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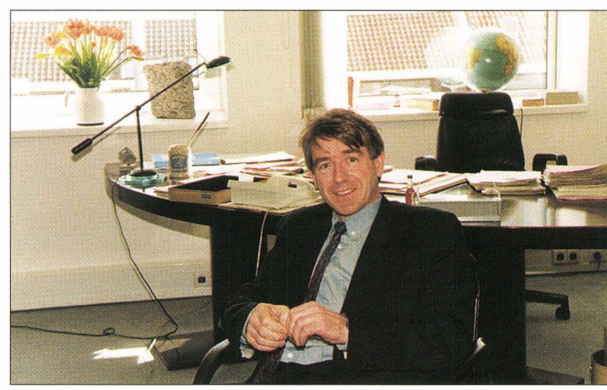
info Phare

Phare's new role as an 'instrument of accession'

Setting the scene for European integration

Interview with Sipke Brouwer

Phare's Director is new to his post, but no stranger to the Phare Programme. Sipke Brouwer joined the Commission as an expert in 1972. As Deputy Head of Cabinet with Commissioner Andriessen, he was involved in setting up the Phare operational service as an 'emergency fund' in 1989, before it became a formal European Union programme. In a recent discussion with InfoPhare, Brouwer shared his views on the Programme's new role - as the driving force behind European Union membership for partner countries in central and eastern Europe.



Sipke Brouwer: "This is a time when Phare and its partners will work more closely together than ever before".

How does Phare's current role compare with that of five years ago; what do you think it will be in five years' time?

The most interesting thing about the Phare Programme is that it has evolved step by step with the needs of each partner country, as opposed to many other aid and grant initiatives which work within a pre-defined and unchanging set of rules. (continued on page 2)

In this issue

News 3

Country focus

Slovakia 4

Sector focus - Social development and employment

Building the foundations for a sustainable future 7

Phare's 'silent' war on drugs 8

To catch a falling star 10

The social factor 11

Programme profiles

Venture capital's first steps in the east 12

From aid to trade 14

News 15

Country focus: Slovakia

Slovakia, Europe's newest country, is on its way forward. Rarely has a nation undergone such wrenching changes in such a short time: the fall of communism was followed by the introduction of democracy and markets and topped by independence. It is learning to cope with the challenges of a democratic existence, forming new institutions, setting new rules and nurturing its growing private sector. Agreement with the European Union has come into force, helping Slovakia adapt to its new role in central Europe.

See our country profile on page 4

(continued from page 1)
Taking a look at the programme's relatively brief history, we see that it moved from an 'ad hoc' technical know-how fund - making money available in an emergency situation - to today's role as an institutional instrument designed to help the countries in eastern Europe become members of the European Union (EU).

The various steps of Phare's development were: the Europe Agreements, defining bilateral relations between the European Union and Phare partner countries; the Copenhagen Summit, where both the partners and the EU formally agreed that the partners' membership of the Union was a common goal; and then the Essen Summit, where Phare became the partner countries' instrument for accession to the European Union. Essen also saw the birth of indicative multi-annual Phare programming, to give each partner a longer-term focus in line with the pre-accession strategy.

Looking back from today, we can see a very decisive progression in Phare's role.

What's the next step?

Phare will continue to evolve with its partners' needs over the next five years, as the European Union's instrument for bringing the partner countries into the EU.

Today, Phare provides the funding which will make the proposed 'structured institutional relationship' between the partner countries and the Union a reality. Phare's specific mission to provide its partners with a path toward EU accession sets it apart from all other funding and aid organisations.

As Phare evolves, and its activities touch areas such as transport, infrastructure, energy, environment, small and medium-sized enterprise (SME) development and financial schemes, is there not an overlap or duplication of effort? Should Phare leave the funding and management of these projects to financing institutions that already specialise in these areas?


Phare's new boss in action.

Phare does more than just 'work' on transport, energy or environmental issues. In each case we cooperate closely with the government of each partner country to focus specifically on problems related to bringing these infrastructures into line with EU norms.

Because Phare is an integration catalyst, the goal behind all of our activities is to prepare the ground for accession. So there is no duplication of effort here. On the contrary, it supports full participation in the programmes and projects.

There is also a misconception that Phare projects duplicate the efforts of other funding organisations.

Our role in large infrastructure projects, for example, is to prepare the ground for further investment by the international financing institutions. Grants are not geared to finance large infrastructure projects. This is the domain of the European Investment Bank, the European Bank for Reconstruction and Development, or the World Bank. However, for these same projects, Phare funding and expertise is an important 'pump-priming tool' which identifies and resolves problems at an early stage and opens the door to other types of funding. Phare is involved in feasibility studies, the definition of problems, and the proposal of solutions to encourage the parties involved to work together. Phare also contributes with financial schemes (loans, guarantees and equity) to improve the environment, energy efficiency and the development SMEs. The financing schemes are carefully targeted to fill gaps in the financial market and managed so that they do not compete with local or international financing institutions.

The 'decentralisation' discussion is still raging. What are your views? Will Phare one day operate exclusively with contractors from the partner countries and do away with the need for western expertise altogether?

Decentralisation of the programme is necessary for several reasons. Firstly, because the partner countries ought to assume responsibility for the execution of programmes. Secondly, because it enhances efficiency by bringing the management structures closer to the 'final end-user' of the programmes. Thirdly, as it is a sort of 'on-the-job' training, it helps to transfer know-how in the fields of public administration and management. Decentralisation involves the transfer of responsibility to the partner country authorities and not to western or local experts.

Nevertheless, contractors are needed because they contribute specialist technical expertise. The use of local contractors is growing as the base of expertise in these countries expands. But the fact remains that for some areas of expertise the partner countries require the support of EU experts. As our partners gain more expertise we will see more partner country contractors in all project areas. This situation is continually evolving.

Are there any new messages that Phare will be sending to the governments of its eastern partners over the coming three to five years?

Yes. This is a time when Phare and its partners will work more closely together than ever before. Today, following the conclusions of the December 1994 Essen Summit, the institutional infrastructure is in place for the first time, allowing Phare's resources to be fully targeted towards our partners' pre-accession goal.

The partners were disappointed that no accession time-frame was given at Essen. When are more precise dates likely to be announced?

Accession, at this stage, is subject to specific events falling into place.

Both the European Union and its future members have a number of important matters to straighten out before membership can become a reality.

Our partners have a considerable task ahead in areas such as the approximation of legislation and institutional reform.

The European Union must evaluate which structure is most appropriate for an expanding membership and how a union of 20 or more members can work effectively together. This is the subject of the 1996 Inter-Governmental Conference.

