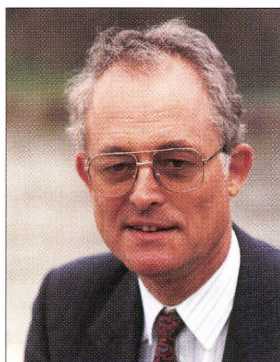


The Commission delivers on its promises

The break-up of the former Yugoslavia and the sanctions imposed by the United Nations on Serbia and Montenegro have caused major disruptions in the Balkans. The most noticeable effect outside the combat zones has been on the flow of goods and services in this region.



Horst Krenzler,
Director-General for
External Economic Relations

The international community recognised that massive support was required to bring the flow of trade and transit in this area back to a normal level. The 31 January meeting of senior officials of the Conference on Security and Cooperation in Europe was convened to address this question.

During these discussions, the European Commission promised to produce and implement a short-term action plan aimed at developing the transport infrastructure for the Balkan links. In addition, at the instigation of the Commission, a Balkan Customs Corridor was created - where seven countries in the region agreed to introduce measures at selected border crossings to speed up international transit.

Today, less than nine months after our promise, the first activities are under way. In January, we pledged ECU 80-100 million to this task. But the Phare Programme has increased its funding, making some ECU 115 million available.

We are particularly pleased that in this critical situation, the initiative was rapidly approved and is now being implemented. This is especially significant given the time-consuming administrative constraints that can delay the progress of this type of multilateral funding.

Obviously, the activities in progress today are only a start and much more substantial support will be needed in the years to come. The Phare Programme will be a key player in unlocking funds for important projects implemented by other donors - notably the European Investment Bank - through studies, capital grants and, increasingly, through direct investment.

Through the Copenhagen co-financing scheme, which opens the door for Phare to fund major infrastructure projects; or through the cross border cooperation facility, which is becoming a powerful catalyst for further European integration, Phare is set to make good on its promises.

Horst Krenzler

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Country report: Lithuania

Lithuania's transition to a market economy is being driven by its population's demands for rapid and extensive privatisation. The Lithuanian government is achieving this goal with support from the Phare Programme. Today's priority is to push the transformation process forwards through restructuring the country's key economic sectors.



(continued on page 6)

Cross-border cooperation

Bottlenecks in the Balkans

Customs corridors and interregional initiatives

Slovenia, Hungary, Romania, Bulgaria, Greece, Albania, FYROM and Turkey are involved in the two Balkan customs corridors. With one or two exceptions, their economies are undergoing severe shifts and a decline in activity. Even so, as their economies are opening up, and gradual recoveries forecast for mid-1995, the freight lorries are rolling again. Add to this the disruption in the former Yugoslavia, which was the main axis for Balkan transit until 1990, and it is easy to see why there is a problem.

To quote from the short-term action plan being implemented with Phare funding: "together with the diversion of traffic due to the Yugoslav war and the resultant embargo on Serbia, the changed economic conditions in the region have created bottlenecks. They result from a combination of a sharp increase in traffic and the outdated border posts with their outmoded customs and immigration procedures, inadequate infrastructure and lack of facilities and equipment."



Ensuring smooth trade with the Balkans: the new north-south and east-west customs corridors.

Portrait of a bottleneck Nagylak (Hungary) - Nadlac (Romania)

Nagylak-Nadlac is on Route 43, some 17 km east of the Hungarian town of Mako. Average traffic is around 180 freight vehicles a day in each direction, peaking at around 250-280 vehicles a day. Traffic has grown by 94 per cent since 1991, with passenger vehicles averaging 800 a day in 1993.

Waiting times for freight average 11 hours, which can rise to 70 hours at peak times, with queues stretching up to five km. Even where some 70 per cent of the lorries come equipped with TIR carnets - with which clearance is claimed to take five minutes - there are visa problems for Turkish drivers. And processing export traffic from Hungary is hardly a priority when import queues on the Romanian side are so long.

The roadway between the two posts is two-lane. The lorries park on the hard shoulder, wreaking havoc on the traffic when a priority cargo, such as livestock (and 10 per cent of the traffic is livestock) travels down the centre only to meet oncoming traffic.

So what needs to be done? Firstly, training and provision of know-how to the customs staff (43 on the Hungarian side and 52 on the Romanian) to enable them to comply with the TIR rules agreed at Thessaloniki in March this year. Then, there are equipment needs: communications equipment in particular.



Goods traffic at the Hungary-Romania Nagylak-Nadlac border crossing.

Finally, the infrastructure needs to be upgraded - parking areas for "problem" vehicles, transit lanes for TIR carnet holders, accommodation for officials and possibly extra lines for lorry clearance. The report on Nagylak-Nadlac estimates that the average 11 hours delay on the border is costing ECU 70,000 a day in vehicle time costs. The payback time for the measures proposed would be 25 days.

Eleven border crossings were examined in preparing the short-term action plan, from Nickelsdorf in Austria to Kapikule in Turkey. Eleven bottlenecks to be ironed out; eleven opportunities to increase trade flows, prosperity and cooperation.

