



# Phare

## Phare 1994 Annual Report

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## What is Phare?

The Phare Programme is a European Community initiative which supports the development of a larger democratic family of nations within a prosperous and stable Europe. Its aim is to help the countries of central and eastern Europe rejoin the mainstream of European development through future membership of the European Union.

Phare does this by providing grant finance to support its partner countries through the process of economic transformation and strengthening of democracy to the stage where they are ready to assume the obligations of membership of the European Union.

In its first five years of operation to 1994, Phare has made available ECU 4,248.5 million to 11 partner countries, making Phare the largest assistance programme of its kind.

Phare works in close cooperation with its partner countries to decide how funds are to be spent, within a framework agreed with the European Community. This ensures that Phare funding is relevant to each government's own reform policies and priorities.

Phare provides know-how from a wide range of non-commercial, public and private organisations to its partner countries. It acts as a multiplier by stimulating investment and responding to needs that cannot be met by others. Phare acts as a powerful catalyst by unlocking funds for important projects from other donors through studies, capital grants, guarantee schemes and credit lines. It also invests directly in infrastructure, which will account for more Phare funds as the integration process progresses.

The main priorities for Phare funding are common to all countries, although every one is at a different stage of transformation. The key areas include restructuring of state enterprises including agriculture, private sector development, reform of institutions, legislation and public administration, reform of social services, employment, education and health, development of energy, transport and telecommunications infrastructure, and environment and nuclear safety.

For countries which have signed Europe Agreements, Phare funding is also focused on meeting the conditions required for membership of the European Community. In particular this concerns preparation for participation in the European Union's internal market and development of infrastructure, especially in border regions.

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# Commissioners' statement

The Phare Programme was set up as a response of the European Union to the challenges that the countries of central and eastern Europe faced breaking free from totalitarianism and 40 years of central economic planning.

At the time, no one could foresee exactly what this would involve and how quickly each country would progress. Consequently, the Phare Programme was structured to work within the political and economic policies of the governments of the countries concerned, responding to their own requirements. In this respect, Phare is unique among the initiatives launched by the global community to support the changes taking place in central and eastern Europe.

In the early years of Phare, when the framework for political cooperation was still unclear, the focus was on the immediate and obvious objectives of economic transformation. However, now that this process is underway, and in some instances almost nearing completion, the question of Phare's role in the wider political framework becomes more important. In this respect, 1994 was a highly significant year, culminating in the adoption by the European Council at Essen of a strategy for accession of the central and eastern European countries to the European Union.

The Phare Programme is one of the cornerstones of the accession strategy and important steps have been taken in 1994 to allow the Programme to focus on integration. In particular this has concerned the development of infrastructure, investment support and closer cross-border cooperation, both between the European Union and the countries of central and eastern Europe and between the countries themselves.

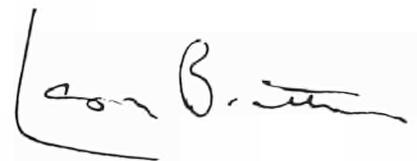
The Phare Programme has also made some important improvements in its own internal management processes. These have made the delivery of Phare funding more efficient and, in 1994, the Programme increased the amounts of funds it contracted by 15 per cent on the previous year as well as increasing actual payments by 38 per cent on the previous year. This means that of the funds that Phare has contracted, over 95 per cent has now been paid.

The existence of Phare remains an important acknowledgement that striving for membership of the European Union is not a task that should be borne only by those countries seeking to join. The European Union itself has a responsibility to prepare the path to membership, both through the support it makes available through the Phare Programme and in making changes to its own structures to accommodate the countries of central and eastern Europe who wish to join.

The future for Phare and relations between the European Union and the countries of central and eastern Europe is an exciting one which holds both many challenges and many rewards. As the European Commissioners responsible for the Programme in 1994 and who will take the programme forward in 1995, we jointly commend this Annual Report to you.



Hans van den Broek  
Member of  
the European  
Commission



Sir Leon Brittan  
Vice-President  
of the European  
Commission

# Phare 1994 financial overview

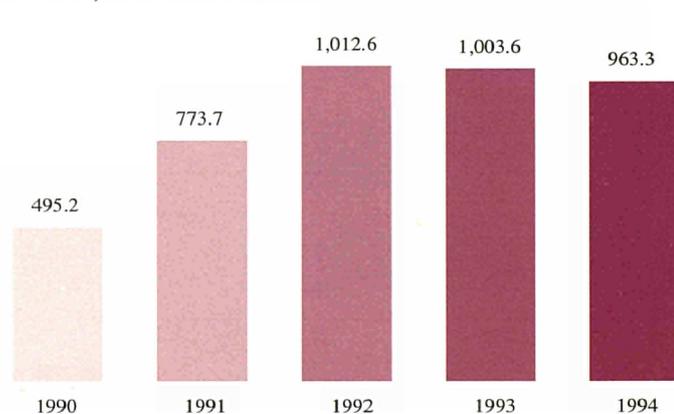
In 1994 the Phare Programme committed a total of ECU 963.3 million to its partner countries. This brings the total of commitments over the life of the Programme to ECU 4,248.5 million.

During 1994 Phare contracted funds worth ECU 659.8 million - an increase of 15 per cent on the previous year. The Programme paid out ECU 721 million - an increase of 38 per cent from the previous year.

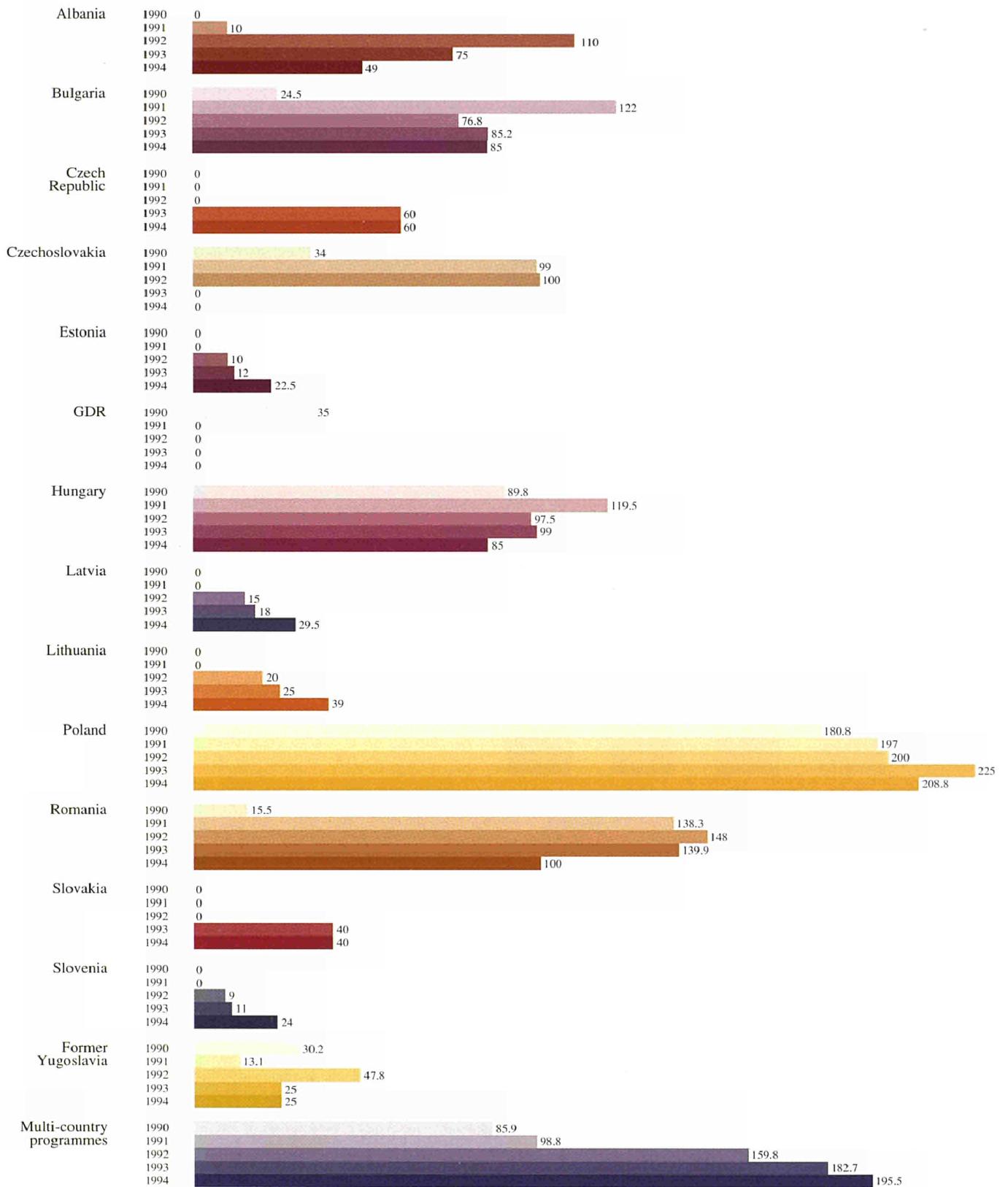
This means that of the total Phare commitments, 52.4 per cent has now been contracted and of the amount contracted, 95.8 per cent has been paid. This is an above average rate of disbursement for a programme of this type made up of a large number of small-scale know-how transfer projects as distinct from a limited number of major investment or loan operations.

The breakdown of the 1994 commitment of funds by country and by sector are shown below.

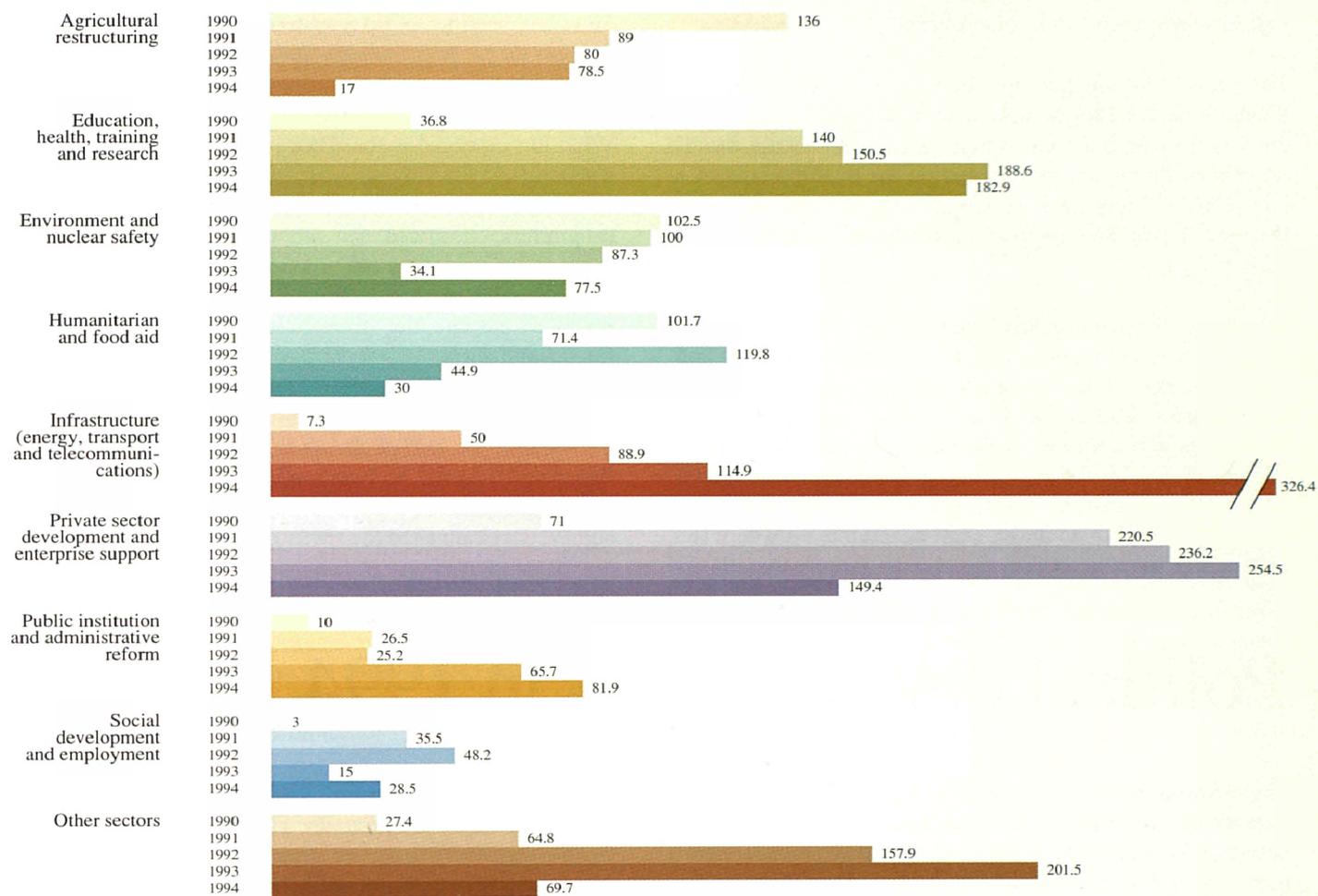
## Phare funds committed from 1990-1994 ECU 4,248.5 million



**1990-1994 funds committed by country (in ECU million)**



**1990-1994 funds committed by sector (in ECU million)**



# 1994 - a turning point for Phare

This is the fifth annual report of the Phare Programme - the European Community initiative which supports the development of a larger democratic family of nations within a prosperous and stable Europe.

The year 1994 was perhaps the most significant year for Phare since the Programme's conception in 1989. It was the year in which a clear framework for the future development of Phare emerged, based on the development of a common political and economic agenda for relations between Phare and its partner countries in central and eastern Europe.

The Phare Programme developed initially as an immediate response to challenges facing the countries of central and eastern Europe as they sought to resume their central place in Europe's culture and civilisation and rejoin the economies and societies of Europe. A turning point came in June 1993 with the conclusion of the European Council at Copenhagen that the associated countries of central and eastern Europe that so desire shall become members of the European Union when they are able to assume the obliga-

tions of membership by satisfying the economic and political conditions required. This set a goal for the European Union, Phare and its partners. The challenge during 1994 has been to set up a system to ensure that Phare can support its partners at every step necessary to achieve this goal.

What has emerged is that Phare is not a static instrument, designed exclusively to help in the transformation from centrally planned to market economies. It is now a flexible programme designed to support its partner countries through the process of economic transformation and strengthening of democracy to the stage where they are ready to assume the obligations of membership of the European Union.

Confirmation of Phare's central role in this process occurred at the end of the year, with the adoption by the European Council at Essen of a strategy for accession. The implementation of this strategy will involve some significant changes to the focus of the Phare Programme.

## Political developments in 1994

The development of Phare is now intimately linked to the overall development of political and economic relations between the European Union and the Phare partner countries. This relationship has been cemented by Phare's role as the financing instrument of the Europe Agreements and its central position in the strategy for accession adopted at the Essen Council.