Once these issues have been resolved on both sides we will be able to discuss a more specific time-frame. ■

News

Bringing Bucharest in from the cold

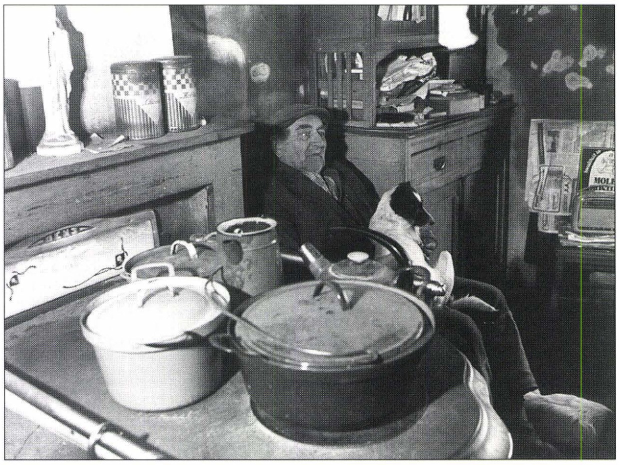
Phare examines district heating problems and their solutions

Even when the citizens and businesses of Bucharest turn their heating systems to the maximum setting, more often than not they're left out in the cold. The city's homes and public buildings are warmed by a centralised district heating system which was designed during the communist period and today cannot deliver adequate comfort levels to inhabitants of the Romanian capital.

In an effort to change this, the Municipality of Bucharest is working with Danish Power Consult, an organisation specialising in district heating. Together they are conducting a feasibility study which will propose workable solutions, and will illustrate how the efficiency of the Bucharest system can be improved in a live demonstration project. This project, which is currently at the end of its first phase, is funded by an ECU 1 million grant from the Phare Programme.

The live project will demonstrate the efficiency gains which can be achieved at three key points - at the point of consumption, in the heat transmission network and at the central heating station. The demonstration will be presented at the end of 1995.

The preliminary report, prepared by the experts in early 1995, concludes that 'all the conditions for establishing a modern district heating system in Bucharest are being met today' but acknowledges that the current system does not offer a viable district heating service. The specialists note that the basic system is well-designed, with a primary heat transmission element linked to a distribution system. The main problem, however, is the lack of modern equipment, such as automatic control and regulation systems for pumps and valves. This situation is complicated further by the lack of maintenance in the past, which reduces the system's performance potential.



Next winter should be better – a Bucharest resident awaits the improvement of the district heating system.

According to the consultants' report, the design and problems of the Bucharest system are common to district heating structures in other post-communist countries. Perhaps the lessons learned here will help the work of municipal officials in other Phare partner countries. ■

Country focus

Slovakia

It is clear that the velvet divorce was a mixed blessing for Slovakia. Saddled with most of Czechoslovakia's newly redundant military-industrial complex, cut off from the subsidies of the richer Czech lands, the Slovaks suddenly found themselves facing some serious problems. The newly-arrived future proved to be neither as rosy as expected nor as comfortable as the past had been.

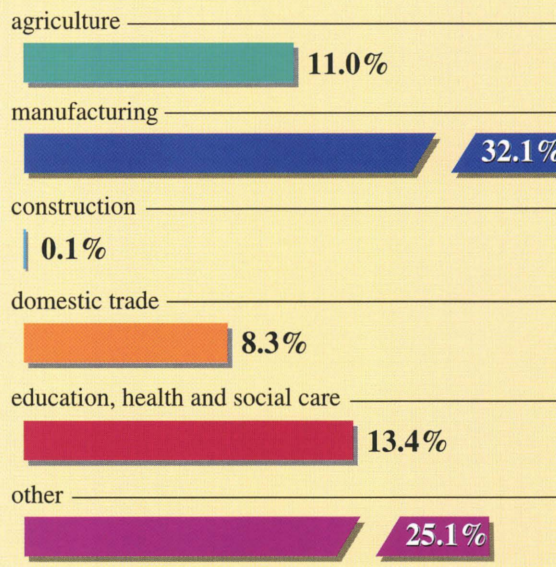
There were strengths too. The new state inherited some of the region's best economic statistics: a comparatively low inflation rate, low external debt, a significant private sector and a sound macroeconomic policy which included liberalised prices and trade. However, the first post-independence government found it difficult to build on these foundations. This government, led by Vladimir Meciar, fell in March 1994. An interim coalition government turned its attention to much-needed reforms. These included an IMF-approved economic programme, the launching of a second wave of voucher privatisation and financial sector reform. Attempts were made to improve relations with the Hungarian minority and Hungary proper. Elections held in October 1994 resulted in the formation of a new Meciar government, to a slowing of the pace of reforms, with the second voucher privatisation scheme being postponed.

Most analysts believe that the popularity of reforms will increase as the recession eases and the benefits of growth are felt by the population. At a meeting in Bratislava last September, the G-24 group of donors, which included the European Union through Phare, the European Investment Bank, the European Bank for Reconstruction and Development as well as the World Bank, urged the Government to maintain its focus on market liberalisation and to continue to foster structural reforms.

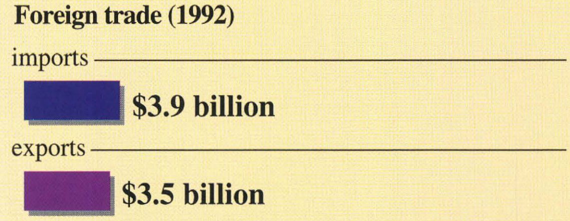
Facts about Slovakia

Area: 18,928 km^2
Capital: Bratislava
Population: 5,274,335 (1991)
GNP (1992 est.) $3.9 billion; $ 1,763 per capita

Labour distribution (1990)



Foreign trade (1992)



Principal trading partners
Czech Republic, New Independent States, Germany, Austria

Primary industries
Heavy industry and raw materials processing, mining, armaments manufacture, paper production, petrochemical industries, power generation and an extensive tourist industry

Natural resources
Iron ore, copper, mangnesite, lead, zinc, mercury, siderite and perlite. Silver and gold are also mined. Hydroelectric power and natural gas

Source: National Commission for Statistics.

Building up a trade surplus with the European Union.

While the pace of reform is currently slowing, economic confidence is shored up by the remarkable successes of the private sector. Today, half of GNP is generated by private businesses, up from nothing five years ago.

Slovakia's private enterprise growth is not merely the result of good fortune. Since independence in 1992, 750 medium-sized and large companies have been privatised, as have more than 10,000 small firms. More privatisations were planned once the second wave of privatisation which is temporarily halted is carried through.

Economic indicators are enouraging. After a deep recession, the economy grew by 4.8% in 1994 and is predicted to grow by five per cent in 1995. Slovakia is the only country in the region that can boast a trade surplus with the European Union (EU): for the first eight months of 1994, it reached ECU 56 million. EU imports from Slovakia grew by 66% in the year to August 1994, which is substantially faster than the growth of exports, which nevertheless increased by 51%. Slovak products are also finding other markets: sales to Poland increased by forty per cent in 1994 while sales to the United States grew by an impressive 110%. There is a trade surplus with the Czech Republic and exports to Brazil and the Middle East are also growing.

