



# Phare

Progress and strategy paper  
**Environment to  
the year 2000**

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# Foreword

This paper is part of a series which covers each of the main areas of Phare activity. It describes the nature of the problems faced in Phare's partner countries during their transition from planned to market economies. It goes on to examine actions undertaken to date, and to assess their impact on the transformation process.

There is clearly a need to ensure that the approach being taken in any given sector is relevant to the longer-term goals of economic transformation. For this reason, these papers contain the thinking of those responsible for operating Phare on actions for the future and how Phare should contribute to the next phase of the transition.

The papers do not reflect any official position of the European Commission. They have been written by the Phare Operational Units and are intended as a stimulus to discussion for all those involved in the debate on economic transformation in central and eastern Europe.

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Relations with central and east European countries



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## What is Phare ?

The Phare Programme is a European Union 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 and build closer political and economic ties with the European Union.

Phare does this by providing grant finance to support the process of economic transformation and to strengthen newly created democratic societies. Phare also provides grant finance to help countries with Europe Agreements integrate with the European Union.

In its first five years of operation to 1994, Phare has made available ECU 4,284 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 Union. This ensures that Phare funding is relevant to each government's own reform policies and priorities. Each country takes the responsibility for running its own programmes.

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 restructuring 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 and public administration, reform of social services, employment, education and health, development of energy, transport and telecommunications infrastructure, and environment and nuclear safety. Under the Europe Agreements, Phare funding is being used to make laws compatible with European Union norms and standards, and to align practices.



## Executive summary

The environmental challenge facing central and eastern European countries is immense. Not only does the area contain some of Europe's most polluted areas but high levels of emissions continue to erode its rich and diverse eco-system and to adversely affect living standards.

It is estimated that some ECU 300 billion is needed over the next 15 years to substantially raise the quality of the environment in central and eastern Europe. Given that the area is currently experiencing a recession as a result of restructuring, resources on this scale are simply not available. Instead, governments are developing gradual long-term approaches to meet their respective environmental challenges. These are

- cleaning up contamination inherited from the former communist period
- introducing cleaner and environmentally sustainable practices in the sectors of energy, municipal waste, industry and agriculture which cause particularly high levels of pollution
- harmonising environmental policies and specific legislation with European Union (EU) and international conventions.

Given the scale of the problem faced by central and eastern European countries, the Phare Programme can only play a catalytic and facilitating role. Governments in the area and the private sector must provide the bulk of the resources required. However, as Phare's funds are provided as grants, this funding can be a powerful and influential tool.

Between 1990 and 1994, Phare financed several hundred environmental projects totalling ECU 337 million in Albania Bulgaria, Czech and Slovak Republics, Estonia, Hungary, Latvia, Lithuania, Poland, Romania. and Slovenia. This amounts to some 10 per cent of the total Phare budget for this period.

The environment, which has been identified as one of the focal points for future investment, will receive further substantial funds from Phare in the coming five years. Phare's environmental programmes, whilst tailored to the individual circumstances of each country, have followed a similar strategic path since 1990, namely the progressive strengthening of environmental policies, legislation and institutions through to the facilitation and initiation of priority environmental capital investments.

The development of Phare's 1995-2000 environmental strategy has involved four tasks:

- an analysis of the progress made in the environment by each of the central and eastern European countries since 1990
- an evaluation of the support that Phare has provided for environmental issues since 1990
- the identification of the critical resource gap where Phare's future support will be concentrated most effectively
- the composition of the operational instruments and tools which Phare must adopt to ensure that its future support is effective and efficient.

With policy and institutional foundations now largely in place for tackling environmental problems, the EU's central and eastern European partners are seeking Phare's support in taking the next major steps in raising environmental quality, which are

- policy refinement, including the horizontal integration of environmental issues with other sectors and the harmonisation of environmental laws and standards
- priority capital investments which are now essential if there is to be a substantial improvement in environmental quality in the area before the turn of the century
- institutional development and the raising of public awareness.

This strategy paper outlines the initiatives which will be carried out in these three broad areas, as well as outlining the changes which will be made to Phare's own procedures and instruments to ensure that its future actions are implemented quickly and effectively.

This paper has three annexes. The first outlines the legal agreements guiding Phare's actions in the sector. The second describes Phare's past environmental programmes in each of the Phare partner countries. The third provides an executive summary of the Environmental Action Programme for central and eastern Europe, a key strategic document which was drawn up by the governments in the area, the Commission of the European Union and international donors and the financial community.



# Section 1 - Central and eastern Europe's environmental challenge

## Defining the challenge

Solving the environmental problems of central and eastern European countries is one of the most difficult tasks facing Europe since its reconstruction in 1945. Countries must clean up past contamination while also rapidly reducing the high levels of pollution which are still being emitted by the region's inefficient energy, industrial, municipal waste and agricultural enterprises.

In 1993, the environment ministers of central and eastern Europe defined their most important environmental challenges as follows<sup>1</sup>:

- reducing lead and other heavy metals in air and soil from metal refining, transport and energy production
- managing toxic waste from heavy industry and energy production
- eliminating airborne dust from household furnaces, small businesses, power and heating plants, metallurgical and other industrial plants
- eliminating contaminants and pathogens in food and water from industrial and energy sources (especially dangerous where heavy metals or toxic chemicals threaten drinking water supplies) and from inadequate and at times inoperative waste water and water supply treatment facilities
- reducing sulphur dioxide and other gases in the atmosphere from various industrial and energy sources (especially dangerous when combined with dust particles)
- reducing nutrients<sup>2</sup> in water from inefficient and wasteful agricultural enterprises, the inappropriate application of fertilisers and untreated sewage in rural areas
- reversing productivity losses from damage or outright destruction of physical capital and natural resources
- halting damage to bio-diversity from agriculture, industry and urban development, which is especially serious in the enclosed seas within the area and in some forests.

## Obstacles to meeting the challenge

The obstacles which must be overcome include the following.

