Investment Agency, which was established in 1994. Regional development also featured prominently in the 1996 programme, with the emphasis on the establishment of a regional development strategy and a Regional Development Fund. In addition, Phare funding is being provided for the further development and strengthening of the Business Advisory Centres network and the fostering of the SME Development Fund.

In the field of **agriculture**, Phare focused on institutional strengthening of the State Veterinary Department and the Food Board in order to ensure food safety and quality control and to permit the export of animal products to the EU. Regarding land reform, Phare concentrated on institution-building in the public sector agencies responsible for the restitution and privatisation of land.

Phare continued to fund **infrastructure** development. In particular, funds were committed to improve the road administration and the aviation sector, and to assist the Ministry of Transport in its restructuring. Regarding **energy**, activities centred on policy and strategy advice, development of legislation and standards, pre-investment feasibility studies and training. As for the **environment**, funding is being provided for approximation of legislation and co-financing of large environment projects.

The 1996 cross-border cooperation concentrated on transport, environment (Pandivere water protection), and regional and economic development (e.g. development of tourism). Implementation is currently being strengthened following the establishment of a programme implementation unit in 1996 and this should remedy the delays experienced in 1994 and 1995.

Phare achievements

In 1996, in the banking sector, Phare completed the general assistance that it had been providing since 1993. This included the co-financing of a core advisors group along with Danish and Swedish bilateral assistance, whose main aim was to provide advice and training on credit and internal controls within the banking sector. As a result, skills in the banking sector have significantly improved and the bad debt ratio has been brought down from 9 per cent of the total loan portfolio in 1994 to 3 per cent in 1996.

Phare has been one of the main donors to the privatisation process. The Programme has concentrated on technical expertise for the Privatisation Agency, and the restructuring of large state-owned enterprises. Also, thanks to public share offers, many of those enterprises are now being traded on the stock exchange. Phare is also providing important funding for preparatory work in the current wave of utilities privatisations.

Regarding SME development, four Business Advisory Centres were established with Phare funding and an SME policy has been developed. In the meantime, the Business Advisory Centres have already been able to serve over 500 clients and have reached 70 per cent self-sustainability. In the area of investment promotion, the Estonian Investment Agency has been established with Phare funding, and has now developed a reputation as the national focal point for foreign direct investment into the country.

Phare was instrumental in the establishment of the Tourism Board, the introduction of standards for hotels and restaurants, the introduction of information systems and the privatisation of major hotels.

Tallinn water supply and sewage rehabilitation

Water supply and sewage treatment in Tallinn required major capital investment. The Tallinn Water Company did not dispose of the expertise required to conduct the necessary feasibility studies on leakage detection and control, or to carry out the inspection and rehabilitation works required.

The Phare Programme gave ECU 2 million to improve the sanitation facilities of the capital city, providing

- leakage detection equipment and training
- pipeline rehabilitation, including the acquisition of modern equipment for sewer inspection and cleaning.

The former Yugoslav Republic of Macedonia

Year in review

In recent years, the economic policy and reform efforts of the former Yugoslav Republic of Macedonia have aimed at establishing a fully-fledged market economy. Thanks to the authorities' commitment, many obstacles have now been overcome. However, several challenges remain ahead. In the past as in the future, the strengthening of relations between the former Yugoslav Republic of Macedonia and the EU will help the country move towards a sustainable path of long-term growth and development.

The last couple of years have seen a generally positive trend in the country. The Republic has managed to complete a successful stand-by arrangement with the IMF, brought down the inflation rate from 2,000 per cent per annum in 1993 to under 3 per cent in 1996 and begun a privatisation campaign encouraging foreign investors. In Spring 1997, it embarked on a 3-year programme that is supported by the IMF Enhanced Structural Adjustment Facility and by other multilateral and bilateral donors, including the Community (up to 40 MECU) in macro-financial assistance. Social tension has diminished and comparative political stability has been maintained inside the country and in its international relations.

On the 15th March 1996, the former Yugoslav Republic of Macedonia became the 12th Phare partner country.

Before this, Phare was already operating in the former Yugoslav Republic of Macedonia under a Critical Aid Programme (ECU 85 million) between 1992 and 1995. The purpose of this was to provide the country with essential raw materials, industrial spare parts and fuel for social institutions such as schools and hospitals. This programme softened the blow caused to the country by the dissolution of the former Yugoslav Federation and ensuing economic sanctions on its borders despite its peaceful emergence as an independent state.

Phare 1996 Programme in FYROM

The recent relative economic and political stability in the country has allowed the Phare Programme to evolve in harmony with domestic developments. A country strategy was drawn up in 1996 that reflected government priorities and identified the sectors of support most appropriate to achieving true market reforms after the critical phase was over.

Strengthening and expanding the enterprise sector

This is to be achieved by launching an integrated SME Development programme to enhance the long-term sustainable growth and development of the SME sector. This will be coupled with targeted assistance for bank restructuring so as to develop the ability of the entire commercial banking sector to manage the disbursement of the specific credit lines made available by international donors.

Land reform and the development of the agricultural sector

Land reform is a prerequisite to the establishment of a successful private agricultural sector. This will be combined with an agricultural aid package with a view to adopting an agricultural policy based progressively on non-market-distorting instruments and improving access to European markets.

Development of human resources and the restructuring of social policy

The emphasis here will be placed particularly on public administration reforms with a restructuring of the social insurance sector. This should be done whilst strengthening the capacity of the Ministry of Labour and Social Protection to develop an active labour market intervention strategy. Higher education reforms will be tackled by the Tempus programme.

Support to the overall growth and restructuring strategy

This general technical assistance facility aims at consolidating the sustainability of the reform process by strengthening economic and social institutions.

On this basis, Phare launched the 1996 Country Operational Programme (ECU 13 million) approved in September 1996. The projects chosen keep in line with the medium- and long-term priorities as put forward by the Government and they focus on support to SMEs, support to the financial sector, land reform, agricultural aid, support to the statistical office, approximation of law and an Aid Coordination Unit to help manage the influx of aid into the country.

A component of the Tempus programme, worth ECU 2 million, has the objective of restructuring the higher education system in order to provide students with a variety of specialisations such as the teaching of European languages, law, engineering and technology to give students an education adapted to local and international job markets.

In addition to the national programme, the 1996 cross-border programme with Greece (ECU 10 million) is designed to promote further regional cooperation in particular through the development of infrastructure.

Phare Critical Aid

Due to the country's recent eligibility for the Phare Programme, it is too early in the implementation phase to be able to make any evaluation of the 1996 programme's success. However, the Phare Critical Aid Programme has to date been contracted at a rate of 99 per cent and disbursed at 90 per cent, which has enabled some 50 industrial companies to survive the worst of the country's very difficult economic period and provide heating and nutrition to the most vulnerable members of the country's population.

Hungary

Year in review

In terms of EU-Hungary relations, a significant development was the entry into force of the supplementary protocol to the Europe Agreement on 1 February 1996. This allows Hungary to participate in Community programmes, in particular training and education programmes, such as Youth for Europe II, Socrates, and Leonardo. Access to Community programmes should facilitate Hungary's integration into the social fabric of the EU.

(Check with Hungary desk on economic section, as with previous chapters) A Basic Treaty was signed between Hungary and Romania in 1996. As well as recognising fundamental minority rights and the inviolability of borders, the Treaty provides the legal basis and practical framework for enhanced cooperation between the two countries at the governmental, regional and sub-regional levels. A tangible result of this growing friendship was the agreement in September 1996 of a Hungarian-Romanian cross border cooperation programme. In addition, a Basic Treaty between Hungary and Slovakia entered into force in May 1996.

Phare 1996 Programme in Hungary

Hungary's Multi-annual Indicative Programme (1995-1999) provides for approximately ECU 425 million support and is designed to help the country's preparations for accession to the EU. Assistance will largely go to financing investments linked to the adoption of the 'acquis communautaire' as well as bringing industry and infrastructure up to Community standards.

The 1996 Country Operational Programme is worth ECU 90 million. It was decided to concentrate on three broad areas: the specific needs of accession, economic restructuring, and infrastructure development. Thus, greater emphasis than in previous years was placed on issues relating to accession, with a programme dedicated to **EU integration** being allocated ECU 18.5 million. This programme is designed to continue and expand upon the work of the ECU 5 million Euro-GTAF programme (General Technical Assistance Facility for the implementation of the Europe Agreement) which expired at the end of 1996. The EU Integration Programme will principally help finance projects designed to prepare the public sector for the accession negotiations themselves (including language training), to help approximate legislation, to improve the dissemination of information regarding general EU issues and create a European information network.

ECU 46.5 million have been allocated to a programme dedicated to **economic restructuring**, which will further assist the privatisation process, as well as promoting trade and investment, and regional development. Infrastructure support received ECU

15 million to be divided between the transport sector (to help with the modernisation of the Hungarian railway system) and the energy sector. In addition, ECU 10 million was allocated for Hungarian participation in the Tempus programme.

As a sign of the improving relations between Hungary and Romania, a cross-border cooperation programme was agreed between the two countries in September 1996 to which Phare has contributed a total of ECU 10 million (ECU 5 million each from the Hungarian and Romanian national programmes). The immediate objectives of this programme are to enhance regional planning and development, improve infrastructure, and protect the ecology and the environment in the eligible border regions. Following the signing of a similar agreement with Slovakia, the EU also agreed to provide ECU 5 million towards a project to reconstruct the Esztergom Bridge between Hungary and Slovakia; this project will be co-financed by the two governments.

For the 1995-1999 period, ECU 35 million have been allocated to cross-border cooperation projects aimed at increasing local and regional structural links that straddle frontiers. As part of this, Phare is currently financing two programmes to strengthen ties between Hungary and Austria. Hungary's first cross-border cooperation project was agreed in 1995 and came on-line during 1996 with the creation of a dedicated Programme Management Unit (PMU) on 2 May 1996. Following on from this programme, in 1996 a further ECU 11 million were allocated to the Austro-Hungarian cross-border cooperation programme, which concentrates on local development planning in Sopron and the surrounding area. The 1996 programme aims to increase traffic flow in the border region, while reducing the levels of pollution in the cities of Sopron, Szombathely, and Zalaegerszeg.

Phare achievements

Phare has already made a significant contribution to the accession process in Hungary. A recent independent evaluation report on a programme for regional development which finished at the end of 1996 rated the overall programme implementation as highly satisfactory. Among the many achievements of this ECU 10 million programme are a new law on Regional Development and Physical Planning, which came into force in June 1996 and is based on the principles of EC regional policy. There has also been a significant decentralisation of regional policy planning and implementation.