This healthy growth in export is not matched by a comparable growth in foreign investment. However, companies like Volkswagen, Siemens, Tetrapack, Rhône-Poulenc and K-Mart are investing in Slovakia. Slovakia is making great efforts to attract other investors.

Slovakia possesses a particularly well-developed chemical industry. Industrial and agricultural chemicals, pharmaceuticals and chemical manufacturing equipment are some of the better-known products. Other strengths lie in the manufacture of engines and machine tools, in wood processing and agroindustries and in suppliers to the automotive industry.

Many of these companies are looking for foreign partners. Slovakia's message to investors is straightforward and attractive. It offers a skilled workforce costing, on average, less than US $ 200 per month, which is cheaper than the Czech or Polish competition.

There is still a difficult road ahead. Many areas of Slovakia are still in deep decline. One of the biggest challenges remains the dismantling of huge state-owned enterprises while salvaging what can be saved: often, these enterprises are the only employers for entire towns. As many of these companies produce things for which there is a shrinking market, like armaments, helping them to survive will not be easy.

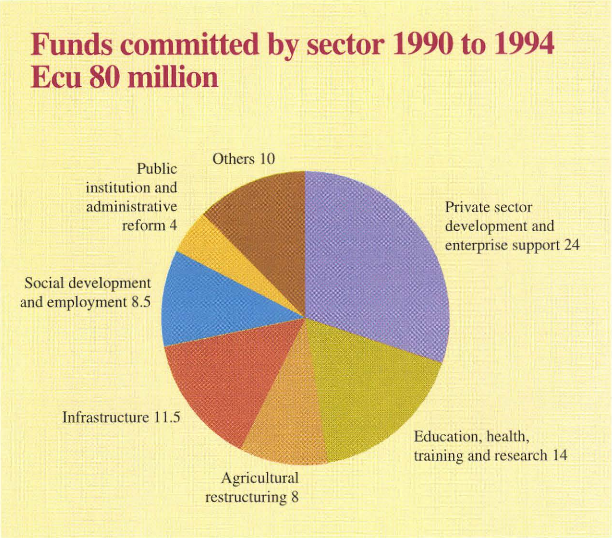
Slovakia possesses a particularly well-developed pharmaceuticals industry.

Phare and Slovakia

Slovakia: with a little help from its friends

Phare support to Slovakia began in 1990 under the Czechoslovak programme, which was split into Czech and Slovak components in 1992. By December 1994, Slovakia had received ECU 169 million in grants through the Phare Programme. Another ECU 1,172.5 million were provided, mostly in the form of loans, by individual Member States. This grant support has been complemented by a further ECU 298 million in balance of payments support loans. Altogether, the European Union and its members supplied 71% of the global assistance to Slovakia (excluding Internal Financing Institutions). Upon independence, Slovakia's most urgent needs were for help with institution-building and the establishment of government structures to deal with the tasks formerly handled by federal ministries in Prague. The European Union stepped in to help, building a presence in many Slovak ministeries.

Country focus: Slovakia



Today, there are Phare Management Units and the Delegation of the European Union was recently opened in Bratislava.

The bulk of Phare funding to date has focused on developing the private sector and essential infrastructure. The private sector initiative is seen as one of the most successful in the Phare partner countries. Phare funded two sector-wide studies – on textiles and weapons – which now form the basis of government policy for those sectors. Phare helped speed up the privatisation process – directly and indirectly – by restructuring enterprises, helping SMEs and encouraging investors. The infrastructure projects funded by Phare concentrated on transport, environment, energy and telecommunications.

The remainder of Phare funding was spread across several sectors, including agriculture, the development of human resources, educational reform and the development of civic society.

In the first years of reform, Slovakia received help through Phare's General Technical Assistance Facilities, which drove reform in sectors such as finance, transport, agriculture, health, social security, and science and technology. Slovakia also participated in Phare multi-country programmes in the customs, statistics and public administration sectors.

Phare's future focus: 1995-1999

With the worst recession in living memory finally behind it and vigorous economic growth expected, Slovakia's government is developing medium-term economic policies to maintain economic recovery while driving the reform process. To help achieve this objective and in the light of the Essen conclusions, Phare will help through programmes defined in outline for the coming years.

This involves maintaining fiscal and monetary stability; strengthening the financial system; promoting the development of private enterprises; supporting industrial restructuring and financing infrastructure development, especially projects related to energy efficiency and environmental protection; and upgrading the communications network. Reforming social security systems and public administrations will also be of vital importance.

Private sector development

The private sector is the primary source of Slovakia's growth in the medium-term. Phare will support private sector development through enterprise restructuring, the promotion of SMEs, agricultural restructuring, and the development of financial institutions.

Infrastructure

High levels of investment in infrastructure are required to integrate Slovakia into trans-European communications networks. While they will not be used to directly finance large-scale infrastructure projects, Phare funds are essential to finance feasibility studies and to help mobilise capital from international financing institutions such as the World Bank. Specific projects include upgrading key rail and road corridors and improving the energy, environment and telecommunications sectors.

Human resources development

Phare is helping to finance the national training fund, vocational training programmes, labour market initiatives, reform of the education sector and the implementation of a science and technology policy.

Social sector

Phare is helping Slovakia modernise its social safety net. The goal is to have a just, affordable system that those who need help can depend on. Projects include strengthening social security institutions at regional and local levels.

European integration

To help Slovakia implement its Europe Agreement, Phare is financing the approximation of laws, standards and practices to European Union norms. Phare is also supporting public administration reform. Reforming competition rules and strengthening the legislative and judicial branches of the State are some of the priorities being tackled here.

All of Phare's efforts aim to help Slovakia integrate with the European Union. This will only be achieved if the programmes are implemented in a climate of political progress and social transformation based on Slovakia's own reform priorities. Happily, this is the way that Phare and Slovakia have worked together from the start. ■

Sector focus

Building the foundations for a sustainable future

Phare will have to further strengthen the social dimension to economic transformation

It is obvious that, in common with the rest of the industrialised world, Europe is living through a period of profound change. Europe's future cannot be based solely on economic competitiveness, but will also have to rely on the stability of European society as a whole, built on strong political and economic foundations.

Phare has taken up the challenge of linking the transformation process in the partner countries of central and eastern Europe with social policy trends in the European Union Member States. It thereby contributes to the creation of a pan-European approach which is able to respond rapidly to the social and economic challenges that lie ahead.