In this section the background to political and economic relations is outlined, together with the developments which took place in 1994 and an assessment of the conclusions of the Essen Council and its impact on Phare.

### Background

Phare has always worked in tandem with the other European Community initiatives which cover economic and political relations with the countries of central and eastern Europe. These initiatives initially covered establishing trade relations and developing market access and extending loan facilities. More recently they have developed a greater element of political, social and cultural cooperation.

The process started in 1988 when Trade and Economic Cooperation Agreements were signed which established

favourable trade relations and aimed at significantly increasing trade between the European Community and these countries.

In 1990 the European Community developed a new form of agreement which went beyond just trade issues. These new agreements, known as Europe Agreements, established a framework whereby these countries can become more closely integrated with western Europe. They therefore covered political, economic and cultural cooperation in addition to trade relations. The Agreements are based on shared understanding and values and set the path for integration.

The European Community and its Member States have concluded Europe Agreements with six countries; Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia.

The Europe Agreements acquired greater political significance following the European Council in Copenhagen in June 1993. At this Summit meeting the Council offered the prospect of membership of the European Union to those countries with Europe Agreements, subject to their being able to assume the accompanying economic and political obligations.

Thus the Europe Agreements became, in effect, a basic framework within which countries could work towards membership of the European Union. Phare is identified in these agreements as the financing instrument available to help countries meet the objectives set out within them.

### **Developments in 1994**

In February 1994 the Europe Agreements entered into force with Poland and Hungary. These Agreements had been signed in December 1991 but were awaiting ratification by the parliaments of the individual Member States. While awaiting ratification Interim Agreements were in force which covered the basic trade-related aspects of the Agreements, thus ensuring that there was no delay in implementing this aspect. The Agreements with Bulgaria, the Czech Republic, Romania and Slovakia will come into force in February 1995.

Poland and Hungary also formally lodged an application for membership of the European Union.

In 1994 the Community also signed new Trade and Economic Cooperation Agreements with Estonia, Latvia and Lithuania. These agreements establish free trade with these countries. Negotiations for Europe Agreements with each of the Baltic states have started and similar negotiations with Slovenia are expected.

In 1994 a major step was taken which gave the process of cooperation, established by the Europe Agreements, a much clearer focus on the objective of achieving membership of the European Union. This was the adoption by the European Council at its Essen Summit meeting in December of a strategy for accession prepared by the European Commission.

This strategy set out a route plan for the associated countries as they prepare for accession. It encompasses the progressive preparation for integration into the internal market of the European Community, supported by implementation of policies to promote

- integration through the development of infrastructure, including extension of trans-European transport networks
- intra-regional cooperation between the countries of central and eastern Europe

- environmental cooperation
- cooperation in the area of the common foreign and security policy
- cooperation in the areas of judicial and home affairs, culture, education and training.

### **The Essen strategy for accession and its implications for Phare**

The Essen strategy states that "This integration will be supported by the European Union's Phare Programme which will develop on an indicative basis into a medium-term financial instrument with improved possibilities to promote infrastructure development and intra-regional cooperation".

In practical terms, Phare will devote a greater proportion of its funds to the co-financing of infrastructure development projects, with the limit on its annual budget for this type of spending being lifted from 15 per cent to 25 per cent. Infrastructure will also receive significant funding through the cross-border programme and through transport and environment projects. Phare will also introduce measures to promote cooperation between its partner countries and give a greater focus on investment support. It will also focus on supporting the partner countries in their steps to harmonise legislation, standards and practices with the European Community in preparation for participation in the internal market. This will involve significant support to the system of public administration to ensure that the necessary legislation adopted can be implemented effectively.

The European Council agreed that the 1995 budget estimate for the Phare Programme will serve as a minimum level for the years up to 1999, in total ECU 5.5 billion. This will allow Phare to develop a comprehensive multi-annual programming framework for its operation throughout this period.

Further increases may result from budget adjustments following the enlargement of the European Union and further discussions on budget allocations within the overall financial perspective of the European Community.

# Supporting a process of change

The Essen strategy now presents Phare with the challenge of covering a very broad range of activities if it is to be flexible enough to meet the needs of all its partner countries.

Phare has developed a range of approaches, many of them in close coordination with other sectoral European Commission programmes, which match the various stages a country will pass through on the road to eventual membership.

Phare's approach in the first stage covers support for basic macro-economic stabilisation, humanitarian assistance and the supply of basic imports necessary to sustain industry and agriculture.

The second stage covers broad-based sectoral assistance, largely in the form of know-how, designed to put in place the necessary structures for a market economy.

The third stage concerns consolidation where the supply of know-how becomes more tightly focused, in particular on areas of public administration and the mechanics of government. Investment support and infrastructure development also feature more prominently.

The fourth stage involves substantial support for the preparation for accession. It involves the development of infrastructure, physical integration in border regions with the European Union and the development and implementation of the legislation necessary to participate in the internal market.

Support for stages one and two is well established within the Phare Programme. During 1994 Phare support in a number of countries became more focused on the third stage of assistance and the Essen decisions have provided the framework in which Phare can progress to the fourth stage.

# Consolidation and integration - a new role for Phare

The past year has been an important one for Phare in terms of developing its capabilities in those areas which are linked to the consolidation of the reform process and closer integration with the European Union. These two areas will become increasingly significant for Phare and its partners as the move towards membership of the European Union gathers pace and becomes a greater priority for each partner country.

## Consolidation

The consolidation of reform has two basic focal areas. The first concerns developing the capability within government at all levels to manage and regulate a market-oriented system. One of the most profound changes which has occurred in the countries of central and eastern Europe has been the switch from a command system of government to a system based on regulation. This has also involved changes in the social security system which was previously linked to virtual full employment in state-owned enterprises. As many of these industries have now been restructured or transferred to private ownership establishing social security systems adapted to the needs of a market economy is an urgent priority.

Phare support is therefore focused on both the development of new institutions within government and also non-governmental organisations which have a role to play in the operation and regulation of a democratic, market-oriented system. Support is also important in developing and implementing new legislation and other standards and practices.

The transfer of know-how remains an important element of Phare support because continued progress in this area depends on each partner country building a resource base of skills and experience - both inside and outside government and public administration.

The second area linked to the consolidation of reform is investment support. Now that many countries are completing the basics of the transformation process in terms of restructuring state enterprises and establishing the conditions for the development of private enterprise there is an increasing need to provide or attract investment in order to maintain the momentum of economic development. Phare support in this area is therefore focused on creating the conditions to attract investment and also on providing capital in those areas which cannot attract capital, usually due to market failure, from any other source. This direct investment is largely in the small business sector.

## Integration

Phare support for integration is covered under four broad areas of activity:

- co-financing investment in infrastructure
- elimination of border-crossing bottlenecks and establishing customs corridors
- the cross border cooperation programme
- multi-country and intra-regional cooperation.

Most of these areas focus on the development of transport infrastructure and contain a significant element of direct investment. However, the provision of know-how remains an important element, especially within some of the multi-country programmes and to support and complement investment projects.

## Activities linked to consolidation and integration

A particular feature of Phare's work in 1994 has been the development of capabilities in areas which are of relevance to those partner countries which are entering the third or fourth stages of development on the road to eventual membership of the European Union. These stages are the consolidation of reform and integration both with the European Union and with other central and eastern European countries.

These capabilities are examined in more detail below.

### Legislative and public administration reform

The development of legal frameworks and the harmonisation of laws with those of the European Community has always been an important element of Phare support. Phare already provides support in the following areas:

- intellectual property
- consumer protection
- harmonisation of standards and technical regulations
- customs and statistics
- environment
- public procurement
- competition and state aid, transport, post and telecommunications
- banking sector, tax legislation and accounting.

However, this area has become especially important in the light of the Essen strategy which stresses the importance of preparing countries to adopt the European Community's internal market. This process essentially involves the adoption and implementation of a body of legislation, standards and practices known as the 'acquis communautaire'.

The European Commission is currently preparing a White Paper which will provide detailed guidance on the adoption of the 'acquis communautaire' in the internal market area to be published before June 1995. This will build on the work on the harmonisation of legislation already accomplished by Phare in previous years.

However, in 1994, Phare took an important step in the development of a framework within which individual countries can develop their own programmes of legislative alignment. This was the launch, in June, of a framework contract to facilitate the approximation of laws in the Czech Republic. A consortium of three law firms and two training institutions is helping to draft and revise legislation and regulations, providing training, hardware, software, books and documentation as well as translating large sections of legal documentation. A similar approach is being discussed with Hungary and Slovakia and has been proposed to Bulgaria, Romania and Poland.

In addition a framework programme of support to develop and approximate legislation has been set up for Latvia, Lithuania, Estonia, Slovenia and Albania.

Linked to the development of new legislation is the reform of the public administration system. This is because an effective public administration together with the appropriate administrative structures, staff and equipment is essential to the actual implementation of any legislation that is developed.

Phare is supporting the necessary reform in the public administrations of central and eastern European countries by providing know-how to strengthen their administrative capacity. In 1994 Phare supported governments in their efforts to reform their public administration by providing support in the following areas:

- support for improvement in governance and management (known as SIGMA), a programme established in association with the Organisation for Economic Cooperation and Development (OECD)
- reform of legal systems: drafting civil and penal codes and procedures, training of judges, reform of the Ministries of Justice and prosecution systems, training of the police
- institution-building: developing strategies, civil service policy and training, restructuring and upgrading of central administration, decentralisation policy and strengthening of local governments
- development of information technology.

### **Social restructuring**

Phare support for the social sector is becoming increasingly important for those countries which are in the consolidation phase of reform. This is because establishing a system of social protection adapted to the needs of a market economy is a major undertaking which requires long-term action. Further progress in economic reform will also be hampered unless corresponding steps in social restructuring can be made.

Reflecting this need Phare support is now moving towards supporting long-term restructuring following up its initial focus on the immediate needs resulting from the first steps of reform. Phare is focusing on the following areas:

- reform of the system for pension provision
- social security systems, to develop a new approach to social protection based on the experience gained in western Europe
- employment policies, to counteract the job losses resulting from the privatisation and restructuring of state-owned enterprises
- health care, in particular disease prevention, health services reorganisation and financing, training of health personnel and pharmaceutical policy.

### **Increasing investment support**

Once the basic elements of economic transformation have been put in place the key to maintaining the momentum of economic development lies in achieving sustained high rates of investment.

The Phare Programme has always recognised the importance of supporting investment and has therefore included initiatives to develop investment across the range of its programmes from the start of the Programme. However, in view of the increasing importance of attracting investment as part of the integration process highlighted in the Essen strategy, Phare has focused on developing its investment support activities in a number of key areas:

- improving the legal and regulatory frameworks.
- continuing support to the investment promotion agencies already set up under the Phare Programme. Such agencies have been set up in

The Czech Republic - Czechinvest

Estonia - Estonian Foreign Investment Agency

Hungary - Investment and Trade Development Agency

Latvia - Latvian Development Agency

Lithuania - Lithuanian Investment Promotion Agency

Poland - State Foreign Investment Agency

Romania - Romanian Development Agency

Slovakia - Slovak National Agency for Foreign Investment and Development.

- providing finance across a wide spectrum of small businesses through established intermediaries. This is important both because it allows this important sector to have access to funding which it would otherwise be denied and because it serves as a model which the banking system can use to develop for its own lending to this sector.
- banking reform. The banking system is not yet structured to efficiently channel savings into investment, neither is the provision of venture capital highly developed. Phare will therefore intensify its efforts to support the reform of the banking sector and promote the provision of equity, including venture capital.
- management training. A number of pilot operations were started in 1994 and in the future the programme could support a large-scale industrial training attachment programme.

#### **Infrastructure investment**

The decision of the Essen Council to raise the limit of the Phare budget that could be used to co-finance infrastructure investment reflects the importance of improving infrastructure as a major element in preparation for accession. This is because of the need to improve the physical links between the partner countries and the European Community and also because investment in infrastructure has a multiplier effect on economic growth.

While Phare may only finance a small percentage of a project's final costs its role can be crucial either to bridge the gap between the amount that international financing institutions can lend and the contribution required from government or because its status as provider of grant, rather than loan finance, improves the quality of the mix of a financial package.

This type of financing is provided by Phare in those cases where it mobilises more substantial loans from international financing institutions or other investors or for projects supporting important integration objectives which would not otherwise go ahead.

Most of the projects co-financed to date have been within the transport sector. While Phare can finance any infrastructure project within the terms of the Copenhagen Council decision, so far the projects have either been linked to the seven major projects in central and eastern Europe which have been identified as priorities under the development of trans-European networks or are linked to eliminating bottlenecks at key border crossings.

In 1994 ECU 100 million has been committed for the co-financing of infrastructure investment in five countries (Poland, Hungary, Romania, Bulgaria and Albania). This covered eight projects (six transport, one gas pipeline project and a telecommunications project).

#### **Cross-border programme**

The cross-border programme is another important initiative linked to integration with a significant bias, at least in the initial stages, towards the development of infrastructure.

The programme was first launched in 1994 on the initiative of the European Parliament. It complements, and is closely linked to, the European Community's successful Interreg initiative. While Interreg is a programme aimed at cooperative development between regions on internal and external borders of the European Community, the Phare cross-border cooperation programme has the objective of developing networks and other forms of cooperation between border regions in partner countries with neighbouring Interreg regions of the European Community. The principal fields of activity are transport, utilities, environment, economic development and human resources.

Initially, in 1993, ECU 15 million from the Phare budget was set aside for interregional infrastructure cooperation. In 1994 this was extended to ECU 150 million. The countries eligible in 1994 were Albania, Bulgaria, the Baltic Republics, the Czech Republic, Poland and Slovenia. This will be extended to Hungary and Slovakia in 1995 as a result of the enlargement of the European Union to include Austria, Sweden and Finland.

During 1994 Phare worked closely with the Directorate General for Regional Policies which manages Interreg, to make sure that both address cross-border cooperation in a consistent way. In line with these efforts, and the Essen European Council conclusions, Phare is aiming to give a multi-annual perspective to the Cross-border cooperation programmes so that they correspond to the Operational Programmes for the Interreg II programme which are decided on a multi-annual basis from 1995 to 1999. It is planned to prepare Multi-annual Indicative Programmes that mirror Interreg Operational Programmes and provide a framework for annual financing decisions.

One of the striking differences between Phare cooperation and Interreg is the emphasis that the Phare countries place on infrastructure measures (the largest categories are transport and environment) while the Member States of

the European Community concentrate on regional development. To address these differences, Cooperation Agreements between the neighbouring countries involved will be prepared. These will provide a framework including the setting-up of joint programming and monitoring committees to agree objectives, implementation and monitoring. The first Cooperation Agreement was signed between Poland and Germany in December 1994.

Major projects launched under the 1994 Cross-border programme have concentrated on the following sectors:

- transport
- environment
- energy
- education
- communications
- agriculture.

