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**ECONOMIC
AND SOCIAL
COMMITTEE**
of the
European
Communities

INFORMATION REPORT

on

Evaluation of the PHARE programme

Brussels, 19 October 1995

EXT/126
PHARE PROGRAMME
EVALUATION

Brussels, 19 October 1995

INFORMATION REPORT
of the
Section for External Relations, Trade and Development Policy
on the
Evaluation of the PHARE programme

Rapporteur: Mr GAFO FERNÁNDEZ



Memorized text.

PROCEDURE

On 15 September 1994 the Economic and Social Committee, acting under Rule 26 of its Rules of Procedure, decided to instruct the Section for External Relations, Trade and Development Policy to draw up an Information Report on the

Evaluation of the PHARE programme.

The Committee's work on the subject was prepared by the following members, assisted by the Rapporteur's and Groups' experts listed below:

President: Mrs CASSINA
Rapporteur: Mr GAFO FERNÁNDEZ (Rule 54 - Mr RODRÍGUEZ GARCÍA CARO)
Members: Mr BASTIAN
Mrs ELSTNER
Mr ETTY
Mr FOLIAS
Mr GIESECKE
Mr KORYFIDIS
Mr LYONS (Rule 54 - Mr JENKINS)
Mr E. MULLER (Rule 54 - Mr POMPEN)
Mr STRAUSS
Mr VEVER

Experts:

For the Rapporteur: Mr Antonio FERNÁNDEZ MÉNDEZ DE ANDÉS
For Group I: Mr Donato DI GAETANO
For Group II: Mr Thomas POESE
For Group III: Dr Ludwig VELTMANN

The Study Group met three times:

5 December 1994
28 February 1995
29 June 1995.

On 18 and 19 May 1995, in liaison with the Study Group's work, the Section held a hearing with 18 representatives of socio-occupational organizations from the associated countries of Central and Eastern Europe.

The Section for External Relations, Trade and Development Policy adopted its Information Report on 3 October 1995 unanimously.

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1. The new framework of relationships between the European Union and the countries of Central and Eastern Europe.
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4. Possible future guidelines for the PHARE programme.

Statistical appendix: PHARE programme data

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1. The new framework of relationships between the European Union and the countries of Central and Eastern Europe

1.1. As a result of the political and economic changes since 1988, the European Union has striven to step up its relations with the countries of Central and Eastern Europe, resulting in the signature of trade and cooperation agreements with almost all of them, including the former Yugoslavia. The latter agreement is no longer effective, but further agreements of this type were concluded with the Republic of Slovenia, Albania, and the Baltic Republics of Estonia, Latvia and Lithuania.

1.2. Most of these countries (Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria and the Baltic republics) have since replaced the trade agreements with Europe Agreements under Article 238 of the EC Treaty, which provides for "reciprocal rights and obligations, common action and special procedures". Some have already been ratified and come into force (Poland and Hungary): the others are temporarily covered by interim trade agreements.

1.3. Almost all these countries, particularly the "Višegrad Group" (Poland, Czech Republic, Slovakia and Hungary) have made public their wish to join the European Union in the near future, Poland and the Czech Republic having recently lodged applications for membership.

1.4. The Copenhagen European Council of June 1993 marked a turning point in relations between the European Union and the countries of Central and Eastern Europe, officially declaring that "the associated countries in Central and Eastern Europe that so desire shall become members of the European Union" as soon as they can satisfy the economic and political conditions required. Four areas for closer association with these countries were identified: (a) a more structured relationship with the Institutions of the Union (b) improved access to EU markets (c) steps to ensure that aid is more effective (d) stepping up economic integration.

1.5. The Europe Agreements are of a bilateral nature between the European Union and each of the signatory countries. They are of unlimited duration, and have the following essential features:

1.5.1. They cover not only economic and trade cooperation, but also establish political dialogue and cooperation in other fields such as culture, free movement of workers and social matters.

1.5.2. These agreements provide for the creation of a free trade zone within 10 years. Trade concessions are reciprocal, although in the short term more favourable to the associated countries, the European Union being committed to a tighter schedule for removing barriers.

1.5.3. Favourable clauses are also introduced concerning the free movement of workers, freedom of establishment and to provide services, free movement of capital and progressive harmonization of legislation.

1.5.4. These countries may receive assistance under the PHARE programme together with loans from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD): they may also, under specified circumstances, receive macroeconomic financial aid.

1.5.5. As stated in their preambles, the Europe Agreements are intended to prepare these countries for eventual Union membership.

1.6. The Essen European Council has carried these guidelines forward by ratifying the conclusions of the Copenhagen Council, establishing a "structured dialogue" (based on holding specific Councils of Ministers between the EU and CCEE). The most recent reference by the European Council was its call for the Commission to prepare a White Paper on the legislative and regulatory position in the CCEE and to devise a strategy enabling them progressively to take on board the "*acquis communautaire*".

1.7. The final element in the framework for relations between the European Union and the countries of Central and Eastern Europe is the recent signature in December 1994, of the European Energy Charter Treaty. The agreement, although of broader geographical scope, represents a historic

landmark in the strengthening of the new political, economic and commercial ties between the countries of Europe. The object in this case is to ensure Europe-wide security of energy supply and to foster an attitude of shared responsibility for the safe and environmentally-friendly exploitation of the continent's energy resources.

2. General description of the PHARE programme

2.1. The PHARE programme was initially set up in 1989 for Poland and Hungary, and has since extended its coverage of the countries of Central and Eastern Europe, with most of which the European Union has signed trade or association agreements.

2.2. The objectives of the PHARE programme are to encourage the process of economic restructuring in the countries concerned and to prepare them for possible accession to the European Union, by fostering the emergence of a market economy and promoting private initiative, without neglecting essential social and democratic aspects and the development of civil society.