Our integration catalyst

Phare cross-border programme brings Europe's east closer to the west

Many people and circumstances are said to be responsible for creating today's new European economy. But no single catalyst has been more influential over the decades than the regional trade and cooperation which is flourishing within the European Union.

Today, this regional cooperation wave is set to bring Phare partner countries closer to the European Union. The catalyst behind this new east-west link is the new Phare cross-border cooperation programme.

Following a European Parliament initiative in 1993, Phare funds have been directed at the cross-border development of regions linking the European Union and adjacent Phare partner countries.

Just as "Interreg" and other European Union regional programmes of past years have been responsible for integrating closely all Member States, the Phare cross-border programme is joining forces with other European Commission initiatives to improve cross-border cooperation between the European Union and Phare partner countries in many areas.

The actions called for by the cross-border programme include alleviating administrative and institutional obstacles to the free flow of goods and people across the border; improving border area infrastructures such as water, gas, electricity and telecommunications; addressing waste and environmental management issues; developing tourism; developing agricultural and rural cooperation; sharing health resources; upgrading energy, transport and telecommunications in order to improve trans-European transport links and improving media links across these borders. Another cross-border initiative aims to improve business links and investment aid for the transfer of technology and expertise; for example, helping small and medium enterprises acquire better marketing skills.

The Phare cross-border programme is significant for two reasons. Firstly, because it was proposed directly by the European Parliament, which recognised that effective cross-border links with the European Union are vital to the economic and political development of central and eastern Europe.

(continued on page 4)

■ Special report: Cross-border cooperation



Phare cross-border funding at the Polish-German border area will speed customs processing and transit times. Pictured above: an 8km queue in Germany leading to the Polish border crossing in Sweicko.

Secondly, and more importantly, this initiative uses European Union funding for inter-regional development outside the Union. According to Programme Coordinator, Manos Castriakakis: "The Commission has formally allocated funds for structural initiatives in neighbouring non-European Union countries. In 1994, the programme is addressing "hard" infrastructure projects such as road building and the improvement of the transport infrastructure. From 1995 onwards, the scope of this funding will be more diverse."

The Commission encourages co-financing for all cross-border projects. Phare cross-border funding is thus complemented within the European Union by Interreg funds. Interreg covers regional development within the European Union and projects which are on the European Union side of border areas. Phare cross-border funds are being spent exclusively in border areas in adjacent central and eastern European countries.

For more important projects, where European Union grants alone are not sufficient, the countries involved are encouraged to provide further funding to ensure that the project progresses on the European Union side. Some examples of these bigger projects are: the development of the Albanian east-west and north-south road axes; and joint projects on the Bavaria-Czech Republic border crossing.

Another priority for all cross-border projects is to promote cooperation and project management at the local level - through regions, municipalities, or local authorities. Castriakakis says that special attention will be given to this type of local cooperation effort. "The ideal cross-border project is one which has a shared management and administrative structure and favours development of a wider region on either side of the border."

In 1992, the European Parliament called for ECU 15 million from the 1993 Phare budget to be allocated for cross-border cooperation projects with the Phare partner countries.

Projects worth ECU 14 million were soon identified and work is now progressing. Some examples are:

- improving Polish-German, Czech-German and Albanian-Greek border crossings
- solving environmental problems in Bohemia
- river pollution clean-up in Bulgaria.

Building on this work, the European Parliament called for a further ECU 150 million to be allocated in 1994 for continued cross-border development in the Phare countries.

Some cross-border projects currently running under the 1994 Phare budget are:

■ Albania

The aim of the cross-border effort in Albania is to improve road infrastructures and customs facilities which will support the development of trade links with Greece and Italy. The project includes the modernising of infrastructure and access roads at several border crossing points. Phare is contributing ECU 20 million to this project

■ Czech-German border area

Activities in this region include the improvement of layout and facilities at border crossings and work on eliminating the air pollution moving from the Czech Republic border area to other European countries. The environmental projects include installation of filters to control lignite emissions, sewage treatment and other related activities. Phare earmarked ECU 25 million to this initiative.

■ Poland-Germany border area

This programme aims to bring the infrastructure of the Polish-German border area to a common level following heavy investments on the German side in recent years. Construction of freight terminals, border bridges and new border crossings are planned. Education and training are also programmed, including the construction of a university complex in the Polish border area and the provision of German-Polish history and culture studies and European studies. ECU 55 million are allocated to this project.

■ Slovenia

In Slovenia, cross-border funds are focused on studies and proposals to solve flooding problems in the Timava area; several environmental improvement projects (sewage treatment, drainage, creation of a park) and the improvement of the infrastructure at border crossings with Italy. Phare made ECU 4 million available to fund these projects.

▣ Baltic States

The cross-border cooperation programme between Denmark (Bornholm) and Lithuania will focus on the development of the Klaipeda roll-on-roll-off port project. For Latvia and Estonia, emphasis will be put on environmental projects and on some small "soft" projects. The Baltic States will share ECU 10 million to fund these initiatives.

▣ Programme for interregional cooperation

Some ECU 2 million have been earmarked to complement the European Cities Cooperation Scheme (ECOS)-Ouverture funds available for cooperation between cities and regions in all Phare partner countries and European Union cities and regions. These funds will be spent in the field of urban and regional services, environment, development of local and regional democracy, and economic development.