Phare funding was also made available for a smaller inter-regional cooperation effort in the framework of the ECOS/Ouverture Programme, which supports cooperation on selected topics between cities and regions of the European Community and those of partner countries. Phare support enabled cities and regions of central and eastern Europe to take an active part in this programme.

#### **Eliminating border-crossing bottlenecks**

The third element of the Phare Programme which is concerned with integration are projects within the transport sector developed either as part of partner countries' national programmes or under the transport multi-country programme.

Phare attention in this area has largely been focused on improving border crossings to eliminate bottlenecks. Following the collapse of the previous regimes and the opening of borders traffic across borders has increased well beyond the point with which border crossing facilities were designed to cope. As a result delays, especially for freight traffic, can exceed 40 hours at some crossing points.

The problems that many of the partner countries have faced have stemmed from

- poor infrastructure and customs facilities at, or close to, the border-crossings themselves
- outdated and inappropriate customs clearance and control procedures
- lack of coordination between the authorities on both sides of the border.

Phare support has therefore focused both on improving practices through the transfer of know-how and also on direct investments to improve the infrastructure. The focus of Phare activity in previous years had been on the transfer of know-how - providing advice on setting up the necessary procedures and training customs staff. Now that most of the partner countries have put this in place, Phare support is placing greater emphasis on investment to improve the crossing points themselves. This can involve upgrading the roads and vehicle-holding areas so that they can cope with the increased volume of traffic as well as restructuring or rebuilding the customs points themselves.

Phare has provided more than ECU 100 million for this area so far and by the end of 1995 more than 50 individual border-crossing modernisation projects will have been implemented. Around ECU 80 million has been provided for the harmonisation and standardisation of documents and procedures as well as the computerisation of customs administrations.

An important new initiative in 1994 has been the development of the customs corridor concept. This was first proposed in relation to establishing a corridor which could improve transport in the Balkans, disrupted by the conflict in the former Yugoslavia. Most of the planning for the Balkans customs corridor has now been completed, an exercise involving cooperation between five countries, coordinated by Phare with the support of the European Commission's Directorates General VII and XXI.

In March 1994 European transport ministers met in Crete for a pan-European transport conference which identified nine priority transport corridors. Phare is financing most of the pre-investment feasibility studies as the first step towards developing these corridors. Phare has also started work on the development of a customs corridor in the Baltics.

#### **Promoting multi-country and intra-regional cooperation**

The development of cooperation between the Phare partner countries has been recognised as an important element of reform, not only in terms of developing closer economic links, but also in promoting political stability. The Essen strategy for accession also emphasises the importance of developing cooperation between the Phare partner countries and the promotion of 'bon voisinage'.

In this context Phare is actively supporting the Pact on Stability in Europe which aims to promote good relations between countries in central and eastern Europe and is one of the first joint actions of the Common Foreign and Security Policy.

Phare funds totalling ECU 200 million are being used to fund projects submitted by the central and eastern European countries in the six main areas identified in the Pact as being the key themes for cooperation:

- regional trans-border cooperation
- questions relating to minorities
- cultural cooperation, including language training
- regional economic cooperation
- legal cooperation and administrative training
- environmental problems.

A continuing emphasis was also placed on the development of cooperation between the partner countries through Phare's multi-country programmes (previously called regional programmes) which were first set up in 1991. In 1994 multi-country programmes received an allocation of ECU 86 million and covered the following key areas:

- energy, with specific emphasis on a clean coal strategy, twinning and network programmes and the harmonisation of energy policies
- transport, with a continuing focus on the elimination of border-crossing bottlenecks
- statistics, in order to develop information systems to support and monitor economic reforms

- education and research, with the Commission's ACE and COSINE programmes which both received additional support
- public administration, with the SIGMA programme which received additional support and was extended to Albania, the Baltic States and Slovenia.

Preparatory work was also carried out in the areas of distance education and telecommunications.

Representatives in the group, which meets twice a year, are the National Aid Coordinators of the Phare partner countries. The group has a rolling presidency following the alphabetical order of country names. In 1994 Hungary had the presidency which was then passed to Poland at the end of the year.

An orientations paper for multi-country programmes was prepared and agreed for the first time in 1994, setting the priorities for multi-country funding during the course of the year.

A continuing effort was made in 1994 to decentralise programme management and to strengthen the technical support for the sector coordinators who are nominated by the coordination group. As a result Programme Coordination Units (PCU) now exist for the transport, telecommunications, energy, customs and anti-drugs programmes.

# Management of the Phare Programme

1994 was a significant turning point in the management of the Phare Programme. The new political and economic environment relating to accession and the experience gained over four years of programme implementation demanded a re-think of many aspects of the Programme's operation.

As a result, the Commission made some fundamental improvements to the way the Programme is structured, implemented and managed, as well as developing a new approach to the future management of the Programme.

One of the most important areas of development concerned the strategy for accession adopted at the Essen Council. This involved preparing detailed working papers on how the Phare Programme could respond to the challenges of supporting the countries of central and eastern Europe in their preparation for membership.

The production of these papers involved substantial development of policy and management covering both the nature of support provided and the way it could be delivered. The areas which were developed, also covered in the previous section of this report, were infrastructure investment, all forms of multi-country and cross-border cooperation, development of the internal market and the promotion of investment.

Linked to the Essen strategy are the developments in programming, in particular the agreement at Essen of multi-annual financial support up until 1999.

The issue of decentralisation, which has been acknowledged as an important step in the development of Phare, became more significant in the light of the Essen decisions and Phare has made substantial progress in the decentralisation of financial management as well as in determining how best to develop decentralisation of programme planning and implementation.

Phare also launched an important initiative in financial management by establishing a common financial management system across all Programme Management Units which included systematic forms of monitoring and evaluation.

Finally, in recognition of the growing level of demand from many groups for information on the Programme, senior management seriously addressed the issue of communications for the first time.

## Decentralisation

There is agreement between the Commission, the Parliament and the Court of Auditors that Phare must continue its move towards greater decentralisation.

In the past, this had been viewed primarily from the point of view of technical and financial management and was related to establishing a system to allow Programme Management Units in the partner countries to have responsibility for the implementation and management of projects. However, the new focus on Phare as an instrument for accession has opened up a much broader perspective on what Phare should be seeking to achieve in terms of decentralisation. It has become clear that there is a need for partner countries to take the steps necessary to define and manage their own programmes to a greater extent, provided this is linked to specific conditions established by Phare, as well as to the more general objectives set out in the Europe Agreements.

This will have an impact on the structure of Phare. Many of the functions of task managers, currently being carried out in Brussels headquarters will be transferred to the partner countries, and activity in Brussels would focus more on strategic policy development and guidance. However, before this can be accomplished on a general basis, each partner country will have to have certain elements in place, such as rules for public procurement, a legal basis for tendering and an effective system of public administration and financial reporting. Hence the importance of directing current Phare support to these areas.

## Programming

Phare introduced multi-annual programming in the 1994 to 1996 Indicative Programmes which were negotiated in 1994 following adoption in the previous year of the 1993 to 1997 Phare Guidelines where the concept of multi-annual programming was first presented. This initiative is designed to ensure that Phare support more closely reflects each country's medium-term reform priorities, rather than being viewed as a series of one-off annual initiatives. At the time of its introduction the first concept of multi-annual programming was not supported by any multi-annual financial commitment, which hindered its implementation. Individual countries would indeed be reluctant to plan for Phare support in future years if there was no form of guarantee that funds would be available.

The lack of a multi-annual financial commitment also slows project implementation because it is based on an annual budget which must be committed each year. This means going through the full programming cycle each year and the actual commitment of funds is condensed into the end of the year. It also means that management must devote a disproportionate amount of effort to the commitment procedure, to the detriment of project management, implementation and monitoring and evaluation.

At the end of 1994, at the European Council meeting in Essen, the Council made a commitment to provide a minimum level of financial support for the period to 1999. The financial continuity necessary to construct medium-term programmes for the use of Phare funds was thus provided. As a result future Indicative Programmes for the Czech Republic, Hungary, Poland and Slovakia will now be developed to cover the period from 1995 to 1999 and Indicative Programmes will cover the period 1996 to 1999 for the other partner countries.

Phare management in Brussels headquarters has also started to develop a new system of guidelines on programme management which reflect the new multi-annual perspective and build in a greater element of monitoring and evaluation. These guidelines provide a more effective structure for planning a longer-term approach to the deployment of Phare funds.

It is anticipated that these guidelines will come into effect to cover a substantial part of 1995 programming.

## **Implementation**

In 1994 Phare also launched an important initiative concerning the actual implementation of Phare programmes. This initiative was the introduction of a manual of procedures for the Decentralised Implementation System (DIS).

The DIS is a system which provides a single, consistent framework within which to manage projects. Its main component is an overall strategic plan, individual work plans and a system for reporting on monitoring and evaluation over the life of a programme.

The advantage of this system is that, for the first time, one system of project management applies for all of the project implementers (the Programme Management Units) in the partner countries.

The key element of this system is the logical framework matrix - a system for establishing and measuring the objectives underlying any individual project.

As part of the Decentralised Implementation System the financial accounting system which had been operating in Brussels headquarters for two years was adapted for, and extended to, the Programme Management Units.

The Decentralised Implementation System manual and a further manual on contract and procurement rules were presented to all Programme Management Units during the year, in association with a training programme.

These new manuals represent a major step forward in streamlining the technical and financial aspects of project management. The manuals have been designed as flexible systems which can be updated. Feedback received from the partner countries is being used to improve the system further.

## **Monitoring and evaluation**

Phare has introduced some important initiatives in monitoring and evaluation in 1994. These cover both financial procedures as well as an assessment of how effective the programme has been in meeting its objectives.

During 1994 Phare signed framework contracts with a number of independent auditing firms. Their brief is to conduct a detailed financial audit of selected projects. The Phare units in the Commission's delegations in the partner countries have supplied lists of immediate auditing priorities, but the ultimate aim of this auditing process is to ensure that every Phare programme is audited at least twice during its life - which is usually two to three years.

The audit plan is given to the Court of Auditors and Directorate General XX (Financial Control) and the reports of the audit teams are also made available to these two bodies.

The results of these audits are already proving valuable in planning how to establish an effective audit process in a future, more decentralised, operation.

During 1994 a number of independent reports were also commissioned to assess the impact of the Phare Programme. Hungary was selected as the country for investigation and so were individual sectors within a number of countries.

The results of these studies have confirmed that the basic principles of Phare management are sound in that programme objectives match the partner countries' needs and results are meeting the objectives. However, the reports have highlighted areas where changes must be introduced to achieve more effective management. In particular these concern changes to financial and administrative procedures to allow project implementers greater time to focus on the management of actual projects, rather than financial reporting.

The Decentralised Implementation System itself also introduces a more controlled approach to both technical and financial evaluation through the regular monitoring and evaluation reports which result from the operation of the logical framework matrix.

The next step in the area of evaluation is to establish a more systematic approach to the independent evaluation of programmes, in a similar way to that followed in 1994 with the financial audits.

### **Communications**

The Phare Programme is almost unique among European Commission initiatives in the degree of legitimate interest that many groups, both in the Member States and the eleven partner countries, have in the Programme.

During 1993 it became clear that the resources devoted to satisfying the needs of these groups were not sufficient and that a more systematic approach was required. As a result, Phare management decided that a comprehensive communications strategy should be developed and resources devoted to communications should be increased. The strategy is based on a comprehensive research programme which identifies the information and communication needs of key decision-makers and of those working for the Programme, both inside and outside the Commission.

The programme was launched from Brussels headquarters in mid-1994. The feedback has been sufficiently encouraging to step up the level of activity in 1995. Programmes have included: a major rethink on written and visual corporate identity; a substantial publications programme in 22 languages, including timely release of contract information; and development of a communications database, which currently holds more than 40,000 names. The programme is now fully operational in Brussels, Warsaw, Prague and Budapest and during 1995 it will be extended to at least three and possibly five more partner countries. Other partner countries are involved on a more ad-hoc basis.

# Albania

1994 was an important year for Albania and the Phare Programme. The emphasis of Phare support continued to move away from emergency assistance towards providing the know-how necessary to put in place the structure of a market economy and democratic society.

This move reflects the steady improvement in the overall economic situation following the severe economic crisis which occurred in the wake of the collapse of the previous regime. Gross domestic product (GDP) grew by 6 per cent and the industrial output, which fell by 30 per cent in 1991, increased by 12 per cent in 1994.

This trend has enabled the government to put in place a longer term strategy for economic restructuring. Its medium term economic strategy for 1993 to 1996 and its public investment programme for 1994 to 1996 provide the basis for Phare's Indicative Programme which covers the period 1994 to 96.

Cooperation between Phare and the government has revealed a shared understanding of the main priorities for reform. As a result, the development of effective programmes which can be implemented efficiently has been possible.

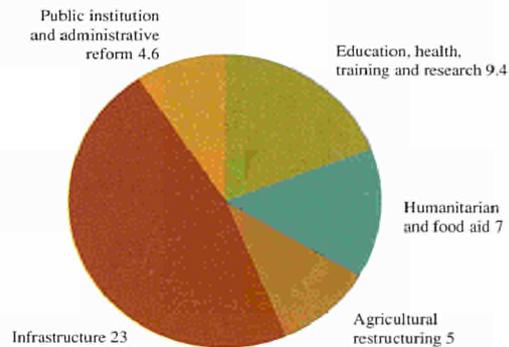
The Indicative Programme for 1994 was signed in May and ECU 29 million was committed for five key areas:

- sectoral restructuring (agriculture, health, SME development)
- infrastructure development
- human resources development
- institutional development
- humanitarian aid.

In addition, ECU 20 million was allocated for cross-border cooperation with the neighbouring countries of Greece and Italy. The focus is on the transport sector and, in particular, the improvement of road infrastructure and border crossings in the key east-west and north-south corridors.

At the end of the year a package of balance of payments support for ECU 35 million was also agreed. ECU 15 million of this will come under the 1994 budget with the remaining ECU 20 million provided in 1995.

## Funds committed by sector 1994 ECU 49 million



Agriculture continued to be a key priority for Phare support in 1994. The process of land reform is well advanced with 98 per cent of arable land now in private hands, although most of this is taken up by small subsistence farms. In order to develop agriculture as a viable sector for private entrepreneurship, Phare activities include the promotion of an operational agricultural credit system, the development of agricultural extension services for private farming and support for land mapping. Phare provided training and equipment for three map production institutions responsible for the survey, mapping and registration of over 1.8 million parcels of land.

There is an increasing and urgent need to address the severe deficiencies in Albania's infrastructure, a fact recognised by the government and included in its public investment programme. Phare is therefore focusing on improving infrastructure, in particular roads and port development. Phare is also co-financing the modernisation of the Dürres ferry terminal. The existing infrastructure has to be substantially improved to be able to respond to increased traffic in the last two years.