2.3. Between its inception in 1989 and 1994, the PHARE programme has directed MECU 4,283 towards the 11 recipient countries: impressive though these figures are, it should be remembered that this represents approximately ECU 10 per inhabitant per year in the countries concerned.

2.4. Following an initial phase in which the PHARE programmes were annually- and nationally-based, a multiannual approach was adopted in 1993 (1993-1995), permitting better planning and integration of activities. This multiannual approach is purely indicative, however, since the budgetary arrangements remain on an annual basis. These have recently been improved with the decision at the Essen European Council to guarantee annual contributions for the coming years at least equivalent to 1994.

2.5. Similarly, programmes of regional scope began to take shape alongside national ones, involving different countries jointly benefitting from a single activity. This optimizes efforts and could, potentially, strengthen mutual technical and political cooperation.

2.6. PHARE aid initially centred upon funding technical assistance from individual experts and public and private organizations from the European Union, with a low level of participation by experts and bodies from the recipient countries. Similarly, the opportunity for capital investment has not been taken up sufficiently. This picture seems to be changing, in part due to the decision by the Copenhagen Council in June 1993 to allow some PHARE funds, under certain conditions, to be channelled into infrastructure investment subject to a limit of 15% of the project budget. The Essen Council decided to raise this limit to 25%.

2.7. Most recently, work began in 1994 on forming a so-called "Cross-Border Cooperation Programme" (with a budget of MECU 150), involving one PHARE and one EU country, the purpose being to develop infrastructures connecting them. In this case, only the part within the PHARE countries receives financial assistance from the programme.

2.8. The PHARE programmes are run by the Commission and the recipient countries' governments via a bilateral management committee responsible for approving specific proposals for action submitted by the Commission on the basis of applications received from recipient countries (see Appendix 1). This has enabled programmes to be tailored to real national priorities and needs. Action is monitored by the PHARE Management Committee consisting of representatives of the member countries and the Commission.

2.9. The PHARE programmes provide an indicative regional and national framework within which this multi-annual approach is currently being developed. Priorities differ according to the varying circumstances and government-established guidelines of each country.

2.10. The PHARE programme is intended to operate in tandem with other European Union activities, particularly EIB and EBRD loan activities, and technical and economic aid from the G-24 and other institutions such as the OECD.

3. **Assessing the Phare programme**

3.1. **Basis of assessment**

3.1.1. As a starting point for this assessment, the ESC has used the documents drawn up by the Commission itself, together with the views expressed by the socio-occupational organizations of the PHARE countries which attended a public hearing in Brussels on 18 and 19 May 1995.

3.1.2. The ESC emphasizes that the Commission has made huge efforts to publicize the PHARE programme both within and outside the European Union. The quantity and quality of its publications, information leaflets and follow-up reports on the programme has been impressive, and has been of great help in drawing up this Information Report.

3.2. **Assessment: the European Union standpoint**

3.2.1. The Commission's evaluation reports on the PHARE programme reveal that it has gradually changed in response to initial difficulties, particularly in fixing priorities and implementation/follow-up of specific programmes. The Committee judges this process of self-monitoring and correction to display a proper approach on the part of the Commission.

3.2.2. The EU Court of Auditors' report on the operation of the PHARE programme criticized a number of points, highlighting shortcomings in Commission coordination in Brussels, inadequate follow-up of individual programmes by Commission delegations in the PHARE countries and too many brief missions by Community experts with results of questionable value.

3.2.3. Certain socio-occupational organizations have also voiced some criticism to the Committee concerning the way the programme works. They centre upon the lack of transparency in the preparation of specific projects and in the procedures for awarding contracts for these projects. Their recommendations focus upon remedying these apparent shortcomings by implementing the specific actions within a framework of open cooperation between businesses and services in EU and PHARE countries, so as to open the way for effective partnership.

3.3. Assessment: the CCEE standpoint

3.3.1. Almost all the socio-occupational organizations from the PHARE countries attending the public hearing pointed to their limited knowledge concerning the priorities, workings and accessibility of the programmes funded by the Commission.

3.3.2. There is a two-fold explanation for this: firstly, the governments of the countries concerned are insufficiently informed about what the PHARE programme has to offer and how to gain access to it; and secondly, the relative youth and lack of consolidation of the socio-occupational bodies have hampered the search for new means of action, such as PHARE. The Economic and Social Committee was pleased to see how the hearing served as both a source of information for them and as a means of helping to establish relations between them and the Community institutions.

3.3.3. Most of the socio-occupational organizations also voiced concern that the PHARE programmes were concentrating on public-sector enterprises in these countries, which did not benefit recently-created private undertakings. Similarly, they expressed reservations as to the new infrastructure development approach planned by the Commission: rather, they argued that the greatest priority was action on training and preparing businesses and individuals for the growth of the new, free market economy, including aspects relating to greater consumer involvement and education in this process.

3.3.4. Lastly, all the socio-occupational organizations from the PHARE countries pointed to the need to put bilateral relations with the Economic and Social Committee on an official basis, along the lines established by the hearing.

4. Possible future guidelines for the PHARE programme

4.1. General assessment

4.1.1. The Economic and Social Committee fully supports some of the new guidelines recommended by the Commission. More specifically, it supports both the suggested new multi-annual approach and the Essen European Council's decision to confirm the budgetary allocation for 1994 as a minimum. It also considers all action to implement the White Paper on the development and harmonization of these countries' legislation to the "*acquis communautaire*" to be essential, including both the social aspects involved and the protection of consumer rights in the countries concerned.

4.1.2. The Committee welcomes the fact that PHARE programme funds are allocated, as far as possible, in response to both objective factors, such as population and income level, and the capacity of the countries in question to shape, manage and make practical use of the results of the programme. The European Commission must display the flexibility needed for allocation along these lines but should, where possible, make clear the reasons for its decisions.