Cross-border dialogue

The key issues and future approaches to cross-border cooperation are defined in an open dialogue between all parties involved - the Commission, present and future Member States, the European Parliament, Phare Programme management and representatives of Phare partner countries.

At the first joint meeting on cross-border issues, partner country representatives offered their comments on types of

projects, funding and project organisation for the 1995-1999 period. Phare Programme officials are preparing discussions to be held at the upcoming cross-border meeting in October.

The aim of these discussions is to create a multi-annual programme which encourages closer links between Phare and Interreg II.

Putting regional funding in perspective

Over the years, the European Commission has created several types of funding aimed at improving regional integration in the European Union.

The importance that the Commission gives to inter-regional trade and development is illustrated by the fact that the European Regional Development Fund is one of the three EC structural funds - along with the European Social Fund and the European Agricultural Guidance and Guarantee Fund.

EC Regional Policy aims to reduce disparities between the regions of the Community by adding to national and regional funds where the need exceeds existing resources. The policy allows more people access to the benefits of the Single Market by improving the fabric of the less developed regions and by stimulating business which over time will bring equality to the living standards of all Europeans.

The Interreg I and current Interreg II programmes fund projects within the Member States. Interreg II, the programme running today, focuses on cross-border links within the European Union as a special priority.

The ECOS-Ouverture programme is another type of regional development initiative. It was created in 1990 to encourage the links between European Union cities and regions and their counterparts in central and eastern Europe.

Examples of some ECOS-Ouverture Programme projects include:

- ▣ an Italian-Hungarian joint venture for curtain manufacturing
- ▣ a British-Czech project to set up a Regional Development Agency in Moravia
- ▣ a Scottish SME which sells satellite communication equipment from Poland, Romania and Bulgaria
- ▣ an exchange of business services for members of the Krakow (Poland) and Dordrecht (Netherlands) Chambers of Commerce.

The most significant tool for cross-border development is the Phare cross-border programme. This initiative supports development in border areas in adjacent non-European Union countries. The Commission encourages European Union countries on the side of these borders to complement the projects by seeking Interreg funding, or in some cases contributing national funds to ensure completion.

The overall objective of the cross-border initiative is to bring the Phare partner countries closer to the European Union and one step closer to adhesion to the European Union.

Lithuania

Privatisation Lithuanian style

A brisk privatisation driven by a strong dose of public opinion is Lithuania's recipe for transforming its command economy into a market-based one.

Since it declared independence from the then Soviet Union in 1991, Lithuania's pace of market reform - in particular privatisation - has been, quite frankly, dizzying. All key sectors were privatised within three years.

You might call this country's progress a second "people's revolution". It is Lithuania's fervent public opinion, not constitutional decrees, that pushed its new legislators to define the privatisation policy in a curt four word statement: "as fast as possible".

These reforms are defined by the Lithuanian government, in close cooperation with funding and assistance from the World Bank, the European Bank for Reconstruction and Development and the Phare Programme.

"Lithuania's privatisation wave was quite clearly a case of public opinion push, not administrative pull", remarks a privatisation expert in Vilnius.

According to Dr Vilkas, Director of the Institute of Economics in Vilnius, Lithuania's first priority was to privatise the entire economy at all levels in one step. This approach aimed to build a base of new entrepreneurs while ensuring a clean break with the previous system.



Symbol of independence: the Litas, Lithuania's new currency, was issued by the bank of Lithuania on 25 June 1993.



While similar in some ways to the privatisation efforts in other post-communist economies, Lithuania's privatisation approach remains a very personal one. Dr Vilkas explains: "Our privatisation effort is similar to the Czech and Slovak situation because we have used a voucher scheme to privatise the entire economy. But we are different. We have privatised the entire economy in one step, whereas they applied a two-step approach".

Another area where Lithuania differs is that its privatisation has been internal, relying on few foreign investors. "Unlike countries such as Estonia and Hungary, which privatised many of their medium and large companies by selling them outright to foreign investors, most of Lithuania's companies have remained under local ownership", Vilkas says. But the new Lithuanian owners are now looking for foreign partners and investors.

The final link in the Lithuania's privatisation chain is to shape an entrepreneurial culture which will drive the newly-privatised economy forward. Vilkas says that this stage is well under way. Vilkas highlights two kinds of new entrepreneur: managers, engineers and economists working in the state system, and newcomers - such as young university graduates and scientists - looking for new opportunities. Lithuanian enterprises are looking for high-potential candidates in this pool of budding entrepreneurs.

The only sector which has not yet been totally privatised comprises the largest Lithuanian enterprises. The technical issues for these privatisations are more complex, and their resolution will take longer.



Kaunas Confectionary Factory : a Lithuania - USA joint-venture.

Examples of Lithuania's progress abound in all economic sectors. But the key facts are that 80 per cent of state enterprises, 93 per cent of housing and 70 per cent of all agricultural land are privately owned and operated today - a privatisation rate far beyond most other in central and eastern Europe.