- **Human resource and institutional weaknesses.** Technical skills, technical equipment and planning capacities in the ministries of environment and in other key agencies need to be developed and improved.
- **Insufficient awareness of environmental issues.** Governments often lack the political will to tackle environmental issues because there is very little awareness of the existing problems and little awareness of the cost of ignoring these problems. Facilitating communication and raising awareness amongst the general population, in enterprises and within government itself, especially in the Ministries of Finance and the principal 'polluter' ministries (e.g. industry, energy and agriculture), remains a key priority for the area.
- **Inadequate policy and regulatory frameworks.** While the basic frameworks are now in place in most central and eastern European countries, changes are still necessary in the areas of regulation and enforcement.
- **Scarce financial resources.** Given the scarce resources available to the public sector, alternative systems for tapping private sector finance must be developed and adapted to local conditions (e.g. tradeable permits systems) and institutional and technical capacities must be developed further to ensure that funds are directed only to those projects offering the most benefits for the least cost.
- **Poor monitoring systems.** The absence of accurate pollution monitoring data and of clear ambient/quality targets severely restricts governments when developing appropriate environmental strategies and when enforcing the law.

Section 2 of this paper summarises these environmental problems and obstacles in each country, and also outlines the progress that each government has made so far in raising environmental standards.

1 These priorities were identified by eastern European governments in 1993 at a conference in Lucerne, Switzerland. The conference produced the Environmental Action Programme for central and eastern Europe, a document which heavily influences Phare's activities in this area.

2 nitrates and phosphates.

## Harmonisation and the European Union

A further underlying incentive behind the need to raise environmental quality in the area is the desire for eventual integration into the European Union (EU).

The most concrete demonstration of this is found in the Europe Agreements which have been signed by Poland, Hungary, the Czech and Slovak Republics, Romania and Bulgaria<sup>1</sup>. These are frameworks within which the six countries can prepare for eventual accession to the EU, and which include clauses outlining the environmental actions that must be initiated.

Most of these initiatives will be carried out by the countries themselves. However the Europe Agreements cite the Phare Programme as a major instrument in helping achieve the environmental pre-conditions for membership. For example, Poland's Europe Agreement states that the Polish government and the EU, operating through Phare, will cooperate in the following areas:

- harmonisation of environmental legislation and standards with those applicable in the EU, in close cooperation with the European Commission's Directorate General for Environment, Nuclear Safety and Civil Protection (DG XI)

- pollution monitoring
- multi-country and cross-border pollution issues
- energy efficiency
- handling, storage and disposal of hazardous products and waste
- water quality, especially where bodies of water straddle borders or flow into the open sea
- agricultural practices and land management
- development of appropriate economic and financial instruments.

Europe Agreement Committees meet regularly to discuss progress in these issues of approximation and harmonisation. However, at present, there is only one sub-committee acting for the environment within the framework of the EU-Romania Europe Agreement.

Other multi-country agreements which steer central and eastern Europe's environmental policies include the environmental action plan for central and eastern Europe and the various European River Basin Agreements. These are described in Annex I and Annex III.

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<sup>1</sup> Slovenia and the Baltic countries may to be offered similar Agreements in the near future.

## Section 2 - Environmental progress since 1990

### Introduction

Since 1990 the governments of central and eastern Europe have taken major steps towards tackling their environmental problems. They have established new environmental institutions and have developed general environmental policies and extensive specific legislation for the sector. In addition, major investments in the control of air, water and soil pollution have continued, despite the major economic recession.

However, too much optimism over progress to date would be inappropriate. Falling pollution levels during 1992-1994 are largely the result of falling economic output rather than improved environmental management. Also, a deeper analysis of the situation indicates that many of the basic problems which caused the decline in the area's environmental quality are still present:

- industrial manufacturing, much of it causing high levels of pollution, still dominates the economies of the area
- awareness of environmental issues is still very low amongst central and local government officials, business leaders and the general population
- the environment has been superseded by more pressing and politically delicate economic problems in the principal political agenda

- capital and personnel resources are increasingly restricted, owing to falling central government revenues
- suppliers and producers of energy and domestic heating still exploit the cheapest available fuels which are often the most likely to cause pollution (e.g. brown coal)
- systems whereby consumers are charged for environmental services (e.g. waste water treatment and water supplies) remain underdeveloped
- environmental standards are often ineffectively enforced owing to inadequate monitoring equipment and inadequate staffing levels and due to the reluctance of enterprises to comply with legislation
- environmental policies are often too ambitious and insufficiently coordinated with other ministries.

This section looks more closely at the progress already made by central and eastern European countries in improving environmental standards and outlines some of the remaining critical problems. Obviously, national governments will carry out most of the remaining work themselves, with the Phare Programme playing a catalysing and facilitating role.

### Box 1 - Guidelines for improving the quality of the environment

Improvements in environmental quality can only be realised through an environmental policy and management system which is able to formulate appropriate policy, translate that policy into laws and regulations, and then effectively enforce those regulations.

However, the advances made by such a system cannot be sustained unless there is popular support for the protection of the environment. For this reason, raising public awareness and encouraging public participation are equally critical in the pursuit of improved environmental standards. Participation and awareness must be encouraged on two levels, firstly at the level of the general public and business groups, and secondly among other ministries. This reflects the fact that environment is not a sector in itself but a 'horizontal' issue which encroaches on every economic and social activity.

In addition to policy, management, enforcement and awareness, the last element in raising environmental quality is finance. Environmental problems are expensive to rectify, especially when traditional economics and business management fails to place monetary values on environmental assets. For this reason great efforts must be made to ensure that finance for tackling environmental problems is maximised and that funds are directed to projects offering the maximum benefit for the least cost.

Strategies which provide only one or two of these elements will not be sustainable or cost effective. The only successful strategy is one that provides a mix of policy, enforcement, awareness and financial elements.

## Country profiles

The following country profiles are based on a survey of 150 senior figures from central and eastern European governments, non-governmental organisations (NGOs), educational institutions and the business fraternity, which was carried out by the Regional Environmental Centre, based in Hungary and was released in May 1994.

### Albania

Politics, economics, society and the environment: As is often found in central and eastern Europe, the environment was an important and prominent issue in the early post-communist period but has since lost ground as economic growth and security have become all-consuming political concerns. Although the Committee for Environmental Preservation and Protection (CEPP) was founded in the Ministry of Health two years ago, it has limited political force and is seriously understaffed.

On balance, the economic transformation of the economy has had a positive impact on the environment through the closure of heavy industries and energy plants. Awareness of environmental issues is generally low and is now largely sublimated in the minds of the general public and politicians by more pressing economic concerns.

Environmental assets and damage: Fortunately, the environmental situation in Albania is quite good, in relation to the rest of central and eastern Europe. The quality of air, water and soil improved during the transition period and the country's rich bio-diversity is relatively untouched. However, there are particularly pressing environmental issues (e.g. unmanaged forestry and the hunting of rare birds), overloaded urban infrastructures (e.g. Tirana) and specific areas where pollution is particularly severe (e.g. Lac and Vlore where populations have actually been evacuated owing to environmental problems).