4.1.3. The priority and importance attached at the Essen Council to the development of infrastructures in these countries are not, in the Committee's view, the most appropriate. The Committee believes that the very modest budgetary provisions under the PHARE programme in relation to needs in this area will only succeed in diluting its impact across a number of individual projects (generally, minority co-financing with other financial bodies and participation by the recipient State), thereby squandering the opportunity of encouraging more urgent activities which enjoy fewer chances of alternative funding, or of generating, in the medium term, added value in areas such as SME and private sector promotion, development of human capital and the consolidation of a civil society within the framework of a free market economy.

4.2. Comments on the shape and operation of the PHARE programme in the EU

4.2.1. The Committee therefore believes that the future guidelines of the PHARE programme could incorporate the following specific elements.

4.2.2. The Committee is aware that one of the most pressing problems facing the PHARE programme is inadequate staffing. As a result, it has relied heavily on temporary staff. In the Committee's view, this lack of resources could be remedied either by assigning extra staff or by closer coordination between the Directorate-General for External Economic Relations and the other Commission services, with the former assuming the general coordination of the PHARE programme but with the sectoral Directorates-General defining specific programmes and actions. Lastly, implementation of the individual actions, once the Annual Operational Programmes have been approved, ought to be made more flexible: also, follow-up reports on their real impact must be drawn up.

4.2.3. The Committee believes that the views of the socio-occupational organizations could carry greater weight in the process of defining priorities and follow-up activities. It therefore suggests that the PHARE Follow-up Committee consult them annually, as a means of making the selection of priorities and the subsequent implementation of the measures adopted more effective. The future viability of actions/reforms and the commitment of governments or companies to them should be a central factor in selecting projects.

4.2.4. Similarly, as indicated by the Court of Auditors, there must be still greater transparency in the procedures for selecting businesses for award of contracts. The Committee however believes that it should be for the Commission to find ways of achieving these objectives.

4.2.5. The Regional and Cross-Border Cooperation Programmes are an important element in connecting these countries to each other and to the European Union. The European Union should support these forms of cross-border and regional cooperation, and consider the possibility of establishing links between the TACIS and PHARE programmes. The Committee considers that such programmes are the most appropriate recipients of exceptional infrastructure investment under the PHARE programme.

4.2.6. For other types of infrastructure investment, on the other hand, the Committee believes that PHARE intervention could be used for economic viability studies, paving the way for subsequent funding by bodies such as the EIB, EBRD or public- or private-sector initiatives from the countries themselves.

4.2.7. One exception to this principle might be to finance an environmental protection fund. Its aim would not be, as at present, to co-finance small-scale initiatives, but to supply insurance cover for newly-privatized companies or farm cooperatives against any claims arising from hidden environmental costs. The Committee believes the current situation is an obstacle to the privatization of major sectors of the economies of these countries: a fund of this kind could therefore have important knock-on effects.

4.2.8. The Committee is also convinced that significant changes should be made to how advice is provided by Community experts. Counselling, which was basic in the past, could be replaced by a small number of long-term experts in key areas - such as legal developments, the creation of comparable statistical bases or standardization and certification - working in close collaboration with a large number of local experts, funded by the PHARE programme, enabling the process to become self-sustaining in the medium term.

4.2.9. At the same time, dissemination of earlier experiences and advice, and of EU legislation, should be encouraged, possibly by setting up a PHARE Information Centre in each country, along the same lines and with similar resources as the Community Information Offices in the EU. From this point of view, the Committee considers that well-established socio-occupational

organizations, together with the universities, are amongst the most appropriate bases for such activities.

4.2.10. The Committee believes that adopting the legislation required to integrate the "*acquis communautaire*" will prove to be critical for the proper working of the Association Agreements. It therefore considers that the preparation and drafting of national legislation, the adjustment of governmental structures and the parallel training of PHARE government and parliamentary officials, could represent a main priority. The Commission's recent move in inviting national officials to work in its services in Brussels is an excellent contribution in this area. The Committee feels that other Union institutions, including itself, could adopt this approach.

4.2.11. In tandem with civil service training activities, a further priority area might be represented by training programmes aimed at both top private-sector executives and universities, together with vocational training and consumer education as a whole, with particular emphasis on how a social market economy operates.

4.2.12. The Committee also believes that specific action on the transfer of the results of Commission-funded research should be taken. The data could initially be channelled through a PHARE centre in each country, but at a later stage the research centres of these countries should be integrated into the scientific networks under the Fourth R&TD Framework Programme.

4.2.13. The Committee considers that the creation of an adequate framework for labour relations is an essential part of the process of setting up a civil society in the countries of Central and Eastern Europe. Expansion and consolidation of employers' and trade union organizations is therefore a central element in establishing a social market economy. Two further elements likewise requiring greater emphasis are the PHARE "Democracy" programme and consumer organizations in these countries.

4.2.14. Lastly, the Committee believes it would be highly desirable to lend new impetus to partnership activities aimed at EU and PHARE SMEs: the advisability and effectiveness of setting up administrative support units like those for Latin America should be assessed. Such activities are potentially of more value than past attempts to provide subsidized loans through local bodies, which proved inadequate in terms of resources and extremely complicated in practice.

4.3. **Comments on the shape and operation of the PHARE programme in the recipient countries**

4.3.1. The Committee recognizes that the governments of the PHARE countries involved are best placed to define the tri-annual guidelines and specific actions to be carried out each year.

4.3.2. Nevertheless, the Committee feels that greater involvement of their respective national socio-occupational organizations is essential in selecting priorities and will maximize acceptance and, as a result, the added value of the programmes' achievements.

4.3.3. In this connection, it needs to be said that greater transparency throughout the process of identifying and selecting projects, selecting the most appropriate recipient companies/bodies in the PHARE countries and efficiently disseminating and subsequently monitoring results are essential elements in meeting these objectives.

4.3.4. The Committee would be willing to hold periodic meetings with the socio-occupational groups of the PHARE countries in order to hear their concerns and pass on to them the benefit of our experiences.