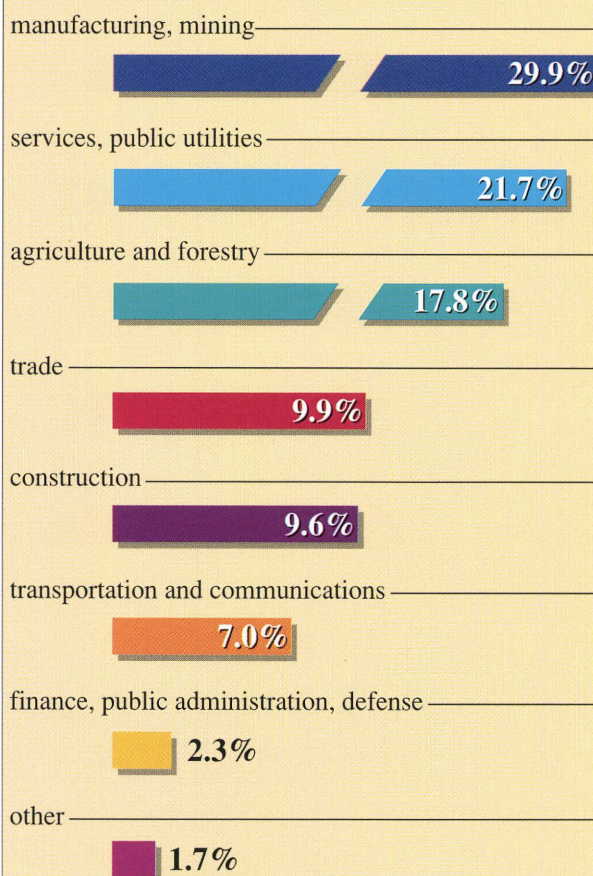
Markets ahoy!

- Retail trade. The pace of privatisation in the retail food sector has jumped from 4 to 14 per cent in one year (6 to 16 per cent for all retail businesses). Here, a new-found service attitude is pleasing customers and putting money in the bank for scores of local entrepreneurs.
- Export potential. Government investment authorities are scouting for western partners to work with strategic local industries such as consumer electronics, textiles and food processing. Each of these sectors expects to revive former markets in the east and attract new customers in the west. In addition to its request for membership in the GATT, Lithuania has a series of bilateral trade agreements with Bulgaria, China, Cuba, the Czech Republic and Hungary.

Republic of Lithuania

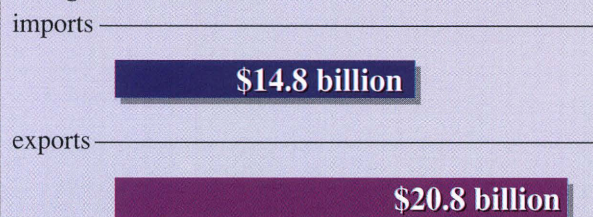
Area	65,200 km ²
Total population	3,802,000
	68.8% urban, 31.2% rural
Capital	Vilnius
	population: 596,900

Labour distribution (1991)



(Source: International Monetary Fund)

Foreign trade (1991)



(Source: International Monetary Fund)

Primary export markets are Belgium, Germany and Poland (34 per cent of exports); and Denmark, Finland, Sweden, Italy and the UK (36 per cent).

- Direct foreign investment. The wealth of direct foreign investment is flowing into the country, built on partnerships with companies such as Philip Morris and Jacobs Suchard. Today some 3,500 joint ventures and foreign capital companies are registered in Lithuania.

Country report: Lithuania

- **Banking.** The three state banks are preparing for privatisation, while some 22 commercial banks have already been established.
- **Hotels.** A community of new hotels has sprung up in Vilnius to shelter travellers from the infamous "intourist ghettos" that were standard until three years ago. Here again, the service ethic is winning business and attracting foreign investment.

But, while Lithuania's bottom-up privatisation efforts are producing a warm feeling in much of the economy, more efforts are needed in specific areas. The second wave of transformation is thus focused on restructuring - in the priority areas of foreign investment promotion, transport infrastructure, public investment and agriculture.

The restructuring effort aims to pump some life into a GDP that is still slipping (although some growth is expected in 1994). It will reform several massive state-owned industries, solve pressing environmental and industrial issues, and balance the lop-sided agricultural structure which concentrated on growing a narrow range of products for export to the former Soviet economy.

This next wave of reform is more complex and will progress more slowly than the first privatisation efforts. But the foundations laid by the Lithuanian people over the past three years ensure that their country is in good hands: those of a consuming public which spends a little more every day.

Lithuania and Phare: looking at structure

Since European Union assistance to Lithuania began in 1991, first the Tacis Programme and then the Phare Programme have provided more than ECU 51 million of support across all areas of the economy.

With privatisation largely achieved, the focus for Phare today - as defined by the economic transformation strategy of the Lithuanian government - is on various levels of economic restructuring.

Some examples of Phare support under way in Lithuania today include:

Foreign investment promotion

Since 1992, Phare has provided Lithuania with know-how to explore ways in which foreign investors might be drawn to Lithuania. The first step in this process was the establishment of the Lithuanian Investment Promotion Agency in 1993.