Priority environmental problems: The most urgent environmental problems facing the government are deforestation, soil erosion, water pollution and waste management.

Critical environmental actions: Urgent capital investments are required to tackle some of the urgent priority problems above. In addition, the CEP urgently needs strengthening, regional efforts must be increased and monitoring expanded. The CEP's regulatory enforcement role also needs overhauling and strengthening, although 10 additional regional enforcement inspectors have recently been recruited. Both policy and legislation have been substantially improved earlier this year.

### Bulgaria

Politics, economics, society and the environment - substantial legislation was passed in 1991 and a major national environmental strategy was developed in 1992. Environmental issues have been dropped to a certain extent from the political agenda in recent times. However, activity in non-governmental organisations (NGOs) and the raising of public awareness is progressing successfully. For example, plans for a proposed metal works were dropped following public protests. The Ministry of Environment has even opened an office for NGO relations.

The closure of certain enterprises and a decline in economic production has reduced pollution levels but the economic transformation has also cut the funds available for environmental improvements. Also, the failure to privatise state enterprises has meant that major polluters continue to avoid enforcing environmental regulations.

Environmental assets and damage: Unique reserves of bio-diversity and a commitment to nature conservation are major assets. However, there are some areas in Bulgaria where there are very high levels of pollution (the chemical factory at Varna-Devnya and the Danube and Maritsa rivers). In some cases, water is not even fit for irrigation.

Priority environmental problems: The most urgent environmental problems facing the government are the protection of water resources (especially with regard to industrial discharges and domestic waste water), air quality (especially with regard to the burning of poor quality coal) and waste management.

Critical environmental actions: The focal points for future support, together with critical capital projects in the water and air sectors are, modern monitoring systems, some selective institutional improvements, support for enforcement agencies to raise compliance rates, the regionalisation of environmental control and public participation.

### **Czech Republic**

**Politics, economics, society and the environment:** Since 1990, when it was part of the Czechoslovak Federation, the Czech Republic has placed the environment relatively high on its political agenda. Not only have the public viewed the environment as among its top political priorities, but many senior officials have considerable knowledge of environmental issues and enjoy a relatively high degree of environmental awareness. The split in the Federation has not substantially harmed this general environmental awareness. However, some of the targets set under current legislation are too ambitious and contain major inconsistencies. As a result, much of this legislation is now being revised. Also, a 20 per cent decline in gross national product (GNP) in recent years has obviously pushed the environment's ranking down the political agenda.

**Environmental assets and damage:** The first conservation law was passed in 1754 and the country's first national park was opened in 1858. This tradition of nature conservation is reflected by the fact that about 40 per cent of the nation's land enjoys some form of protected status. However, environmental damage was considerable during the communist period, especially in the mining districts of northern Bohemia and the industrial areas of northern Moravia.

**Priority environmental problems:** The building of a nuclear plant in Temelin and air pollution in severely polluted industrial and urban areas are the Czech Republic's most frequently cited environmental problems. The problem of air pollution is closely interwoven with the Czech Republic's energy policy.

Republic and environmental coordination is essential in this area, especially if the proposed building of a nuclear plant will result in reduced coal burning in Northern Bohemia. The treatment of waste water and the water supply are also problems that needs to be addressed.

**Critical environmental initiatives:** Environmental policy is well developed in the Czech Republic. A major environmental policy was passed in 1993 which, perhaps, is central and eastern Europe's most advanced and comprehensive environmental strategy and action plan. However, problems may occur due to the unrealistic targets which have been set. Coordination, regionalisation, refinement of 1990's legislation, support to enforcement agencies, continuing educational and institutional improvements, the development of vital clean technologies and priority capital investments for water and air quality are the likely focal points for future environmental action.

### **Estonia, Latvia and Lithuania**

**Politics, economics, society and the environment:** Environmental issues were critical in the independence movements of all three countries and as a result the environment enjoyed a high political profile in the early years of independence. However, falling economic output during periods of transition and low levels of environmental awareness amongst governments and the public alike, have pushed environmental issues down the political agenda in recent years. Economic recession has eased pollution levels but has also led to falling government revenues and smaller environmental budgets.

**Environmental assets and damage:** Estonia, Latvia and Lithuania contain some of Europe's major reserves of natural marine, lake and forest bio-diversity. While each independent country suffers from its own particular environmental problems, certain themes are shared. For example, Soviet-style economic development has resulted in some particularly severe industrial and energy 'hot spots', the production and consumption of energy causes high pollution levels (except in Lithuania where energy problems are largely nuclear-related), the infrastructure for waste water treatment and water supply is antiquated, solid waste problems are poorly addressed and precious reserves of natural eco-systems are being eroded by nationally sourced pollution and by pollution carried by rivers from Poland and other central and eastern European countries.

**Priority environmental problems:** Although independent for only three years, Estonia, Latvia and Lithuania have made considerable environmental advances. Each country has maintained as much investment and maintenance expenditure as possible. At the same time each country is now revising earlier environmental strategies, developing detailed and viable investment and action plans, instituting and refining environmental legislation and developing more sophisticated enforcement and Environmental Fund strategies to tackle environmental issues.

**Critical environmental actions:** Policy development, legislation refinement, the decentralisation of environmental actions, the strengthening of all central and regional environmental agencies, the development of new institutions (e.g. funds) and priority capital investments, especially in nature conservation, the storage of waste water and solid and hazardous waste, are all likely focal points for future environmental initiatives.

## **Hungary**

**Politics, economics, society and the environment:** As in other central and eastern European countries, the environment does not now receive the same attention in Hungary as it did in the early years of independence. However, Hungary has one of the most advanced systems of environmental management and its environmental problems, while difficult, are not on the same scale as those of some other central and eastern European countries.

**Economic transition** has not only reduced the profile of the environment but has led to the rapid growth of small and medium-sized enterprises which do not abide by any environmental controls.

**Environmental assets and damage:** Nature reserves and national parks account for some 15 per cent of the country's land mass. Hungary suffers from general environmental degeneration (especially with regard to poor water quality which affects the country as a whole) rather than particular and local environmental problems.

**Priority environmental problems:** The most critical environmental problems facing Hungary relate to water quality. Uncontrolled 'run-off' has led to surface and sub-surface water contamination which is being exacerbated by the lack of waste water treatment facilities. However, there are also increasing problems with air quality, from high sulphur power production, industry, households and transport, and of waste water, and the management of solid and hazardous waste (e.g. Hungary has 2,000 illegal dumping sites).