The transformation process has brought about social and economic dislocation in all the Phare countries. Structural unemployment has emerged. The average period of unemployment is now longer than ever before. Living standards have declined. Income differentials have widened and those on low incomes are being exposed to poverty unalleviated by a social safety net. At the same time, GDP dropped substantially in all the Phare countries, making it increasingly difficult for them to maintain high social standards. Budgetary stringency has not only starved the health and education services of funds to enable them to meet the requirements of a market economy, but has deprived them of the essential resources required to cover basic operating costs. At the same time, political freedom and democracy have opened the door to social protest and industrial conflict. Workers and the electorate demand greater social security, more social spending and higher wages.

The political priorities of central and eastern European governments have evolved beyond their initial focus on the core areas of economic transformation. Phare has responded to this changing emphasis and is reacting to governments' requests to build social protection systems and to modernise and restructure policies in the areas of employment, health, education, science, technology and worker protection. Phare is supporting efforts to reform public administration at national and local level, and to improve industrial relations. Phare is also supporting initiatives to strengthen the capacities of non-governmental organisations and local communities to enable them to help themselves.

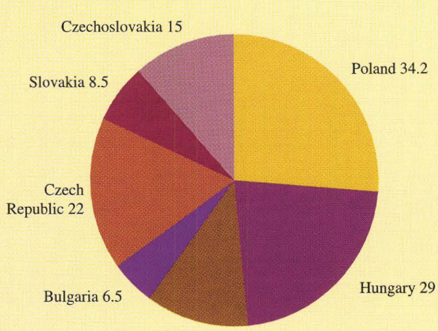
Phare offers a wide range of tools to support these sectoral reforms. These range from the provision of long and short-term technical know-how, including training and local expertise, to specialist cooperation and twinning arrangements; financing support for locally-based funds; grant schemes; credit and other financial mechanisms; and supplies of all kinds of equipment and materials, from local goods to sophisticated hardware and software. Perhaps best of all, Phare can bring the experience of European Union (EU) policy and practice to bear in its partner countries. The variety of EU practice makes it possible for a wide range of options to be examined. Indeed, the most striking thing about Phare support, is the rich variety of experience called upon. This reflects, among other things, the historical and institutional heritage of each country and the demand-driven approach adopted by Phare.

Another feature which deserves to be highlighted is the part a reformed social sector plays in the process of European integration and in the preparation for accession. The purpose of Phare support is to help create basic social policies that are fully compatible with those of the European Union.

The recent political, social, economic and legislative changes have led to an increased role and workload for the social affairs ministries and their executive agencies, not only in terms of policy development and implementation, but also in the formulation and administration of new procedures. There is no doubt that the Europe Agreements will place additional burdens on the already overstretched administrations of the signatory countries. Viewed in the context of European integration, the need for public administration reform becomes even more urgent.

The approximation of laws is comparatively easy. A more fundamental requirement is to pave the way for the practical application of EU legislation, now that it has been adopted. Emphasis must be placed on implementation and enforcement and, therefore, on the strengthening of the basic structures both inside and outside public administration. Following the Essen Summit, Phare will be contributing to the White Paper which identifies the specialist know-how needed at both national and multi-country levels to adopt and enforce EU legislation. Future support will complement and build on

Funds committed by country 1990 to 1994
Ecu 130.2 million



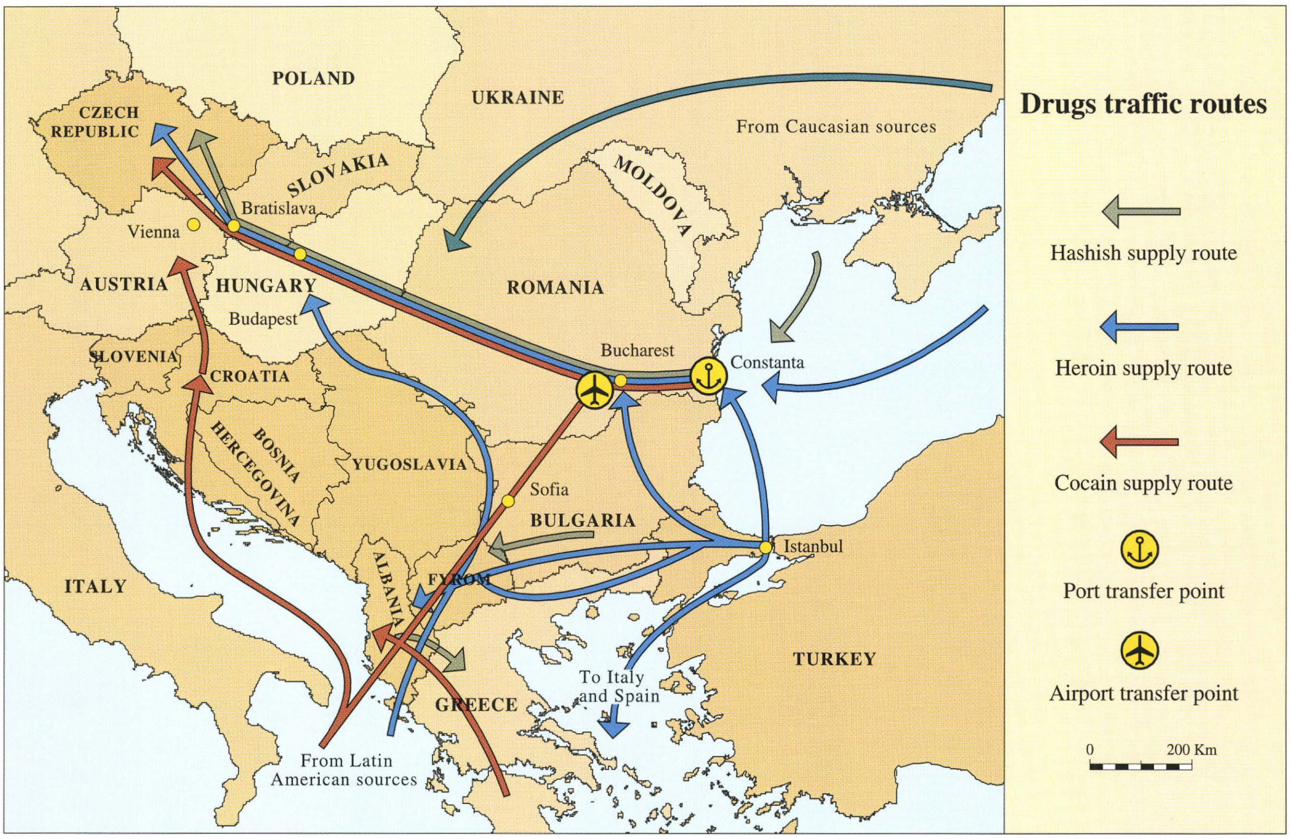
existing Phare-funded sector-specific programmes. These include reform of the regulatory structure and environment, approximation of legislation and the related reinforcement of institutional capacity and existing national framework programmes for the reform and approximation of legislation.