The agency is composed of a board of directors from the public and private sectors and has a permanent adviser from the Phare Programme on its staff.

The two major investments in local industry have been made by Philip Morris (\$30 million) and Jacobs Suchard (\$12.5 million). The 3,500 joint venture and foreign capital companies already registered are daily joined by more.

Transport infrastructure

Lithuania's strategic location as a trading crossroads between the Baltic region, western Europe and the New Independent States has placed the development of an effective transport infrastructure at the top of the list of economic priorities.

Phare helped to establish the Programme Implementation Unit which coordinates external aid to the Lithuanian Ministry of Transport. To date, the Unit has helped in two important areas: firstly, by promoting a market-oriented focus across the transport sector through the commercialisation of state enterprises (with privatisation ongoing in road haulage); and secondly, through the creation of the National Transport Development Programme to evaluate and implement investment needs for the transport sector.

Phare also provides grant financing for the reconstruction and upgrading of the port of Klaipeda, a vital trade link between the Baltic Sea and the Russian market. Other Phare involvement includes participation in several studies dealing with road, rail and air transport and the development of inland waterways.

Further transport funding is allocated through the European



Stepping stone: Lithuania's sea, road and rail infrastructure is vital to its role as a transit point for east-west and north-south trade in the Baltic region.

Union's cross-border programme for the creation of a "roll-on-roll-off" terminal at the Klaipeda Port. Traffic flow at Lithuanian border crossings will be improved using Phare funds.



North-south link: the Lithuanian part of the 'Via Baltica', a motorway project which will link Helsinki with Warsaw.

Public investment

The Public Investment Programme (PIP) is currently being implemented by the Lithuanian government in close cooperation with Phare and the World Bank.

Phare's role in the PIP is to advise the government in defining the sectors in which it should invest and those areas of present government involvement which should be left to the private sector. The overall goal of the PIP is to identify sectors which are of strategic economic importance to the government.

Lithuania to join European Union free trade area

New agreement brings Lithuania one step closer to Europe

The free trade agreement between Lithuania and the European Union signed on 18 July 1994 is the country's first step on the road to European Union membership. With this agreement, Lithuania, as well as the two other Baltic States, begins the process of barrier-free trading with the European Union.

The free trade agreement foresees the creation of a free trade zone for industrial goods within six years. Lithuania will use the coming six years as a transition period to adjust its economy and industry to be ready for competition in an open European economy.

By the end of this period, Lithuania will eliminate all import and export restrictions. On its side, the European Union will abolish restrictions on trade in industrial products as soon as the agreement enters into force on 1 January 1995 following

Phare advisers are working alongside government officials to draft the PIP. The programme specifies the 100 projects to be presented to the Lithuanian parliament for public investment following government approval.

Phare's PIP work also involves the creation of training courses in project planning and analysis for the staff of Lithuanian sector ministries and other government agencies.

Agriculture

The challenge for Lithuania's agricultural sector is to redress the balance of agricultural activities that was lost during the country's integration into the Soviet Union, as Lithuania was forced to concentrate only on certain types of production required for Soviet markets.

Since 1992, Phare has funded projects in several areas: advice on reorganising the Ministry of Agriculture and staff training; creation of a Project Implementation Unit to identify and manage projects; development of an agri-food sector strategy based on private production and broader international trading links; help with specific technical issues such as food processing and the implementation of a new strategy.

Other Phare agricultural projects cover trade promotion and human resources development; productivity improvement on farms; creation of a land information system for cadastral information and land registration; restructuring of the food industry and creation of an advisory service for farmers.

Future plans for Phare support in this area include the creation of a grant scheme to encourage the development of small rural enterprises and an investment fund to channel funds to agricultural projects.

ratification. Reciprocal concessions in agricultural trade and fisheries are also provided for.

The agreement's provisions include the normal trade defence instruments such as specific safeguard clauses for agriculture, fisheries and textiles, a general safeguard clause, and an "infant industries" clause which Lithuania can apply. Other provisions cover payments, competition rules, monopolies, customs cooperation, rules of origin and the approximation of laws in trade and customs matters.

Lithuania is already looking toward its next goal: negotiations for a Europe Agreement. Preparatory work has already begun and will continue in the second half of 1994. It remains the Lithuanian government's primary political objective to become a member of the European Union.

A breath of fresh air for the Black Triangle

Forty years of unchecked emissions of dust, sulphur dioxide and other pollutants by industries in the border regions of Poland, eastern Germany and the Czech Republic have created an acute environmental problem for local populations. The outward signs of this pollution damage are serious - a mortality rate five times higher than in neighbouring areas, compounded by a high infant mortality rate and widespread forest decay are some of the more worrying signs.

But renewed cross-border cooperation between the three governments promises to improve the quality of air - and life - for the population of the so-called "Black Triangle".

The Black Triangle Air Monitoring System - created jointly by the environment ministers of Poland, Germany and the Czech Republic - is a big step in the right direction. The European Commission, which was invited as the group's fourth member, is backing this project with a grant from the Phare Programme.



Pollution in the Black Triangle: the causes...