The development of appropriate Trans-European Networks have been identified as a prerequisite to Hungary's integration into the EU. Implementation began of a 1995 programme worth ECU 16 million to support the transport sector and assist its integration with Trans-European Networks, concentrating on a major road rehabilitation programme. This programme covers the 30,000 km national highway network which carries over 70 per cent of vehicular traffic; more than half of this network is deemed to be in poor or unsatisfactory condition. The total estimated cost for the programme is ECU 65 million, of which 50 per cent will be covered by the EIB, 25 per cent by the Hungarian Road Fund, and 25 per cent by Phare.

In the field of higher education, Phare funded a programme worth ECU 8 million to strengthen the links between education and the economy by funding joint projects

between industry and higher education, developing new post-secondary education programmes and distance learning systems, and promoting the development of special post-elementary schools with a view to providing specialised training for those who opt not to follow regular secondary education. Although work in this area is by no means complete, Phare has been able to set education programmes like these ones in motion.

The impact of Phare support upon Hungary's future accession to the EU is harder to quantify. Harmonisation with EC internal market regulations is well advanced, thanks in part to the support of the Euro-GTAF programme; and a strategy for public administration reform is being developed with the assistance of the mainly Phare-funded SIGMA programme. Phare-funded expertise and training courses are contributing to the process.

Generally, Phare support to Hungary has been without significant management problems. Nevertheless, there have been some difficulties. At the end of 1996, the Phare contracts backlog for Hungary stood at almost ECU 219 million (around 32 per cent of the total), and the payments backlog at nearly ECU 224 million (slightly under 33 per cent of the total).

The 1995 Austro-Hungarian cross-border cooperation programme is extremely ambitious, including 41 individual interventions which range in value from ECU 3,500 to ECU 700,000, and in content from improving teaching facilities in local colleges, to improving cross-border air links by upgrading the airport at Győr-Per, to constructing bicycle paths between the two countries along the Danube. Since this was Hungary's first cross-border cooperation programme, the background experience was simply not available, nor were the administrative structures in place to deal with such a complicated programme. The timing of the programme has slipped by about six months. However, the PMU and the Delegation have worked together to address the problems constructively, and there should be no further delays.

More generally, problems have been caused by lack of experience (over-optimistic programme design or lack of focus can manifest themselves as a contracting rate backlog), and low staffing levels in the PMUs. Technical assistance has often been used to overcome these weaknesses, but this has sometimes had an undesirable side-effect: the experts are almost inevitably used simply as substitutes for government employees, which does not encourage the training of new local staff, and renders the administration dependent on outside assistance.

Public administration reform has not been as effective as might have been hoped. The reason for this appears to be the lack of management skills and qualified personnel in some areas, and this has a large knock-on effect on the implementation of government policy, including Phare implementation. Although Phare is trying to rectify this, through targeted training courses such as the aforementioned EU Integration Programme, more needs to be done. Inevitably, projects designed to improve public administration have been hampered by the existing administrative structures.

Rural Credit Guarantee Fund

Agriculture and forestry contribute 6.3 per cent of GDP, and around 8.6 per cent of total employment. The main characteristic of the Hungarian farming structure is the predominance of large-scale farms (occupying close to 80 per cent of the agricultural land), even though 90 per cent of the farm land is privately owned.

The Hungarian Rural Credit Guarantee Fund has been created with a Phare contribution worth ECU 20 million. The aim of the Fund is to provide guarantees for medium- and long-term loans to small and medium-sized enterprises which otherwise lack the collateral for the development of basic agricultural, commercial, industrial or service activities. The guarantees provided by the Fund cover 50 per cent of the losses on each guaranteed loan, while the other 50 per cent is covered by six participating banks. In January 1996 the project was evaluated: over 1,200 small and medium business operations, which otherwise would have struggled to survive, have been granted guarantees by the Rural Credit Guarantee Foundation, which manages the Fund. The impact of such a project on employment, infrastructure, and local development, has been substantial.

Latvia

Year in review

In 1996, the Latvian economy recovered from the banking crisis of 1995 and showed a modest economic growth of 2.8 per cent. This has however not been sufficient to prevent a rise in registered unemployment, which stood slightly higher at just over 7.2 per cent in December 1996. According to ILO definitions, however, the unemployment rate in Latvia is much higher. A more positive development has been the decline of inflation from an average of 25 per cent in 1995 to less than 18 per cent in 1996, following a much tighter fiscal and monetary policy in the aftermath of the banking crisis. The deficit on the general government balance has also been significantly reduced, from 3.4 per cent of GDP in 1995 to 1.9 per cent in 1996. This has been helped by disciplined government expenditure and the proceeds of an accelerated programme of privatisation.

Foreign direct investment remains modest. In addition, while the trade turnover is growing impressively, imports are rapidly running ahead of exports, leading to a large and growing trade deficit, in part as a result of the strong currency.

In 1996, amidst the domestic turmoil caused firstly by the banking crisis and secondly by the political difficulties experienced after the elections of late 1995, the Government was able to reduce the budget deficit significantly and to continue structural reforms. In particular, the privatisation process became more transparent to potential foreign and domestic investors and is now entirely piloted by the Latvian Privatisation Agency. It is now expected that the privatisation of small and medium-sized state-owned enterprises will be completed by the end of 1997, and the Government intends to complete the entire privatisation process in 1998, including privatisation of state assets in the banking, energy and transport sectors. However, there are still major constraints in this respect, notably the poor financial status of state-owned enterprises, a lack of investors and the slow pace of property restitution. Sustaining progress in privatisation and creating a favourable business environment will, however, be crucial for the diversification and strengthening of economic activity, attracting foreign direct investment and addressing current imbalances on the external side.

European integration continues to be the main policy objective of the Government. The Europe Agreement had already been ratified by the Latvian Parliament in 1995. In early 1996, a Minister for European Union Affairs was appointed to lead the internal process of transformation and to take political responsibility for the European Integration Bureau. In this context, the ministerial European Integration Council, chaired by the Prime Minister, develops and coordinates EU policy at ministerial level. Furthermore, 23 working groups of technical experts monitor the compliance of new Latvian laws with EU legislation in various sectors.

In December 1996, the Latvian government, in accordance with the recommendations of the Commission White Paper, presented a National Programme for Integration into the Community, which outlines the principles, the measures and timetable of legal approximation with the *acquis communautaire*.

Phare 1996 Programme in Latvia

This is the first year of the Latvia's Multi-annual Indicative Programme, which amounts to ECU 108 million for the 1996-1999 period. The EU committed ECU 37 million to Latvia in 1996, of which ECU 5 million will go to cross-border cooperation. The 1996 programme constitutes a relatively high commitment and implied front-loading, following the generally high absorption capacity seen in previous years. The main objective of Phare support within this multi-annual framework is to foster socio-economic transformation so as to facilitate Latvia's future accession to the European Union, as part of the pre-accession strategy.

More than ECU 6 million were allocated to **European integration**, focusing mainly on legal approximation with the EU and harmonisation in agriculture. Technical assistance is being provided to ministries in order to facilitate the legislative process as well as training to strengthen law enforcement in the country. This includes substantial assistance for the legal translation centre.

The 1996 programme is also providing nearly ECU 10 million for institution-building, human resources and social sector development, including public administration reform, reform of higher vocational education, and reform of the social security system and health services.

Private sector development continued to constitute the major area of Phare funding and aims to contribute further to the transition process. In particular, assistance for the restructuring of state-owned enterprises and support to the Latvian Privatisation Agency remained a high priority. Support also centred on the banking sector, entailing credit advice, twinning arrangements, audits and legal expertise for the Central Bank and several commercial banks. With regard to SMEs, funds were allocated to the six Business Advisory Support Centres established across Latvia and to a programme designed to develop product quality control. Funds in the area of foreign investment and trade promotion were assigned to the development of tourism. Regarding agriculture, Phare focused on the development of rural economic diversification strategies, European integration, and institution building.

In the field of **fiscal policy**, continued support aimed at implementing modern management techniques, and strengthening of budget and treasury management, and providing training in accountancy and auditing to the Ministry of Finance.

Funds were committed to the **transport** sector in order to harmonise transport law with that of the EU; to train ministry officials; to develop a railway network strategy; and to improve the road network. Phare is also funding the development of Trans-European Networks, notably along the 'Via Baltica' (Helsinki-Tallinn-Riga-Kaunas-Warsaw). In the **energy** sector, technical assistance mainly focused on energy legislation, energy planning and on efficient energy utilisation. Finally, funds were allocated for the **environment** in order to support the modernisation of the environmental protection service and an environmental water protection plan.

In addition, the 1996 cross-border cooperation programme focused on transport (e.g. marine safety measures; 'Via Baltica') and the environment (e.g. Cesis waste water treatment). Implementation has been strengthened with the establishment of the programme implementation unit (PIU) in 1996 and this should remedy the delays experienced in 1994 and 1995.

Phare achievements

A major project for the strengthening of economic legislation was completed in September 1996. This provided expertise for financial law (securities, bankruptcy, commercial banks), commercial law (standardisation and certification, company law), labour law (draft labour code), and constitutional and administrative law.

In the transport sector, restructuring of the Latvia railways is ongoing as a result of the Phare-funded preparatory studies in this respect. The Government has also decided to implement the Phare-funded plan for road passenger transport. The World Bank, the EIB and EBRD are already financing infrastructure projects on the 'Via Baltica' corridor and in the ports of Ventspils and Liepaja.

In the banking sector, Phare provided significant on-site support for the Bank of Latvia to help stabilise the banking sector following the crisis in 1995.

In the field of investment and export promotion, Phare helped establish the Latvian Development Agency and developed its operations, including export development and investment promotion campaigns.

In the agricultural sector, Phare supported land reform, the reorganisation of the land registry services, and the establishment of an advisory service for farmers, including food quality control.

SME development

As in the other Baltic republics, the development of small and medium-sized enterprises will be of crucial importance for the future economic growth of Latvia. Phare support was provided to the Ministry of Economy for the development of a policy framework and the development of an institutional development programme for SME support organisations. The first phase has now been completed and produced the following results:

- establishment of Business Advisory Services Centres in 6 locations as part of a national network
- 23 local advisers trained to provide services to SMEs through the BASCs network
- the BASC provides training and other support services to an average client base of 3000 SMEs per year
- additional expert services in the area of productivity, quality, technology and innovation via the network.