**Critical environmental actions:** The consolidation and refinement of a national environmental strategy is needed to augment Hungary's progress in environmental matters over the coming five years. In addition, an increasing priority is the integration of environmental concerns with other areas of government. Legislative advances, such as the introduction of impact assessments and the new environmental law of 1994, must be reinforced by further and more extensive reforms. Nonetheless, Hungary's relatively well-developed environmental awareness should be recognised (e.g. the privatisation of Hungarian nature conservation areas has ceased). Major initiatives are therefore likely to involve capital investments, the raising of awareness, institutional improvements and eco-system management.

## **Poland**

**Politics, economics, society and the environment:** Democratisation has resulted in a marked improvement in issues relating to the environment with awareness increasing in all spheres of Polish society and government. However, the economic recession has pushed environmental issues down the government's and the public's list of immediate priorities. The country's environmental strategies must now be redefined to take this different, albeit temporary, priority into account. They must identify ways in which they can tackle what are some of central and eastern Europe's most intractable and severe environmental problems with, for the moment, less support from central government.

Although there has been a reduction in manufacturing output and a corresponding reduction in environmental emissions, the effects of economic recession and transition have, on balance, had a negative impact on the environment.

**Environmental assets and damage:** Poland has some of Europe's most precious reserves of bio-diversity, the 'green lungs' forests in the northern part of the country). Emerging non-governmental organisations and, in some areas, strong community environmental lobbies must also be regarded as positive elements in Poland's fight to reverse environmental degradation. However, considerable environmental damage has been done in the past and is still currently ongoing, e.g. the contamination of soil and water, the deterioration of air quality and the inadequate storage and disposal of waste. In short, the cost of alleviating Poland's environmental problems has been estimated at ECU 70-90 billion which is twice the level of similar estimates in any other individual central and eastern European country.

**Priority environmental problems:** Particularly heavy communist-style industrial and energy development has left the country with severe problems which threaten economic development, health and general living standards (e.g. the two severely affected areas in the south west of the country, Upper Silesia and the Black Triangle). While poor air and water quality are the most frequently cited problems, solid waste and waste water, transport pollution and energy-related environmental degeneration also represent major challenges to the Polish government.

**Critical environmental actions:** Legislation is recognised as being well developed in Poland, as are environmental skills among its technicians, policy-makers and academics. Therefore, the critical focal points for future environmental initiatives are major capital investments in water treatments and in the improvement of air quality, in institutional strengthening, the raising of awareness, in training and clean technologies. Also, major support will be provided for enforcement agencies and for new agencies such as the National Fund.

### **Romania**

**Politics, economics, society and the environment:** Political change has allowed the public to address issues relating to environmental degeneration and several non-governmental organisations (NGOs) have been formed. However, the transformation process, on balance, has had a negative impact on the environment, as several changes in administrations have resulted in weaknesses in legislation, uncontrolled industrial, agricultural and building development, inadequate law enforcement and small environmental budgets.

**Environmental assets and damage:** Much of Romania has remained free from environmental damage and there are many areas of great natural value (e.g. forests and wetlands) in the country. However acid rain, water pollution and energy and industrial plants have caused major environmental damage. There are particular problems in the urban areas of Baia, Mare, Copsa, Mica where industrial activity has resulted in major environmental degeneration.

**Priority environmental problems:** The quality of surface and ground-water and the quality of nature protection and rehabilitation are the most frequently cited environmental problems in Romania. However, air quality and the management of solid and hazardous waste also represent major challenges to the Romanian government.

**Critical environmental actions:** Improved environmental management and institutional improvements, the augmentation of enforcement systems, education and the raising of awareness, priority water treatment investments, bio-diversity protection and management and clean technologies are possible focal points for future initiatives.

### **Slovakia**

**Politics, economics, society and the environment:** The environment has moved further down the list of government priorities in the Slovak Republic after the breakup of the Federation due to pressing economic problems. However, legislation (adopted from the Federation) is in place and a new overall policy and specific legislation (fully coordinated with the environmental action plan for central and eastern European countries) has been adopted. On balance, economic transition has had a largely negative impact on the environment, reducing its political importance and cutting its budgets.

**Environmental assets and damage:** The Slovak Republic is particularly rich in natural resources with large national parks and conservation areas. However extensive damage has been caused by unmanaged forestry, intensive tourism, waste and air emissions from the energy sector (including the nuclear energy sector) and industrial areas where pollution from chemical, petrochemical, metallurgical, steel, cement, paper and aluminium enterprises is particularly severe.

**Priority environmental problems:** Air pollution is the most serious environmental problem in the Slovak Republic, especially with regard to sulphur dioxide (SO<sub>2</sub>), toxic and heavy metal substances, particulates and carbon dioxide (CO<sub>2</sub>). However there are also major problems with water quality, waste management and agricultural/forestry practices.

**Critical environmental actions:** The most vital key initiatives are, the augmentation of enforcement systems, institutional improvements, training and the raising of awareness, clean technologies and priority capital investments in air emission reduction, and the treatment of solid waste and waste water.

## **Slovenia**

**Politics, economics, society and the environment:** Environmental issues continue to enjoy a high profile in Slovenian politics. There is a relatively powerful Green Party in Slovenia, which is most unusual amongst central and eastern European countries. Also, non-governmental organisations (NGOs) and public awareness are both well developed and Slovenia's rejection of energy sources which cause high levels of pollution is a measure of the country's progress in issues relating to the environment.

**Environmental assets and damage:** Slovenia is rich in natural resources and while damage has been done to the environment, it must not be exaggerated and must be seen in the context of far more serious problems in other areas of central and eastern Europe and in the context of similar problems in the European Union (EU). Acid rain, cross-border air pollution from Italy, and surface and ground-water pollution are the main environmental problems which have been experienced.

**Priority environmental problems:** Air quality, the management of hazardous waste (including nuclear waste) and the management of municipal waste, the treatment of waste water and transport pollution are commonly cited problems. The energy sector is the principal source of air pollution in the country.

**Critical environmental policies:** Key priority capital investment, more comprehensive and viable environmental policies and legislation, more effective law enforcement, institutional improvements and clean technologies are likely focal points for future environmental initiatives.