Albania is performing well in terms of programme implementation. At the end of 1994 70 per cent of total funds committed for the country were actually contracted - a figure far above the average of 52 per cent for all Phare partner countries. Disbursement rates are also satisfying with 66 per cent of funds contracted actually paid.

# Bulgaria

The foundations of a market economy and democratic society have been established in Bulgaria. However, the pace of economic reform and development in Bulgaria has slowed over the last two years due to the particularly difficult economic conditions, the embargo against Serbia and Montenegro and political changes. The country still faces high inflation and unemployment and a major budget deficit.

However, 1994 was a year when some positive signs emerged. The government put in place an ambitious economic plan and progress was made in several areas including the passage of the bankruptcy law and the introduction of VAT which took effect from 1 April 1994. Trade with western markets has also increased significantly in recent years.

Phare has played a significant role in the transformation of the Bulgarian economy. Phare funds have gone to the core areas of transformation, including privatisation and restructuring of state enterprises, private sector development, modernisation of bank and financing services, labour market and social sector reform.

In addition, Phare has provided humanitarian aid and a specific supplementary budget for nuclear safety.

However, Phare has faced increasing difficulties in implementing its programmes, in particular because the nature of support is shifting away from supply programmes and the provision of first-stage know-how towards more specialised support. This shift requires a greater level of cooperation with the government and progress on establishing legal and institutional restructuring in certain key areas. Such progress has been difficult due to several changes of government.

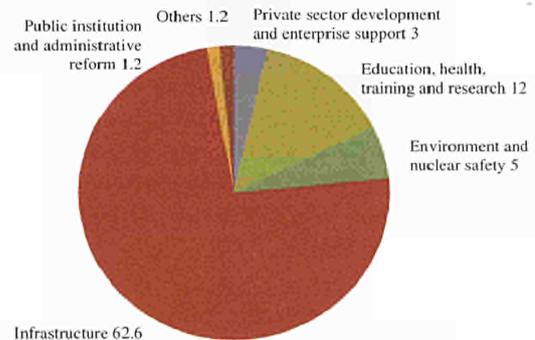
However, in 1994, the government introduced an ambitious reform programme. Phare activities were adjusted to support this and at the same time became more focused on those areas where past experience has shown positive results:

- private sector development
- human resources development and institutional reform
- investment support.

In total ECU 85 million was committed to Bulgaria under the 1994 programme.

Of the overall amount of funds committed in Bulgaria since the beginning of the Programme in 1990, the percentage of contracted funds is slightly below the average (48 per cent against 52 for the whole Programme).

## Funds committed by sector 1994 ECU 85 million



Disbursement rates over the period are about average for the Programme as a whole (with 51 per cent of funds contracted actually paid against 50 per cent for the average).

Some particular highlights of Phare's activities in 1994 included support to the energy sector, both to improve safety at nuclear facilities and to remove the reliance on nuclear power by upgrading coal-powered stations. In particular, Phare will participate in the financing of the installation of an emissions reduction system at the Maritsa East power station. This will enable the environmental standards to be met which are necessary to unlock financing for plant modernisation from the European Investment Bank and the European Bank for Reconstruction and Development.

Phare is also participating in the financing of some important infrastructure projects including the development of the E79 north-south highway.

With the support of Phare work is also progressing on streamlining the Bulgarian telecommunications sector, both through training and the development of human resource policies and modernisation of the facilities of Bulgarian Post.

Under the cross-border cooperation programme with Greece, Phare also finances the reconstruction of several sections of the Dupnitsa-Kulata railway line including electrification of railway over 114 km in one direction. Another project is helping to install a new telecommunication link from Kavala to Haskovo including the laying of a 120 km fibre optic cable and installing a digital transmission system in Sofia.

# Czech Republic

1994 was a turning point for Phare in the Czech Republic. In the context of preparing the 1994 to 1996 multi-annual Indicative Programmes, a review of Phare activities was carried out. New orientations were established on the basis of which Phare was able to secure much greater support from the government based on a shared recognition of the importance of Phare in helping the Czech Republic move towards its desired membership of the European Union. The review also took account of the desire of the Czech government to shift the focus of Phare support from private sector development to support for public services, including infrastructure investment. The government also asked for less selective support for enterprise restructuring and for efforts in the private sector to be focused over the medium term on support for generalised services and business development programmes.

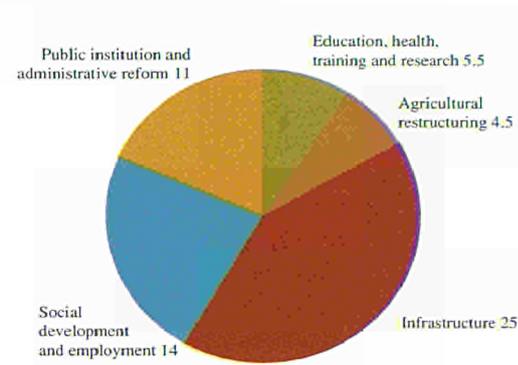
The Programme review showed that delays in implementing the 1991 to 1993 programmes caused by the split of the Czech Republic and Slovakia, combined with the rapid transformation of the Czech economy from a centrally-planned to a market economy, meant that funding was going to areas which were no longer necessarily priorities. Over 90 per cent of former state assets are now in private ownership, inflation is under control and unemployment is low. The decline in economic growth seems to have been reversed, with forecasts now predicting growth of around four per cent. The state budget is balanced and the country has a surplus on its current account.

Government priorities shifted to the consolidation of economic reform and the development of integration with the European Union. As a result Phare activity will become increasingly focused on legislative integration and the implementation of the Europe Agreement, as well as on developing infrastructure.

This new approach will be further developed in the 1995-1999 Indicative Programme.

ECU 60 million was allocated to the Czech Republic in 1994, of which ECU 25 million was allocated to projects under the new cross-border cooperation programme.

## Funds committed by sector 1994 ECU 60 million



Some of the important initiatives of 1994 included the development of the Regional Investment Company in Ostrava and the National Training Fund. These initiatives represent an important development in decentralisation and greater involvement of Czech organisations in deciding where Phare funds are used. Two interesting new initiatives, the Energy Conservation Fund and an Environment Revolving Fund, are under preparation and are expected to be implemented during 1995 in cooperation with the EBRD.

The Regional Investment Company is an ECU 8 million fund for the development of high growth companies mainly in the Ostrava region. Phare has provided the capital and a chief executive who has been seconded from an investment company in the European Union. Financing decisions are approved by a board of local business people. Since the fund officially started operations in June 1994 it has invested ECU 1.1 million in four projects. A further investment of ECU 2.7 million has been approved by the Board and is being implemented.

The National Training Fund provides funding for 13 pilot project local management training institutions to provide intensive high-level modular courses for the middle management of Czech private and public institutions.

The concept of establishing sectoral funds has been incorporated in the new approach to Phare which will be launched in the 1995 to 1999 Indicative Programme.

Within the framework of the programme for small and medium-sized enterprises support was given to more than 5,000 entrepreneurs by providing advisory services through a network of 20 regional centres and Business Information Centres.

The cross-border cooperation programme was the main innovation in 1994. Despite some initial reservations the programme is proving to be a popular and much-appreciated initiative. Six projects have been agreed concerning the improvement of transport infrastructure, the purification of water supplies, a steam pipeline for the improvement of heat distribution and the reduction of toxic emissions in the Czech - German border region.

In the area of foreign investment the Phare-supported investment promotion agency, Czechinvest, successfully developed its activities including the establishment of a local representatives network in Czech regions as well as a

foreign representation in London (France and Germany are at the stage of preparation). Czechinvest also directly secured six investments in 1994 amounting to the value of US\$ 48 million, generating 1,250 new jobs.

Contracting and disbursement rates of the Czech Republic are far below the average of the Programme as a whole with only 13 per cent of funds committed actually disbursed and 21 per cent of funds contracted actually paid since the Programme started to support the country. This performance has not yet had serious consequences on project implementation as it only accounts for the Czech performance since 1993 when it became independent.

Phare also took some important steps in the development of a proactive approach to communications. Research was carried out in the second half of the year to identify how best to improve communications with the Programme's key target audiences. The results of this research have been used to design a communications programme for 1995 which supports the overall communications strategy developed for Phare by the European Commission.

# Estonia

Phare funds for Estonia in 1994 almost doubled from the 1993 level, increasing from ECU 12 million to ECU 22.5 million. The increase is based on the good performance of the Phare Programme and the firm commitment of the government to the reform process.

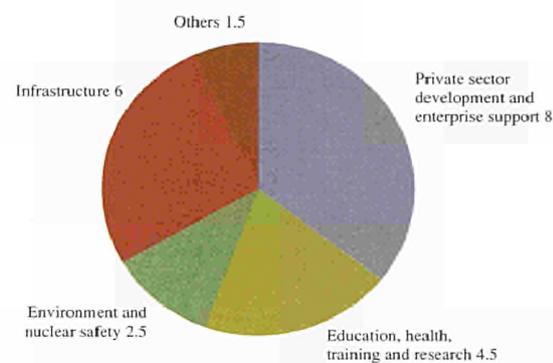
Cooperation between the Estonian government and Phare has resulted in effective project implementation and a correspondingly high contracting rate (55.5 per cent of total funds committed). Disbursements at the end of 1994 stood at 25 per cent of funds contracted. The ability of the government and of institutions to identify and implement programmes has thus improved, helped by the Phare Aid Coordination Unit established within the Ministry of Finance. With assistance from this unit, the different government and non-governmental organisations are now able to manage the majority of the programmes themselves instead of relying on direct programme implementation by the Phare services in Brussels.

The government has been successful in establishing a framework for an independent economy following the extreme economic disruption resulting from Estonia's independence from the Soviet Union. Trade has been focused towards the west. An important initiative in this respect was the signing of a free trade agreement with the European Community and the start of negotiations for a Europe Agreement.

Phare funding in 1994 has become more focused on key areas of reform such as privatisation and structural reform. The areas for Phare support, as outlined in the Indicative Programme signed in May, are economic reform, infrastructure development and institutional and human resources development.

The programme also maintains a General Technical Assistance Facility which will concentrate on the implementation of the new free trade agreement and support to prepare a public investment programme.

## Funds committed by sector 1994 ECU 22.5 million



Estonia had privatised almost half of its large state companies by the end of August 1994 with 157 deals signed for a total sale value of approximately ECU 60 million. Phare supported this through the creation of the Estonian Privatisation Agency, the drafting of relevant legislation, the preparation of pre-privatisation studies on key industries and training for board members and managers of privatised companies.

Phare also targeted the environment through the development of a national environment strategy and an allocation of ECU 4 million devoted to solving the problems of environmental hot spots.

# Hungary

Hungary is well advanced in its economic transformation process and has put in place most of the basic elements of a market economy and democratic society.

It has therefore reached the stage in its relationship with Phare where support is becoming more focused on consolidation of reform and integration with the European Union.

This is an important but difficult stage because it frequently involves tackling politically sensitive areas and making tough decisions. In Hungary some severe macro-economic problems, such as the high level of consumption, foreign debt and a current account deficit of around nine per cent of GDP, had not been tackled and threatened the momentum of reform.

Phare established some basic objectives with the new government elected in May 1994. These are

- to foster the conditions favourable for a resumption of economic growth consistent with maintaining external and internal balances
- to deepen and extend the reforms
- to address pressing social issues.

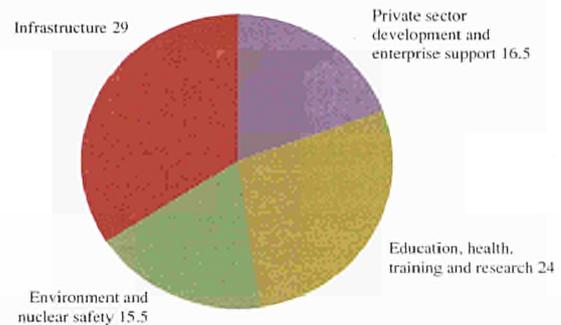
In total ECU 85 million was allocated to Hungary in 1994 and the areas selected for Phare support were private sector development, infrastructure development and human resources development.

The rate at which Phare projects were implemented in Hungary is slightly above the average for Phare countries. At the end of 1994 55 per cent of the total committed to Hungary over the life of the Programme had been contracted. This compares to a figure of 52 per cent for the Programme as a whole. The disbursement rate stands at 62.5 per cent of funds contracted.

There is nevertheless a need to improve coordination between the Hungarian National Coordinators office and the Commission in order to identify projects which are relevant to the government's reform priorities and which can be implemented rapidly and effectively.

Nonetheless, there have been some very positive developments during the year. The programme of support for small and medium-sized enterprises has been one of the most successful of any run in the Phare partner countries.

## Funds committed by sector 1994 ECU 85 million



Phare has also contributed to some major developments in the banking and finance sector - in particular the completion of a second-round bank re-capitalisation scheme.

1994 was also the first year that Phare made significant investment in infrastructure. Phare concentrated on the sectors of transport, environment, energy and on the modernisation of border crossings. In particular the Phare Management Committee approved in 1994 the co-financing of two road rehabilitation projects (the E77 link to Slovakia and the M5 link with Romania) while five priority border crossings have been selected for improvement - three with Romania and one each with Slovakia and the Ukraine. These improvements are an urgent priority due to the increase in traffic caused by the Balkan conflict. Implementation of these projects should start in early 1995.

The Trans-European Mobility Programme for University Studies (Tempus) for the exchange of academic staff and students in higher education with institutions in the European Union was also very successful and received a further ECU 16 million in 1994.

The year also saw a significant increase in the number of Hungarian organisations under contract to implement Phare projects. Hungarian organisations represent 80 per cent of the total number of contracts awarded between 1990 and 1994 by Phare.

# Latvia

Phare substantially increased its funding for Latvia in 1994. From ECU 18 million in the previous year funding was raised to 29.5 million in 1994. This was due to Latvia's demonstration of its ability to implement projects effectively and therefore absorb a greater level of funding.

This is also demonstrated by the Programme's financial performance. At the end of 1994 49 per cent of funds committed since Phare started to support Latvia were already contracted. Disbursement for the same period of time (1992-1994) is 25 per cent of funds contracted.

The government is increasingly aware of the role that the Phare Programme can play in the development of the economy and in reaping the benefits of increased integration and trade with the European Community.

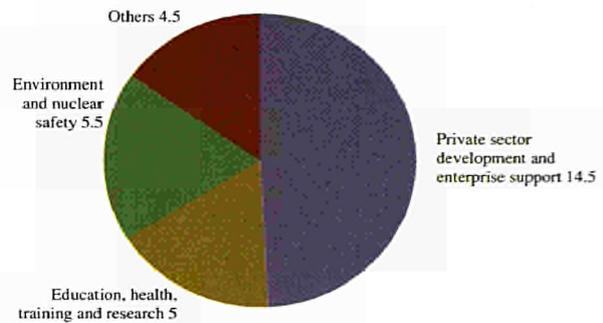
After a severe economic recession in the early 1990s, 1994 was a positive year for economic development in Latvia. There was a substantial improvement in the balance of payments, unemployment remained stable at 6.1 per cent and inflation decreased. The exchange rate for the new Latvian currency, the Lats, has remained stable against major currencies in the first quarter of 1994 and shows a persistent tendency to strengthen against the US dollar.