Lithuania

Year in review

The Lithuanian economy has finally emerged from a deep recession caused primarily by the dissolution of the Soviet Union. Economic development gained momentum in 1995 and accelerated in 1996 with GDP growth reaching 3.6 per cent. Growth is now also more broadly based on construction and services. An important positive development has been the sharp fall in year-on-year inflation, from 36 per cent at the end of 1995 to 13 per cent at the end of 1996. Unemployment has, however, only slightly decreased and stood at 6.2 per cent in December 1996. On the external side, available figures point towards only a slight deterioration of the trade balance.

Economic policy in the first half of 1996 was dominated by the aftermath of the banking crisis. Following the elections of October 1996, the newly formed Government is trying to cut the government deficit; review the monetary policy and exchange rate framework; fight corruption and reduce bureaucracy; and accelerate structural reforms in order to attract more foreign direct investment. In this context, the Bank of Lithuania is pursuing a medium-term strategy (1997-1999) that would allow a more active exchange rate and monetary policy and peg the litas to the German mark or the future Euro.

It appears that the economic reform process is gaining momentum following the election of the new Government. In earlier years, during the first stage of voucher privatisation, a large number of small and medium-sized enterprises were privatised. However, large enterprises remained under state control. Because voucher privatisation did not generate sufficient enterprise restructuring, a second stage of cash privatisation started in June 1996. This time, shares are being sold rather than distributed free of charge, and the authorities aim to attract the participation of foreign investors. The scope of this second wave of privatisation initially looked modest, but the new Government has announced lately that it is prepared to sell stakes in important enterprises in the telecommunications and transport sectors, as well as in energy and utilities. Such an extension of the privatisation process seems essential if Lithuania is to attract more foreign investment and modernise its economy.

Foreign direct investment (FDI) flows were low, with an average annual inflow of approximately 1% of GDP (SOURCE/EBRD). This was due to several factors, including macroeconomic instability and the slow pace of cash privatisation and other structural reforms.

European integration continues to be the main policy objective of the new Government. In June 1996, the Lithuanian Parliament ratified the Europe Agreement by an almost unanimous vote. The Government has nominated a new Minister of European Affairs, whose role, in close cooperation with the Ministry of Foreign Affairs, will concentrate on seeking compliance of Lithuanian legislation with internal market regulations. In this respect, the European Integration Commission, an inter-ministerial committee chaired by the Prime Minister, established in 1995, is expected to be strengthened and to play a more prominent role than before.

Following the Commission's White Paper on the Internal Market, the Government has also drafted a national programme for approximation of legislation and this National Legislation Harmonisation Programme was adopted by the Lithuanian Parliament in September 1996, specifying for each Ministry the timetable for harmonisation.

Public Administration Reform is now an important priority on the agenda of the Government which, as a first step, reduced the number of ministries and created wage incentives for highly qualified civil servants. There are ambitious plans for the overhaul of the administration and the redefinition of the functions of central and local government.

Phare 1996 Programme in Lithuania

The main objective of Phare support is to promote socio-economic transformation, so as to prepare the future integration of Lithuania into the EU as part of the pre-accession strategy. In 1996, the Phare Programme committed ECU 53 million to Lithuania, of which ECU 3.5 million is for Tempus and ECU 6 million for cross-border cooperation. The 1996 programme constitutes a relatively high commitment and implied front-loading, following the generally high absorption capacity seen in previous years. 1996 was the first year of the country's Multi-annual Indicative Programme, which amounts to ECU 152 million of grant funds for the 1996-1999 period.

An important part of the 1996 programme has been oriented towards the core areas of the **pre-accession process**, notably internal market measures, i.e. legal advice, training, documentation and translation. Legal advice is funded by Phare for the legislative process through ten sectoral drafting working groups established in line ministries.

Under **infrastructure** development, particular attention is being paid to energy efficiency measures, energy sector restructuring, rehabilitation of existing infrastructure and training for personnel at the Ignalina nuclear power plant. Funding is provided for the co-financing of the gas pipeline from Ukmergė to Utena (close to Vilnius), the construction of heavy fuel oil storage and the Klaipeda geothermal plant. Phare is also contributing to the Kaunas waste-water treatment plant. In the area of transport, support is being provided to develop road and railway infrastructure in order to improve physical integration into the EU as part of the Trans-European Networks.

Support for **market restructuring and economic development** constitutes the most important part of Phare funding in 1996. An important part will contribute to strengthening the banking system. Assistance in the field of **agriculture** continued to build upon farm-level initiatives, but focused increasingly on marketing, finance and quality issues in food processing. Regarding the **privatisation and restructuring** process, the Phare programme is providing legal advice and support to the Privatisation Agency and to the newly created Ministry of Economy for policy formulation and institution building.

In the **SME** sector, Phare is providing operational and training support to the six Business Advisory Centres, which assist the business community in different regions of the country. In addition, it extended assistance to the Lithuanian SME Development Agency, which was established at the end of 1995. The introduction of a Phare SME credit scheme in 1993 which was renewed in 1996 also facilitated access to capital for small and medium-sized enterprises.

Phare assistance will also be provided under the 1996 programme to further improve the **tax regime** and treasury and budgeting function, and increase the efficiency and effectiveness of the customs administration.

The 1996 cross-border cooperation programme centred on transport (Klaipeda oil terminal & rail/port interface), environment (hazardous waste storage), and regional and economic development (Nida tourism development). Implementation has been strengthened with the establishment of the Programme Implementation Unit in 1996 and this will remedy the delays experienced in 1994 and 1995.

Phare achievements

A number of Phare programmes were completed in the course of 1996. Particularly important projects and achievements in this respect were the following.

In the energy sector, Phare helped complete the analysis and recommendations for establishing an Energy Efficiency Fund, as well as pilot drilling for an underground gas storage facility in Vaskai in the northern part of the country.

As a result of Phare assistance in the transport sector, a restructuring and business plan for the Lithuanian railways was completed and adopted. Similarly, the Klaipeda Port Master Plan, prepared with Phare funding, is being implemented. Finally, construction works at the Polish-Lithuanian border crossing of Kalvaria were completed and have been co-financed by the Lithuanian government.

Regarding privatisation, Phare supported the establishment of the Lithuanian Privatisation Agency in 1996. Phare has also provided considerable support for the implementation of legislation, training of privatisation officials, and preparatory studies for the privatisation of selected state-owned enterprises.

In the banking sector, Phare funded expertise for on-site support and supervision for the Bank of Lithuania to deal with the banking crisis. Additional twinning programmes with foreign banks were also established, through which a large majority of Lithuanian banks (82 per cent in asset terms) receive major technical support.

SME development

Small and medium-sized enterprises contribute enormously to the development of the private sector and economic growth. Although Lithuania was late in recognising this, Phare supported SME development from the beginning and has provided funding for an SME credit line, expertise for policy implementation, funding for the establishment of six Business Advisory Centres and support to the launching and initial operations of the SME Development Agency.

Bank credit is often a major obstacle for the development of SMEs. In transition countries, banks tend to lend either to large companies or to invest in financial instruments, i.e. generally transactions that are secure and carry minimal administration costs. As a result, SMEs find it difficult to borrow, and this hampers the development of the private sector.

To remedy this, Phare has established a credit line to support SMEs. Managed by the Central Bank and channelled through commercial banks, it provides credit at more favourable rates than in the domestic market and is destined for enterprises employing up to 200 employees. Companies can borrow up to ECU 125,000 for long-term investments. More than 200 loans have been provided so far.

Moreover, specific training related to the credit line is being provided to the Central Bank, the commercial banks and the SMEs. The network of Business Advisory Centres has been used for the training of client companies in this respect.

Poland

Year in review

The Polish economy has performed well since the transition process began. In 1996, real GDP increased by 6 per cent and thus, for the fifth consecutive year, the country experienced strong economic growth. In 1995, real GDP for the first time exceeded the level recorded in 1989. Inflation and unemployment remained relatively high but are falling, at 18.6 per cent and 13.6 per cent respectively at the end of 1996.

As in previous years, Poland made progress along the road of economic reform. The private sector now accounts for nearly 60 per cent of GDP and 62 per cent of employment. The Mass Privatisation Programme, after a long preparatory period, was finally launched in November 1995 and became very successful in 1996, with over 26.5 million vouchers taken up by the population and their price now trading on the secondary market of the Warsaw Stock Exchange at seven times their original value.

In spite of the international appreciation for the Polish shock therapy approach, foreign direct investment (FDI) was off to a slow start during the initial stages of transition. FDI inflows have begun to pick up considerably since 1994. In 1996, the inflow was about 1.8% of GDP. The cumulative FDI inflow since 1989 reached a level of ECU 4.0 billion (source: EBRD), which corresponds to slightly more than ECU 100 per inhabitant (the Polish Government Agency for Foreign Investment (PAIZ) reports that the FDI inflow in 1996 alone has reached more than ECU 4.0 billion. The PAIZ estimates that the cumulative inflow of FDI since 1990 has been about ECU 11 billion).

Poland's economic performance and the increasing confidence of international investors are also the result of considerable improvements in the Government's public finances over recent years. Total public debt now stands at 54 per cent of GDP and the Central Government's budget deficit attained 2.9 per cent of GDP in 1996. In April 1996, the Government adopted "Package 2000", a set of medium-term policy guidelines around a programme of cuts in personal and corporate income tax, and, at the end of 1996, the Government also unveiled plans to make Poland meet the Maastricht criteria for EMU by the year 2006 by further reducing the general government budget deficit and, notably, the high inflation rate.

Poland also continued along the path of pre-accession and approximation to the European Community's 'acquis communautaire'. In October 1996, the Government started an ambitious central government and civil service reform programme, whereby a Committee for European Integration, a new Ministry of State Treasury, the Ministry of Economy, and the Ministry of Internal Affairs were established as a result of the merger or reorganisation of a number of ministries and government agencies. The new

Civil Service Law, adopted by Parliament in August 1996, was introduced and is currently being implemented. These reforms constituted important steps for Poland on the way towards good governance and in fact constitute a prerequisite for future integration with the European Union.

As part of the pre-accession strategy, the Committee for European Integration was established in October 1996, chaired by the Prime Minister. This Committee has a policy coordination and steering function with decision making power on EU integration issues and foreign assistance, including the Phare programme. In late 1996, the Committee prepared and the Government adopted a National Strategy for EU Integration. The Government, in 1996, also issued a White Paper with a systematic analysis of implied legal and economic adjustments in the context of EU integration. In November 1996, the Parliament also adopted the Customs Code.