In the context of the entire transformation process, there is no doubt that the task of building a social dimension is arduous and involves making sensitive political choices. It is a slow and complex process, the results of which are not immediately apparent. Moreover, government action must be funded from national budgets - a constraint that precludes many ambitious ideas.

The challenge is to strike the right balance between the economic issues and the social consequences of economic reform. The full potential of the Phare Programme in supporting efforts to meet this challenge has yet to be realised. Although reform of the social dimension is, as we have seen, developing at a modest pace, the process has at least begun and can be expanded and improved upon. As the central and eastern European partner countries move towards membership of the EU, Phare will evolve to meet their needs. The Europe Agreements, and the decisions taken at the Copenhagen and Essen Summits, provide the political framework and reassurance that Phare is there for the long-term, supporting the goal of European integration. ■

Phare's 'silent' war on drugs

Institution-building tackles problems at source



The fall of communism has brought a new dimension to Europe's war on drugs. Since 1989, a host of new smuggling routes, underground laboratories, trafficking groups and money laundering networks have sprung up in the New Independent States and central and eastern Europe. Taking advantage of disorganisation in the early days of these new democracies, crime syndicates used the region as a new link to the lucrative drug markets of the European Union (EU).

Today, the governments of these countries are in the process of securing an effective law enforcement network to control this upsurge in drug smuggling. This is being achieved through cooperation with international organisations - such as the United Nations and Interpol - and bilateral agreements with neighbouring EU Member States.

Legislators are finding that the fight against drugs is more complicated than merely intercepting shipments to Europe.

Evidence of a junkie's passion.

The Phare Programme has been developing expertise to deal with the social and institutional aspects of central and eastern Europe's combat against drugs - an element that is largely missing from other international efforts. By focusing on information and prevention programmes and strengthening legislation in key areas, Phare attacks the root of the problem by reducing the demand for drugs in each of the partner countries.

Phare's multi-country anti-drug programme focuses on three priority areas: the development of a global drugs policy that is common to all Phare partner countries and the European Union; demand reduction in each country; and the development of increasingly efficient methods to attempt to control drug production and trafficking in eastern Europe. The programme began in 1992 with an ECU 2 million pilot phase, which was expanded to ECU 10 million the following year.

Ann Vanhout, the Phare Programme specialist in charge of this project, describes Phare's initiative as being complementary to existing bilateral cooperation initiatives, where partner countries receive direct support and equipment from EU Member States. Germany and Italy are good examples of countries which provide well-organised bilateral aid.

"Phare's role is to support institution-building and information and prevention programmes in these countries to ensure that the drug problem is being tackled from a global perspective. Laws and their enforcement deal with the trafficking and production aspects, and Phare's efforts attack the problem from the consumption and prevention viewpoint in each country", she explains. "The Phare anti-drug programme focuses on creating legislation, encouraging the cooperation of ministries and institutions at national and pan-European levels, and on social programmes such as local training and information efforts."

Phare has enlisted specialist contractors to help the partner countries design and implement legislation that is in line with the European Union laws. This fulfils the requirements of the pre-accession strategy for membership of the EU.

Another Phare goal is the building of a network of reliable drug information systems. These systems will form a base of research information that can give local politicians a view of the current situation in their area, for example, on changes in trafficking routes, local HIV/AIDS cases, addiction and production figures. Vanhout says that this type of data on the drugs 'scene' also provides local leaders with a valuable policy guidance tool to help each community build prevention plans that meet their specific needs.

Other initiatives focus on health, addiction treatment, and the creation of family and community systems to reduce the demand for drugs among the population. An expert hired by the Phare Programme is running a series of workshops across the partner countries. These sessions address drug abuse at community, school and family levels, and highlights the role of the media in supporting this effort. Other initiatives include exchange visits for local officials to work with counterparts in the EU.

Unmasking money laundering activities and the illicit production of 'precursor' substances used to manufacture and process drugs is the third area where this Phare initiative is active. Two five-day workshops on precursor legislation, including relevant training sessions, are being held across the partner countries, with the participation of European experts. These sessions provide local authorities with substantial information on the types of chemical precursors which are used to produce synthetic heroin, cocaine, psychotropic drugs such as LSD, and amphetamines. Programme contractors are helping to create administrative structures to manage this issue and to draft legislation.

Legislation to guard against money laundering is included in the Europe Agreements and the pre-accession strategies signed by the Phare partners. This project is being managed for Phare by an international consultancy. It involves assessing the state of current anti-laundering legislation in each country, and working with local authorities to prepare draft legislation. A regional seminar will be held to bring together officials from all the countries involved.

As Phare's efforts in the fight against drugs continues, Europe comes closer to creating a pan-European 'drug prevention policy'. This common view will be the basis for daily communication between several agencies - the European Monitoring Centre on Drugs and Drug Addiction which is being created in Lisbon; Interpol; Europol; the United Nations Drug Control Programme, and other coordinating bodies such as the Pompidou Group and the World Health Organisation.

It is Phare's intention, as the legal framework becomes clearer, to concentrate on integrating anti-drug components into other sector programmes, such as border-crossings and customs, law enforcement, health and social aid projects. ■

To catch a falling star

Helping communities to help themselves

In its heyday in the 1970s and 1980s, the Star truck factory was the pride of the central Polish city of Starachowice, and turned out some 25,000 vehicles a year.

By 1989 the plant was the region's largest employer, providing jobs for 13,000 people in this community of 60,000.

Production slumped to 1,600 vehicles per year with the fall of communism, eventually putting most employees out of work. Due to the dependency of other local companies on Star, the plant's decline had a devastating effect on a broad cross-section of the region's population. By May 1993, the number of registered unemployed was close to 12,000.

While this situation is not typical of all of central and eastern Europe, it is a reality for the inhabitants of one-company towns in many areas where the companies are unable to compete effectively in today's market economy. Small business development can help to ease the pain, but is unable to absorb hundreds of jobs lost overnight.

In this interim period, Phare's local employment initiatives under its socio-economic development programme are helping communities to rebuild their skills and their confidence in order to create new job opportunities. This initiative began in 1993, focusing on 15 Polish communities.

The programme's goal is to fund projects that have been defined by each community involved, and are aimed at helping inhabitants to develop support systems to tackle unemployment. Each of these communities have analysed their local employment and labour market problems, prepared a strategy for development, and implemented specific projects with the support of Phare funds. Some 25 professional Polish consulting firms were involved in the coordination of this work.

A total of 62 projects have been chosen for the first round of funding, and are currently under way. For some of the projects - specifically those related to local infrastructure - Phare funds only a certain percentage of the total cost, with 'pump-priming' capital to attract other investors.

The projects fall into six general categories:

- capital investment funds and business support initiatives for small and medium-sized enterprises (SMEs)
- training and information services for the unemployed and young people
- local promotion and publicity projects to improve local facilities and attract tourism
- agricultural restructuring and diversification of rural areas
- infrastructure support projects
- community support for child care, cultural activities, welfare and health.