In the latter half of 1994 the government produced a National Indicative Programme to cover the period from 1995 to 1997 with the following priorities:

- economic stabilisation and development with particular emphasis on the banking and financial sector
- legal reform, including land reform, property registration and other issues necessary to facilitate privatisation
- public administration reform, including development of institutions and human resources development.

This will provide a useful guide for the development of the Phare Indicative Programme for 1995 to 1999.

## Funds committed by sector 1994 ECU 29.5 million



The financial support from the Phare Programme for Latvia in 1994 concentrated on economic reform, institutional and human resources development and infrastructure development.

Some of the major programme developments in 1994 included establishing a training programme for 10,000 central government civil servants. This programme will be expanded in 1995 to train 17,000 local government and police staff.

Phare has also been involved in the reform of the national education system in 1994. A supplementary allocation of ECU 3 million was made available in the third quarter of the year to support vocational training and educational reforms.

In support of the government's ambitious programme in the public administration sector Phare developed programmes for the customs, statistics and quality control services.

# Lithuania

Phare funds committed to Lithuania increased by ECU 25 million to ECU 39 million in 1994. This is as a result of the proven ability of the country to absorb funds and implement projects as a result of effective coordination between the government and Phare.

At the end of 1994 49 per cent of total funds committed since the start of the Programme in 1992 had been contracted. Disbursements stand at 24 per cent of funds contracted.

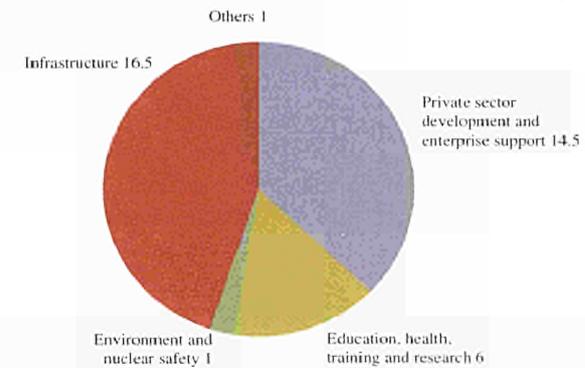
The government has continued its programmes of structural reforms, macroeconomic stabilisation, fiscal restraint and private sector promotion. However, political pressure has delayed the finalisation of the privatisation programme as well as the adoption and enforcement of key economic legislation.

As with Estonia and Latvia Phare support up until 1993 was based on General Technical Assistance Facilities giving support across a wide range of sectors. This provided the basis to identify more specific sectoral strategies which are reflected in the 1994 Indicative Programme.

This Indicative Programme committed ECU 39 million in the following areas: infrastructure development, economic development and human resources development.

An important development in 1994 was Phare's work with the government in preparing the first draft of the public investment programme. The programme is currently being implemented by the Lithuanian Government in close cooperation with Phare and the World Bank. Phare's role in the programme is to advise the Government on defining the sectors of strategic importance in which it should invest. It also involves the creation of training courses on project planning and analysis for the staff of Lithuanian ministries and other Government agencies. This will provide for some focus on Phare support in the infrastructure sector which is currently intended to address transport, energy and environment projects.

## Funds committed by sector 1994 ECU 39 million



A key feature of the transformation of Lithuania's economy has been the speed at which the economy has been privatised. Within three years 80 per cent of the eligible enterprises in the key areas have been privatised. To support further the process of enterprise restructuring additional funds were allocated in 1994. A credit line for small businesses, channelled through commercial banks, has also been expanded and Phare will continue to support the operations of the Investment Promotion Agency established by the Programme at the end of 1993.

Other significant projects implemented during the year included the development of a 'roll-on-roll-off' terminal at the Klaipeda port financed under the Cross-border cooperation programme and the upgrading of equipment at the central office of the Lithuanian Statistics Department.

In the area of labour market reform Phare has been preparing a large programme for the development of vocational training schools at secondary and post-secondary level.

# Poland

Poland has, in many ways, advanced economic reform faster and further than in neighbouring countries. However, the reform process in Poland slowed somewhat in 1994. The difficulties of tackling some of the key areas of reform that remain have been acute. In addition the new coalition government had difficulty in taking decisive action given the need to balance a range of views on reform.

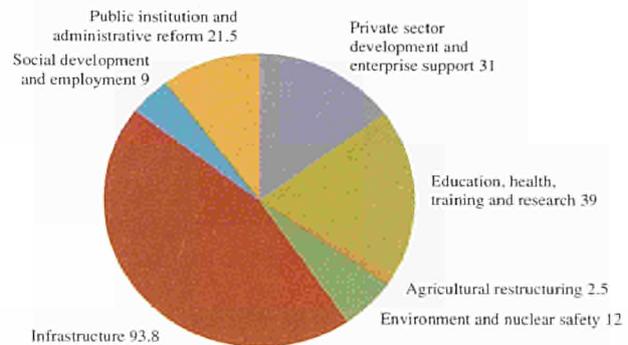
As a result it took the government a considerable time to determine the priorities for Phare funding. The eventual allocation also represented a broad range of activities and was not as tightly focused on reform consolidation and integration as might be expected of a country at Poland's advanced stage in the economic transition process.

The Indicative Programme, which was eventually signed in November 1994, commits ECU 208.8 million across nine specific areas:

- financial sector development
- investment in transport infrastructure
- cross-border cooperation
- development of higher education through the Tempus programme
- supporting democratic institutions and development of civic society in local communities
- worker protection
- forestry protection
- industrial restructuring, privatisation and investment in energy
- Fiesta III - a multi-sectoral facility.

The current slowing of reform has not yet had an impact on economic development. The economy showed strong growth recording a 5 per cent rise in GDP and an increase of 8 per cent in total. Privatisation and the development of the private sector have resulted in the private sector contributing 56 per cent to total GDP. However, Phare's privatisation programme has been held up pending government decisions on the pace of continued privatisation while Phare's programme for regional development also proved to be more complex than initially envisaged.

## Funds committed by sector 1994 ECU 208.8 million



Of the overall amount of funds committed over the life of the Programme in Poland only 39 per cent were actually contracted by the end of 1994. This compares with an average of 52 per cent for the Programme as a whole. This represents a significant amount of uncontracted funds given the size of budget allocations to Poland. This is largely due to the need to respond to political pressures to spread funding broadly rather than to focus on specific areas where Phare can be most effective.

Disbursement rates in Poland have also been slower than average with 46 per cent of funds contracted actually paid.

Despite some of the difficulties some positive initiatives were taken in 1994. Significant Phare funding was devoted to encourage the restructuring of the Polish banking sector - a continuing priority for Phare support. This funding, provided to finance the provision of know-how, involved such tasks as the evaluation of bad debt positions. Finance is also made available to support the recapitalisation of banks with historically unsound loan policies and an imprudent risk exposure to debt, notably rural and provincial cooperative banks.

ECU 35 million was allocated in 1994 to transportation infrastructure schemes especially those that help modernise motorway and railway system connections with European Union Member States - projects envisaged as forming part of the trans-European networks. Significant investment in infrastructure is also taking place under the Cross-border programme for which ECU 58.75 million was allocated. This funding was largely devoted to schemes devised to remove bottlenecks at frontier crossings. Work on these projects included the construction of modern customs terminals and the building of new access roads to ease the flow of cross-border transportation.

1994 was also the first year that the Phare-funded Polish Agency for Regional Development started financing operations through investment grants.

The Phare Programme is supporting the Polish Government in its attempt to reform its public administration. Reform in this area remains difficult to accomplish but it is becoming increasingly important if Poland is to implement the initiatives required to meet the objectives set out for integration with the European Union. The initiatives in this area support the Agency for Municipal Development and the National Labour Inspectorate.

Phare also achieved high-profile success in the environment sector through participation in a programme which used environmentally-friendly chemicals to rid over 800,000 hectares of forest of an infestation of parasitic nun moths responsible for killing off large tracts of woodland.

# Romania

Romania's road to reform is among the most difficult of Europe's post-communist countries due to the tremendous task the country has to undertake to undo the effects of an isolationist culture and a very unbalanced economic structure. In 1994 the government continued to implement a major macro-economic stabilisation programme launched in 1993. This brought about a marked fall in inflation, liberalised the foreign exchange market and included curbs on implicit subsidies through the banking system.

These measures allowed agreement on an International Monetary Fund standby facility and thus helped improve Romania's standing with the international investment community.

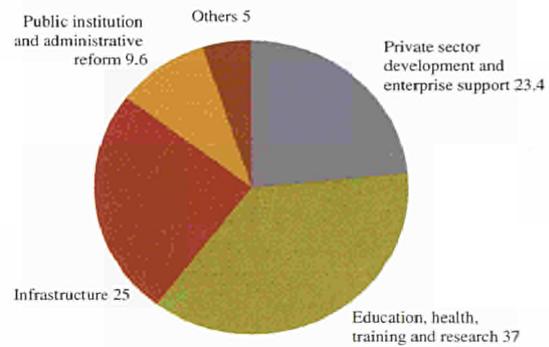
However, at the microeconomic level, progress in crucial areas of reform and restructuring was slow in 1994. Important pieces of legislation, notably on bankruptcy and competition, were stalled in parliament. The draft law on mass privatisations tabled in mid-1994 was also strongly contested.

This has had an impact on Phare activities blocking progress in the privatisation programme and other initiatives linked to economic restructuring. However, in general terms the management of the Programme and coordination with the government is good. This is reflected in the financial performance with 50 per cent of funds committed already contracted and 47 per cent of funds contracted paid at the end of 1994.

The 1994 programme was allocated ECU 100 million. The four broad areas of funding, agreed for the period 1994-1996, include economic and private sector development, human resources, employment and social policy development, institutional reform and public finance management, regional development and European integration.

A significant development in 1994 has been the number of programmes designed to support decentralised initiatives at local level. These include support for small and

## Funds committed by sector 1994 ECU 100 million



medium-sized enterprises, regional economic development, tourism and civil society development. The management of these programmes will be less dependent on the central administration.

1994 also saw the approval of a major infrastructure co-financing project - the first major project carried out under the scheme agreed at the Copenhagen Council of June 1993. This covers a substantial road upgrading project and is co-financed with the European Bank for Reconstruction and Development and the European Investment Bank.

This project also marked the start of a greater focus on investment and initiatives linked to integration.

The year also saw the first discontinuation (in the form of non-extension) of a Phare programme. This concerned a programme carried out with the Ministry of Health which had been consistently delayed due to disagreements on certain areas of policy established in the original Financial Memorandum signed between Phare and the government. This example is by no means typical of Phare's relationship with the Romanian government but is important in that it is the first tangible example of Phare's commitment to move funds out of non-performing programmes.

# Slovakia

Slovakia faces more serious economic problems than its former partner, the Czech Republic, because of a greater dependence on a relatively limited number of large state-owned mono-industries (for example, armaments) which have presented particular restructuring difficulties. There has also been a greater level of political instability which has affected the pace of reform.

However, 1994 was a positive year. After four years of economic decline signs of a recovery in economic activity began to emerge. Real GDP is estimated to have recorded year-on-year growth of 4.4 per cent, inflation slowed and the current account balance began to improve.

The coalition government formed in March put in place a new economic policy aimed at revitalising the reform process. While its subsequent defeat has cast some doubt over the future pace of reform Phare was able to use this economic plan as the basis for establishing more clearly defined priorities.

The multi-annual Indicative Programme, which was signed in 1994, identifies five areas for support:

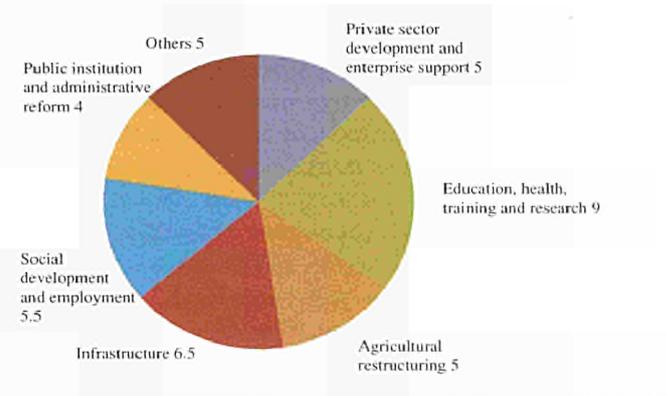
- development of the private sector
- human resources development, including science and technology reform
- strengthening the social protection system
- promoting infrastructure development
- modernising the structures of state and society.

In total ECU 40 million was committed to Slovakia for 1994.

Phare and the Slovak Government took some important steps in 1994 which have improved the performance of many of the programmes. This has largely been achieved through the resolution of some of the difficulties caused by the split of the former Czechoslovakia.

The Phare Programme in Slovakia had been hit more severely by this split than in the Czech Republic. This was because of a greater need to establish ministries and the mechanics of government and a subsequent delay in setting up Phare Programme Management Units within the new ministries. However, this work has now been completed and by the end of the year the Programme in Slovakia had contracted 57.2 per cent of funds available to the end of 1993. This figure is slightly better than the average for Phare partner countries. The disbursement rate of the country over the same period was 37.5 per cent of funds contracted.

## Funds committed by sector 1994 ECU 40 million



Some of the significant initiatives which Phare implemented in 1994 included a major effort to mobilise funds committed in previous years to support a second wave of privatisation. Phare has also earmarked funds to co-finance a post-privatisation fund with the European Bank for Reconstruction and Development. Once launched it will offer equity funding for newly privatised companies which need restructuring.

Phare also provided some valuable support for the banking sector in the areas of banking supervision and training - both for the Slovak National Bank and the Ministry of Finance. This has included the development of a strategy for handling bad loan portfolios and for establishing work-out units.

Phare has, in addition, established a loan fund for small and medium-sized enterprises in association with three Slovak banks and the Government. This fund will fit into the overall initiatives for small and medium-sized enterprises which include a development agency and a network of 14 regional advisory and information centres and one business innovation centre.

In 1994 an effective structure was also set up with the government to monitor and coordinate the implementation of the Europe Agreement signed in 1993.

Plans were also finalised in 1994 to open a European Commission Delegation in Bratislava. This will allow further improvements in the coordination of the Programme with the Slovak Government and the implementation of a communications programme.

# Slovenia

Slovenia has been one of the most successful of the Phare partner countries in transforming its economy and promoting economic growth, achieving 5.5 per cent of GDP growth in 1994. With public debt at around three per cent and a balanced budget it already fulfils two of the three European Union's single currency 'convergence' criteria.