Phare 1996 Programme in Poland

Under its Phare programme for Poland in 1996, the European Union committed ECU 203 million. This was the second year of the Multi-annual Indicative Programme for Poland, whose budget for 1995 to 1999 totals ECU 1.015 billion of grant funds. As in the previous year, the main objective of the 1996 programme was to facilitate Poland's gradual integration into the European Union by providing funding for approximation of EU legislation, institution building, infrastructure co-financing and continuing support for the process of socio-economic transformation. In this respect, the 1996 Phare programme continues to contribute to the EU's pre-accession strategy.

The Phare programme in 1996 therefore concentrated further on the gradual integration of Poland from the legislative, physical and human resources point of view. A total of ECU 64 million, or nearly 32 per cent of the funds committed in 1996, were earmarked for the development of the country's transport infrastructure within the Trans-European Networks programme. These funds were attributed for cofinancing with the European Investment Bank, the European Bank for Reconstruction and Development, and the Polish Government, notably for the construction of the first part of the A4 Motorway from Wroclaw to Katowice (part of TEN Corridor 3 Berlin-Katowice-Kiev) and the renovation of the first part of the E20 Railway from the German border to Warsaw (part of TEN Corridor 2 Berlin-Warsaw-Minsk-Moscow), including upgrading of border crossings with Germany.

As in previous years, ECU 53 million were also committed for the cross-border cooperation programme, whereby funds are provided in a concentrated manner mainly for transport and environment infrastructure projects in eight regions on the border with Germany and the Baltic Sea. In the course of 1996, further efforts were undertaken to strengthen the implementation capacity of the Polish authorities dealing with the cross-border programme and this is beginning to show results in terms of an accelerating contracting rates in this respect.

In 1996, the Phare Programme provided additional funding for private sector development, especially through continued support for the Government's municipal and provincial privatisation programme, the development of SMEs, regional development of lagging regions, and agricultural and rural development. For the latter, as well as for the transport and environment sectors, special funds were also set

aside for harmonisation and implementation of the *acquis communautaire* as part of the Government's pre-accession strategy.

Phare achievements

Several Phare programmes were successfully completed in the course of 1996, notably the following:

- first phase of the public administration reform programme
- Struder regional development programme
- customs programme
- mass privatisation programme
- foreign investment promotion programme.

In addition, the first part of the Phare-financed environment programme was also completed, as well as the Bad Debt Work Out programme and the Phare agricultural credit line. In general, these programmes were committed in 1992, except for the agricultural credit line, which dated back to 1990. Following a slow start, the latter was able to provide more than 1,000 small loans through co-operating banks mainly destined for farmers and agricultural SMEs wishing to acquire modern farming and food processing equipment, thereby effectively contributing to the modernisation of the sector. In general, experience to date indicates that most Phare programmes initiated in the early years of transition required long gestation periods, often due to the absence of viable delivery mechanisms or because of the need for important policy decisions, before any concrete results became available.

The Bad Debt Work Out project, funded by Phare, in consultation with the EBRD, was largely completed in 1996 and has seen the percentage of bad debts in participating banks fall from 53 per cent in 1993 to under 10 per cent in 1996. This project has been particularly effective in that it not only worked with the banks concerned but also with their debtor enterprises. This project has therefore contributed importantly to enterprise restructuring in Poland, while preparing major banks for the skills needed in subsequent privatisation.

Phare funding for the environment in Poland amounted to a cumulative 9.6 per cent of total Phare funding for Poland in the period 1990-1996, i.e. close to the 10 per cent recommended by the European Parliament. It should however be noted that these figures do not include energy saving measures or environmental projects funded through the regional development programme. The Phare environment programme in Poland contributed to the development of the National Fund for Environmental Protection, i.e. the main investment instrument of the government for funding of environment projects, by the private and public sector alike. Particularly important Phare-financed projects in this respect were the Nun Moth campaign to eradicate this pest in forests, the Geothermia project in Zakopane, and waste water treatment plants in the Oder basin. The Geothermia project, funded by Phare initially in 1992, is providing district heating to the village of Zakopane, and, when completed (with World Bank funding), will provide heating to 75,000 people in the Zakopane valley, thereby considerably reducing air emission from traditional coal burning.

As mentioned above, the Mass Privatisation Programme, after a long preparatory

period, was finally launched in November 1995. In this programme, 512 state-owned enterprises were assigned to 15 National Investment Funds. Phare was one of the major donors to this programme and provided, as early as 1992, considerable support by financing the public awareness campaign, training of over 5,000 officials, preparatory studies, and the printing and distribution of the privatisation vouchers, which can now be exchanged for share certificates in the National Investment Funds.

The promotion of foreign investment has also been facilitated since 1993 with the establishment of the Foreign Investment Promotion Agency (PAIZ), with considerable support from the Phare programme. This Phare programme was successfully completed in 1996, and PAIZ, solely on the basis of Government support, continues to play a major role in the promotion of inward private foreign investment to Poland.

In October 1996, the Government started an ambitious central government and civil service reform programme. The new Civil Service Law, adopted by Parliament in August 1996, was also introduced and is currently being implemented. The 1992 Phare-funded public administration reform programme provided considerable support in this respect, in particular with preparatory reform and organisation studies, training programmes for civil servants, strategic advice, and expertise for the preparation of the public procurement law, the civil service law, and the organic laws needed for the reorganisation of ministerial departments and the creation of new government agencies. In addition, since several years, the Phare programme has also provided support for approximation of legislation. In November 1996, the Polish Parliament adopted the Customs Code. In this context, the Phare programme funded preparatory work with training and expertise and also funded a Data Entry Management system that should render the customs services more efficient.

In February 1996, the Government/Donor Task Force on Regional Development in Poland, again with funding from the Phare programme, accomplished its work and its recommendations were adopted by the Council of Ministers in December 1996. The first Phare-funded regional development programme (Struder) in Poland was also successfully completed.

As indicated, in the early years, the Phare programme experienced implementation difficulties in Poland, partly due to organisational problems in the responsible ministries and lack of viable delivery mechanisms. Implementation in 1995 however accelerated considerably. In 1996, performance was encouraging, albeit at a lower level than in 1995, in the sense that contracting slightly exceeded commitments and the funding backlog did not increase.

Struder: a regional development programme

Regional disparities in Poland are important and unemployment is unevenly distributed. In 1992, Poland had no regional policy, no legal framework, no institutions for regional development. The Government requested funding by Phare of a regional development programme - Struder - that subsequently was slow to start. A total of ECU 76 million was provided by Phare in 1992 for structural development measures in six provinces lagging behind, i.e. with high unemployment, high agricultural GDP or subject to heavy industrial restructuring.

The programme was completed in 1996 and provided valuable operational experience of regional development measures to Polish municipalities and provincial administrators. This programme is now being continued, following the recommendations of the Task Force on Regional Development in Poland, adopted by the Council of Ministers in December 1996, and has given an important impetus to the Government's emerging regional and rural development policy, taking into account important elements of programmes similar to those financed by the EU Structural Funds.

In concrete terms, the Phare-funded Struder programme

- cofinanced 1,051 SME investment projects through a grant scheme (ECU 30 million) along with commercial bank loans and SME own resources. This created ECU 130 million investment and 11,500 jobs in the regions concerned
- Cofunded 188 Municipal Small Infrastructure Projects worth ECU 18 million out of total project cost of ECU 36 million in the regions concerned
- was instrumental in the creation of Regional Development Agencies and two Regional Investment Companies in Poland
- Provided training and retraining schemes for the unemployed, for local banks and for SME entrepreneurs.

Romania

Year in review

1996 was an electoral year for Romania. Municipal and local elections took place in June 1996, parliamentary and presidential elections in November. In all cases, a centre-right coalition, composed mainly of Christian and Social Democrats, prevailed.

The new centre-right government is composed of Christian Democrats (CDR), Social Democrats (USD) and representatives of the Hungarian minority (UDMR). Thirteen recognised minorities are each represented by one deputy in the Chamber. This is allowed for by the Constitution and applies to minorities' political groups which do not attain the 3 per cent threshold. Emil Constantinescu (CDR-Christian Democrat) was elected president on 17 November 1996 in the second round of presidential elections.

The Government programme aims mainly at economic reform (re-alignment of energy prices, monetary policy, reform of public utilities, financial markets, reform of agricultural support programmes), accompanying social measures and the fight against poverty.

Gross domestic product increased by 4.1 per cent in 1996, the fourth consecutive annual increase. Inflation, after a sustained slowing down since 1993, accelerated from an average of 32 per cent in 1995 to approximately 57 per cent at the end of 1996. This was the result of a very loose monetary policy, as well as numerous tariff increases in the run up to the elections.

The deficit on the general government balance, as a percentage of nominal GDP, was 1.9 per cent in 1994, 2.6 per cent in 1995 and 3.9 per cent in 1996. The law on public finance provided for a 2.9 per cent budget deficit. The wider public sector deficit, which for instance includes quasi-fiscal subsidies, was of the order of 8 per cent.

The current account deficit increased sharply in 1996, reaching 7.3 per cent of GDP, with the trade deficit amounting to 2.5 billion dollars. FDI inflows have been relatively small, in relation to the size of the country. In 1996 foreign reserves declined, as foreign investors maintained a prudent stance and domestic investors took funds abroad.

In June 1995, the government launched a Mass Privatisation Programme targeting 3,900 companies. This was based on a procedure which awarded vouchers to all adult Romanians above the age of 18. The slow pace of privatisation is one of the main reasons for the low level of foreign direct investment in the country. The banking sector, for example, remains dominated by the state banks. Restructuring and privatisation are key priorities of the new government.

In terms of foreign policy, the country's two main objectives are accession to the EU and NATO. A Basic Treaty with Hungary was signed on 16 September 1996. This deals with minority issues and is an important step towards improving relations with neighbouring countries. A similar agreement is under negotiation with Ukraine regarding territorial differences.

Phare 1996 Programme in Romania

A four-year Multi-Annual Indicative Programme for Phare assistance to Romania was signed in September 1996. Covering the period 1996-1999, it provides ECU 440 million of grant aid to Romania. Infrastructure for European integration and implementation of the 'acquis communautaire' are the key objectives in terms of preparation for accession.

Co-operation will be further enhanced through the participation of Romania in Community programmes in conformity with the decisions of the European Council of Copenhagen. The additional protocol to the Europe Agreement, which allows for the opening of the programmes, has already entered into force. Thus, the Association Council is able to decide the terms and conditions of Romania's participation in particular programmes, on the basis of the country's priorities. Work has progressed satisfactorily in view of Romania's participation in four Community programmes: Youth for Europe III, Socrates, Leonardo and Media II.