"The Black Triangle's dangerous situation was allowed to develop over the years because there was a lack of official interest in pollution and little communication between the previous regimes in this area. The Air Monitoring System allows the region's environmental authorities to collect and exchange environmental data rapidly", explains a spokesman for the European Commission. An integrated air monitoring system costing ECU 2.2 million now allows all relevant authorities to exchange data on line.

When completed, the system will provide an infrastructure similar to the environmental early warning systems established in the United States and western Europe. The rapid exchange by satellite link of information on dangerous environmental conditions will help governments in the Black Triangle region manage their environmental situations more effectively.

The system is designed to measure the content of pollutants in the air and account for the impact of current atmospheric conditions. This will ensure more accurate prediction of the timing and location of potentially dangerous situations.



...some of the problems...

According to the European Union spokesman, the Black Triangle project has extended beyond the air pollution issue. "This project achieves the dual goal of helping decision-makers solve air pollution problems in their region and increasing their understanding of the importance of cross-border cooperation."



....and the remedy: a Phare-funded air-monitoring early warning system.

Bonds, bills and growth at the Budapest exchange

Founded 130 years ago, the Budapest Stock Exchange was once the third-largest in Europe. Last month, the new exchange celebrated its fourth year of rebirth after 42 years of closure during the country's command economy. This article charts the institution's very recent history.

In June 1990, the floor of the Budapest Stock Exchange opened for trading for the first time since 1948. Today, on its fourth anniversary, trading is progressing at a healthy rate with the help of the exchange's solid base of information technology systems and its well-trained professional trading staff.

Much of the support for the re-opening of the exchange was provided by the Phare Programme, which offered ECU 1.9 million towards the installation of a computer system and a range of specialist advice. The system, which is one of the world's most advanced, gives brokers up-to-the-minute quotations and trading information.

Additional funding was received from the UK Know-how Fund and from the exchange's 41 original members. The members paid for the renovation of the exchange's mechanical installation and the furniture on the trading floor. The cost of the trading room was covered by a donation from the Hungarian government.

This initiative is a good example of Phare's support to the financial infrastructures in central and eastern Europe. "We have gained valuable experience here which will help support stock exchange and trading room start-ups in other partner countries", said a task manager.

1990-1994 key facts

Despite a fragile local economy and a Europe-wide recession, BSE trading volumes have grown steadily over the past four years. While Hungary's real GDP declined 20 per cent, the BSE registered a growth in turnover to \$1.9 billion last year - nearly a 20-fold increase over its opening year figure - while the total number of transactions has increased steadily since 1990.

"We started with one officially-listed equity, and today we have 33 shares, 42 bonds and T-bills, 17 investment funds and a compensation rate", says Jozsef Rotyis, Chief Executive Officer of the exchange.

He explains that the most international side of the business is its equity market, of which 50 to 60 per cent is initiated by foreign investors. "Austrians and Germans are our most important investors. We also do regular business with British, French and American investors", says Rotyis.



Budapest: joining the community of European stock exchanges.

Securities and derivatives trading are the most recent addition to the stock exchange's portfolio of activities. Last year, the regulatory technical infrastructure was established to enable standardised futures transactions (Hungarian Forint-USD and Hungarian Forint-DM) as well as government securities trading.

Depository and settlement services are provided through KELER, the Hungarian Central Clearing House and Depository. The main responsibilities of KELER are to ensure the timely settlement of securities and derivative market transactions, and to store securities for brokers traders and banks. Today, some \$6.5 thousand million in securities have been admitted to the Budapest Stock Exchange.

In addition to its professional trading activities, the stock exchange also played an important - if unintentional - role in educating the Hungarian public through its compensation note programme.

▣ Case study: Budapest stock exchange



Trading again after 42 years: the Budapest stock exchange's new computerised trading floor.

A large section of the population (1.3 million people) was eligible for government compensation notes, following the decision to privatise and restructure large sectors of the former command economy. Many of these notes were used for the purchase of state assets - such as land, factories, production assets, company shares and apartments.

BSE management estimates that several hundred thousand private citizens were obliged to consult the stock exchange every day to chart the value of their new-found investments. And in doing so, the public learned how this new economic institution works.

While the Budapest stock market is small in comparison with world leaders such as New York and London, it has done business every trading day since its opening. Today, the BSE - with its modern operational and technical infrastructure - is becoming a competitive member of the community of stock exchanges which is flourishing across Europe.

▣ Indicative Programmes

Albania

1994-1996 priorities defined

Focus on agriculture and health

The third Indicative Programme, signed on 30 May in Tirana, pledges ECU 20 million in Phare funds to Albania in 1994 and defines the priorities for Phare support until 1996.

Fifty per cent of the 1994 funds will be devoted to the reform of agriculture and to the health sector. This builds on the results achieved in these sectors through previous programmes. In the field of agriculture, programmes will be developed to deal with land legislation, mapping, credit systems, and extension services for private farming.

To support health care, Phare will help reform the hospital system, establish a scheme to maintain medical equipment, restructure public health bodies, train health workers and supply essential equipment.