Slovenia's economic progress towards integration is somewhat in advance of political links with the European Union. A Trade and Economic Cooperation Agreement has been in force since 1993 pending the conclusion of a Europe Agreement.

Following the Essen Council the focus of Phare in the future will be on facilitating the preparation for eventual accession and on implementation of the future Europe Agreement while continuing support for key sectors for the medium-term restructuring of the economy aimed at improving economic efficiency and competitiveness.

Slovenia received ECU 24 million for 1994 and focused on five priority areas:

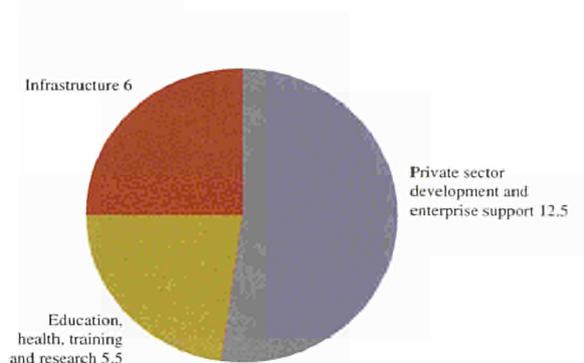
- private sector development
- the harmonisation of legislation to accepted European standards
- public infrastructure
- science and technology
- human resources development.

In 1994 Slovenia also received ECU 4 million under the Cross-border cooperation programme. This is being used to fund ten initiatives in the Italian border region in three core areas: transport and border-crossing infrastructure, environment and agriculture.

Phare has also provided the necessary feasibility studies to support the east-west transport corridor financed by the European Bank for Reconstruction and Development.

Phare launched a programme for energy and environment in 1994. It finances the preparation and implementation of energy-saving activities such as the creation of an energy-saving fund, the development of a clean coal programme and advisory support.

## Funds committed by sector 1994 ECU 24 million



Phare is also providing funds under a General Technical Assistance Facility which funds small-scale initiatives for a range of different sectors. Support provided includes policy advice on the development of the telecommunications and transport sectors, support for the promotion of private sector involvement in research, the analysis of the marketing, technological and economic factors leading to the preparation of a strategy for the chemical and paper industries, support for the Bank of Slovenia in carrying out on-site inspections of banks due to join the Bank Rehabilitation Agency and the development of a comprehensive training programme on economic legislation.

Of the overall amount of funds committed by Phare to Slovenia 57.5 per cent have been contracted. This is a good performance especially since the Programme has only been operational since 1992. The disbursement rate is also encouraging with 43 per cent of funds contracted actually paid at the end of 1994.

# Phare funding by country

This section contains a detailed breakdown of how Phare funds allocated to each country have been committed to sectors.

For each country the following information is given:

- an overview of total funds committed by year since the beginning of the Phare Programme
- an overview of how total funds committed have been allocated by sector from 1990 to 1994

The same information is also given for funds committed under multi-country programmes.

For some countries the figures will not show a complete picture of the sectoral distribution of funds because a large proportion of the funds allocated are in the form of a General Technical Assistance Facility (GTAF). This is classified under the category 'other' but frequently finances a range of different initiatives across a variety of sectors.

## Albania

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	-	0	35	42	0	77
Education, health, training and research	-	0	1.2	8.5	9.4	19.1
Humanitarian and food aid	-	10	50	10	7	77
Agricultural restructuring	-	0	15	10	5	30
Environment and nuclear safety	-	0	0	3.3	0	3.3
Infrastructure (energy, transport and telecommunications)	-	0	4.4	0	23	27.4
Social development and employment	-	0	0	0	0	0
Public institution and administrative reform	-	0	0	1.2	4.6	5.8
Others	-	0	4.4	0	0	4.4
<b>Total</b>	<b>0</b>	<b>10</b>	<b>110</b>	<b>75</b>	<b>49</b>	<b>244</b>

Note: Albania entered the Phare Programme in 1991

## Bulgaria

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	0	30	22.5	11	3	66.5
Education, health, training and research	0	5	23	28	12	68
Humanitarian and food aid	5	20	0	0	0	25
Agricultural restructuring	16	25	10	0	0	51
Environment and nuclear safety	3.5	26.5	8.3	10.8	5	54.1
Infrastructure (energy, transport and telecommunications)	0	13	13	13.9	62.6	102.5
Social development and employment	0	2.5	0	4	0	6.5
Public institution and administrative reform	0	0	0	16	1.2	17.2
Others	0	0	0	1.5	1.2	2.7
<b>Total</b>	<b>24.5</b>	<b>122</b>	<b>76.8</b>	<b>85.2</b>	<b>85</b>	<b>393.5</b>

## Czech Republic

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	-	-	-	27	0	27
Education, health, training and research	-	-	-	8	5.5	13.5
Humanitarian and food aid	-	-	-	0	0	0
Agricultural restructuring	-	-	-	0	4.5	4.5
Environment and nuclear safety	-	-	-	0	0	0
Infrastructure (energy, transport and telecommunications)	-	-	-	9	25	34
Social development and employment	-	-	-	8	14	22
Public institution and administrative reform	-	-	-	0	11	11
Others	-	-	-	8	0	8
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>60</b>	<b>120</b>

Note: prior to 1993 Phare funds were provided to Czechoslovakia

## Estonia

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	-	-	0	0	8	8
Education, health, training and research	-	-	1	1.5	4.5	7
Humanitarian and food aid	-	-	0	0	0	0
Agricultural restructuring	-	-	0	0	0	0
Environment and nuclear safety	-	-	0	0	2.5	2.5
Infrastructure (energy, transport and telecommunications)	-	-	0	0	6	6
Social development and employment	-	-	0	0	0	0
Public institution and administrative reform	-	-	0	0	0	0
Others	-	-	9	10.5	1.5	21
<b>Total</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>12</b>	<b>22.5</b>	<b>44.5</b>

Note: Estonia entered the Phare Programme in 1992

## Hungary

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	31	59.5	11	31	16.5	149
Education, health, training and research	7.5	22	16	36	24	105.5
Humanitarian and food aid	0	0	0	0	0	0
Agricultural restructuring	20	13	5	30.5	0	68.5
Environment and nuclear safety	27	10	10	0	15.5	62.5
Infrastructure (energy, transport and telecommunications)	1.3	7	0	0	29	37.3
Social development and employment	3	0	26	0	0	29
Public institution and administrative reform	0	8	14.5	1.5	0	24
Others	0	0	15	0	0	15
<b>Total</b>	<b>89.8</b>	<b>119.5</b>	<b>97.5</b>	<b>99</b>	<b>85</b>	<b>490.8</b>

## Latvia

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	-	-	0	0	14.5	14.5
Education, health, training and research	-	-	1.5	2	5	8.5
Humanitarian and food aid	-	-	0	0	0	0
Agricultural restructuring	-	-	0	0	0	0
Environment and nuclear safety	-	-	0	0	5.5	5.5
Infrastructure (energy, transport and telecommunications)	-	-	0	0	0	0
Social development and employment	-	-	0	0	0	0
Public institution and administrative reform	-	-	0	0	0	0
Others	-	-	13.5	16	4.5	34
<b>Total</b>	-	-	<b>15</b>	<b>18</b>	<b>29.5</b>	<b>62.5</b>

Note: Latvia entered the Phare Programme in 1992

## Lithuania

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	-	-	9.5	0	14.5	24
Education, health, training and research	-	-	1.5	2.5	6	10
Humanitarian and food aid	-	-	0	0	0	0
Agricultural restructuring	-	-	0	0	0	0
Environment and nuclear safety	-	-	0	0	1	1
Infrastructure (energy, transport and telecommunications)	-	-	0	0	16.5	16.5
Social development and employment	-	-	0	0	0	0
Public institution and administrative reform	-	-	0	0	0	0
Others	-	-	9	22.5	1	32.5
<b>Total</b>	-	-	<b>20</b>	<b>25</b>	<b>39</b>	<b>84</b>

Note: Lithuania entered the Phare Programme in 1992

## Poland

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	40	72	79.2	27	31	249.2
Education, health, training and research	2.8	34.5	42	45	39	163.3
Humanitarian and food aid	0	0	0	0	0	0
Agricultural restructuring	100	17	18	30	2.5	167.5
Environment and nuclear safety	22	35	18	0	12	87
Infrastructure (energy, transport and telecommunications)	6	10	26.4	63	93.8	199.2
Social development and employment	0	18	7.2	0	9	34.2
Public institution and administrative reform	10	7.5	9.1	27	21.5	75.2
Others	0	3	0	33	0	36
<b>Total</b>	<b>180.8</b>	<b>197</b>	<b>200</b>	<b>225</b>	<b>208.8</b>	<b>1,011.6</b>

## Romania

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	0	0	45	70	23.4	138.4
Education, health, training and research	0	35	13	18	37	103
Humanitarian and food aid	15.5	34.3	22	9.9	0	81.7
Agricultural restructuring	0	34	32	5	0	71
Environment and nuclear safety	0	0	5	0	0	5
Infrastructure (energy, transport and telecommunications)	0	9	0	0	25	34
Social development and employment	0	0	15	0	0	15
Public institution and administrative reform	0	0	0	10	9.6	19.6
Others	0	26	16	27	5	74
<b>Total</b>	<b>15.5</b>	<b>138.3</b>	<b>148</b>	<b>139.9</b>	<b>100</b>	<b>541.7</b>

## Slovakia

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	-	-	-	19	5	24
Education, health, training and research	-	-	-	5	9	14
Humanitarian and food aid	-	-	-	0	0	0
Agricultural restructuring	-	-	-	3	5	8
Environment and nuclear safety	-	-	-	0	0	0
Infrastructure (energy, transport and telecommunications)	-	-	-	5	6.5	11.5
Social development and employment	-	-	-	3	5.5	8.5
Public institution and administrative reform	-	-	-	0	4	4
Others	-	-	-	5	5	10
<b>Total</b>	-	-	-	<b>40</b>	<b>40</b>	<b>80</b>

Note: prior to 1993 Phare funds were provided to Czechoslovakia

## Slovenia

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	-	-	0	0	12.5	12.5
Education, health, training and research	-	-	2.3	3.5	5.5	11.3
Humanitarian and food aid	-	-	0	0	0	0
Agricultural restructuring	-	-	0	0	0	0
Environment and nuclear safety	-	-	0	0	0	0
Infrastructure (energy, transport and telecommunications)	-	-	0	0	6	6
Social development and employment	-	-	0	0	0	0
Public institution and administrative reform	-	-	0	0	0	0
Others	-	-	6.7	7.5	0	14.2
<b>Total</b>	-	-	<b>9</b>	<b>11</b>	<b>24</b>	<b>44</b>

Note: Slovenia entered the Phare Programme in 1992

## Czechoslovakia

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	0	39	31	-	-	70
Education, health, training and research	4	9	25	-	-	38
Humanitarian and food aid	0	0	0	-	-	0
Agricultural restructuring	0	0	0	-	-	0
Environment and nuclear safety	30	5	0	-	-	35
Infrastructure (energy, transport and telecommunications)	0	11	10	-	-	21
Social development and employment	0	15	0	-	-	15
Public institution and administrative reform	0	0	0	-	-	0
Others	0	20	34	-	-	54
<b>Total</b>	<b>34</b>	<b>99</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>233</b>

Note: from 1993 Phare funding was provided separately to the Czech Republic and Slovakia

## GDR

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	0	-	-	-	-	0
Education, health, training and research	1	-	-	-	-	1
Humanitarian and food aid	0	-	-	-	-	0
Agricultural restructuring	0	-	-	-	-	0
Environment and nuclear safety	20	-	-	-	-	20
Infrastructure (energy, transport and telecommunications)	0	-	-	-	-	0
Social development and employment	0	-	-	-	-	0
Public institution and administrative reform	0	-	-	-	-	0
Others	14	-	-	-	-	14
<b>Total</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35</b>

Note: Aid to GDR ceased after German unification

## Former Yugoslavia

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	0	0	0	0	0	0
Education, health, training and research	0	6	0	0	0	6
Humanitarian and food aid	30.2	7.1	47.8	25	23	133.1
Agricultural restructuring	0	0	0	0	0	0
Environment and nuclear safety	0	0	0	0	0	0
Infrastructure (energy, transport and telecommunications)	0	0	0	0	0	0
Social development and employment	0	0	0	0	0	0
Public institution and administrative reform	0	0	0	0	2	2
Others	0	0	0	0	0	0
<b>Total</b>	<b>30.2</b>	<b>13.1</b>	<b>47.8</b>	<b>25</b>	<b>25</b>	<b>141.1</b>

## Multi-country programmes

Funds allocated by sector each year	1990	1991	1992	1993	1994	Total
Private sector development and enterprise support	0	20	3	27.5	21	71.5
Education, health, training and research	21.5	28.5	24	30.6	26	130.6
Humanitarian and food aid	51	0	0	0	0	51
Agricultural restructuring	0	0	0	0	0	0
Environment and nuclear safety	0	23.5	46	20	36	125.5
Infrastructure (energy, transport and telecommunications)	0	0	35	24	33	92
Social development and employment	0	0	0	0	0	0
Public institution and administrative reform	0	11	1.5	10	28	50.5
Others	13.4	15.8	50.3	70.6	51.5	201.6
<b>Total</b>	<b>85.9</b>	<b>98.8</b>	<b>159.8</b>	<b>182.7</b>	<b>195.5</b>	<b>722.7</b>

# Phare funding by sector

During 1994 there were some significant shifts in the allocation of Phare funds between sectors. These shifts reflect the fact that Phare is adapting to reflect the changing needs of its partner countries.

In particular there was a significant increase in funding allocated to infrastructure (transport, energy and telecommunications). Funds allocated to this sector increased from ECU 114.9 million in 1993 to ECU 326.4 million in 1994 - an increase of 184 per cent. This reflects the fact that improving the infrastructure of the partner countries, in particular the physical links between these countries and the European Union, is becoming an important objective linked to integration with, and eventual membership of, the European Union.

Funds allocated to the environment also increased significantly. The Phare budget for this sector increased from ECU 34.1 million in 1993 to 77.5 million in 1994. This increase has gone hand-in-hand with a shift in Phare's focus from funding urgent actions and establishing the basic policy and institutional foundations to a more long-term strategic approach. In particular this involves raising public awareness and strengthening environmental non-governmental organisations as well as providing capital investment which is essential to stimulating the estimated ECU 300 billion needed over the next 15 years to substantially raise the quality of the environment in central and eastern Europe.

Funding for social development and employment also increased from ECU 15 million to ECU 28.5 million. This is due to the fact that coming to terms with increasing unemployment caused by the restructuring of industry and establishing new systems of social protection is an increasing priority for the Phare partner countries.