In addition, a cross-border co-operation programme with Hungary has been approved¹. This follows the signature by Romania and Hungary of a Basic Treaty on 16 September 1996. The programme allocates ECU 10 million to Romania and Hungary (ECU 5 million each) for projects which rely on cooperation between Romania and Hungary to improve living conditions on both sides of the border.

Phare achievements

Although there have been some difficulties, partly due to organisational problems in the responsible ministries, implementation improved in 1996 when the contracting rate more than doubled. The Phare Programme has made a positive contribution to the transition process in Romania and its integration with the EU.

Phare assistance has been instrumental in ensuring that the **privatisation process** has become irreversible, and handled with a significant level of transparency, even though lack of long term planning and co-ordination did not allow for optimum use of technical assistance. Future programming should concentrate now on providing an enabling environment for the private sector (including strengthening of policy making capacities).

¹ Romania is the only associated country that shares no common borders, either terrestrial or maritime, with any of the 15 Member States; therefore, no Romanian region is eligible for cross-border programmes between CEECs and Member States as provided for in Commission Regulation (CE) N° 1628/94 of 4/7/1994 for financing of projects in accordance with Union's structural policies, in particular Interreg II.

Impact of Phare has been significant in terms of **institution-building**, and transformation of the role of the state vis-à-vis companies. Slight concerns resulting from a structure with split political responsibility for restructuring have still to be dealt with.

The **Romania Post Privatisation Fund** was set up in 1996. It is an equity investment fund, providing venture capital, managed by a private company and supervised by EBRD. The fund has a ten-year life at the end of which period it is supposed to have liquidated all investments. Phare has contributed ECU 10 million for technical assistance and ECU 15 million for investment; the EBRD, ECU 25 million for investment. All necessary agreements were signed in October 1996.

Romania made modest progress in the **approximation of legislation**. Steps have been taken mainly in the areas of agriculture, transport, competition, professional qualifications, health and safety at work and environment. The overall current situation should be evaluated and the way ahead defined, taking on board the new government priorities.

In the area of **public administration reform**, the main areas of action for Phare programmes have been policy development, modernisation and development of management capacity, and public service ethic. On all three accounts, there remains much to be done.

The Phare programme has been a leader in the establishment of programmes of active employment measures throughout Romania through its highly successful PAEM programme.

Programme for Active Employment Measures

The Programme for Active Employment Measures started in 1994 with a total budget allocation of ECU 10 million and a duration of four years. The main objective of the programme is to support the government in the development and implementation of labour market policy and reform, balancing the local initiative and innovation with the design of national policy guidelines and active employment measures with institutional development.

The programme is relying upon the principles of decentralised actions and enhanced local partnership. Examples of active employment measures still under implementation are: information and documentation centres, mediation centres, business incubators, business consultancy centres, centres for the promotion of agro-tourism, job clubs, vocational training, entrepreneurial development in schools, job placement centres, temporary labour centres, employment services for disadvantaged people, etc.

The results to date are

- 228 Active Employment Measures operational
- 53 local consortia institutionalised and operational
- 49 local development agents trained
- 35,000 clients assisted in the information centres
- 20,000 received counselling in Mediation Centres
- 10,500 people were employed as a result of mediation
- 3,100 people attended vocational training courses
- 1,500 people attended training in Job Clubs
- 1000 people attended entrepreneurial training courses.

In Medgidia, a less developed part of Romania, the Programme for Active Employment Measures was instrumental in the setting up of a Mediation Centre, a Business Consultancy Centre and a Vocational Training Centre. The Foundation for the Support of Disadvantaged Groups became self-sustainable by providing good quality feasibility studies for bank loan applications; the Mediation Centre was taken over by the labour directorate in the Constanta county, who will support the operational costs above and beyond the financing under the Programme for Active Employment Measures. 1,837 people have been assisted, of which 274 were placed in jobs in 170 companies.

In Tirga Neamt, one of the regions in Romania worst affected by unemployment, the Programme for Active Employment Measures supported the establishment of several community services. The key of the success was the choice of the services based on a survey conducted in the community. The County Directorate took over the operational costs of the Mediation Centre only after the first eight months, encouraged by the very positive results (2,200 people placed in jobs). The Vocational Training Centre is making promising progress (112 people trained) and the newspaper proved to be an effective tool for the delivery of information to the unemployed.

Slovakia

Year in review

After its impressive macroeconomic performance in 1995, the Slovak economy continued to grow at almost 7 % in 1996, while inflation decelerated to 5.4 % at the end of the year. Growth was fully generated by domestic demand. Rapidly rising real wages and some increase in employment pushed up private consumption, while real investment grew by more than 30%. The external balance, on the other hand, has turned sharply negative. Slow export growth and sharply rising imports have resulted in a current account deficit of more than 10% of GDP, compared to a surplus of 2.3% in 1995. The fast economic growth had a beneficial impact on unemployment. The unemployment rate declined from a peak of 15.2% in January 1995 to 12.8% in December 1996. Nevertheless, unemployment remained unevenly spread over the country, and the proportion of long-term unemployment was rising.

The conduct of monetary and fiscal policy has played a vital rôle in the stabilization process in Slovakia after its independence. Nevertheless, in 1996 economic policy became more expansionary, leading to higher domestic demand and the ensuing deficit on the the current account. Only in the second half of the year, monetary policy was restricted in an effort to curb excessive demand growth.

The National Bank Supervision Department has made substantial progress in establishing prudential regulations producing or clarifying legal frameworks, building up its staff capacity and its independence, and in developing a comprehensive information system. Phare has supported the restructuring of the three largest state-owned banks, which represent more than 60 per cent of total banking assets.

The Ministry of Finance is presently implementing a more coherent tax and accounting reform programme including assistance to the Union of Accountants and Chamber of Auditors.

Phare 1996 Programme in Slovakia

Programming discussions were held in the framework of the Multi-annual Indicative Programme. The programming of the 1996 Country Operational Programme was delayed in part because of institutional and staff changes (shifting of coordination responsibilities from the Slovak Ministry of Foreign Affairs to the Office of the Government). Under the multi-annual financial perspective, given that it is possible to modulate annual allocations on the basis of needs, absorption capacity and past programme performance, it was eventually decided to postpone the 1996 commitment. Therefore, in 1996, Slovakia only received an allocation for Tempus (ECU 4.5 million) in support of the educational sector.

Phare achievements

In 1995 a Council of European Integration was set up as an inter-ministerial forum for questions relating to integration issues. All newly prepared legislation has to be examined as to its compliance with EC legislation by the Institute for Approximation of Legislation, which has been set up in June 1995 and integrated in 1996 into the Office of the Government. The Slovak Government has issued a general strategy on approximation of legislation on the occasion of the Association Committee in December 1996. Phare supports the Slovak Institute for Legislative Approximation, through extensive technical assistance.

The reconstruction of the bridge on the Danube, between the cities of Esztergom and Sturovo is a project (ECU 5 million) sponsored by the EU and the two beneficiary countries in the framework of the Conference of the Pact on Stability in Europe. This project is a demonstration of the commitment of both Hungary and Slovakia to pursue good neighbourly relations, as stated in the Basic Treaty on Good Neighbourliness and Friendly Cooperation ratified on May 15, 1996. The reconstruction of this bridge is particularly aimed at promoting good relations in questions relating to minorities, frontiers and regional cooperation.

Today, the majority of companies have been privatised either through the voucher scheme or since 1995 through MEBO (Management Employment Buy-Out). Phare has supported the restructuring of a wide range of companies. More than 40 individual enterprise studies provided assistance to a range of ten industry sectors, including armaments, engineering, metal products, chemicals and textiles. The average cost of each project was ECU 250,000 for technical assistance in operational restructuring, production, organisation and the preparation of strategic plans.

Capital inflows have been small compared with other countries in the region. After almost no increase in foreign investment in the first half of 1995, the capital inflows expanded to a total amount of \$ 845 million at the end of December 1996. The main investors, by country of origin, are from Austria, Germany, the Czech Republic and the USA. A more positive sign is the increase in the number of enterprises with foreign capital participation to 9,717 companies in 1996 compared to 5,100 in 1993. These investments are mainly directed towards the retail trade, industry, banking and insurance. Phare has been supporting SNAFID (Slovak National Agency for Foreign Investment Development), responsible for promoting foreign investment into Slovakia and has made a major contribution in attracting 'greenfield' investment to Slovakia. Over the past three years, the Slovak National Agency for Foreign Investment has been involved in 17 projects, worth \$ 144 million and providing jobs for 6,000 employees.

SMEs are now a major engine for growth in the Slovak Republic accounting for 35 per cent of the GDP. SMEs have gained recognition as an important sector for the transformation of the economy, the development of market mechanisms, the promotion of entrepreneurship and as providers of employment. It is a key sector for Phare support, which has in the past contributed to the development of Business Support Centres and will in the future concentrate its funds on the policy, services and regulatory framework. Phare has made an important contribution by providing direct assistance to SMEs and establishing institutions to support SMEs.

The Slovak Government decided in 1993 to create an independent agency for the development of the sector. The SME programme executed by the agency and co-financed by the Slovak Government is now fully implemented with the various financial instruments launched, particularly the small loans fund, being well subscribed. This financial assistance, together with business counselling through a network of assistance centres set up with Phare funds, is seen as providing a valuable service to SMEs. In particular, the subsidised loan scheme which combines a unique blend of Phare, government and commercial funding, has provided much-needed capital for SMEs to expand their operations. The loan scheme has provided up to 459 loans to enterprises employing on average 45 people for an average loan size of approximately ECU 76,000.

In 1996 Phare, the Slovak Government and the EBRD signed the agreement setting up the Slovak Post Privatisation Fund, a restructuring vehicle capable of bringing both know-how and capital to medium-sized Slovak enterprises. The Phare grant contribution is in the amount of ECU 12 million in equity and ECU 8 million in technical assistance. The Slovak Post Privatisation Fund will provide equity, effective governance and management assistance to enterprises that are presently unable to raise private equity capital.

The Policy Advisory Unit assisted the Ministry of Agriculture in reviewing and formulating agricultural policy and in the establishment of working groups looking at the adoption of the full 'acquis communautaire' (structural issues, veterinary and phytosanitary matters, forestry, water management, etc.).

Phare has also provided assistance to the continued modernisation and reconstruction of land registration and integrated cadastral information services in support of the restitution and land consolidation process, land market development, privatisation of rural and urban areas, thus meeting the socio-economic and environmental needs of the country.