Phare will also support other key sectors, including SMEs, transport, human resources, and public administration. The latter notably includes legislative frameworks and local government bodies. In 1995 and 1996, work in energy and the environment will be added to Phare's remit.

Slovak Republic

Indicative Programme signed

Wide range of sectors to be supported

Phare pledged ECU 40 million to the Slovak Republic at a signing ceremony which took place in Bratislava on 9 June. The Indicative Programme reflects the Government's wide range of priorities, which include developing the private sector and human resources, strengthening the social safety system, modernising institutions and supporting infrastructural investments.

To develop the private sector, Phare will concentrate on enterprise restructuring, in particular of the manufacturing and food processing industries. SMEs will benefit from administrative reforms and, later on, from an extension of the small loans scheme. Inward investment will be promoted and a regional regeneration programme will be established. Land restitution and registration systems remain a priority. The financial system will be developed.

Training will be provided to key decision-makers in public and private organisations. The primary, secondary and vocational education systems need further support.

Labour market services, including training, mobility and social dialogue schemes, will be developed. The management of social insurance will be refined through training and institutional development support. Health provision will be boosted through a variety of means.

Infrastructure programmes require large amounts of capital: it is therefore necessary to optimise the use of Phare's limited resources. Transport, telecommunications, energy and the environment are all priorities.

Finally, a major programme of public administration reform will be supported.

Latvia

Defining its 1994 -1995 priorities

Ninety per cent of funds to support economic and institutional reform

The European Union pledged ECU 21 million through Phare to support Latvian reforms in 1994. The Indicative Programme, which defines priorities until 1995, focuses on three core areas: economic reform, institutional development and infrastructure.

To help Latvia develop its economy, Phare will concentrate on the further reform of the banking system and will fund the Latvian Development Agency, a body responsible for promoting Latvia as an investment-friendly country. Various activities will help SMEs by alleviating financial and institutional bottlenecks. Land and property registration is also a priority. Altogether, economic reform will consume half of the 1994 funds.

The government's ambitious programme of public administration reform will be supported. This involves training 10,000 civil servants and, in 1995, 17,000 local government and police staff. Various ministries will be restructured. A basic social safety system will be installed. Customs and statistical services will be reformed. These programmes will account for 40 per cent of 1994 funds.

Environmental and energy investment programmes will be cofinanced in 1995.

Poland, Bulgaria and Romania

Indicative programmes expected soon

At the time of going to press, Bulgaria, Poland and Romania had not yet signed their Indicative Programmes. Nevertheless, they are expected soon.

▣ Operational programmes

Forty-one programmes approved

Phare Management Committee approves programmes worth ECU 485.1 million

The 1994 programming round has proceeded well so far. All programmes proposed by the Commission have been approved by the Management Committee which represents the European Union's Member States. By early September, 24 national programmes worth ECU 191.2 million were approved. Ten multi-country programmes, dealing with matters ranging from transport to non-governmental organisations, were approved for a total amount of ECU 159.9

million, of which the lion's share went to TEMPUS. The new cross-border cooperation budget saw its first six programmes, worth ECU 131 million, approved. The 1994 information budget was also approved.

Details of all these programmes as well as their contractual implications are available from the Phare Information Office.

▣ News

Market economics crash course for east European managers

Professionals from eastern Europe's chemicals, footwear and wood-processing industries are receiving a crash course in market economics, with the help of two Phare-funded training initiatives.

Commercial managers from chemical companies in the Czech and Slovak Republics, Hungary and Poland are participating in a programme covering 'Commercial management in a market economy', sponsored jointly by Phare and the European Chemical Industry Council (CEFIC).

In this scheme, 40 east European commercial managers will each spend one month working in the marketing department of a European chemical company. This programme will run between October 1994 and May 1995.

Management skills were the focus of the recently-completed five-week training session for 19 executives of footwear and

wood processing industries from the same four countries. This training session was funded by Phare and managed by Eurochambres, the Association of European Chambers of Commerce and Industry.

The main aim of this project, explains Kay Brock, the official responsible for management training for the Phare Programme, is to give executives in eastern European companies a look inside the workings of market-driven companies. Many of the participants' companies are still striving for privatisation today, she says.

By the end of the year, an additional 80 managers from the electronics, food processing and construction sectors will have participated in further programmes organised by Eurochambres.

Balkan trade corridor: the Danube link

Phare to finance feasibility study

Romania and Bulgaria are working to define the ideal site for the next bridge between the two countries over the Danube which will be an important link in the new north-south Balkan transport corridor.

The creation of a new road trade route to circumvent the regions affected by the conflict in the former Yugoslavia was highlighted earlier this year as a common priority of the European Commission and the countries affected in this area (see InfoPhare Issue 2).

The Phare Programme has allocated ECU 600,000 for a feasibility study which will analyse the options for the most suitable location and the type of fixed link required. The study will also prepare a detailed financial analysis and preliminary design proposal for the selected option.

The European Investment Bank and the European Bank for Reconstruction and Development will work closely with Phare and the Bulgarian and Romanian governments for the implementation of this study, as loans from the EIB and the EBRD may finance this construction project when it comes on stream.