## Section 3 - Phare's strategic focus on the environment

### Phare's environmental mission

Table 2 overleaf identifies the core areas of the Phare Programme's support for the environment:

- technical support to promote effective environmental policies, to raise public awareness about environmental issues and to strengthen the institutions involved in environmental issues
- pilot programmes and capital investment in priority environmental projects, primarily in ground-water protection, toxic waste control, the reduction of air emissions and nature protection.

Phare's environmental support initiatives, while tailored to the particular circumstances of each country, follow a common strategy in all its partner countries: firstly improving institutions, secondly establishing the laws and policies necessary for tackling environmental problems and thirdly establishing and executing priority capital investments.

### Phare's initial focus

As no comprehensive environmental strategy had yet been developed by the newly elected governments, Phare's first environmental programmes in 1990 addressed immediate problems. Emergency environmental support projects were identified and developed during visits to the area by the Group 24 countries, with technical support by Phare and DG XI. The projects proposed by the governments of Poland, Hungary and the former Czechoslovakia concentrated on

- equipment for monitoring pollution, for waste water treatment plants, for energy conversion in power plants and for conversion to forms of power generation that cause less pollution
- technical feasibility studies and pilot programmes to tackle particularly urgent projects
- institutional improvements, strategy development and other forms of advice.

Table 1 - Phare environmental programmes

1990-1994 in Mecu

Country	Year 1990	1991	1992	1993	1994	Total
Albania				3.3		3.3
Bulgaria	3.5	7.5	7.5	7.0	15.1	40.6
Czech Rep.	18.8	2.6			15	36.4
Slovak Rep.	11.2	2.4				13.6
Hungary	25	10	10		14.5	59.5
Poland	22	35	18		14	89
ex-DDR	20					20
Romania		20	5.0			7
Estonia			0.3	0.65	4.9	5.85
Lithuania			0.1	1.0	1.0	2.1
Latvia			0.7	1.0	5.5	7.2
Slovenia					1.9	1.9
Regional	2.0	20	26		3.0	46
<b>Total</b>	<b>102.5</b>	<b>79.4</b>	<b>67.6</b>	<b>12.9</b>	<b>74.7</b>	<b>337.15</b>

## Phare's activities from 1991 to the present

Basic environmental strategies and actions plans were taking shape in most central and eastern European countries by 1991, allowing the Phare Programme to implement its first comprehensive programmes of capital investments and technical support to address air, water and soil pollution issues. These programmes stressed the importance of regional decentralisation and specific issues relating to the environmental infrastructure.

This approach is seen most clearly in Poland and Hungary. In Poland, for example, a decentralised regional programme was developed in Upper Silesia to tackle municipal waste, low-level air pollution, water supply and waste water problems and the contamination of agricultural land. In addition, a specific environmental infrastructure programme was developed to tackle toxic waste problems in the country as a whole and to provide a way of dealing with serious environmental accidents, such as the spillage of toxic waste. These regional and sectoral programmes were backed up by institutional support for the Ministry of Environment, technical support for the national Environmental Standards Enforcement Agency and advice and support for the development of environmental legislation and its harmonisation with European Union (EU) and international standards.

In 1992, this focus on investment was complemented by the development of national environmental funds in Poland and Hungary. These countries have decided that funds are the best way of raising the effectiveness and scale of environmental interventions because they specialise in direct environmental investments and in promoting and subsidising environmental investments by other organisations (see 'Adapting Phare's programmes, lending instruments and procedures'). This fund initiative is now being replicated in the Czech Republic and is being explored in other central and eastern European countries.

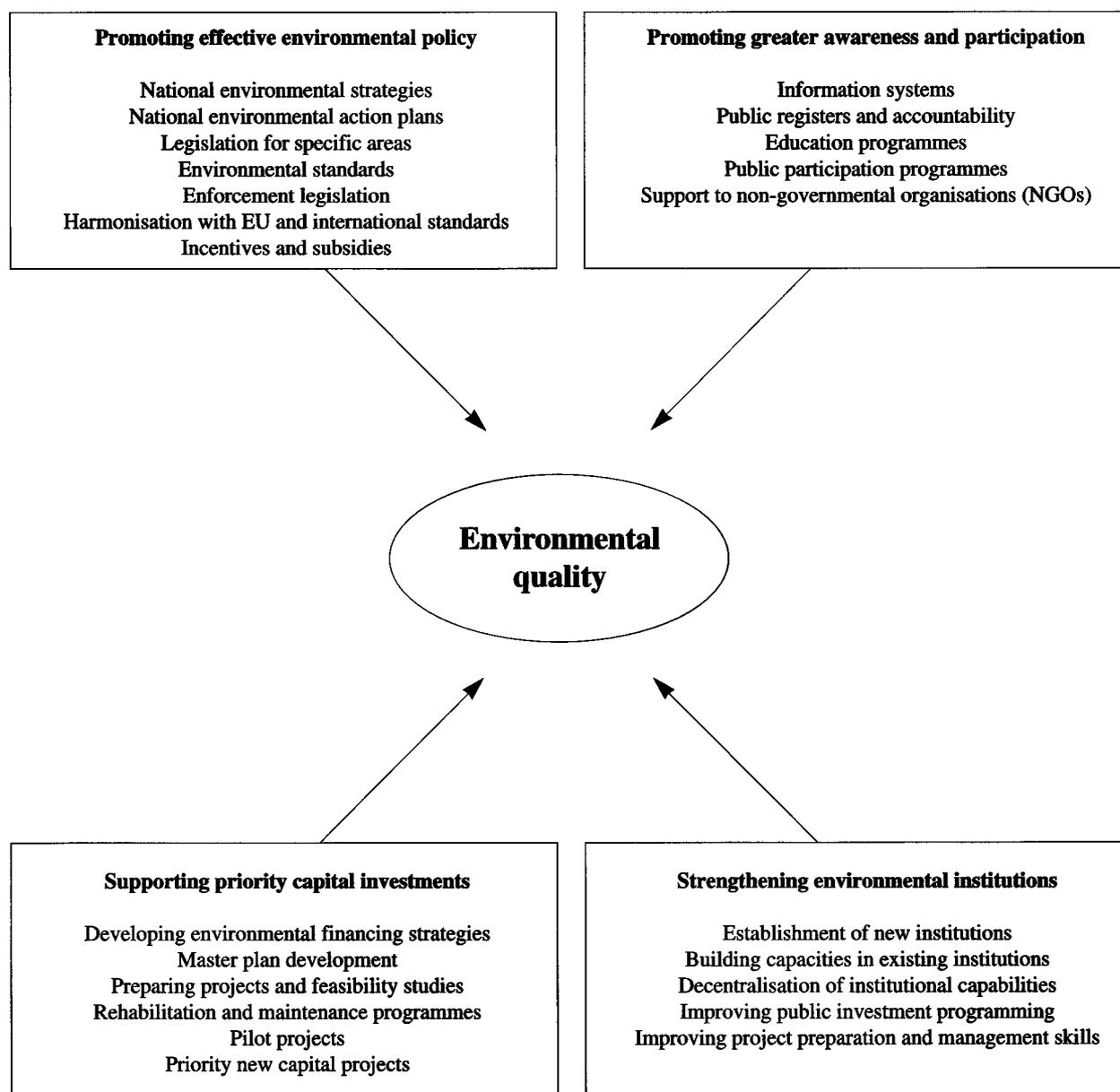
Therefore, Phare's 1991, 1992 and 1993 environment programmes stressed