Brussels, 13 October 1995

The President
of the Section for External Relations,
Trade and Development Policy

The Rapporteur
of the Section for External Relations,
Trade and Development Policy

Roger BRIESCH

J.I. GAFO FERNÁNDEZ

The Secretary-General
of the
Economic and Social Committee

Simon-Pierre NOTHOMB

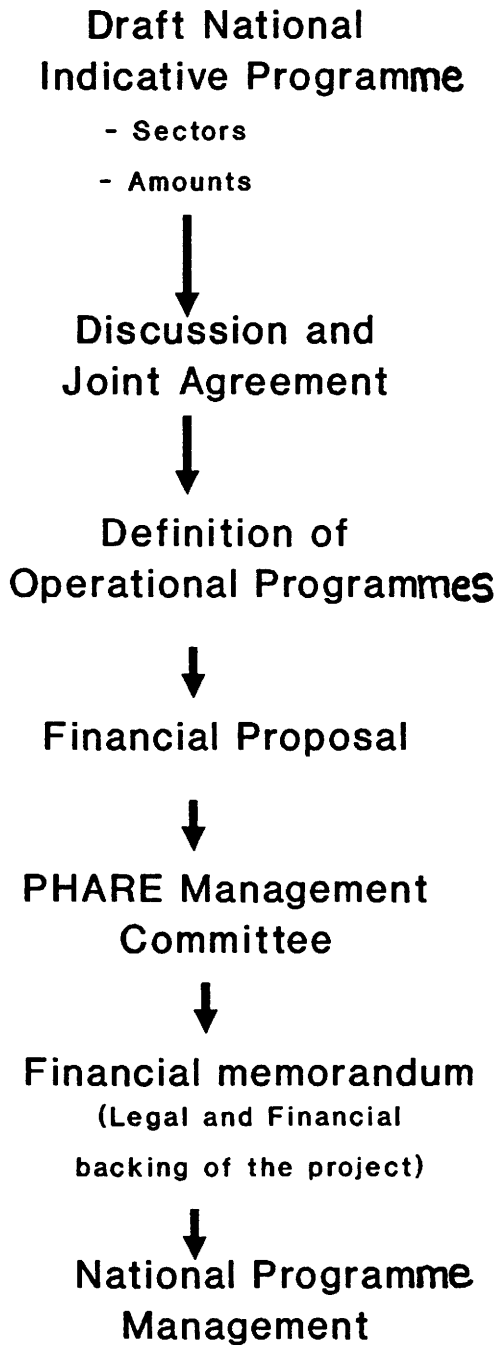
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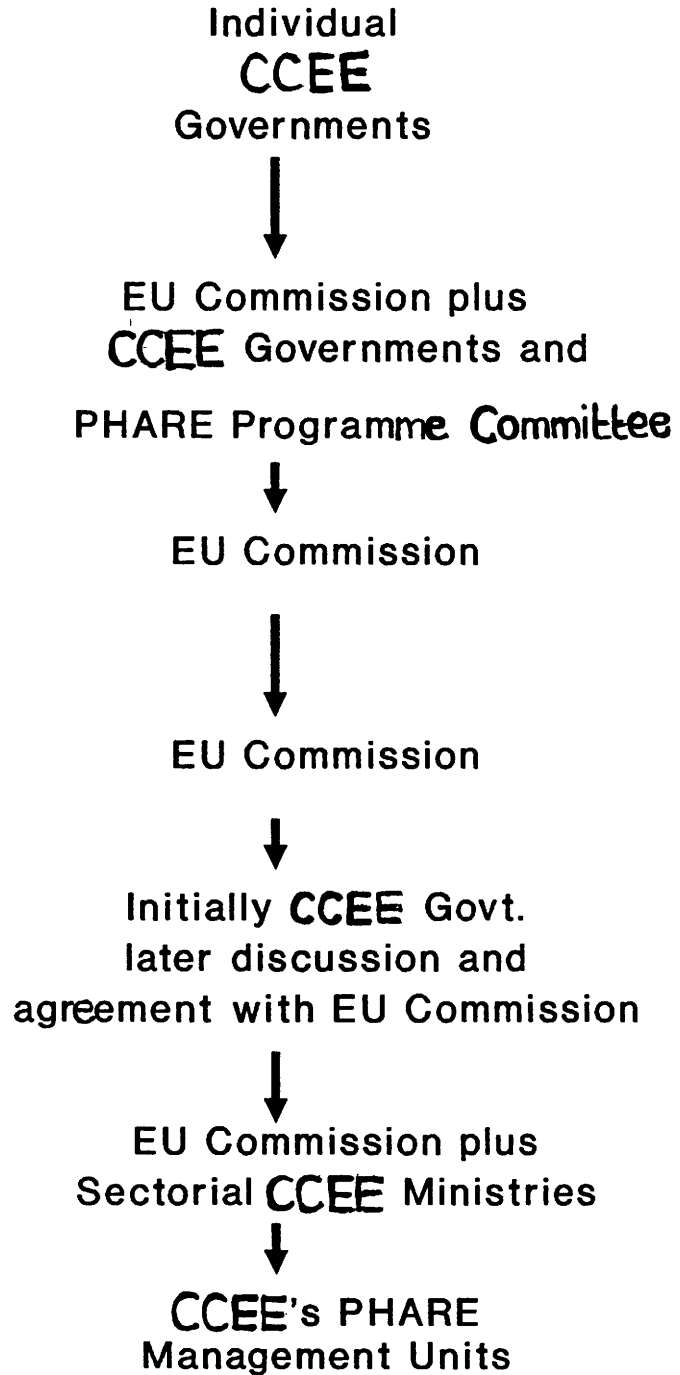
Statistical Appendix: PHARE programme figures

PHARE PROGRAMME DESIGN AND IMPLEMENTATION

ACTION



WHO?