The assistance also contributed to community development taking into consideration essential democratic principles, by improving the security of ownership rights related to land and its assets and supporting local governments in their tasks related to land registry and mapping. Phare has also provided assistance to improve the availability of geographic information systems; to develop digital and similar products (aerial photography of 6.000 km² of Slovak territory); to stimulate and support public, governmental and private sector users, such as local authorities, regional authorities (physical planning, environmental protection), banks (land market, mortgaging), etc.

Other tangible contributions have been made in the educational sector, where Phare supported a short-cycle higher education programme for language teachers at the pedagogical faculties of Slovak universities, involving more than 1,300 students.

Civil society in Slovakia plays a very important role in the process of further application of democratic principles in the country. These principles can be seen in action in the quantity and quality of existing non-governmental organisations. In this respect, Phare has supported over 300 NGO projects through the Civic Society Development Foundation. The CSDF is currently one of the largest and most

influential NGO grant-giving organisations in Slovakia.

Cross-border cooperation with Austria experienced certain implementation delays in 1996 due mainly to a change in institutional responsibility and staff. The institution responsible for regional development and cross-border cooperation up to October 1995, the Centre for Strategic Studies, was replaced by a new Office for the Strategy Development of Society, Science & Technology of Slovakia.

The performance of the Phare Programme, as measured in contracting and disbursement rates, has slowly but steadily improved. By the end of 1996, the contracting rate of the 1990-1994 programmes had reached a rate of over 80 per cent. The contracting rate of the 1995 programmes reached almost 50 per cent of the overall allocation by the end of 1996.

With a view to rationalising and streamlining the implementation of Phare assistance, preparatory work has been undertaken to set up a Central Financial and Procurement Unit during 1997 to administer the Phare programme in Slovakia. This will allow the development of effective financial management ensuring appropriate tendering and accounting procedures to speed up Phare implementation.

SME development

Since 1991 the Phare programme has supported the SME sector with a total amount of ECU 23.4 million of which ECU 22 million have been fully contracted. This support has focused on a range of activities including policy research, advisory support to SMEs, institution building and financial support to SMEs.

Policy and research worth ECU 700,000 has focused on studies, international conferences, and research which are used as a basis for the Ministry of Economy to develop a strategy and policy towards SMEs.

Information and counselling totalling ECU 5.7 million has supported the establishment of a network of Business Innovation Centres and Regional Advisory and Information Centres which provide a range of advisory services directly to SMEs. In addition, Phare supports the National Agency for Development of SMEs which has overall responsibility for promoting SMEs in Slovakia by co-financing its operational costs and providing technical assistance (training, expertise and equipment).

Phare has also initiated a number of different financial instruments worth a total of ECU 17 million to support SMEs:

Guarantee Scheme	ECU 3 million
Small loan scheme	ECU 1 million
Support loan	ECU 10.4 million
Seed Capital	ECU 1.3 million
Micro Credit	ECU 300,000
Technical Assistance	ECU 1 million

The SME programme overall has provided a catalyst to stimulating the growth of SMEs in Slovakia and developing institutions to service SMEs. Since 1991, the number of SMEs has grown from 201,470 in 1991 to 298,363 in 1995; they now account for no less than 35 per cent of gross output in the industrial sector.

In particular, the subsidised loan scheme which combines a unique blend of Phare, government and commercial funding, has provided much-needed capital for SMEs to expand their operations. The loan scheme has provided up to 250 loans averaging ECU 60 000 to enterprises employing on average 45 people. The present default rate is less than 1 per cent.

Slovenia

Year in review

On the economic front, activity began to recover after the initial decline which had begun in the second half of 1995. However, for the first time since 1993, there was a decline in exports in 1996 of around 5 per cent, while industrial production increased by 1 per cent. This helped annual inflation to fall to 9.7 per cent from 12.1 per cent in 1995. In 1996, the rate of unemployment fell to 8 per cent according to international measures. Since independence, macroeconomic stability has been maintained through tight monetary policies, with budgets in surplus or low deficits. Preliminary figures for 1996 indicate a small budget deficit of 0.2 per cent of GDP.

At the microeconomic level, the privatisation process based on a voucher scheme is nearing completion. However, medium term restructuring of key sectors of the economy, including industry and the financial sector still has to be carried through. Foreign investment flows have been relatively low.

Slovenia and the European Union signed the Europe Agreement in June 1996. The final ratification of the Agreement by all Member States is expected during 1998. Also in June 1996, Slovenia officially applied for full EU membership.

Phare 1996 Programme in Slovenia

In the context of the pre-accession strategy, there has been a general reorientation of Phare assistance in Slovenia towards preparation of its future integration into the EU. In March 1996, the European Commission agreed a Multi-annual Indicative Programme with the Slovenian Government for the period 1996-1999. The Programme reflects the country's priorities as it prepares for accession and has four main objectives

- coordination and monitoring of the Slovenian Government's pre-accession strategy
- adoption of the 'acquis communautaire'
- support for continued economic and social reforms
- infrastructure integration.

The Multi-annual Indicative Programme foresees an overall allocation of ECU 100 million which is to be distributed both to the Phare national budget (ECU 76 million) and the cross-border programmes with Austria and Italy (ECU 24 million).

The Country Operational Programme for 1996 set out the concrete measures that will ensure the fulfilment of the objectives set out in the Multi-annual Indicative Programme.

The **pre-accession strategy programme** (ECU 2.85 million) provides financing for additional local staff and long-term technical assistance that focuses on developing institutional expertise in the coordination and monitoring of projects. Practical management tools are being introduced, such as the European integration technical support unit and a translation unit at the Ministry of Foreign Affairs. The 1996 programme was also drawn up to help design and launch the National Plan for Accession, while a national awareness campaign will enable the population to measure the progress towards accession.

The programme to support the **adoption of the 'acquis communautaire'** was allocated ECU 5.4 million. The Office for Legislation will act in close cooperation with the Ministry of Foreign Affairs in the implementation of the project which provides legal and management expertise to the National Plan for Approximation. The reform of public administration will prove a particularly complex undertaking because of the scale of the changes necessary and the need to include many different ministries. Key reforms, such as a new Civil Service Act, are required.

The 1996 programme to **promote the sustainability of socio-economic developments and strengthen the competitiveness of the enterprise sector** will focus on three main areas:

- support to public finance and financial sector reform (ECU 3.1 million)
- support to enterprise sector development (ECU 3.1 million)
- support to human resources and social development (ECU 2 million).

The programmes supporting **intra-European networks and infrastructure integration** are a response to the relatively scarce financial resources available. The 1996 programme covers the priority needs in technical assistance of the Ministry of Transport and Communication and will focus on the design of the national transport policy. In the pre-accession context, the broader goal is to prepare institutions, organisations and infrastructure for eventual EU membership. Phare assistance in the transport sector will therefore be oriented towards three specific objectives: assistance for the elaboration of the national transport policy; approximation of legislation, regulations and standards; restructuring the sector to improve compatibility with European norms.

Finally, the **cross-border cooperation programme** with **Italy** for the period 1995-1999 concentrates on improvement in transport and cross-border infrastructure (18 per cent), economic development in border regions (33 per cent), environment protection (30 per cent), human resources development and networking (10 per cent), cultural cooperation (4 per cent) and programme management (5 per cent). With **Austria** the priorities are economic development (40 per cent), infrastructure and transport (25 per cent), environment (26 per cent), human resources development (3 per cent) and technical assistance (6 per cent).

Phare achievements

The concentration of effort and funding has been on restructuring the productive sector by assisting in the **privatisation and enterprise restructuring** process and the rehabilitation of the financial sector. ECU 69 million have been allocated over this period in the process of economic transformation. Substantial amounts were also allocated to the Tempus Programme which facilitated the Slovenian research, science and technology to intensify cooperation with EU universities. This is important for a small open society in which overall economic growth is export-led and which has its comparative advantage in low labour cost high-tech production lines.

Phare played a significant role in supporting **private sector development**, including the privatisation process, investment and export promotion and restructuring. This process continued in 1996.

Phare allocations for **SME development** have provided support to small and medium-sized companies in the regions; technical assistance to the Ministry to support the setting up of guarantee funds for SMEs; a regional development project in the Zasavje region, including cooperation between the five main municipalities in the area. Activities have now been initiated to develop SMEs in the field of tourism. A pilot regional development project in the area of Maribor, encompassing assistance to the Maribor Regional Development Agency and to the Maribor Chamber of Economy, is ongoing.

Phare supported the organisation of tax reform which allowed the Slovene Government in March 1996 to create a unified tax administration as part of the Ministry of Finance. A new bank payment system is being supported as well as the adoption and introduction in January 1996 of a customs code compatible with that of the European Union.

Privatisation programme

In the context of the above-mentioned support to the privatisation process, Phare provided assistance in different areas, including

- **Assistance to the National Privatisation Agency.** Initially, assistance was aimed at the search for foreign investors. However, in a move which reflected the Government's preference for voucher-based privatisation, the accent was then placed on the identification and assessment of the 1,500 firms covered by the Government's voucher scheme. This was a major task given the uncertainty of company registers and existing information on these firms.
- **Public awareness campaign,** which proved invaluable given that the voucher scheme involved a large part of the Slovenian public. This was followed by a shareholder education campaign in which a series of nine television programmes explained their rights and obligations. The campaign also established a telephone information service, which dealt with over 400 calls a day, and a monthly newsletter available to 640,000 readers. The newsletter is now self-financing and provides a useful source of information to the public on stock market developments and privatisation. The results of opinion polls and the population's increased use of privatisation vouchers gave an accurate measure of the value of the awareness campaign.

In the **restructuring** process, Phare has also given support by

- helping define policy through sector studies which have been the basis for concrete proposals used by the Government industrial development agency (SKLAD)
- financing, with the EBRD, a Turn-Around Management programme which assisted companies to increase efficiency and ensure viability in a competitive market system
- training local management consultants and tourist operators
- promoting local development initiatives in troubled mining and industrial areas most affected by the restructuring process.

Phare financed a number of sector studies (wood, steel, textile, leather, chemical, paper, machine tool) that provided a useful measure of current practice and performance in relation to western standards. The studies became a basis for policy formulation in those sectors and were used by the Government in November 1996 in its national strategy for industrial development.

III Statistical overview

In this chapter, the activity of the Phare Programme, in terms of funds committed, is broken down by country and sector.

The majority of Phare programmes are of an integrated nature. i.e. they address various complementary sectors or functions. This represents a specific difficulty when introducing sector classifications. Where the programmes are of a highly mixed nature (as was the case with General Technical Facilities, in the early years), they have been included under 'Other' programmes. In the other cases, the sector classification has been carried out according to the major sector included in the programme. While this does not always reflect the true budgetary importance of each individual sector (e.g. environment is underestimated in this classification, as explained earlier in this report), it is the best alternative available for comprehensive time series.