- environmental policy and management including training, institutional strengthening, environmental strategy and action plan design, the development of enforcement systems, legislation and harmonisation with EU and international standards
- sectoral and feasibility studies addressing specific environmental issues (e.g. the management of hazardous waste, the treatment of waste water etc.)
- equipment supply, action plans and pilot projects based on sectoral and feasibility studies
- ongoing pollution monitoring projects providing the data which is critical for effective policy formulation and for enforcing compliance with permit systems.

The Phare Programme implementation procedures were decentralised in 1991-1992 from Brussels to partner countries and, where appropriate, to regions within partner countries themselves. This decentralised approach, coupled with Phare's practice of first developing master plans and then following them up with pilot studies and capital investment, has ensured that Phare's environmental support has provided maximum benefit to the client country.

Phare's activities during this period complemented the training and policy advice activities carried out by DG XI, the European Commission's environmental directorate.

Table 2 - Phare's strategic focus on the environment



## Multi-country programmes

The principal multi-country environmental programmes operated by Phare since 1991 are

- **1991 regional environment programme** - this focused on two major pan-European problems in the Danube river basin and the 'Black Triangle' and on linking central and eastern European countries with the European Environmental Agency. Projects have involved pollution monitoring, support to new regional environmental strategies and equipment supply.
- **1992 regional environment programme** - in addition, projects in the Black Sea and Baltic Sea were carried out which involved pollution monitoring, equipment supply and technical support projects to tackle the most severely affected areas around each sea (e.g. waste water treatment in port cities in Lithuania).
- **1992 project preparation facility** - this facility supports the identification and preparation of major capital investment projects involving the environment, as recommended in the environmental action plan for central and eastern Europe. Projects under this facility are being carried out in various countries including Estonia, Hungary, Slovenia, Poland and Lithuania.

Phare's multi-country programmes generally concentrate on

- funding the central management and coordination body which is addressing a multi-country problem (Danube programme Coordination Unit)
- the development of critical strategies and master plans
- support for the establishment and operation of pollution monitoring systems
- limited capital investments which demand a multi-country approach and which cannot be carried out on a national basis.

Phare's multi-country programmes have only limited funds with which to address massive capital investment needs and most multi-country programmes highlight problems which are then tackled on a national level, frequently through cooperation with the World Bank and the European Bank for Reconstruction and Development (EBRD).

The implementation of multi-country programmes requires extensive consultation, management and coordination between several national governments. Therefore, they are only carried out where there is a real benefit in taking a multi-country rather than a national approach. Examples include

- **multi-country pollution monitoring projects** - integrated air and water monitoring systems must be carried out on a multi-country basis to give a true picture of pollution levels and sources. This multi-country approach also allows pressure to be brought to bear on the more reluctant partner countries within the area. Furthermore, this approach can help countries feel that they can combat a pollution problem which they feel unable to solve on a national level (e.g. the Danube river basin programme).
- **cross-border pollution problems** - pollution produced in one country may flow into a neighbouring country. In this situation the source country is not generally enthusiastic about cleaning up pollution because the effect on its own territory is minimal, although the neighbour country is powerless to prevent the problem. A multi-country approach is essential in these circumstances.
- **harmonisation with European Union (EU) and international standards** - many harmonisation issues can be tackled most effectively on a multi-country basis. The Corine monitoring and training programme is a good example. The European Environment Agency uses the Phare-funded Corine multi-country programme to address central and eastern Europe's overall problems with pollution monitoring and training.

Also, Trans-European Mobility Programmes for University Studies (TEMPUS) and the European Training Foundation are additional areas where such multi-country approaches are being taken. They result in considerable savings through economies of scale and will allow monitoring and assessment of the state of the environment throughout the continent.

## Problems experienced when implementing Phare's environmental programmes

Phare's environment programmes have generally taken from three to five years to implement, which is much longer than was originally anticipated. This protracted implementation period is due to

- the need to develop policy and institutional capabilities and then carry out master plans and feasibility studies before progressing to capital investments and pilot projects
- the need for extensive consultation and consensus within national governments and, in multi-country programmes, between several national governments
- the need to decentralise implementation procedures which requires local Project Management Units (PMUs) to be established and staffed before implementation can begin. The lack of suitably trained staff has been a major impediment to implementation.
- the fragmentation of each programme into many small projects, reflecting the nature of the environmental problems they are attempting to solve (e.g. the establishment of regional environmental education centres throughout Poland).

Cumbersome procedures within partner countries and within Phare itself have also delayed implementation procedures. However, this problem has been considerably reduced owing to a new standardised and fully decentralised system for the management of Phare projects, which was instigated in 1994, and owing to increasing efficiency within Environment ministries and funds in the area.

Not only are the programmes accelerating through improved project management efficiencies, implementation of the capital projects which Phare is now increasingly funding tends to be far faster than technical support.

Despite this acceleration in disbursement, Phare is undertaking a number of additional initiatives to improve the efficiency and speed of its programming and implementation procedures. These are detailed in Section 4 below.



## Section 4 - Phare and the environment: a strategic plan to the year 2000

### Future Phare support: identifying the critical resource gap

Sections 2 and 3 of this paper show how the basic policy and institutional foundations are now largely established in the central and eastern European partner countries. This allows the Phare Programme to focus its future initiatives on supporting its partners in addressing the area's more complex policy, harmonisation and awareness needs and in financing the major capital investment projects which are critical if the area is to substantially improve the quality of its environment before the turn of the century.