AID RECEIVED 1990-1993
BY THE COUNTRIES OF CENTRAL AND EASTERN EUROPE
(MECUs)

COUNTRY	PHARE	EIB LOANS	EBRD LOANS	OTHERS*
POLAND	822.0	303.0	7,346.0	
HUNGARY	416.5	305.0	5,093.0	1,050.0
ROMANIA	360.0	144.0	7,595.0	625.0
BULGARIA	277.0	196.0	4,572.0	450.0
CZECH R.	199.8	222.0	2,186.0	375.0***
SLOVAKIA	133.2	138.0	2,420.0	
ALBANIA	125.0		5,199.0	370.0
LITHUANIA	45.0		3,346.0	461.9****
LATVIA	33.0		3,898.0	577.4****
ESTONIA	22.0		2,577.0	395.4****
SLOVENIA	20.0		3,284.0	
OTHERS**	76.0			
TOTAL	2,529.5	1,308.0	47,516.0	4,304.7

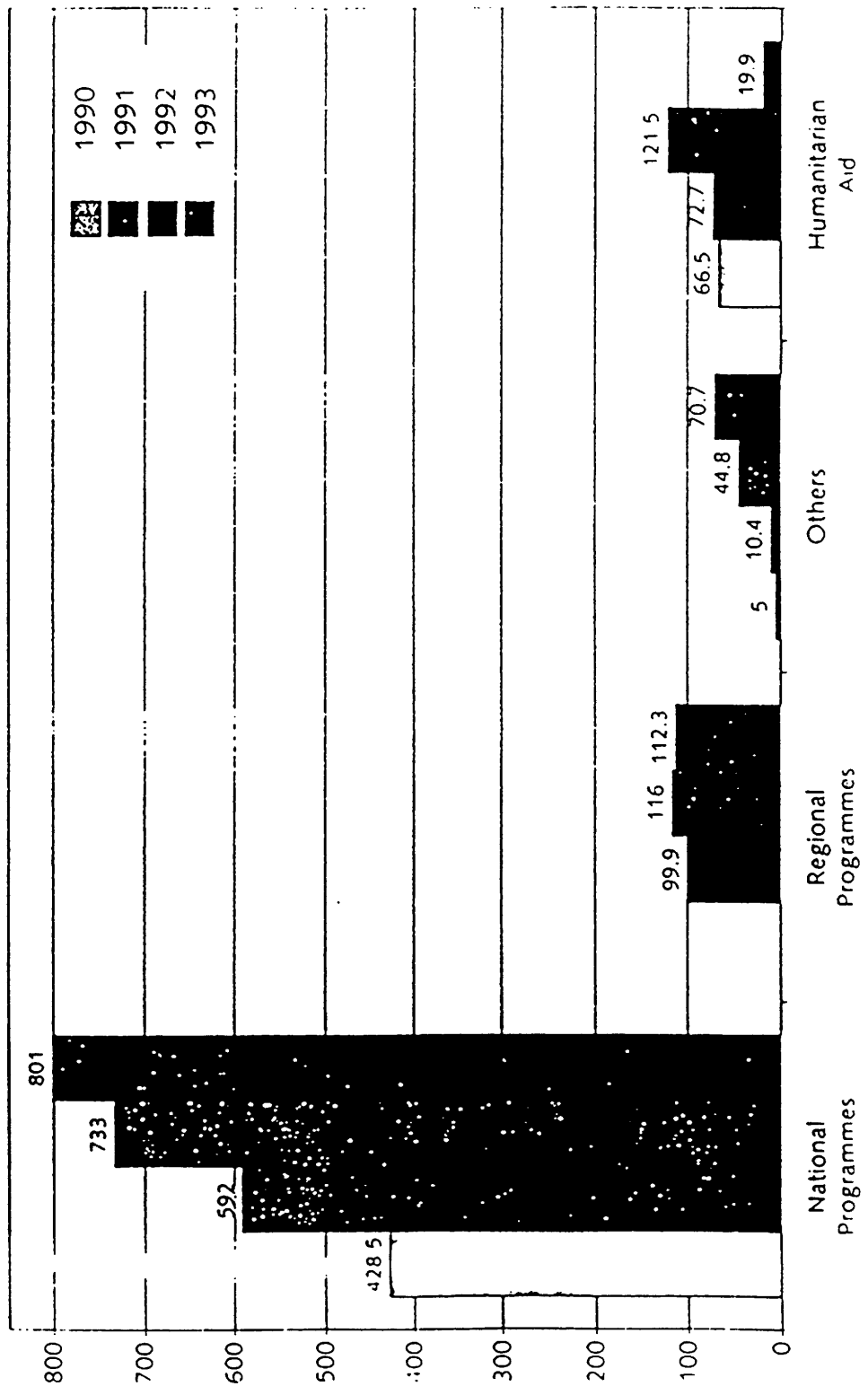
* Assorted humanitarian aid, assistance in redressing the balance of payments and in correcting macroeconomic policy, and G-24 support.

