



# PHARE *Hungary*

## 1993 INDICATIVE PROGRAMME SUMMARY

### 1990 to 1992: an Emphasis on Agriculture, the Environment and the Private Sector

Since 1990 some 317 million ECU have been committed on national programmes. In addition Hungary has benefited from regional programmes in the areas of transport, environment, energy, nuclear safety, public administration reform, customs and telecommunications, among others. An approximate breakdown of all approved programmes indicates that technical assistance accounts for 41% of cumulative commitments, training for 15%, equipment and supplies for 29% and financial instruments (loan and credit guarantee schemes) for 15%.



Although the programme as a whole straddles many sectors, enterprise development (comprising privatisation, restructuring, SMEs and investment and trade promotion), agriculture and the environment together account for over half of total commitments since 1990. These were also the sectors of primary focus when the programme started. In 1991 significant commitments were made in the areas of employment, social and regional development, reflecting the Government's concern with the social consequences of the economic transformation process.

As of February 1993, the 1991 & 1992 commitments for privatisation, restructuring, SMEs and investment promotion were 86 million ECU, of which 33% had been contracted. Commitments to agriculture and the environment accounted for 85.5 million ECU, of which 48,25 million ECU or 51% had

been contracted. Overall, some 41,5% of the 317 million ECU committed since 1990 have been contracted.

### Medium-Term Priorities

A rolling 2-year perspective has been adopted starting this year. The Government has decided that PHARE assistance over the medium term should focus on the following broad strategic areas:

- Economic Development;
- Human Resources Development;
- Regional Development;
- Environmental Protection; and
- Public Administration Development.

The criteria guiding the selection of activities in 1993-94 are: (1) high priority in the Government's reform programme; (2) effectiveness of previous PHARE assistance in relevant sectors, including performance on programme implementation so as to build on past efforts where so justified by satisfactory

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progress in meeting programme objectives; (3) maintaining a balanced programme of assistance as between economic and social priorities, including promoting Europe Agreement objectives; (4) combining impacts at central and decentralised levels and involving, where possible and appropriate, non-governmental bodies (e.g. chambers of commerce, professional associations, NGOs etc.) as partners in the implementation of assistance, with a view to strengthening civil society; and (5) prima facie significant needs (subject to further appraisal) for additional aid inputs (including forms of support aimed at stimulating private or public investment) over and above those covered by existing PHARE programmes or by other donors.

An additional consideration for 1993, in light of the shorter timetable available for programme preparation this year, has been the need to focus efforts so far as possible in areas where the institutional capacity to formulate and develop programmes and prepare related financing proposals exists or can easily be backed up by technical assistance.

Accordingly, the retained priorities for 1993 and 1994 are summarised in the table below. For 1994 the activities identified are provisional and subject to review in the light of progress on existing programmes and of the appraisal studies shown in italics.

	Core Area	1993	1994 (Provisional)
I	ECONOMIC DEVELOPMENT	<ul style="list-style-type: none"> <li>* Agricultural restructuring</li> <li>* Enterprise restructuring &amp; privatisation</li> <li>* SME development</li> <li>* Financial sector reform</li> <li>* Quality management &amp; technology development</li> <li>* EURO/GTAF</li> </ul> <p><i>Appraise 1994 programmes in:</i></p> <ul style="list-style-type: none"> <li>* Physical infrastructure</li> <li>* Housing</li> <li>* Energy efficiency</li> <li>* Investment &amp; Trade Promotion</li> </ul>	<p><i>Appraise 1995 EURO-GTAF</i></p> <p>Physical infrastructure</p> <p>Housing</p> <p>Energy efficiency</p> <p>Investment &amp; Trade Promotion</p>
II	HUMAN RESOURCES DEVELOPMENT	<p>Higher Education Reform (TEMPUS)</p> <p>Health sector reform</p>	<p>Higher Education Reform (TEMPUS)</p> <p><i>Appraise 1995 programme in:</i></p> <ul style="list-style-type: none"> <li>* Labour</li> <li>* Social</li> </ul>
III	REGIONAL DEVELOPMENT	<i>Appraise Phase 2 programme</i>	Regional development
IV	ENVIRONMENTAL PROTECTION	<i>Appraise 1994 programme</i>	Environmental protection
V	PUBLIC ADMINISTRATION DEVELOPMENT		<i>Appraise 1995 Public Administration Development Programme</i>
VI	MISCELLANEOUS		<i>Appraise Civil Society Programme</i>

## 1993: Planned Activities

### Agriculture

Agriculture, which accounted for about 18% of GDP in 1990, is undergoing a substantial transformation process. PHARE 1993-94 will provide continued support for some key activities started under previous PHARE programmes, possibly including land registration, privatisation, the rural credit guarantee scheme and the strengthening of rural financial institutions.

To support of the general restructuring process in the agricultural sector and with a view to decentralisation and the possibilities of co-financing with Hungarian and other foreign sources, the parties will explore the possibility of channelling part of the assistance through the Agricultural Development Fund.

### Enterprise Restructuring & Privatisation

An increasing number of state-owned enterprises will require some form of restructuring before privatisation can take place. To address this problem a Special Restructuring Programme co-financed with the EBRD and possibly mobilising other resources is being appraised. A phased programme of support is envisaged with more substantial assistance being made available in 1994 subject to progress in 1993. Further possible support for privatisation and other state holdings in 1994 will be assessed in light of progress on implementation of existing programmes in these areas.