Table 3 overleaf shows how Phare and its central and eastern European partners have identified the critical resource gaps which will be the focus of Phare's support over the coming five years:

- **policy reform and harmonisation** - increasingly focused advice on specific environmental policies and legislation will be provided to facilitate eventual accession to the European Union (EU)
- **capital investments and environmental financing strategies** - a greater proportion of Phare funds will be directed towards capital projects which tackle the most urgent environmental problems and towards projects which develop environmental financing strategies and institutions, such as revolving credits and national funds
- **institutional development and public awareness** - highly focused Phare technical support will continue to strengthen key environmental institutions in the area and to raise the awareness of governments and citizens, especially concerning the horizontal integration of environmental considerations into all economic sectors.

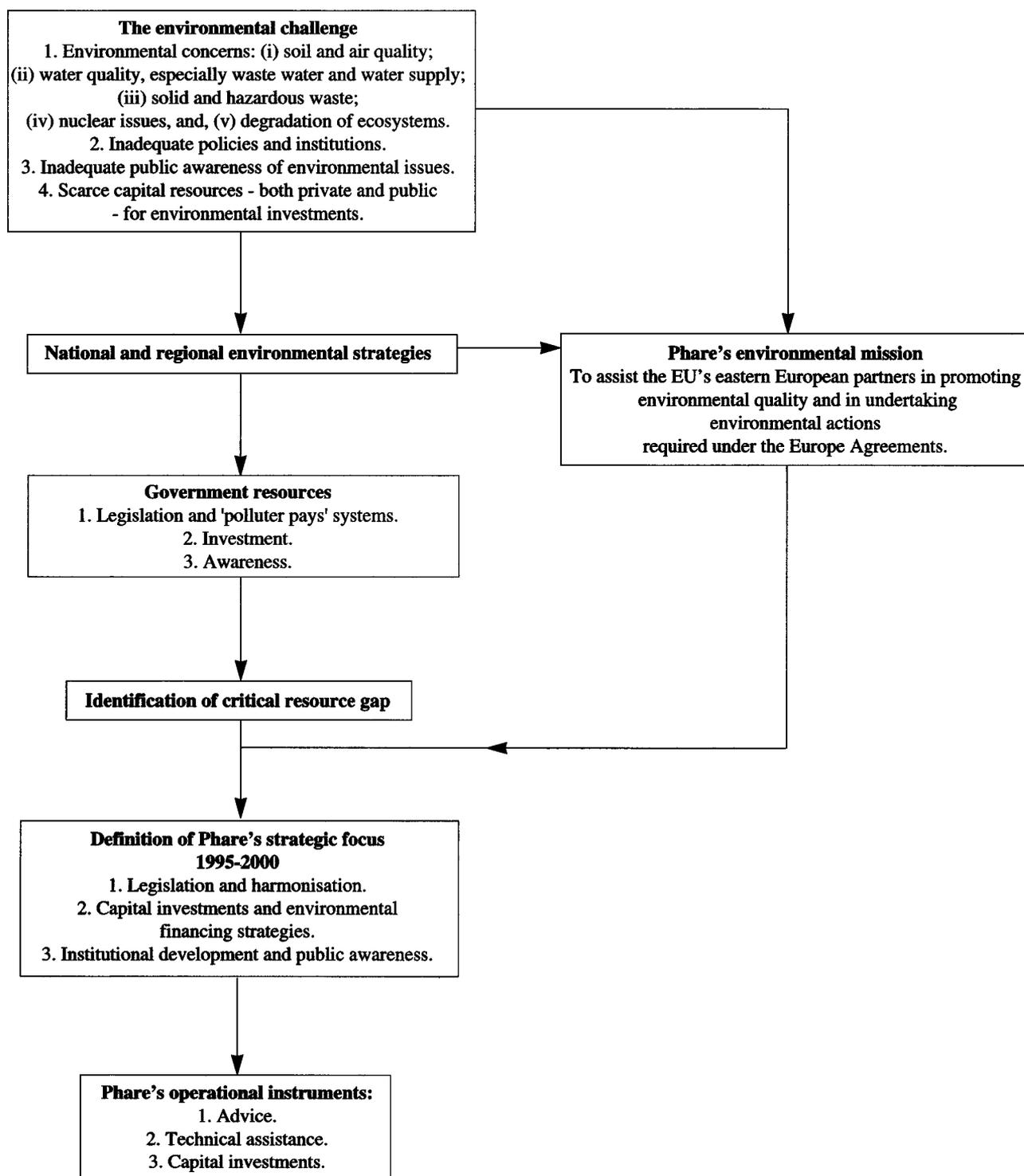
Phare is also developing new lending instruments and programmes to ensure these new initiatives will be implemented rapidly and efficiently. These changes, including multi-annual programming, the introduction of cross-border investment programmes and fully decentralised implementation procedures, are set out in detail below (see 'Adapting Phare's programmes, lending instruments and procedures').

### Legislation and harmonisation

Technical legislation relating to environmental issues is well developed in the area. Also, the economic recession and the removal of subsidies have led to significant improvements in the quality of the environment, through a marked reduction in pollution emissions and through improvements in industrial 'housekeeping'. However, policy development is an evolutionary process and Phare's partners have requested ongoing support in this area, primarily for

- **environmental action plans** - in a situation where human and financial resources are extremely limited, environmental action plans are the main instruments whereby goals and priorities can be defined and communicated to other ministries and levels of government. For partner countries at a relatively early stage of transformation, support will focus on developing national environmental strategies and initiatives, on designing feasible investment programmes and on promoting participation in measures to protect and improve the area's environment.
- **refinement and harmonisation of legislation** - the majority of central and eastern European partner countries are committed to bringing their environmental legislation in to line with that of the European Union. This cannot be achieved without the full support of Phare and DG XI, under the guidance of the Europe Agreement committees. Support will focus on refining existing policies and legislation and on the drafting of new legislation which represent the goals of the EU's fifth Environmental Action Programme 'Towards sustainable development'. Furthermore, if it is to be feasible and realistic, this approximation and harmonisation process must be introduced gradually over a number of years. Therefore, Phare will support the development of realistic schedules and associated investment programmes for the overall harmonisation process. As over 90 per cent of funding must come from national sources, it is vital that Phare's central and eastern European partners develop new strategies and institutions to raise more finance for environmental

Table 3 - Phare environment policy: mission and strategy



- **clarification of environmental liability** - privatisation in the area has sometimes been hindered by uncertainty about who is liable for damage caused by past environmental contamination. Inevitably, governments will assume some responsibility for past contamination and the new owners of privatised enterprises will be responsible for future pollution. Phare will support its partners in promoting a clear demarcation of responsibilities in this area and to ensure the isolation, containment and monitoring of contamination. Recent cost-benefit analysis indicates that the control of ongoing pollution currently yields greater returns than cleaning up past pollution. Therefore, Phare will tend to invest in cleaning up past pollution only where this has a direct impact on human health.