Public administration and institutional reform received a 25 per cent increase in funds allocated to it. This increase reflects the fact that governments in the partner countries still face many challenges in delivering the services of government at both central and local level adapted to the needs of a market oriented system. In particular those

countries which are developing a greater focus on integration with the European Union need support in this area to establish the legal and regulatory changes necessary to adopt the European Union's 'acquis communautaire'.

Funding devoted to private sector development and enterprise support decreased by ECU 105.1 million to ECU 149.4 million. This is due to the fact that much of the initial work in privatisation and restructuring has been accomplished, particularly in terms of establishing the necessary legal and regulatory frameworks, the area where Phare know-how transfer plays an important role.

Phare funding for the agriculture sector also decreased largely as a result of the fact that there is now much less emphasis on agricultural supply programmes which were a feature of Phare support to a number of countries in the early stages of transition. Phare support in this sector is now more focused on providing the know-how necessary to improve the performance of the sector as well as developing government policies which are in line with European Union laws and regulations.

Likewise funding for humanitarian aid has decreased as this type of emergency assistance is usually only required to help countries overcome the initial shocks associated with the early stages of transition to market economies.

The following information in this section contains a detailed breakdown of how Phare funds allocated to each sector have been committed to each country.

For each sector the following information is given:

- an overview of total funds committed by year since the beginning of the Programme
- an overview of how total funds committed have been allocated by country from 1990 to 1994

## Private sector development and enterprise support

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	40	72	79.2	27	31	249.2
Hungary	31	59.5	11	31	16.5	149
Romania	0	0	45	70	23.4	138.4
Bulgaria	0	30	22.5	11	3	66.5
Czech Republic	0	0	0	27	0	27
Slovakia	0	0	0	19	5	24
Czechoslovakia	0	39	31	0	0	70
Albania	0	0	35	42	0	77
Lithuania	0	0	9.5	0	14.5	24
Former Yugoslavia	0	0	0	0	0	0
GDR	0	0	0	0	0	0
Latvia	0	0	0	0	14.5	14.5
Estonia	0	0	0	0	8	8
Slovenia	0	0	0	0	12.5	12.5
Multi-country programmes	0	20	3	27.5	21	71.5
<b>Total</b>	<b>71</b>	<b>220.5</b>	<b>236.2</b>	<b>254.5</b>	<b>149.4</b>	<b>931.6</b>

## Education, health, training and research

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	2.8	34.5	42	45	39	163.3
Hungary	7.5	22	16	36	24	105.5
Romania	0	35	13	18	37	103
Bulgaria	0	5	23	28	12	68
Czech Republic	0	0	0	8	5.5	13.5
Slovakia	0	0	0	5	9	14
Czechoslovakia	4	9	25	0	0	38
Albania	0	0	1.2	8.5	9.4	19.1
Lithuania	0	0	1.5	2.5	6	10
Former Yugoslavia	0	6	0	0	0	6
GDR	1	0	0	0	0	1
Latvia	0	0	1.5	2	5	8.5
Estonia	0	0	1	1.5	4.5	7
Slovenia	0	0	2.3	3.5	5.5	11.3
Multi-country programmes	21.5	28.5	24	30.6	26	130.6
<b>Total</b>	<b>36.8</b>	<b>140</b>	<b>150.5</b>	<b>188.6</b>	<b>182.9</b>	<b>698.8</b>

## Infrastructure

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	6	10	26.4	63	93.8	199.2
Hungary	1.3	7	0	0	29	37.3
Romania	0	9	0	0	25	34
Bulgaria	0	13	13	13.9	62.6	102.5
Czech Republic	0	0	0	9	25	34
Slovakia	0	0	0	5	6.5	11.5
Czechoslovakia	0	11	10	0	0	21
Albania	0	0	4.4	0	23	27.4
Lithuania	0	0	0	0	16.5	16.5
Former Yugoslavia	0	0	0	0	0	0
GDR	0	0	0	0	0	0
Latvia	0	0	0	0	0	0
Estonia	0	0	0	0	6	6
Slovenia	0	0	0	0	6	6
Multi-country programmes	0	0	35	24	33	92
<b>Total</b>	<b>7.3</b>	<b>50</b>	<b>88.9</b>	<b>114.9</b>	<b>326.4</b>	<b>587.5</b>

## Environment and nuclear safety

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	22	35	18	0	12	87
Hungary	27	10	10	0	15.5	62.5
Romania	0	0	5	0	0	5
Bulgaria	3.5	26.5	8.3	10.8	5	54.1
Czech Republic	0	0	0	0	0	0
Slovakia	0	0	0	0	0	0
Czechoslovakia	30	5	0	0	0	35
Albania	0	0	0	3.3	0	3.3
Lithuania	0	0	0	0	1	1
Former Yugoslavia	0	0	0	0	0	0
GDR	20	0	0	0	0	20
Latvia	0	0	0	0	5.5	5.5
Estonia	0	0	0	0	2.5	2.5
Slovenia	0	0	0	0	0	0
Multi-country programmes	0	23.5	46	20	36	125.5
<b>Total</b>	<b>102.5</b>	<b>100</b>	<b>87.3</b>	<b>34.1</b>	<b>77.5</b>	<b>401.4</b>

## Agricultural restructuring

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	100	17	18	30	2.5	167.5
Hungary	20	13	5	30.5	0	68.5
Romania	0	34	32	5	0	71
Bulgaria	16	25	10	0	0	51
Czech Republic	0	0	0	0	4.5	4.5
Slovakia	0	0	0	3	5	8
Czechoslovakia	0	0	0	0	0	0
Albania	0	0	15	10	5	30
Lithuania	0	0	0	0	0	0
Former Yugoslavia	0	0	0	0	0	0
GDR	0	0	0	0	0	0
Latvia	0	0	0	0	0	0
Estonia	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0
Multi-country programmes	0	0	0	0	0	0
<b>Total</b>	<b>136</b>	<b>89</b>	<b>80</b>	<b>78.5</b>	<b>17</b>	<b>400.5</b>

## Humanitarian and food aid

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	0	0	0	0	0	0
Hungary	0	0	0	0	0	0
Romania	15.5	34.3	22	9.9	0	81.7
Bulgaria	5	20	0	0	0	25
Czech Republic	0	0	0	0	0	0
Slovakia	0	0	0	0	0	0
Czechoslovakia	0	0	0	0	0	0
Albania	0	10	50	10	7	77
Lithuania	0	0	0	0	0	0
Former Yugoslavia	30.2	7.1	47.8	25	23	133.1
GDR	0	0	0	0	0	0
Latvia	0	0	0	0	0	0
Estonia	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0
Multi-country programmes	51	0	0	0	0	51
Humanitarian aid	0	0	0	0	0	0
<b>Total</b>	<b>101.7</b>	<b>71.4</b>	<b>119.8</b>	<b>44.9</b>	<b>30</b>	<b>367.8</b>

## Public institution and administrative reform

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	10	7.5	9.1	27	21.5	75.1
Hungary	0	8	14.5	1.5	0	24
Romania	0	0	0	10	9.6	19.6
Bulgaria	0	0	0	16	1.2	17.2
Czech Republic	0	0	0	0	11	11
Slovakia	0	0	0	0	4	4
Czechoslovakia	0	0	0	0	0	0
Albania	0	0	0	1.2	4.6	5.8
Lithuania	0	0	0	0	0	0
Former Yugoslavia	0	0	0	0	2	2
GDR	0	0	0	0	0	0
Latvia	0	0	0	0	0	0
Estonia	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0
Multi-country programmes	0	11	1.5	10	28	50.5
<b>Total</b>	<b>10</b>	<b>26.5</b>	<b>25.2</b>	<b>65.7</b>	<b>81.9</b>	<b>209.3</b>

## Social development and employment

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	0	18	7.2	0	9	34.2
Hungary	3	0	26	0	0	29
Romania	0	0	15	0	0	15
Bulgaria	0	2.5	0	4	0	6.5
Czech Republic	0	0	0	8	14	22
Slovakia	0	0	0	3	5.5	8.5
Czechoslovakia	0	15	0	0	0	15
Albania	0	0	0	0	0	0
Lithuania	0	0	0	0	0	0
Former Yugoslavia	0	0	0	0	0	0
GDR	0	0	0	0	0	0
Latvia	0	0	0	0	0	0
Estonia	0	0	0	0	0	0
Slovenia	0	0	0	0	0	0
Multi-country programmes	0	0	0	0	0	0
<b>Total</b>	<b>3</b>	<b>35.5</b>	<b>48.2</b>	<b>15</b>	<b>28.5</b>	<b>130.2</b>

## Other sectors

Funds committed by country each year	1990	1991	1992	1993	1994	Total
Poland	0	3	0	33	0	36
Hungary	0	0	15	0	0	15
Romania	0	26	16	27	5	74
Bulgaria	0	0	0	1.5	1.2	2.7
Czech Republic	0	0	0	8	0	8
Slovakia	0	0	0	5	5	10
Czechoslovakia	0	20	34	0	0	54
Albania	0	0	4.4	0	0	4.4
Lithuania	0	0	9	22.5	1	32.5
Former Yugoslavia	0	0	0	0	0	0
GDR	14	0	0	0	0	14
Latvia	0	0	13.5	16	4.5	34
Estonia	0	0	9	10.5	1.5	21
Slovenia	0	0	6.7	7.5	0	14.2
Multi-country programmes	13.4	15.8	50.3	70.5	51.5	201.5
<b>Total</b>	<b>27.4</b>	<b>64.8</b>	<b>157.9</b>	<b>201.5</b>	<b>69.7</b>	<b>521.3</b>

# Phare financial performance

The financial performance of the Phare Programme can be measured using the following indicators:

- the level of commitments compared with the annual budget
- the amount contracted
- the level of payments compared with the budget for payments established at the start of the year
- the amount paid
- cumulative contracts and payments as a percentage of cumulative commitments.

## Commitment of the Phare budget

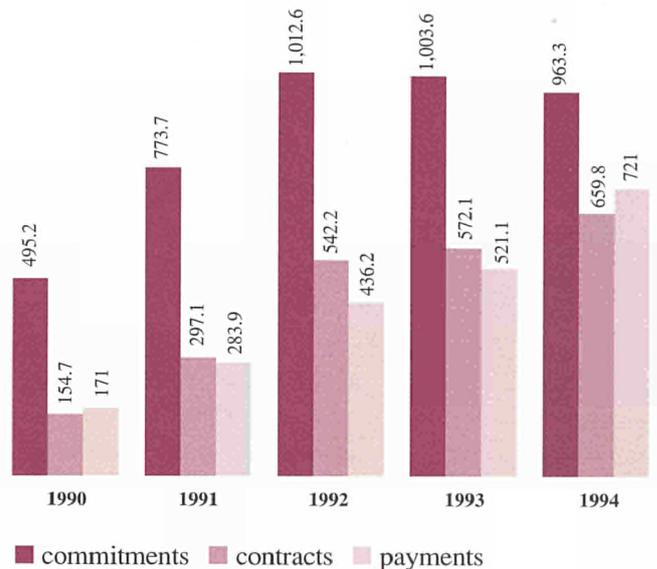
Since the beginning of the Programme, the percentage of the Phare budget actually committed has always been close to the maximum figure of 100 per cent and reached 99.9 per cent of the 1994 budget.

## Amount contracted

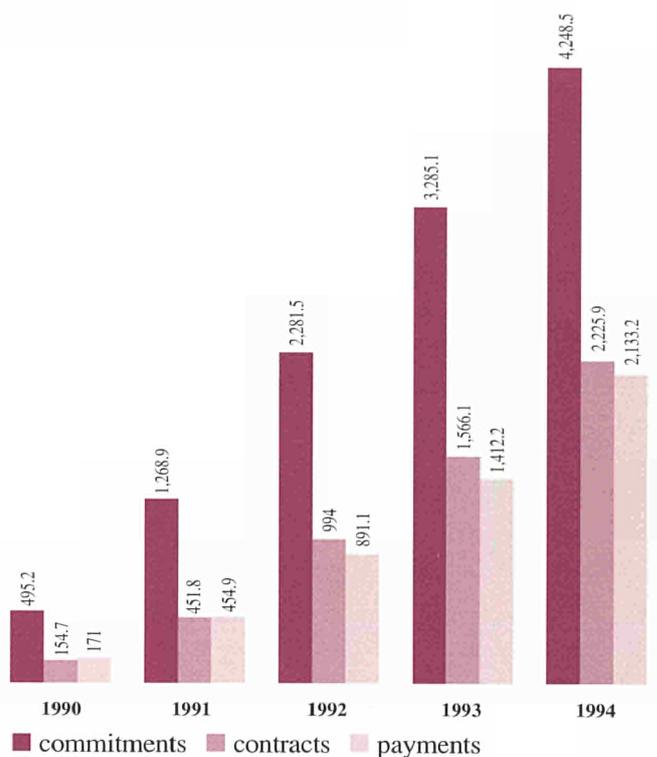
Phare has made a dramatic increase in the level of contracting since the Programme began. In 1990, only ECU 155 million was contracted. This increased to ECU 297 million in 1991, ECU 542 million in 1992, ECU 572 million in 1993 and reached ECU 660 million in 1994 (see fig. 1).

Figure 2 gives the cumulative figures of funds contracted at the end of each budget year. It shows that the level of contracting greatly increased in 1994 where it reached fourteen times the level of contracting in 1990.

**Fig. 1 - Funds committed, contracted and paid 1990-1994 (ECU 4,248.5 million) (in ECU million)**



**Fig. 2 - Cumulative funds committed, contracted and paid 1990-1994 (in ECU million)**

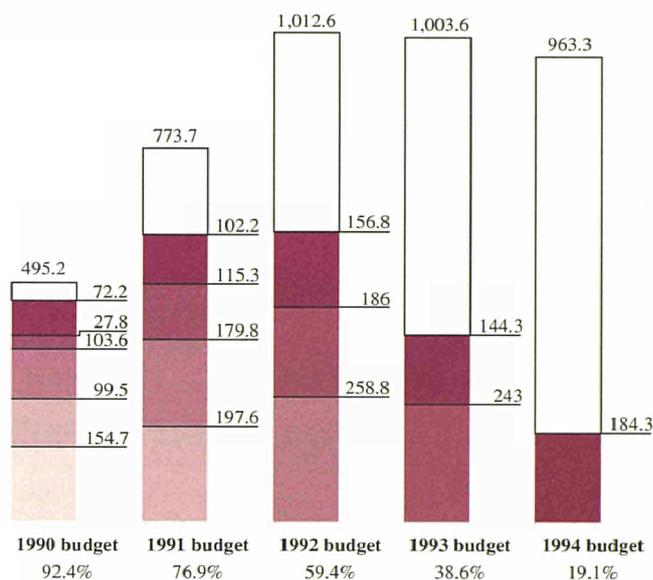


The budget year to which the contracts signed in each calendar year refer can be seen in figure 3.

### Payments compared with the budget

The Phare Programme establishes at the beginning of each year a budget for funds to be disbursed during the course of the year. In 1994, more than 99 per cent of the budgeted amount was actually paid.