The funds allocated by country are those committed under specific national programmes. They underestimate the support received by an individual country as Phare addresses the needs of the various partner countries via horizontal and multi-country programmes as well.

Albania

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	1.2	4.6	0	8.8	14.6
Agricultural restructuring	15	10	5	0	1.7	31.7
Civil society and democratisation	0	0	0	0	0	0
Critical aid	60	10	7	0	0	77
Education, training and research	1.2	2.5	2.4	3.5	4	13.6
Environment and nuclear safety	0	3.3	0	0	1.5	4.8
Infrastructure (energy, transport, telecommunications)	4.4	0	23	34	37	98.4
Private sector, financial sector, integrated regional measures	35	42	0	43.5	0	120.5
Social development, employment and public health	0	6	7	0	0	13
Other (Multidisciplinary, general technical assistance, etc.)	4.4	0	0	7	0	11.4
Total	120	75	49	88	53	385

Bosnia and Herzegovina

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	0	0	9	9
Agricultural restructuring	0	0	0	0	0	0
Civil society and democratisation	0	0	0	0	0	0
Critical aid	37.3	0	0	0	125	162.3
Education, training and research	0	0	0	0	1	1
Environment and nuclear safety	0	0	0	0	0	0
Infrastructure (energy, transport, telecommunications)	0	0	0	0	0	0
Private sector, financial sector, integrated regional measures	0	0	0	0	3	3
Social development, employment and public health	0	0	0	0	0	0
Other (Multidisciplinary, general technical assistance, etc.)	0	0	0	0	2	2
Total	37.3	0	0	0	140	177.3

Bulgaria

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	16	1.2	2	2	21.2
Agricultural restructuring	51	0	0	5	0	56
Civil society and democratisation	0	0	1.2	0	1.5	2.7
Critical aid	25	0	0	0	0	25
Education, training and research	13	17.5	12	21	12	75.5
Environment and nuclear safety	38.3	10.8	5	7	6	67.1
Infrastructure (energy, transport, telecommunications)	26	13.9	62.6	48	40	190.5
Private sector, financial sector, integrated regional measures	52.5	11	3	0	1	67.5
Social development, employment and public health	17.5	14.5	0	0	0	32
Other (Multidisciplinary, general technical assistance, etc.)	0	1.5	0	0	0	1.5
Total	223.3	85.2	85	83	62.5	539

Czech Republic

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	11	7	0	18
Agricultural restructuring	0	0	4.5	0	0	4.5
Civil society and democratisation	0	0	0	0	0	0
Critical aid	0	0	0	0	0	0
Education, training and research	0	8	5.5	8	7.5	29
Environment and nuclear safety	0	0	0	0	5	5
Infrastructure (energy, transport, telecommunications)	0	9	25	91	34	159
Private sector, financial sector, integrated regional measures	0	27	0	1	7.5	35.5
Social development, employment and public health	0	8	14	2	0	24
Other (Multidisciplinary, general technical assistance, etc.)	0	8	0	1	0	9
Total	0	60	60	110	54	284

Estonia

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	0	2.8	25.3	28.1
Agricultural restructuring	0	0	0	0	3	3
Civil society and democratisation	0	0	0	0	0	0
Critical aid	0	0	0	0	0	0
Education, training and research	1	1.5	4.5	4.2	4	15.2
Environment and nuclear safety	0	0	2.5	0	1	3.5
Infrastructure (energy, transport, telecommunications)	0	0	6	5	18.3	29.3
Private sector, financial sector, integrated regional measures	0	0	8	9.1	9	26.1
Social development, employment and public health	0	0	0	2.9	0	2.9
Other (Multidisciplinary, general technical assistance, etc.)	9	10.5	1.5	0	1.2	22.2
Total	10	12	22.5	24	61.8	130.3

FYROM

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	2	0	4.1	6.1
Agricultural restructuring	0	0	0	0	3.9	3.9
Civil society and democratisation	0	0	0	0	0	0
Critical aid	10	25	23	25	0	83
Education, training and research	0	0	0	0	2	2
Environment and nuclear safety	0	0	0	0	0	0
Infrastructure (energy, transport, telecommunications)	0	0	0	0	10	10
Private sector, financial sector, integrated regional measures	0	0	0	0	4.8	4.8
Social development, employment and public health	0	0	0	0	0	0
Other (Multidisciplinary, general technical assistance, etc.)	0	0	0	0	0.2	0.2
Total	10	25	25	25	25	110

Hungary

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	22.5	1.5	0	3	18.5	45.5
Agricultural restructuring	38	30.5	0	10	0	78.5
Civil society and democratisation	0	0	0	0	0	0
Critical aid	0	0	0	0	0	0
Education, training and research	45.5	26	24	16	10	121.5
Environment and nuclear safety	47	0	15.5	12	0	74.5
Infrastructure (energy, transport, telecommunications)	8.3	0	29	36	26	99.3
Private sector, financial sector, integrated regional measures	111.5	31	16.5	11	46.5	216.5
Social development, employment and public health	29	10	0	2	0	41
Other (Multidisciplinary, general technical assistance, etc.)	5	0	0	2	0	7
Total	306.8	99	85	92	101	683.8

Latvia

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	0	1.3	16	17.3
Agricultural restructuring	0	0	0	0	0.8	0.8
Civil society and democratisation	0	0	0	0	0	0
Critical aid	0	0	0	0	0	0
Education, training and research	1.5	2	5	2	3.6	14.1
Environment and nuclear safety	0	0	5.5	0	1.1	6.6
Infrastructure (energy, transport, telecommunications)	0	0	0	9.2	7.1	16.3
Private sector, financial sector, integrated regional measures	0	0	14.5	10.8	6.1	31.4
Social development, employment and public health	0	0	0	9.2	2.4	11.6
Other (Multidisciplinary, general technical assistance, etc.)	13.5	16	4.5	0	0	34
Total	15	18	29.5	32.5	37	132

Lithuania

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	0	5.5	12.8	18.3
Agricultural restructuring	0	0	0	0	4.5	4.5
Civil society and democratisation	0	0	0	0	0.5	0.5
Critical aid	0	0	0	0	0	0
Education, training and research	1.5	2.5	6	3.5	5.7	19.2
Environment and nuclear safety	0	0	1	0	2.5	3.5
Infrastructure (energy, transport, telecommunications)	0	0	16.5	19	16.6	52.1
Private sector, financial sector, integrated regional measures	9.5	0	14.5	9.6	7.7	41.3
Social development, employment and public health	0	0	0	4.4	2.8	7.2
Other (Multidisciplinary, general technical assistance, etc.)	9	22.5	1	0	0	32.5
Total	20	25	39	42	53	179

Poland

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	26.7	32	21.5	2	0	82.2
Agricultural restructuring	135	30	2.5	13	14	194.5
Civil society and democratisation	0	0	0	0	0	0
Critical aid	0	0	0	0	0	0
Education, training and research	59.3	45	39	37	30	210.3
Environment and nuclear safety	75	0	12	22	5	114
Infrastructure (energy, transport, telecommunications)	42.4	63	93.8	91	117	407.2
Private sector, financial sector, integrated regional measures	191.2	28	31	9	37	296.2
Social development, employment and public health	45.2	0	9	0	0	54.2
Other (Multidisciplinary, general technical assistance, etc.)	3	27	0	0	0	30
Total	577.8	225	208.8	174	203	1388.5

Romania

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	10	9.6	0	0	19.6
Agricultural restructuring	66	5	0	10	0	81
Civil society and democratisation	0	0	5	0	0	5
Critical aid	71.8	9.9	0	0	0	81.7
Education, training and research	23	18	37	18	23	119
Environment and nuclear safety	5	0	0	0	8.4	13.4
Infrastructure (energy, transport, telecommunications)	9	0	25	38	75.5	147.5
Private sector, financial sector, integrated regional measures	45	70	23.4	0	8	146.4
Social development, employment and public health	40	0	0	0	0	40
Other (Multidisciplinary, general technical assistance, etc.)	42	27	0	0	3.5	72.5
Total	301.8	139.9	100	66	118.4	726.1

Slovakia

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	4	5	0	9
Agricultural restructuring	0	3	5	2.6	0	10.6
Civil society and democratisation	0	0	0	0.5	0	0.5
Critical aid	0	0	0	0	0	0
Education, training and research	0	5	9	5	4.5	23.5
Environment and nuclear safety	0	0	0	1	0	1
Infrastructure (energy, transport, telecommunications)	0	5	6.5	8.2	0	19.7
Private sector, financial sector, integrated regional measures	0	19	5	18.7	0	42.7
Social development, employment and public health	0	3	5.5	4.4	0	12.9
Other (Multidisciplinary, general technical assistance, etc.)	0	5	5	0.6	0	10.6
Total	0	40	40	46	4.5	130.5

Slovenia

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	0	0	8.3	8.3
Agricultural restructuring	0	0	0	0	0	0
Civil society and democratisation	0	0	0	0	0	0
Critical aid	0	0	0	0	0	0
Education, training and research	2.3	3.5	5.5	2.6	1.3	15.2
Environment and nuclear safety	0	0	0	0	0	0
Infrastructure (energy, transport, telecommunications)	0	0	6	7.4	3.9	17.3
Private sector, financial sector, integrated regional measures	0	0	12.5	3	6.6	22.1
Social development, employment and public health	0	0	0	4.4	2	6.4
Other (Multidisciplinary, general technical assistance, etc.)	6.7	7.5	0	7.6	0	21.8
Total	9	11	24	25	22	91

Multi-country programmes

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	12.5	10	25	0	22	69.5
Agricultural restructuring	0	0	0	0	0	0
Civil society and democratisation	0	0	0	0	0	0
Critical aid	51	0	0	0	0	51
Education, training and research	73.4	20.8	13	8.5	5	120.7
Environment and nuclear safety	69.5	20	13	20	10	132.5
Infrastructure (energy, transport, telecommunications)	35	24	31	70.5	39	199.5
Private sector, financial sector, integrated regional measures	33.8	37.3	4	5	49	129.1
Social development, employment and public health	0	0	0	0	0	0
Other (Multidisciplinary, general technical assistance, etc.)	1.5	0	0	0	0.5	2
Total	276.7	112	86	104	125.5	704.2