** Aid to the former Yugoslavia in 1990-1991 and the former GDR in 1990.

*** Corresponding overall to the former Republic of Czechoslovakia.

**** Mostly from the G-24.

Phare commitments by main programmes from 1990 to 1993



Total: MECU 3,294.2

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INDICATIVE PROGRAMME 1994-1996
PRIORITY AID SECTORS

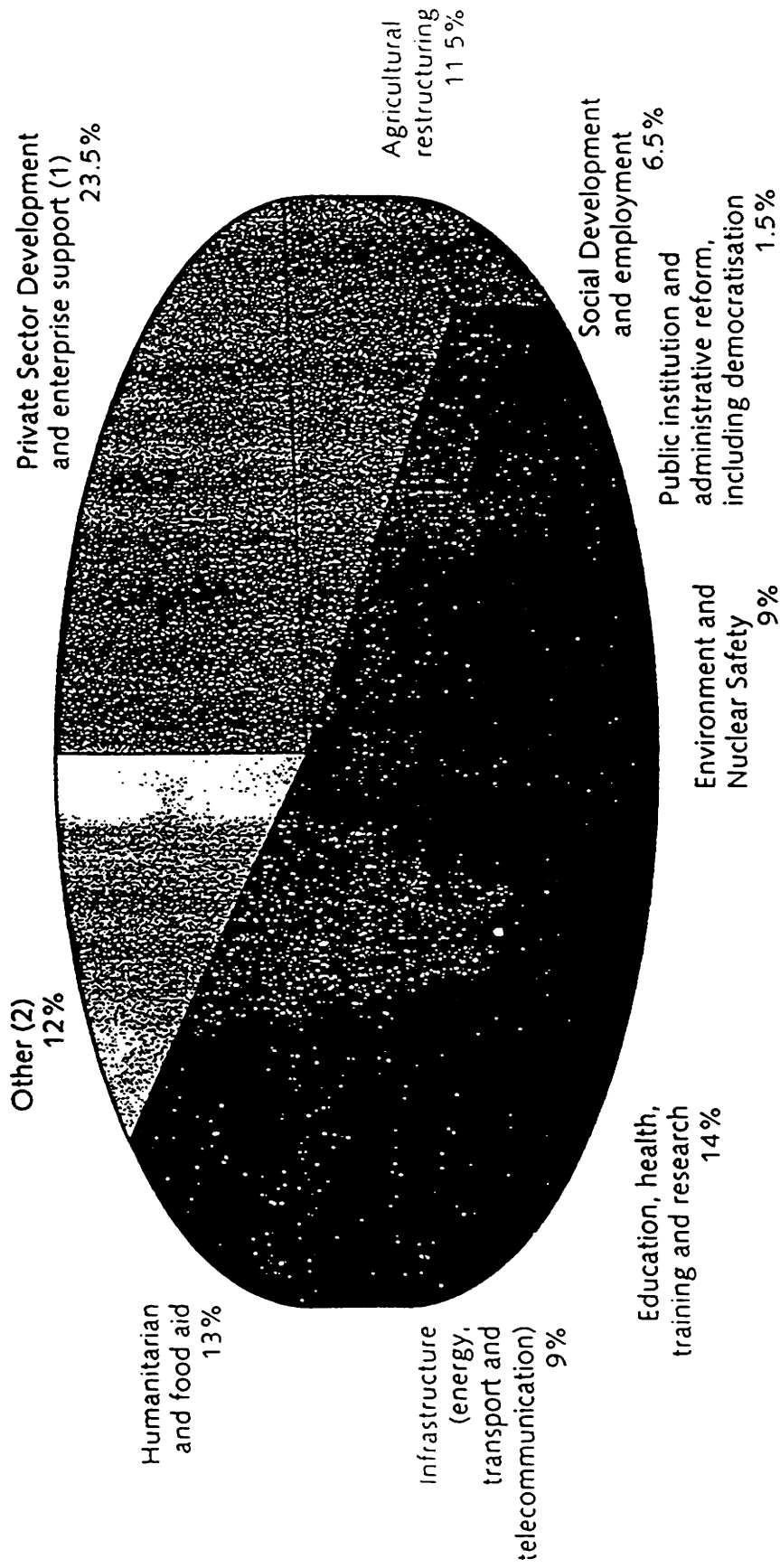
COUNTRY	PRIVATE SECTOR DEVELOPMENT	INFRASTRUCTURE DEVELOPMENT	HUMAN RESOURCE DEVELOPMENT	SOCIAL WELFARE RESTRUCTURING	FARM SECTOR	DEVELOPMENT OF PUBLIC INSTITUTIONS	ESTIMATED TOTAL FOR 1994 (MECU _s)
POLAND ¹	**	**	**				240
HUNGARY	**	***	**				85
ROMANIA ¹	***		**				140
BULGARIA ¹	*	**	*	*		**	100
CZECH REP.	**	*	**	*		**	60
SLOVAKIA	*	*	**	*		**	40
ALBANIA	*	*	*	**	**	*	20
LITHUANIA	***	***	*				30
LATVIA	***	*	***			*	20
ESTONIA	***	**	*			*	14
SLOVENIA	***	*	**			*	15
INTERREGIONAL PROGRAMMES		***	***				100
TOTAL 1994							864

KEY

- * Aid representing < 15% of the budget allocated to the country.
- ** Aid representing between 15% and 35% of the budget allocated to the country.
- *** Aid representing > 40% of the budget allocated to the country.