### SME Development

Small business creation and development is at the core of the economic reform process. Support for establishing an environment conducive to SME development is given special emphasis by the government.

PHARE support from 1993 will include the extension of the regional services network and credit facilities. These services were established with past PHARE support and were channelled through the Hungarian Foundation for Enterprise Promotion. Matching funds will be provided by national sources. Measures promoting institution building and SME servicing involving other significant national organisations will be considered where appropriate.

### Financial Sector

Deficiencies in the financial sector remain one of the main bottlenecks to economic development. The PHARE 1991 programme focused on feasibility studies and preliminary technical assistance to develop appropriate strategies and to provide training to key financial institutions. Most of the new institutions will need further external support both in the form of technical assistance and investment support. The PHARE 1993 programme in the financial sector will therefore be designed to follow-up and consolidate the assistance already being provided.

### Technological Development and Quality Management

The insufficient technological development and quality management of most enterprises constitute major technical barriers to trade. An efficient transfer of know-how to enterprises will contribute to a large increase in productivity. The PHARE 1993 programme will support the development of institutions and systems designed to enable them to serve enterprises efficiently.

### EURO-GTAF

The Euro-GTAF (General Technical Assistance Facility for the Implementation of the Europe Agreement) was initiated under PHARE in 1992 to support the implementation of the Europe Agreement and prepare Hungary to her gradual integration into the European Communities. In order to implement these tasks additional funding is needed.

### Infrastructure, Housing and Energy Efficiency

Both parties agree that the potential for PHARE assistance in the form of investment or pre-investment support should be explored in such areas as housing development, energy efficiency improvements and infrastructure development. During 1993 PHARE will support the Hungarian authorities in defining appropriate mechanisms to promote the above mentioned areas. Potential for parallel financing with domestic resources, other donors and loan financing from International Financial Institutions will be explored.

### **Trade and Investment Promotion**

Based on an assessment of the PHARE 1991 programme and in the context of new institutional arrangements under consideration by the Government for promoting trade development and foreign investment, PHARE could provide further support in this area during 1994.

### **Higher Education (incl. TEMPUS)**

Continued support in 1993 will contribute to the completion of the first phase of TEMPUS (1990 to 1993). New strategic priorities for the restructuring of higher education are being worked out for the next phase of TEMPUS. The provisional budget allocation for 1994 will allow for the timely preparation of projects in relation to the 1994-95 academic year .

### **Health Sector Reform**

The Government's ongoing health reform programme envisages a shift towards a stronger primary health care network. PHARE 1993 will focus on the first level of the health care system including institutional strengthening, training and privatisation measures. The programme will be integrated in the framework of "The Health of the Nation" initiative which is coordinating assistance from various donors including a major loan from the World Bank.

### **Regional Development**

As the PHARE 1992 programme will be operational only from mid-1993, both parties agree that no additional support should be envisaged from this year's allocation. The initial implementation experiences of the 1992 programme, and recommendations for additional investment-oriented support will be assessed during 1993 as a basis for considering new allocations from the 1994 budget.

### **Environmental Protection**

The PHARE 1992 programme in support of the Central Environmental Protection Fund will be operational as from mid-1993. Both parties agree that no additional support is needed from PHARE 1993.

Possible further support in 1994 will be assessed late in 1993 in light of progress on implementation of the 1992 programme.

### **Civil Society**

In addition to arrangements made under various sector programmes to involve non-state bodies in the design and implementation of policy reforms, consideration will be given to the feasibility of a specific PHARE scheme to be managed by and for the NGO community, with a view to developing civic participation and self-help initiatives as well as strengthening pluralism and civil society more generally.

For each proposed area of activity the Commission and the Government will jointly undertake a sector appraisal-cum-needs assessment. The appraisal will provide the basis for agreeing allocations to specific activities as well as for detailed programme design and the preparation of financing proposals. In respect of programme design the two parties agree on the importance of incorporating explicit performance measures and targets as a means of assessing programme impact and progress toward agreed short-, medium- and long-term objectives. In addition, the following are agreed on both sides as being essential elements of the sector appraisal and programme design process:

- a) the policies and strategies of the Government in the relevant area;
- b) a thorough assessment of institutional capacities with a view to strengthening the latter, both to permit the institutions to fulfil their allotted policy role and in the interests of accelerating the decentralisation of programme management. This should include an adequate number of qualified counterpart staff to ensure transfer of know-how and sustainability;
- c) Both parties agree that institutional development remains a central objective of PHARE assistance;
- d) the requirements for technical assistance, training, equipment supply and investment support (including financial instruments) according to the circumstances of each case;
- e) absorptive capacities having regard to the need to ensure that PHARE commitments can be disbursed within a satisfactory time-scale (normally 18-24 months from date of the financing memorandum);
- f) attention to intersectoral linkages in order to ensure that the policy objectives and approaches supported under the various sector programmes are mutually consistent and, where overlaps exist, are mutually reinforcing;
- g) close coordination with other donors, including co-financing where appropriate, in order to ensure consistent approaches and to reap the benefits of complementarity and 'synergy';
- h) the development, where appropriate, of 'framework programmes' combining policy objectives, performance measures and quick-disbursement, decentralised implementation mechanisms backed by intensive monitoring; and finally
- i) coherence with the tasks deriving from the implementation of the Europe Agreement in the particular sector.

## **1993 Funding**

To support the priorities identified above, the Commission has allocated 100 million ECU to Hungary under the 1993 PHARE programme.

## **The Method: a Constant Dialogue**