The individual projects vary in scope from town to town, as they reflect specific needs which have been identified by the local community. Examples, include the creation of a business start-up promotion scheme, a job club, a soup kitchen for the needy, a school of culture, a computer education programme, the drafting of a local development strategy for business investment and the renovation of a historically significant castle to establish a hotel, visitor and conference centre.

While most of these communities still have a long way to go before regaining a stable employment base, this programme is proving to be an effective way of helping local communities to help themselves.

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The social factor

Closing the gap between unemployment and full employment

In the Baltic states, as in the rest of central and eastern Europe, the white heat of economic transition has given birth to classes unknown since the war: the wealthy and the deprived.

In an effort to offer support to those who have not yet learned to make market forces work in their favour, Phare has established a series of social programmes in each of the Baltic countries. These initiatives were born as a reaction to the relentless growth of misery which is emerging across the region.

Johann-Fredrich Ramm, Phare's aid coordinator for Lithuania, is one of those who has personally witnessed what he calls "a disturbing rise in poverty in the region". He is clear about his role: "Our job is to show our Baltic partners what the options are and to help them implement local programmes to combat poverty and social marginalisation." The Baltics' Social Sector Programme provides various types of 'tailored aid', developed to meet the specific needs of each country and its local communities.

In Estonia, after discussing the poverty situation with government officials, Phare specialists brought in a Finnish income policy expert to help draft new legislation on minimum subsistence entitlements. This is the country's first western-style social safety net. It guarantees a minimum monthly income level of $23.50. This may not sound like much, but is the difference between mere poverty and misery for some 24,000 families. Phare has helped in the development of the recent social care legislation which seeks to reduce the role of institutional care and to promote the principle of "open care in the community".

Phare also sponsored professional training for the 15 regional directors of Estonia's National Labour Market Board. They went to Denmark to follow a course in management and organisational training. According to Tony Budgen, Phare aid coordinator in Tallinn, this initiative is helping create a base of professional public servants in Estonia. Work is also proceeding on the development of adult vocational training facilities and of modern training curricula.

In Latvia, Phare funding helped with the drafting of a White Paper on labour policy which forms the basis of ongoing discussions between the government, employers and employees. The outcome of this process will be the implementation of agreed policies and a series of government 'services' which will help the country to manage structural employment, expected to grow in the near future. An ECU 300,000 grant from Phare is being used to build a national job vacancy database. Early and mid-career vocational training are also cited by the White Paper as priority areas.

In Lithuania, Phare is helping to wean people from their Soviet-era belief that jobs are for life. Much of the labour force is currently lacking the flexibility to plan careers and seize the initiative to change jobs. Such abilities are of course essential to a career in a market-driven world.

As a first step, the government has created job centres in the cities of Alytns and Siauliai. Unlike a traditional labour exchange where the unemployed register and collect their benefit cheques, the job centres are conceived as advisory services manned by voluntary staff.

Just like the old days... but now it's to get jobs, not to buy sausages.

Setting up these centres has helped local authorities learn about service-oriented approaches to unemployment according to Gitte Stilling, a Phare consultant working on this project. "The centres offer advice about job and vocational training possibilities. We have contacted all local industries to explain how the centres can help them manage their labour concerns," she says.

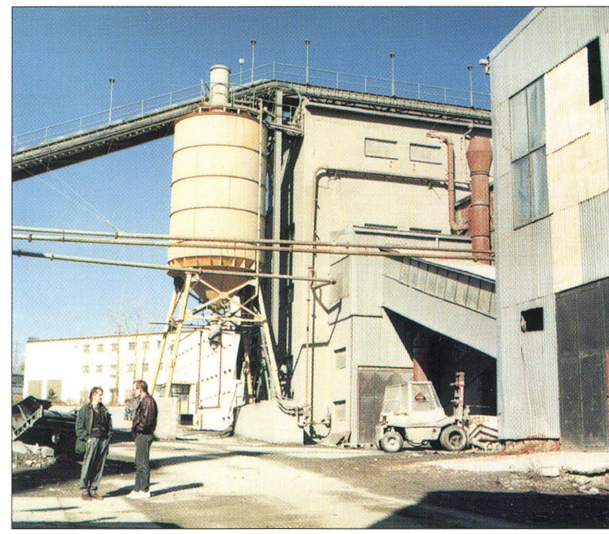
Adult education is another Lithuanian project supported by Phare funding. A series of 36-week long curricula are being devised to teach construction, sewing, catering and mechanics. As a first step, six Lithuanian teachers are being trained to help the local work force prepare for new job opportunities.

The Phare Programme is contributing to a major rethink on vocational training structures and financing. The labour exchange organisation is also being encouraged to broaden its information and advisory capacity, primarily by strengthening contact with employers. ■

Venture capital's first steps in the east

Barring the prospect of help from a rich uncle in the west, owners of small and medium-sized enterprises (SMEs) and managers of divisions of dismantled state enterprises have nowhere to turn for flexible investment capital. The big question for hundreds of would-be entrepreneurs across eastern Europe is: how to close the gap between investment needs and loan opportunities?

Entrepreneurs running small and medium-sized businesses in eastern Europe face a formidable catch 22 situation. They need access to a flexible source of financing in order to develop their activity. But local banks rarely approve this type of high-risk lending, and government investment schemes are often too slow for commercial borrowers who require rapid decisions and quick access to funds. Funding from international institutions also takes time to wind its way through red tape to reach regional levels.



This slate mine receives support from the Ostrava Fund.

Anatomy of a Regional Investment Fund

Funds

- Phare
- EBRD
- International Financial Institutions
- Other local and international investors

Regional Investment Company (RIC)

- RIC Board of Directors (local banks and authorities)
- RIC Observer - board member (from EBRD- has veto power on decisions not in line with RIC mission)
- RIC Chief Executive Officer (professional manager responsible for the company's success and good operation)

Board can only vote on decisions proposed by CEO

Investment decisions

Allocation of funds to eligible organisations

Eligible organisation | Eligible organisation | Eligible organisation

Eligible organisation | Eligible organisation

Phare has come together with the European Bank for Reconstruction and Development (EBRD) and the Phare partner authorities to create a source of fast and flexible investment capital for businesses in the partner countries. This Regional Investment Fund scheme is the first western-style commercial venture capital approach available to local businesses in central and eastern Europe.

Unlike other types of institutional financing in these new democracies - where a government official or technical know-how officer administers the disbursement of funds and the signing of contracts - this new brand of regional investment uses commercial venture capital practices. The Fund's management is directly responsible (and accountable) for the funds it invests in local companies.