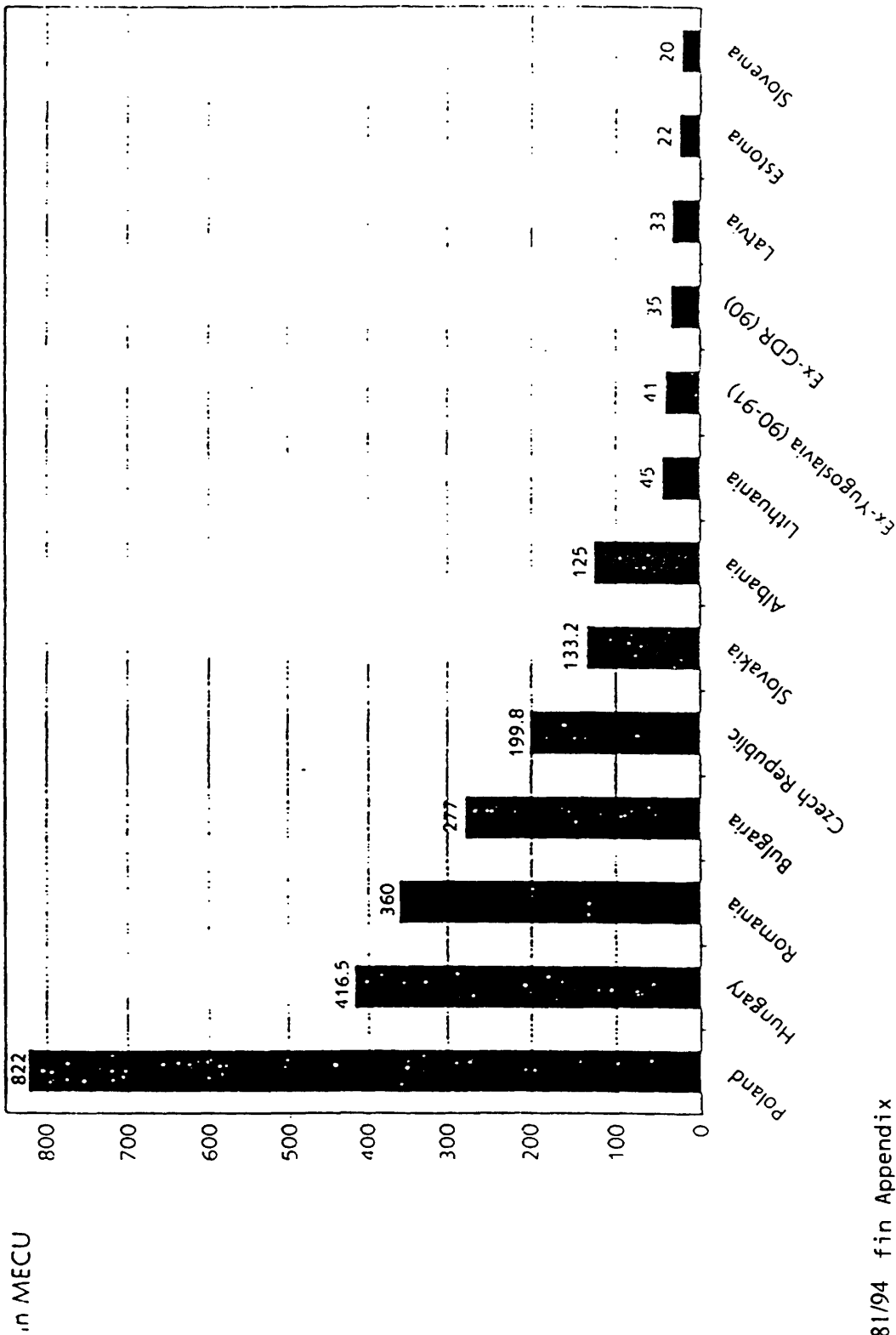
¹ Based on estimates in the 1993-1995 indicative programme: indicative programme for 1994-1996 unavailable.