**Fig. 3 - Contracts concluded by calendar year (in ECU million)**



% contracted as of 31.12.94

- contracted in 1990
- contracted in 1991
- contracted in 1992
- contracted in 1993
- contracted in 1994
- not yet contracted

### Funding procedure

Each stage of the programme cycle, starting with the production of Operational Programmes, is matched by an equivalent stage in the delivery of funds.

**Commitment** - The design of Operational Programmes and their associated financing proposals corresponds to what is referred to as the commitment of funds. Once a financing proposal has been approved by the Phare Management Committee and decided by the Commission, the relevant funds associated with that proposal are said to have been committed. Phare must commit its entire annual budget within the year to which that budget applies, or else the uncommitted money will be returned to European Union funds.

**Contracting** - The tendering procedure precedes the next funding step known as contracting. As soon as a tender has been successfully completed and a contract signed, the relevant funds are said to have been contracted.

**Payment** - Payment is the final step in the funding process. This will take place over the length of the project, which can be up to two or three years.

Contracting is the most important measure of the implementation of the Programme. This is because it is this that unlocks Phare funds and marks the start of real implementation on the ground.

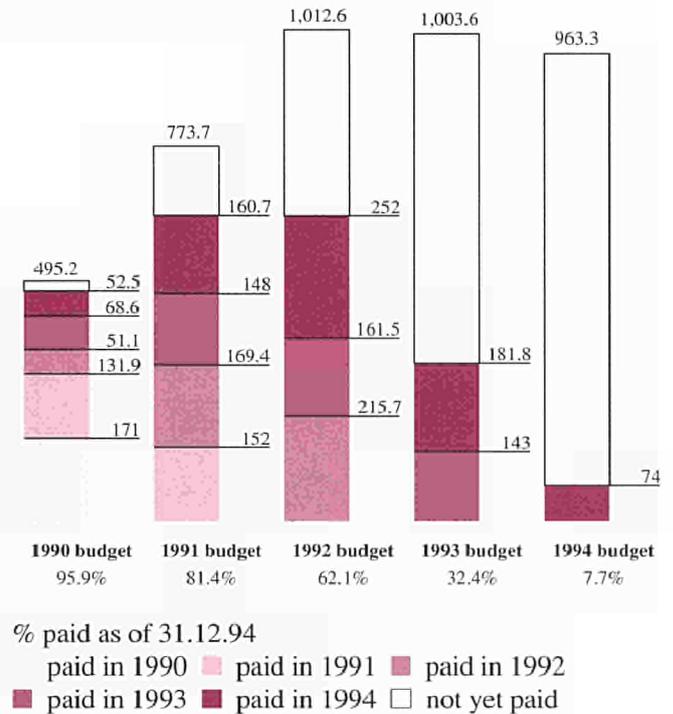
### Amount paid

The increase in the contracting level previously mentioned is naturally followed by an increase in payments, but with a certain time lag as payment is spread out over the period of the contract. Payments may in some years exceed the corresponding amount contracted. This is due to advance payments made by the Commission to the Programme Management Units in partner countries to enable them to meet their contractual and payment obligations.

The level of payments, however, notably improved in 1994 where ECU 721 million was disbursed (see fig. 1). This is an increase of 38 per cent from the previous year and four times the amount paid in 1990.

The budget years to which payments in each year relate can be seen in figure 4.

**Fig. 4 - Payments in each budget year (in ECU million)**



### Cumulative contracts and payments as percentage of cumulative commitments

Both ratios have significantly improved over the life of the Phare Programme (see fig. 5). In 1990, only 31 per cent of funds committed were contracted and 35 per cent were paid. By the end of 1994, both figures had increased to 52 and 50 per cent of funds committed respectively.

**Fig. 5 - Cumulative contracts and payments 1990-1994**

	1990	1991	1992	1993	1994
Cumulative contracts as percentage of cumulative commitments	31%	36%	44%	48%	52%
Cumulative payments as percentage of cumulative contracts	35%	36%	39%	43%	50%

# Major projects launched in 1994 <sup>1</sup>

## Agriculture

Agriculture and land registration programme Czech Republic	ECU	4.5 million
Agriculture and land registration programme Slovakia	ECU	5 million
Programme for credit, land market extension and agro-processing restructuring Albania	ECU	5 million
Reallocation of funds from the 1993 programme for the agricultural and rural sectors Poland	ECU	2.5 million

## Education and health

Regional cooperation on distance education All	ECU	3 million
Regional industrial property programme All	ECU	0.8 million
Research and development networking All	ECU	4 million
Programme for vocational education and training reform Slovakia	ECU	4 million
Programme for the reform of vocational education and training Romania	ECU	25 million
Programme to restructure the health sector Albania	ECU	5 million
Programme for the national training fund Czech Republic	ECU	2 million
Programme for vocational education and training reform Estonia	ECU	3 million
Programme to strengthen links between education and the economy Hungary	ECU	8 million
Programme for vocational education and training reform Latvia	ECU	3 million

Programme for vocational education and training education Lithuania	ECU	4 million
Programme for labour market development Slovakia	ECU	3.5 million
Programme for vocational education and training reform Slovenia	ECU	3 million

## Environment

Programme for environmental protection Lithuania	ECU	1 million
Programme for pollution monitoring and environment legislation Estonia	ECU	2.5 million
Programme for rural water development Latvia	ECU	2.5 million
Programme for forestry protection Poland	ECU	12 million

## Energy

Harmonisation of European energy policies and strategies, interconnection of energy networks All	ECU	13 million
Reduction of sulphur dioxide emissions Bulgaria	ECU	15 million
Energy and environmental programme Hungary	ECU	15.5 million
Energy programme (efficiency policy) Slovakia	ECU	4 million
Programme for the energy sector Estonia	ECU	3 million
Programme for the energy sector Lithuania	ECU	6.9 million
Programme for energy and the environment Slovenia	ECU	2 million

<sup>1</sup> The following list gives the names of all major projects launched in 1994 in each sector as well as the country concerned and the corresponding budget. Contracts under ECU 500,000 are not listed.

## Infrastructure

Transport infrastructure programme Romania	ECU	25 million
Transport infrastructure development programme Bulgaria	ECU	12 million
Transport infrastructure development programme Lithuania	ECU	4.6 million
Infrastructure programme (transport, energy, environment) Slovakia	ECU	6.5 million
Programme for transport Albania	ECU	3 million
General infrastructure programme Bulgaria	ECU	10.6 million
Programme for transport infrastructure development Hungary	ECU	18 million
Programme for transport, communications and water management Hungary	ECU	3 million
Programme for transport infrastructure development Poland	ECU	35 million
Border crossing modernisation programme Hungary	ECU	8 million
Cross-border cooperation programme with Greece and Italy Albania	ECU	20 million
Cross-border cooperation programme with Greece Bulgaria	ECU	25 million
Cross-border cooperation programme with Germany Czech republic	ECU	25 million
Cross-border cooperation programme with Germany Poland	ECU	55 million
Cross-border cooperation programme with Italy Slovenia	ECU	4 million

Cross-border cooperation programme with Denmark Estonia	ECU	3 million
Cross-border cooperation programme with Denmark Latvia	ECU	3 million
Cross-border cooperation programme with Denmark Lithuania	ECU	5 million
Cross-border cooperation programme with Denmark Poland	ECU	3.8 million
Cross-border cooperation programme for the environment All	ECU	3 million

## Private sector development and enterprise restructuring

Economic development programme (privatisation and enterprise restructuring, banking, public finance and accounting) Estonia	ECU	8 million
Private sector development programme Hungary	ECU	16.5 million
Programme for private sector development Latvia	ECU	10.5 million
Programme for economic development Lithuania	ECU	12.5 million
Programme for private sector development Slovakia	ECU	5 million
Programme for the development of SMEs All	ECU	10 million
Programme for financial sector development Poland	ECU	20 million
Programme for mass privatisation Bulgaria	ECU	3 million
Programme for enterprise restructuring, privatisation and energy Poland	ECU	11 million
Programme for SMEs and regional development Romania	ECU	18.4 million

## Public institution and administrative reform

Regional consumer protection All	ECU	2 million
Regional programme on copyright protection All	ECU	2 million
Civic society development programme Czech Republic	ECU	2 million
Programme to upgrade the Statistical Information System Romania	ECU	4.6 million
Customs transformation programme Latvia	ECU	2.5 million
Programme to modernise the Latvian State Statistics Committee Latvia	ECU	1.5 million
Programme to modernise the Lithuanian Statistics Department Lithuania	ECU	1 million
Customs transformation programme Lithuania	ECU	1 million
Programme for public administration reform Romania	ECU	5 million
Programme for civil society development Bulgaria	ECU	1.2 million
Programme for worker protection Poland	ECU	5 million
Programme of support for decentralised activities Poland	ECU	10 million
Programme for tourism development Romania	ECU	5 million
Programme for civil society development Romania	ECU	5 million
Programme to support public administration Slovakia	ECU	4 million

## Social development

Programme for social protection reform Czech Republic	ECU	6 million
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Programme for social insurance reform Slovakia	ECU	2 million
Labour market development programme Czech Republic	ECU	6 million

## Multi-country programmes

Link Inter European NGOs (LIEN)	ECU	5 million
Telecommunications and post services	ECU	1 million
Transport programme	ECU	30 million
Complementary programme for multi-country statistical cooperation	ECU	17 million
Programme for competition protection	ECU	2 million
Programme to improve veterinary disease, diagnostics and controls	ECU	6 million
Programme to support the Commission of the European Communities to implement Tempus and for staff development in vocational training sector	ECU	2.6 million

## Others

General Technical Assistance Facility (GTAF) Slovenia	ECU	12.5 million
General Technical Assistance Facility (GTAF) Albania	ECU	4.6 million
General Technical Assistance Facility (GTAF) Estonia	ECU	1.5 million
General technical support and know-how Czech Republic	ECU	9 million
General Technical Assistance Facility (GTAF) Estonia	ECU	1.5 million
General Technical Assistance Facility (GTAF) Lithuania	ECU	1 million
General technical know-how and support Slovakia	ECU	5 million
Europe Agreement information programme Bulgaria	ECU	1.2 million
Programme providing a flexible service for technical assistance (Fiesta III) Poland	ECU	22 million

# Multi-country programmes operational in 1994

Multi-country programming in 1994 supported the following key sectors:

- Infrastructure
- Environment and nuclear safety
- Education, health, training and research
- Public institution and administrative reform
- Private sector development and enterprise support.

## Infrastructure

### Transport - launched 1992

Budget ECU 75 million

Objectives:

- To reconstruct and upgrade transport infrastructure
- To promote ongoing integration of western and eastern Europe
- To assist coordination of various technical assistance and training activities.

Projects:

- Infrastructure/border-crossings component
- Training for air traffic services (ATS)
- Trans-European motorways and Trans-European railways (EMP/PER)
- Sector studies component
- Development of an integrated transportation information system (ITS)
- Border-crossing bottlenecks elimination programme
- Pre-investment activities
- Regional studies/seminars.

### Telecommunications - launched 1992

Budget ECU 8 million

Objectives:

- To complement those which are taking place
- To support the identification and preparation of investment-related projects
- To train staff in regulatory and operation areas.

Projects:

- Training modules
  - Regulating the telecommunications sector
  - Managing a telecommunications company
  - Human resource management
  - Marketing and selling telecommunications, products and services
  - Introducing new technology
  - Managing computer systems in telecommunications.

### Energy - launched 1992 (projected end 1994)

Budget ECU 25 million

Objectives:

- Increase east-west cooperation
- Improve energy policy-making, supply and demand problems, efficiency and conservation measures, environmental and other safety measures.

Projects:

- Natural gas interconnection study
- Clean coal study
- Coordination of natural gas strategies in the Baltic states
- Twinning/training activities
- Harmonisation of energy policies.

### Customs - launched 1994

Budget ECU 2 million

Objectives:

- To introduce a new customs code in Phare countries
- To continue the fight against illegal transportation of nuclear waste.

Projects:

- Upgrading customs laboratories
- Technical assistance and training for national customs administrators and officials.

## Environment and nuclear safety

### Environment - launched 1991

Budget ECU 46 million

Objective:

- To encourage the development of capital investments in the field of the environment by providing project and implementation assistance to Project Preparation Committees (PPC), donors, banks and Phare partner countries.

Projects:

- Danube integrated environment programme
- Regional environmental programme for the Black Triangle
- Corine/remote sensing programme
- Research programme on air pollution and health
- State of the environment report
- Regional environmental centre for central and eastern Europe
- Black Sea regional environment programme
- Regional programme for the Baltic Sea.

## Education, health, training and research

### ACE (Action for Cooperation in the field of Economics) - launched 1991

Budget ECU 22.5 million

#### Objectives:

- To enhance the intellectual process reform and liberalisation
- To increase the exchange of scientific and management knowledge between professionals and academic scientists.

#### Projects:

- Scholarships
- Conferences
- Research.

### COSINE (Cooperation for Open Systems International Networking in Europe) - launched 1991

Budget ECU 6.5 million

#### Objective:

- To provide the CEECs' research and development community with pan-European network services.

### Distance learning - launched 1994

Budget: ECU 3 million

#### Objectives:

- To pilot a programme for distance education
- To help the education system overcome the problems which it faces and adapt to the needs of rapidly changing economies.

#### Projects:

- General measures and pilot courses for staff training
- Basic infrastructure
- Regional coordination unit
- Implementation
- Procurement of equipment.

### Fight against drugs - launched 1992

Budget ECU 12 million

#### Objective:

- To take measures and provide know-how to control the illegal circulation of drugs.

#### Projects:

- Measures against the diversion of precursors.
- Measures for money laundering.

- Development of a drug information system
- Support for demand-reduction programmes
- The development of a multi-disciplinary training programme on the drug phenomenon and its consequences
- Control of illegal production and trafficking
- Measures to control the production of and trade in psychotropic substances and related chemical and pharmaceutical products.

## Public administration

### SIGMA (Support for Improvement in Governance and Management in central and eastern European countries) - launched 1992

Budget ECU 11 million

#### Objectives:

- To provide short and long-term support to develop coherent reform strategies
- To help authorities of partner countries cope with the changes resulting from institutional reform and move away from centralisation
- To support the development of efficient and effective public institutions which can sustain market economies, provide a base for democratic pluralist systems of governance and implement public policies.

#### Areas of support:

- Management of policy-making (for example, organisation and procedures supporting the Council of Ministers)
- Budgeting and financial management (for example, budget and audit systems)
- Management of public service (for example, civil service law, pay systems)
- Control over administration (for example, appeals mechanisms, and as a support to reformers)
- Management of change (for example, building home-grown consulting capacities).

### Statistics - launched 1991

Budget ECU 22.5 million

#### Objective:

- To develop statistics information systems to support and monitor economic reforms.





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