Nurturing Partnerships

Grants are still available to partners from east and west planning common projects

Changing an institution's approach and methodology is emerging as a key component of any successful reform process. Phare recognised this early on and has been active in this area for years, but has always tended to focus on ministries and regulatory authorities. But large state organisations are not the only ones needing such reform: local bodies, professional associations or citizens' groups also require support to become more effective.

This is the gap that Phare's Partnership and Institution-Building Programme aims to fill. Through effective twinning mechanisms, non-profit-making bodies in partner countries can acquire skills and knowledge from similar bodies in the European Union and hence tackle their institutional weaknesses. The programme encourages such cooperation by supporting projects financially. The Union's Member States will pre-select worthy projects and present them to the

Commission, which will decide whether these should be supported.

The programme awards grants matching the contributions raised by Member States' organisations themselves up to a maximum of ECU 150,000. Although launched in 1993, the programme still has funds available and invites applications from interested bodies. Any interested organisations should write to the Secretariat of the Partnership and Institution-Building Programme, SC 27 2/11, European Commission, 200 rue de la Loi, B - 1049 Brussels, to receive an information sheet giving details of the eligibility criteria, the desired focus of projects and the addresses of the organisations in the Member States responsible for processing applications. A complete application pack will be available from these organisations in October. The deadline for the receipt of applications is 30 December 1994.

Estonia

Expert advice for rural entrepreneurs

The Estonian Rural Business Development Programme was created to put finances behind the enthusiasm of Estonia's budding rural entrepreneurs. Its main forms of support are start-up and expansion capital.

The Estonian rural business development team, comprised of Phare and Estonian business analysts, works with small companies to develop business plans and provides capital to meet investment needs in the critical start-up period.

To date, 17 enterprises have received business planning and capital grant support from the programme. These firms operate in industries such as meat processing, timber processing, metal working, home construction, tourism, flower retail and export, land surveying and planning, and hardware distribution.

One example is the Jarlepa Turkey Breeding company (JTB), which was created by four entrepreneurs from the former state farm system.

A Rural Development Programme capital grant enabled this company to privatise key facilities, restructure its debt - which had been taken on at the start of operations - and attract the additional bank financing needed to ensure further expansion.

Today, the company supplies vacuum-packed turkey meat to shops and fresh turkey dishes to restaurants around the country. JTB is the only domestic processor and distributor of turkey products in Estonia. Moreover, it is a successful exporter - some 15 per cent of its production is sold to Finland.

First conference for venture capitalists

A growing number of small and medium-sized private enterprises and venture and investment capital companies are emerging in central and eastern Europe. The European Venture Capital Association together with the European Foundation for Entrepreneurship Research have launched a support programme for central Europe. This one-year pilot programme is financed by the Phare Programme and will focus on strengthening the venture capital infrastructure in central Europe.

Investment companies need training for managers, access to professional investment expertise and meeting opportunities with both entrepreneurs and investors. To address these items, the European Venture Capital Association will provide a number of services during the first pilot year in the field of management development, information, networking and promotion. A number of reports and reviews are currently being compiled, providing data on investment companies, statistics and structural impediments for the investment capital sector in the countries involved.

Under the European Venture Capital Association programme, a directory on central and eastern Europe has recently been published, listing 76 private equity capital companies and the national venture capital associations in the Czech Republic, Hungary, Poland, Slovakia and Slovenia. It also lists private equity capital companies in other countries with an interest in central Europe. In addition, the directory provides background information on venture capital and the venture capital infrastructure in these countries.

To concentrate on professional and sectoral development, a four-day management course was organised in February this

year in Bled for a selected group of central European investment company managers under the one-year pilot programme. In the same context, a major conference will now be organised in Warsaw on 12-14 October 1994 to discuss key issues. The conference will reflect the first hand experience of venture capitalists and entrepreneurs in Poland, Hungary, the Czech Republic, Slovakia and Slovenia. It will examine the pitfalls and opportunities of private sector development and the potential and limitations of venture capital in central Europe.

During the conference, the results of a survey conducted by the European Venture Capital Association will be disseminated. This assesses the strategic needs and the management strengths and weaknesses of a representative group of central European investment companies, as well as the major opportunities and threats these companies face in their market. In addition, the results of an extensive survey of 750 entrepreneurs, carried out by the European Foundation for Entrepreneurship Research, will be presented.

This will be the first conference for the venture capital sector and entrepreneurs in central and eastern Europe. It will offer an outstanding opportunity to meet, both formally and informally, with venture capitalists, businessmen from growing small and medium enterprises and other key contacts.

The interested parties should contact Mariette Roodenburg at the European Venture Capital Association, Minervastraat 6, Boite 6, B-1930 Zaventem, Belgium.

Tel (+32-2) 720 6010 - Fax (+32-2) 725 3036.

Forthcoming events

Date	Organiser	Place	Subject
8-9 November	Société Générale de Bruxelles Développement SA	Hilton Hotel	Euroaid '94 (European Union Aid for Development)
16-18 November	Tchecoprom and the WTC at Brno	Paris	Journées franco-tcheco-slovaques (JFTS 94), Journées des pays de l'Europe Centrale (JPEC94)

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