Breakdown of cumulative commitments by sector 1990 - 1993

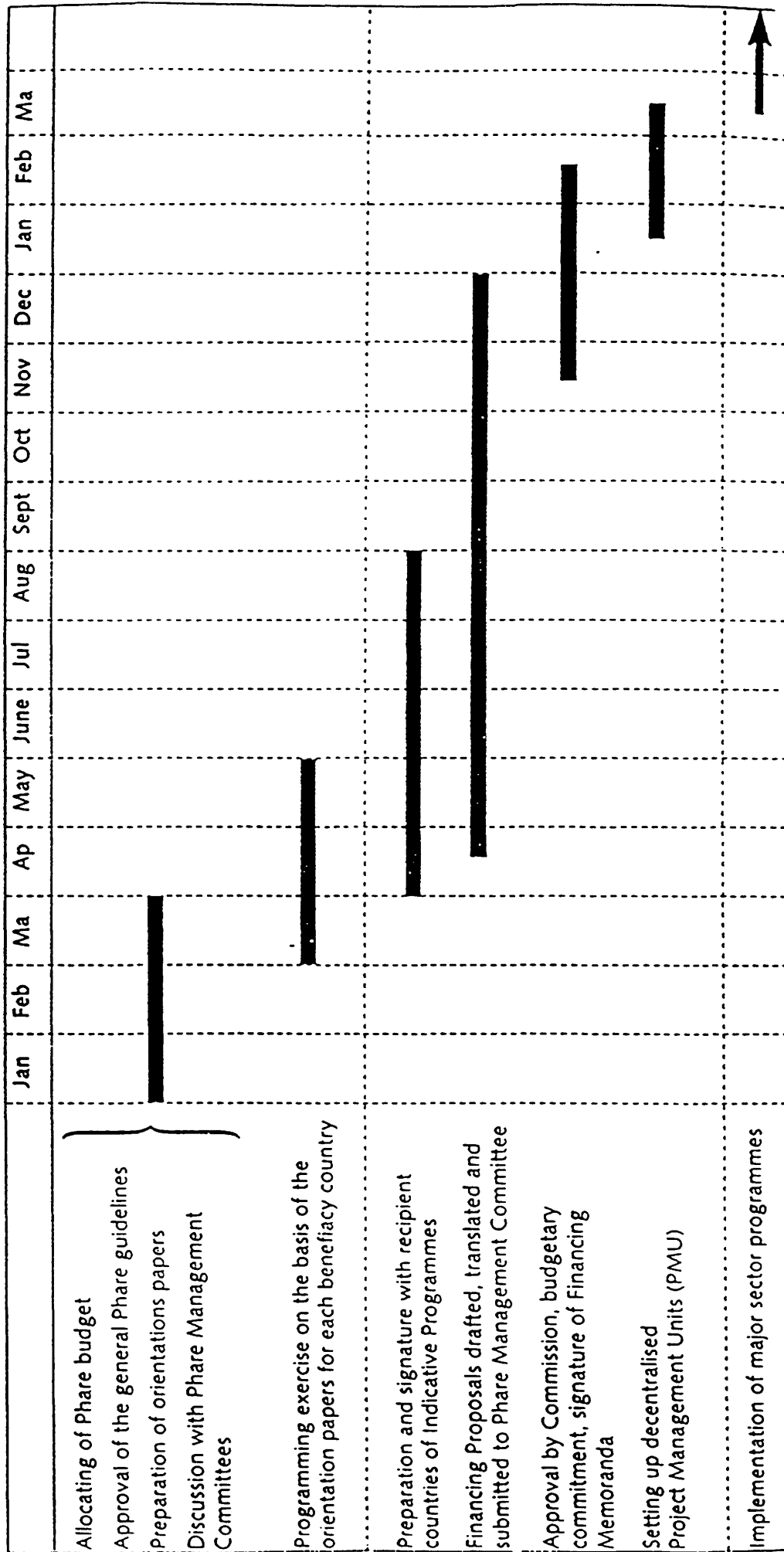


(1) Privatisation, restructuring, SME, banking, finance, investment and export promotion, regional reconversion ...
 (2) This item includes balance of payments grants (Albania), programme preparation and management, aid coordination and General Technical Assistance Funds (GTAF). The GTAF's cover technical assistance operations across all sectors and account for a total of over MECU 200. Thus the amounts indicated for the Core Areas and other Priority Sectors are somewhat understated.

National Programmes from 1990 to 1993



Stages of Phare project cycle



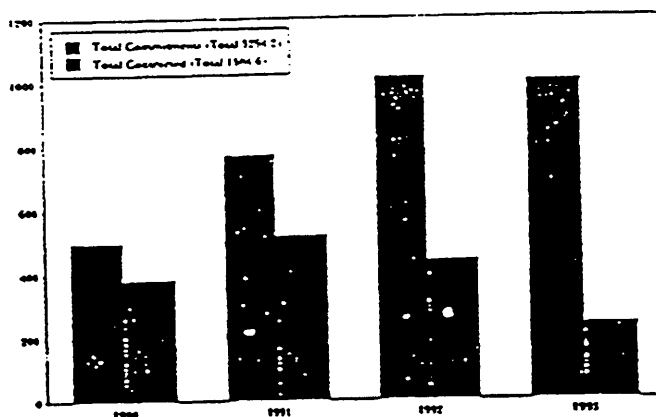
Summary of the Phare Programmes 1993

NATIONAL PROGRAMMES		800		
<u>Albania</u>				
Balance of payments support		35		
TEMPUS		2.5		
Health Sector		6		
Private Sector		7		
Environment		3.3		
Public Administration		1.2		
Agriculture		10		
		65		
<u>Bulgaria</u>				
Nuclear Safety		4.8		
Health		10.5		
TEMPUS		1.5		
Privatisation & Tourism		6		
Infrastructure		24.7		
Financial & Banking		5		
Customs		8		
General Technical Assistance Facility		16		
		90		
<u>Czech Republic</u>				
General Technical Assistance Facility		8		
Infrastructure		9		
Private Sector		27		
Human Resources		8		
TEMPUS		8		
		60		
<u>Estonia</u>				
General Technical Assistance Facility		10.5		
TEMPUS		1.5		
		12		
<u>Hungary</u>				
Technical Assistance: Europe Agreements		1		
TEMPUS		16		
Private Sector		31		
Agriculture		30.5		
Health		10		
Technical Assistance: Aid Coordination		1.5		
Quality Management &				
Technology Development		10		
		100		
<u>Latvia</u>				
General Technical Assistance Facility		16		
TEMPUS		2		
		18		
<u>Lithuania</u>				
General Technical Assistance Facility		22.5		
TEMPUS		2.5		
		25		
<u>Poland</u>				
TEMPUS		35		
Statistical Information System		12		
Financial Sector		10		
Investment Promotion		10		
Standards and norms		5		
Customs		15		
Safe Society		10		
Agriculture and rural development		30		
Training and educational reform		10		
Transport infrastructure		30		
Telecommunications and postal services		7		
Flexible reserve for technical assistance		18		
Tourism		8		
Transport		18		
		225		
<u>Romania</u>				
TEMPUS			18	
Restructuring and private sector			70	
General Technical Assistance Facility			27	
Agriculture			5	
Customs			10	
			130	
<u>Slovakia</u>				
Private Sector			19	
General Technical Assistance Facility			5	
Infrastructure			5	
Human resources			3	
Agriculture and Land Registration			3	
TEMPUS			5	
			40	
<u>Slovenia</u>				
General Technical Assistance Facility			7.5	
TEMPUS			2.5	
			10	
<u>EXROM</u>				
Import Programme			25	
			25	
<u>HUMANITARIAN AID</u>				19.9
				Albania: schools, etc.
				10
				Romania: food aid
				9.9
<u>MULTI-COUNTRY PROGRAMMES</u>				112.25
				Nuclear Safety
				20
				TEMPUS - technical assistance
				5.5
				TEMPUS - regional
				10.25
				Energy extension
				5
				Joint venture programme (JOPP)
				27.5
				Transport
				20
				Drug extension
				10
				Transport extension
				4
				Customs extension
				10
<u>OTHERS</u>				72.1
				EBRD - Multidisciplinary
				12.5
				Multidisciplinary '93
				27
				Information
				2.7
				TEMPUS: extra Albania and Baltic States
				9.9
				Democracy
				10
				Partnership & Institution Building
				10
<u>TOTAL FUNDING</u>				1004.25
				<i>All figures in MECU</i>

*Contracts and payments by budget year, situation as of end 1993
(in MECU)*

Budget exercise	Commitments	Value of contracts signed	as % of commitments (end 1993)	Payments made	as % of contracts (end 1993)	as % of commitments (end 1993)
'93	1,004	240	24%	142	60%	(15%)
'92	1,015	441	43%	304	69%	(30%)
'91	775	520	67%	355	68%	(46%)
'90	500	384	77%	337	88%	(67%)
TOTAL	3,294	1,585	48%	1,139	72%	

**2. Contracts signed against commitment by budget year
(in MECU)**



**3. Payments against contracts signed by budget year
(in MECU)**