This approach is unique to eastern Europe, according to Johan Geeraerts, expert and venture capital specialist at the European Commission, who manages this initiative for Phare. "Each fund is managed by a professional manager, and governed by a board of directors that represents local interests. All investment decisions are taken jointly by the management team, and all members are directly responsible for the quality of each investment that is made."

Geeraerts outlines the four objectives of these funds: "to provide risk capital to help local SMEs develop; to make funds available to 'high-potential' companies that can bring new employment and technology opportunities to a region; to facilitate management buyouts of small companies or divisions of the larger nationalised companies; and to provide financing for eastern partners in joint-venture companies, so they can participate on an equal footing with their western partners."

Regional Funds have been established, or are planned, in Poland's Katowice and Lodz coal and textile industrial areas; in Slovakia's Horne Povazie; and in the Ostrava industrial area of the Czech Republic. Some ECU 12 million of Phare funding has been allocated to projects in the Czech Republic and Slovakia, and ECU 5 million has been earmarked for the Polish fund.

The Ostrava Regional Investment Fund is the most advanced project of its type to date. It was established in May 1994 with ECU 8 million of Phare funding and has now reached cruising speed, according to Gijs Boot the Fund's Chief Executive, a Dutch finance professional who has been seconded from The Netherlands to manage this new company.

Making life easier for motorists - an LPG filling station in working order.

Boot noted that more than 200 requests for funding were received from local businesses and would-be entrepreneurs when the Ostrava Fund opened its doors last year. The first round of funding was allocated to several Czech companies, including a slate mine, a potato crisp factory, a factory which produces heat-resistant bricks, and a network of filling stations for cars running on LPG fuel.

Other ventures supported by the Ostrava Fund are used to help local businesses redefine their product and market goals. In one case, market research data identified an opportunity for the production of a specific building material, and a Czech-Slovak joint venture was created to produce it using Swiss technology. The research also identified an export opportunity in Poland, where there is very little competition, and a strong demand for the material.

"A severe lack of accurate marketing and company data was one of the first problems to be addressed before the Ostrava Fund could make any investments", says Boot. "We enlisted the help of external contractors and of students at the Ostrava Mining University and the Silesian Opava-Karvina University, who helped collect and validate data", he reports.

Geerarts frequently reminds eastern officials that most regions in the European Union use this type of investment structure to develop and refocus their industries. "It is important that the partner country governments understand the long-term benefits of the commercial approach to regional investment. At the start-up phase, it gives them access to the abilities of experienced professional managers to help develop businesses that will generate long-term profit and employment for their region. The regional investment company retains equity in each company in which it invests," he explains.

During the present start-up phase, Phare provides 'pump-priming' funds to set up the structure and support the first round of financing. The next step is to secure further money from commercial venture capital funds to sustain the flow of investment into these regions. "This is why we have set these funds up as commercial companies, and not as a typical Phare work programme. Potential outside investors are used to working with this type of regional venture capital structure."

In several years, when the fund is running smoothly, Phare will leave its shares in the regional investment company to others and the Investment Fund will become a part of the region's economic structure. To further develop the Ostrava Company during the current start-up phase, Phare is planning to make a second investment together with the EBRD and other investors.

Looking back on the Ostrava Fund's first year in business, Gijs Boot highlights the problems and opportunities encountered, which shed light on what venture capitalists can expect in other Phare partner countries. "Our work proves that there is certainly a market for venture capital activities in this region, and in the Czech Republic in general. But to date, Czech law has not adapted to this new business concept, and as yet there are no government incentives to encourage venture capitalists to invest in equity here. Improved legal measures will increase venture capital investment."

Addressing the concerns of non-believers, Boot says that 'seeing is believing'. "We invite all sceptical government officials from other Phare partner countries to visit and learn from our approach. We challenge them to do the same in their own regions", he says.

Politicians always have high expectations for new instruments that intend to create SME investment, warns Boot. He advises them that venture capital will not create large-scale SME growth. "But it will create a base of quality and profitable companies." ■

From aid to trade

G-24 meeting reviews five years of funding in eastern Europe, and looks ahead

Since the fall of communism in 1989, a total of ECU 74.7 billion (more than $100 billion) in various forms of support (grants, loans, export credits and guarantees) has been committed to the new democracies of central and eastern Europe by a host of donors in Europe, the United States and Japan.

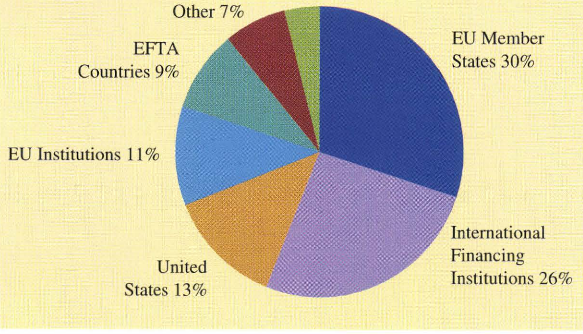
This figure was recently announced at a G-24 High-Level Meeting of the world's most industrialised nations, where the past five years of assistance and the future coordination of support activities between all the G-24 countries were discussed.

One of the most interesting things to emerge from this meeting was the conclusions.

Perhaps even more interesting are the conclusions reached by senior government representatives and officials of the international financial institutions that were personally involved in these financing efforts. Even though the subject matter covered was quite broad and complex, officials voiced several common views.

- That economic and political reform has reached the point where it is irreversible in all central and eastern European countries.
- That the funding strategies of all donors are evolving with the needs of the partner states. Many initiatives that started as aid and grant financing are growing into longer-term investment and infrastructure/transport development programmes.
- That the partner states are taking a more active role in determining, planning and managing the support they receive from outside donors and lending organisations.
- That all support programmes, and the needs of partners, have evolved to the point where a new funding focus is needed. Today's requirement is for multi-annual work plans which are built around a medium-term strategy, and based on activities that have a tight sectoral focus. In this new scenario, the partner countries actively cooperate in the definition and management of programmes, and in the mobilisation of financing resources to meet their needs.

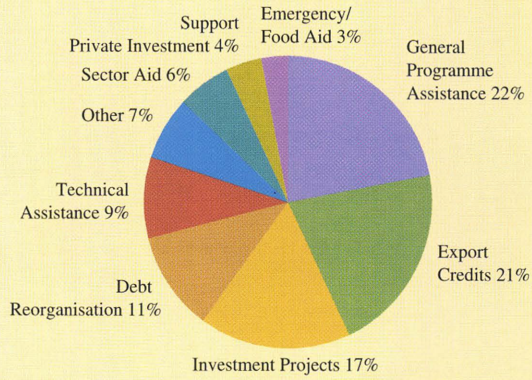
Relative donor contribution to total assistance 1990-1994



The breakdown of figures and donors presented at the meeting provides a unique 'snapshot' of the funding efforts to date in Europe's transition economies.

