



PHARE *Lithuania*

1993 INDICATIVE PROGRAMME SUMMARY

PHARE Actions to Date

The 1991 assistance programme, financed from TAUSSR (now TACIS) rather than PHARE funds, laid the foundation for the Community's contribution towards the restructuring of the agriculture, transport, energy and health sectors. The 1992 Programme included two major core area programmes: a 9 million ECU General Technical Assistance Facility ("GTAF", covering agriculture, energy transport, health, aid coordination, finance and banking reform and labour markets), and a 9.5 million ECU Privatisation and SME Development Programme. In addition, the 1992 Programme included an allocation for TEMPUS, a higher education reform programme, of 1.5 million ECU.

Contracting rates on the 1991 and 1992 Programmes were 90% and 50% respectively in April 1993.



Progress for almost all programmes has been satisfactory. The one area where success has so far been elusive is finance and banking restructuring. The programme's core objective was to help establish the Lithuanian Investment Bank (LIB). Due to differences in views on the statutes of the LIB, however, the original programme could not be carried out. Technical assistance has now been partly redeployed on problems in the fields of taxation, debt management, and training for the central and commercial banks.

The Four Core Areas

Building on the experience gained in 1991 and 1992, the government has decided that priority for PHARE assistance should be given to the following general strategic area in the medium term:

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|----|-----------------------------|-----------|
| 1. | Sectoral Restructuring | 60% - 70% |
| 2. | Infrastructure Development | 10% - 15% |
| 3. | Human resources Development | 10% - 20% |
| 4. | Support Regional Programmes | 10% - 25% |

(The figures give an idea of the weighting that each core area can expect from PHARE assistance.)

For each of the core areas identified, the following objectives have been formulated:

Sectoral Restructuring

To support the transformation process, sectoral restructuring aims to create the necessary legal, institutional and regulatory framework. Another aim is to encourage investment and private initiatives in a number of areas including agriculture, transport, energy, enterprise restructuring and privatisation, aid coordination, labour market and social security reform, financial sector, health and the environment. In addition, the transformation process will be facilitated by improving management and administrative capacity.

Infrastructure Development

The infrastructure development programme aims to underpin sectoral restructuring in two key sectors: transport and energy. The programme will provide limited seed money for necessary investments to maximise the use of private capital and government funds.

Human Resources Development

The objectives of the Government in the area of human resources development are to enhance the formal and vocational education systems to support the transition to a market economy.

Medium-term objectives include the development of effective management, accounting and organisational training at the secondary level and the stimulation of cooperation between Lithuanian and foreign educational institutions.

PHARE Assistance: '93 to '94

A rolling 2-year perspective has been adopted starting with 1993-1994. The following strategies will be followed in the next phase of PHARE support to Lithuania:

Private Sector Development

Assistance concentrating on technical assistance to foreign currency privatisation and the development of small and medium-sized enterprise (SMEs) was one of the core areas of the 1992 Programme. There will be no need to

include additional funds in 1993 for current activities in this area. The initiatives commenced under the in 1992 will require all of 1993 to be finalised. These initiatives concern the continuation of (1) technical assistance for the hard-currency privatisation scheme, which was put out to tender at the end of 1992 and which will continue in 1993, and (2) the small and medium-sized enterprise development programme, which likewise was put out to tender in 1992 and the technical assistance experts for which have started their 12-month intervention in January 1993. The last programme includes a credit-line for SME development, part of which is intended to be distributed through the services of the commercial banking sector during 1993.

In a related area the view is gaining ground that there is a need to do more for large enterprises which, until independence, formed the backbone of Lithuania's economy. To cushion the social disruption that is following the disappearance of traditional suppliers and markets after independence, it is necessary to develop new markets, help the enterprises escape from the barter trade arrangements under which they are now operating and generally improve their management, cost accounting and control. Feasibility studies are required to identify those large enterprises that can survive the new times. Technical assistance, especially in management, accounting and marketing is necessary to maximise their chances for survival and reduce the (currently hidden) unemployment of their work forces.

To this end a more comprehensive sectoral restructuring is proposed for the period 1993 to 1994. This core area would summarise interventions intended to support restructuring efforts in the industry, trade and service sectors, as well as investment promotion, privatisation and finance and banking.

Lithuania's economic reform process needs massive investment. As there is an urgent need to enhance the country's capacity to attract foreign investment, an **Investment Promotion** programme is essential. Currently foreign investors are confronted by a confusing array of rules and procedures implemented by a wide variety of government entities. It would be preferable to separate investment promotion and investment assistance activities from government entities altogether and vest them in a semi-private body that can act as "one-stop" investment agency. A first pre-feasibility study for such an investment agency was carried out under the auspices of the PHARE Programme in 1992. A full feasibility study and a contribution towards the establishment of the investment agency could be included in the 1993 Programme.

In addition, the government of Lithuania has expressed interest in participating in the Euro Info Centre Network of the European Community, through the establishment of an EIC Correspondence Centre in Vilnius. The selection of the host institution is taking place. Feasibility studies and establishment funds could be accommodated under the 1993 PHARE Programme.

Labour Market Reform

The 1992 Indicative Programme included an allocation for a labour market programme. The formulation of this programme, aiming at (a) developing a labour market strategy, (b) improving the operation of the network of labour exchanges and (c) developing a range of active employment measures in response to market needs, was concluded in November 1992 and will be implemented this year.

Public administration

Under the 1992 Programme consultancy work was carried out to identify the main problems confronting public administrations, both central and local. These studies are expected to result in a substantial programme to be financed from 1993 and 1994 Indicative Programme allocations.

Higher Education Reform (Tempus)

The 1991 allocation for Lithuania's participation in the TEMPUS programme was not used in that year, but reserved for activities in 1992. These activities will be implemented during 1993.

The funding level for activities envisaged under the TEMPUS programme after 1992 is expected to be 2.5 million ECU.

Environment

Aside from activities related to the Ignalina nuclear power station, the 1992 Programme contained no environmental programmes. Despite this, the government is aware of the urgency of environmental measures and has identified a number of priority areas in this field.

Programmes for inclusion in the 1993 Indicative Programmes include (a) hazardous waste management, (b) contaminated sites sanitation, (c) environmental monitoring and (d) reduction of SO₂ emissions. In some areas feasibility studies have already been prepared. The 1993 Programme allocation could include the preparation of additional feasibility studies and the first tranche of project expenditure in areas where immediate action can be taken after approval of study results. In addition, technical assistance concerning safety measures for the Ignalina nuclear power station may be required.

Support for regional Programmes

The programme will provide funds to support selected regional programmes.

1993 Funding

To support the priorities identified above, the Commission has allocated 25 million ECU to Lithuania under the 1993 PHARE programme.

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