Other programmes

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	7	2	32	41
Agricultural restructuring	0	0	0	0	0	0
Civil society and democratisation	5	10	10	10	21.7	56.7
Critical aid	37.7	0	0	0	0	37.7
Education, training and research	7.3	9.9	7	17.8	12.9	54.9
Environment and nuclear safety	20	0	23	20	15	78
Infrastructure (energy, transport, telecommunications)	0	0	2	0	0	2
Private sector, financial sector, integrated regional measures	0	0	21	106	0	127
Social development, employment and public health	0	0	6	20	10.5	36.5
Other (Multidisciplinary, general technical assistance, etc.)	73.8	54.4	43.1	67.4	70.1	308.8
Total	143.8	74.3	119.1	243.2	162.2	742.6

Czechoslovakia

Funds allocated by sector 1990-1996 (ECU million)	1990-1992	1993	1994	1995	1996	Total
Admin. reform, public institutions, approximation of laws, consumer protection	0	0	0	0	0	0
Agricultural restructuring	0	0	0	0	0	0
Civil society and democratisation	4	0	0	0	0	4
Critical aid	0	0	0	0	0	0
Education, training and research	38	0	0	0	0	38
Environment and nuclear safety	35	0	0	0	0	35
Infrastructure (energy, transport, telecommunications)	21	0	0	0	0	21
Private sector, financial sector, integrated regional measures	70	0	0	0	0	70
Social development, employment and public health	15	0	0	0	0	15
Other (Multidisciplinary, general technical assistance, etc.)	50	0	0	0	0	50
Total	233	0	0	0	0	233

**Admin. reform, public institutions,
approximation of laws, consumer
protection**

**Funds allocated by country 1990-1996
(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	0	1.2	4.6	0	8.8	14.6
Bosnia and Herzegovina	0	0	0	0	9	9
Bulgaria	0	16	1.2	2	2	21.2
Czech Republic	0	0	11	7	0	18
Estonia	0	0	0	2.8	25.3	28.1
FYROM	0	0	2	0	4.1	6.1
Hungary	22.5	1.5	0	3	18.5	45.5
Latvia	0	0	0	1.3	16	17.3
Lithuania	0	0	0	5.5	12.8	18.3
Poland	26.7	32	21.5	2	0	82.2
Romania	0	10	9.6	0	0	19.6
Slovakia	0	0	4	5	0	9
Slovenia	0	0	0	0	8.3	8.3
Multi-country programmes	12.5	10	25	0	22	69.5
Other	0	0	7	2	32	41
Total	61.6	70.7	85.9	30.6	125.2	407.7

Agricultural restructuring**Funds allocated by country 1990-1996
(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	15	10	5	0	1.7	31.7
Bosnia and Herzegovina	0	0	0	0	0	0
Bulgaria	51	0	0	5	0	56
Czech Republic	0	0	4.5	0	0	4.5
Estonia	0	0	0	0	3	3
FYROM	0	0	0	0	3.9	3.9
Hungary	38	30.5	0	10	0	78.5
Latvia	0	0	0	0	0.8	0.8
Lithuania	0	0	0	0	4.5	4.5
Poland	135	30	2.5	13	14	194.5
Romania	66	5	0	10	0	81
Slovakia	0	3	5	2.6	0	10.6
Slovenia	0	0	0	0	0	0
Multi-country programmes	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	305	78.5	17	40.6	27.9	469

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Civil society and democratisation**Funds allocated by country 1990-1996
(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	0	0	0	0	0	0
Bosnia and Herzegovina	0	0	0	0	0	0
Bulgaria	0	0	1.2	0	1.5	2.7
Czech Republic	0	0	0	0	0	0
Estonia	0	0	0	0	0	0
FYROM	0	0	0	0	0	0
Hungary	0	0	0	0	0	0
Latvia	0	0	0	0	0	0
Lithuania	0	0	0	0	0.5	0.5
Poland	0	0	0	0	0	0
Romania	0	0	5	0	0	5
Slovakia	0	0	0	0.5	0	0.5
Slovenia	0	0	0	0	0	0
Multi-country programmes	0	0	0	0	0	0
Other	5	10	10	10	21.7	56.7
Total	5	10	16.2	10.5	23.7	65.4

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Critical aid**Funds allocated by country 1990-1996
(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	60	10	7	0	0	77
Bosnia and Herzegovina	37.3	0	0	0	125	162.3
Bulgaria	25	0	0	0	0	25
Czech Republic	0	0	0	0	0	0
Estonia	0	0	0	0	0	0
FYROM	10	25	23	25	0	83
Hungary	0	0	0	0	0	0
Latvia	0	0	0	0	0	0
Lithuania	0	0	0	0	0	0
Poland	0	0	0	0	0	0
Romania	71.8	9.9	0	0	0	81.7
Slovakia	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0
Multi-country programmes	51	0	0	0	0	51
Other	37.7	0	0	0	0	37.7
Total	292.8	44.9	30	25	125	517.7

Education, training and research**Funds allocated by country 1990-1996****(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	1.2	2.5	2.4	3.5	4	13.6
Bosnia and Herzegovina	0	0	0	0	1	1
Bulgaria	13	17.5	12	21	12	75.5
Czech Republic	0	8	5.5	8	7.5	29
Estonia	1	1.5	4.5	4.2	4	15.2
FYROM	0	0	0	0	2	2
Hungary	45.5	26	24	16	10	121.5
Latvia	1.5	2	5	2	3.6	14.1
Lithuania	1.5	2.5	6	3.5	5.7	19.2
Poland	59.3	45	39	37	30	210.3
Romania	23	18	37	18	23	119
Slovakia	0	5	9	5	4.5	23.5
Slovenia	2.3	3.5	5.5	2.6	1.3	15.2
Multi-country programmes	73.4	20.8	13	8.5	5	120.7
Other	7.3	9.9	7	17.8	12.9	54.9
Total	229	162.2	169.9	147.1	126.4	834.7

Environment and nuclear safety

Funds allocated by country 1990-1996 (ECU million)

	1990-1992	1993	1994	1995	1996	Total
Albania	0	3.3	0	0	1.5	4.8
Bosnia and Herzegovina	0	0	0	0	0	0
Bulgaria	38.3	10.8	5	7	6	67.1
Czech Republic	0	0	0	0	5	5
Estonia	0	0	2.5	0	1	3.5
FYROM	0	0	0	0	0	0
Hungary	47	0	15.5	12	0	74.5
Latvia	0	0	5.5	0	1.1	6.6
Lithuania	0	0	1	0	2.5	3.5
Poland	75	0	12	22	5	114
Romania	5	0	0	0	8.4	13.4
Slovakia	0	0	0	1	0	1
Slovenia	0	0	0	0	0	0
Multi-country programmes	69.5	20	13	20	10	132.5
Other	20	0	23	20	15	78
Total	254.8	34.1	77.5	82	55.5	503.9

**Infrastructure (energy, transport,
telecommunications)**

**Funds allocated by country 1990-1996
(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	4.4	0	23	34	37	98.4
Bosnia and Herzegovina	0	0	0	0	0	0
Bulgaria	26	13.9	62.6	48	40	190.5
Czech Republic	0	9	25	91	34	159
Estonia	0	0	6	5	18.3	29.3
FYROM	0	0	0	0	10	10
Hungary	8.3	0	29	38	26	99.3
Latvia	0	0	0	9.2	7.1	16.3
Lithuania	0	0	16.5	19	16.6	52.1
Poland	42.4	63	93.8	91	117	407.2
Romania	9	0	25	38	75.5	147.5
Slovakia	0	5	6.5	8.2	0	19.7
Slovenia	0	0	6	7.4	3.9	17.3
Multi-country programmes	35	24	31	70.5	39	199.5
Other	0	0	2	0	0	2
Total	125.1	114.9	326.4	457.3	424.4	1448

**Private sector, financial sector,
integrated regional measures**

**Funds allocated by country 1990-1996
(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	35	42	0	43.5	0	120.5
Bosnia and Herzegovina	0	0	0	0	3	3
Bulgaria	52.5	11	3	0	1	67.5
Czech Republic	0	27	0	1	7.5	35.5
Estonia	0	0	8	9.1	9	26.1
FYROM	0	0	0	0	4.8	4.8
Hungary	111.5	31	16.5	11	46.5	216.5
Latvia	0	0	14.5	10.8	6.1	31.4
Lithuania	9.5	0	14.5	9.6	7.7	41.3
Poland	191.2	28	31	9	37	296.2
Romania	45	70	23.4	0	8	146.4
Slovakia	0	19	5	18.7	0	42.7
Slovenia	0	0	12.5	3	6.6	22.1
Multi-country programmes	33.8	37.3	4	5	49	129.1
Other	0	0	21	106	0	127
Total	478.5	265.3	153.4	226.7	186.2	1310

Social development, employment and public health

**Funds allocated by country 1990-1996
(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	0	6	7	0	0	13
Bosnia and Herzegovina	0	0	0	0	0	0
Bulgaria	17.5	14.5	0	0	0	32
Czech Republic	0	8	14	2	0	24
Estonia	0	0	0	2.9	0	2.9
FYROM	0	0	0	0	0	0
Hungary	29	10	0	2	0	41
Latvia	0	0	0	9.2	2.4	11.6
Lithuania	0	0	0	4.4	2.8	7.2
Poland	45.2	0	9	0	0	54.2
Romania	40	0	0	0	0	40
Slovakia	0	3	5.5	4.4	0	12.9
Slovenia	0	0	0	4.4	2	6.4
Multi-country programmes	0	0	0	0	0	0
Other	0	0	6	20	10.5	36.5
Total	131.7	41.5	41.5	49.3	17.7	281.7

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Other sectors**Funds allocated by country 1990-1996****(ECU million)**

	1990-1992	1993	1994	1995	1996	Total
Albania	4.4	0	0	7	0	11.4
Bosnia and Herzegovina	0	0	0	0	2	2
Bulgaria	0	1.5	0	0	0	1.5
Czech Republic	0	8	0	1	0	9
Estonia	9	10.5	1.5	0	1.2	22.2
FYROM	0	0	0	0	0.2	0.2
Hungary	5	0	0	2	0	7
Latvia	13.5	16	4.5	0	0	34
Lithuania	9	22.5	1	0	0	32.5
Poland	3	27	0	0	0	30
Romania	42	27	0	0	3.5	72.5
Slovakia	0	5	5	0.6	0	10.6
Slovenia	6.7	7.5	0	7.6	0	21.8
Multi-country programmes	1.5	0	0	0	0.5	2
Other	73.8	54.4	43.1	67.4	70.1	308.8
Total	167.9	179.4	55.1	85.6	77.5	565.5