Grants and loans come to these countries from many different sources, including European Union (EU) support and bilateral aid from EU Member States, the United States, Japan and international financing institutions (the World Bank, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the International Monetary Fund (IMF) etc.).

General composition of G-24 assistance 1991-1994



Some 30 per cent of the total funding committed to central and eastern Europe - ECU 22.2 billion - was allocated through grant financing (including debt reduction), the remainder (ECU 52.5 billion) was provided in the form of loans, export credits and guarantees. The European Union and its Member States account for 45 per cent of total support (ECU 33.8 billion), with Germany as the single most significant donor country (ECU 11.3 billion). The second largest donor is the United States, providing ECU 9.6 billion, followed by France (ECU 5.5 billion), Japan (ECU 3.1 billion) and Austria (ECU 2.3 billion).

Some 60 per cent of all grant support resulted from the efforts of the European Union and its Member States. The Phare Programme has been recognised as the most notable EU source of grant financing in this context.

The various EU programmes and the United States' SEED Programme each provide 25 per cent of all grant financing in central and eastern Europe over the past five years.

Poland and Hungary have received most of the overall funding to date - a combined total of ECU 39 billion or 52 per cent of total commitments. But any similarity between these two cases ends here. Polish support was largely received in the form of grants, while its Hungarian neighbours were, in the main, supported by 'non-grant aid'. Albania comes second to Poland in the amount of grant financing received.

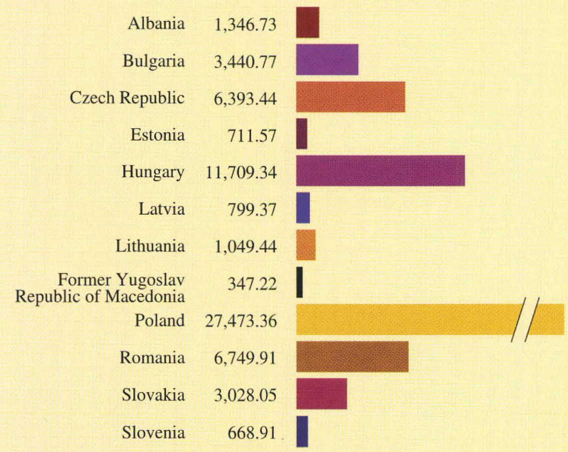
Specific bilateral and regional relationships between central and eastern European countries and their G-24 partners were also highlighted. For example, Estonian support was largely provided by Sweden and Finland. Latvia and Lithuania's most active funding partners are Sweden and Denmark which provide 35 per cent of funding, with EU programmes contributing a further 34 per cent. Other interesting bilateral links are with The Netherlands, which provides most of the grant support for the Former Yugoslav Republic of Macedonia followed closely by the United States; 19 per cent of grants received by Slovenia came from Austria; Italy supplies 21 per cent of all Albanian grants; and 14 per cent of grant financing received by Slovakia comes from Switzerland.

Looking ahead towards future trends and strategies, members of the High-Level Meeting noted that the days of emergency aid and technical know-how are giving way to investment, infrastructure and more medium-term programmes. However, technical know-how will continue to be an important component of these programmes. Most significantly, the meeting's participants noted that a natural specialisation is occurring as each player gains experience in specific areas of support.

The major bilateral donors - who supplied the essential emergency aid to the east in the early days - are becoming increasingly involved in private investment and as co-financing partners for large infrastructure projects. This type of investment is a priority for the G-24 coordination body and is encouraged through public investment programmes that are developed and managed locally by certain partner countries.

Macro-financial support for central and eastern European countries is the domain of the international financing institutions (the World Bank, EBRD, IMF, etc.) and was primarily provided by the IMF and the EU, as well as bilaterally through other donor countries' loans. Grants for infrastructure investment and structural adjustment constituted an important part of support commitments provided by the World Bank, the EBRD, the EIB, the Phare Programme and other individual donors. ■

Total assistance by recipient, 1990-1994* (grant and non-grant) Ecu million



* does not include assistance to Yugoslavia, nor assistance allocated to regional programmes.

News

Bulgaria

Phare supports the blind with modern technology

Two projects under the Phare Programme are being implemented by the Union of the Blind in Bulgaria. Mr Michail Geshev, one of the leading experts in the Bulgarian publishing industry, heads a team which is seeking to establish a computerised braille printing house. The first lessons with the future operators and editors of textbooks and school aids for the blind have already taken place.

The second project headed by Mr Ivan Mitev aims to prepare blind women, or women with impaired eyesight, to work with office appliances. The trainees will undertake a three-level training course which includes foreign language lessons. Mrs Yvonne Toros who is responsible on behalf of the French partner for these two projects, suggested that Bulgaria could become a focal point for the implementation of a pilot scheme for central and eastern Europe.

The total value of the budgets for the two programmes is ECU 437,500, eighty per cent of which is provided by the European Union, with the remaining 20 per cent being supplied by the French Federation for the Blind and People with Impaired Eyesight. The projects will be completed in September 1995.

For more information contact: Tel (+359-2) 220 115. ■

News round-up

- Latvia became the 34th member of the Council of Europe on 6 February 1995.
- The Hungarian forint was devalued by 9 per cent on 12 March.
- Hungary has established new missions to the European Union, Western European Union (WEU) and NATO.
- Ministers from 52 nations adopted the Stability Pact on 20 March. The Pact is designed to prevent ethnic minority and border diputes in central and eastern Europe.
- The 1995 Phare and Tacis Democracy Programme's second funding round deadline for 1995 is 31 October.
- Mr Amir Naqvi, formerly one of Phare's Heads of Unit in Brussels, has taken up a new post as Head of the European Union Delegation in Slovenia.
- The Europe Agreements between the EU and Estonia, Latvia and Lithuania were initialled on 12 April. Once the Agreements have been signed and ratified, the Baltic States will be considered for future EU membership.
- The Commissioner for External Political Relations, Hans van den Broek, recently said that an agreement had been reached on retaining the UN peace-keeping mission in Croatia and that the General Affairs Council hoped that the European Parliament would now agree to the inclusion of Croatia in the Phare Programme.
- On 12 April Mr Lennart Meri, the Estonian President, confirmed the appointment of a new government. The new government will be led by the Centrist Prime Minister, Mr Tiit Vaehi.

Forthcoming events

Date	Organiser	Event	Place	Contact
11 May	Welsh Development Agency	Trade with Aid seminar	Cardiff	Sasha Davies Tel (+44-1222) 222 666
22 May	East West Economics Academy	The development of human resources in central and eastern Europe (conference)	Berlin	Tel (+49-30) 89 69 980
15 June	London Chamber of Commerce and Industry; Department of Trade and Industry	EU Aid conference	London	Annabel Fogden Tel (+44-171) 203 1967
19 & 20 June	EuroForum	Investment Opportunities in Romania	Bucharest	Tel (+44-171) 793 8544

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