To improve the effectiveness of the above initiatives, Phare is introducing a new service to its partners called 'policy advice' which will involve senior EU government and Commission officials advising their central and eastern European counterparts on an equal basis about how to proceed, which is particularly useful when these countries are bringing their environmental laws and standards in to line with those of the European Union.

### **Capital investments**

The environment is one of the Phare Programme's six core areas for future capital investments. Therefore, Phare will direct a greater proportion of its environment resources over the coming five years to high priority equipment supply and civil projects.

The development of appropriate policies and institutions has been a lengthy process and is clearly a critical precondition to the success of any substantial environmental capital investments. Phare itself has delayed capital investments in the past until associated institutions and strategies have been completed, thereby ensuring that returns are maximised. For example, a Phare works and supplies project in Poland for the mitigation of environmental accidents was initiated in 1991, but the development of the client institution and the development of a master plan for the area took two and a half years. Nonetheless, the capital project would have failed without adequate policy, structures or logistical support. Furthermore, other international donors and investors will have more confidence in investing when effective policies have been introduced and capable institutions exist to enforce them.

In seeking the highest cost-benefit ratio, Phare's future environmental capital projects will concentrate on

- the alleviation of water pollution, especially in waste water treatment
- the reduction, at low cost, of damaging air emissions from industrial enterprises
- preservation of bio-diversity.

Appropriate technology and maintenance/rehabilitation will be given preference over new and highly technological capital projects. For example, while it might be attractive to concentrate on new 'high-tech' and highly visible investments, such as the installation of a 'state of the art' sewage treatment works, it may be more cost-effective and more beneficial to the environment if existing plants are repaired and rehabilitated or if more traditional and appropriate technologies for the control and treatment of waste (e.g. 'reed bed' waste water treatment in rural areas) are used.

A new facility is being introduced called the cross-border cooperation programme to complement the traditional capital project approach. The cross-border facility links Phare capital investments in central and eastern European countries to parallel actions and projects by neighbouring EU Member States using EU structural funds. This not only expands the investment funds available to tackle Europe's environmental problems but also promotes a closer partnership between a particular central and eastern European state and its EU neighbour, which is a critical development in the harmonisation of environmental laws and standards and in the overall accession process.

### **Enhancing environmental financing strategies**

It is estimated that some \$300 billion will be needed by the year 2010 to make substantial improvements to the environment of central and eastern Europe. This amounts to almost 10 per cent of central and eastern Europe's economic output. International financial intermediaries and donors, including Phare, will contribute probably no more than about seven per cent of total requirements.

## Box 2 - The cornerstones of European Union environmental legislation

The cornerstone of the European Union's environmental policy is the 1992 Maastricht Treaty on European Union. One of the principle objectives of this document, which guides the future development of the EU, is the promotion of environmentally sustainable growth (Article 2).

The Treaty outlines the EU's environmental policy (Article 3k) which demands a high level of environmental protection and requires that environmental issues be integrated with the definition and implementation of other European Union policies (Article 130r.2). Furthermore, the Treaty requires the EU to contribute to raising the quality of the environment at a multi-country and international level (Article 130r.1), for example, through the Phare Programme and DG XI.

In addition to the Treaty's general environmental policies, there are a large number of individual environmental directives and council resolutions which EU Member States are currently working towards. Some of the principal directives covering general environmental policy are

- Directive 85/337 Environmental Impact Assessment
- Recommendation 75/436 polluter pays' principle
- Directive 79/3 costing pollution control
- Directive 83/189 and 90/313 freedom of access to environmental information
- Directive 92/75 labelling and product information
- Guidelines 94/C72/03 state aid for environmental protection.
- Council Resolution 93/C138/01 fifth action programme 'Towards sustainable development'.

These general policy directives are supported by directives which lay down specific regulations and targets for each of the following areas

- air pollution
- bio-technology
- noise abatement
- chemicals and industrial products
- nature protection
- management of solid and hazardous water quality waste.

The central and eastern European countries programme for the harmonisation of environmental laws with those of the European Union is conducted through the framework of Europe Agreements (see An additional challenge - harmonising environmental legislation and environmental initiatives). Committees on each sector meet regularly to plot their progression towards harmonisation and accession. At present, a specific environment sub-committee only exists for Romania.

DG XI is the EU's environmental Directorate, responsible for environmental policy matters in the EU and for designing and disseminating the specific legislation outlined above. DG XI will work together with DG I (the Phare Programme) on initiatives required to further and enhance the harmonisation process in central and eastern Europe.

projects. To this end Phare will provide

- ongoing support for the establishment and augmentation of environmental funds and eco-banks, as Phare is currently doing in Czech Republic, Hungary, Poland and Slovakia. These organisations offer the greatest opportunity of boosting the financial resources available to the environmental sector.
- ongoing support for technical design and feasibility studies and for start-up capital financing to help raise more substantial financial packages from international financial intermediaries for major capital projects. For example, Phare's environmental support for municipalities was influential in facilitating a World Bank loan in Hungary. Alternatively, a seed capital project to repair and replace a waste water pipeline in Tallinn has been a major factor in persuading the Tallinn city council to accept an European Bank for Reconstruction and Development (EBRD) loan package, as was a major support programme instigated by the Finnish authorities.
- further support to widen the environmental revenue base and to improve revenue collection systems. This support will improve industries' compliance with resource and pollution charges and fines, and will generate new sources of income by insisting that private consumers should pay for drinking water and sewerage services. In addition, managerial and operational links between ministries, local authorities and industry will be improved.
- support for new financing mechanisms in the environment. For example, Phare will finance revolving credits in local commercial banks which will supply soft loans for micro-environmental projects, such as generator conversions, energy conservation projects or general 'good management' projects in small and medium-sized enterprises. Commercial banks will manage these revolving credit facilities with the support of Phare's project management advisers<sup>1</sup>.

### **Institutional improvements**

Building on earlier advances, Phare's central and eastern European partners have requested specific and output-oriented support for the provision of technical know-how for old and emerging institutions:

- to encourage inter-ministerial communication and cooperation - notably with the Ministries of Finance, Energy, Agriculture and Industry - and to integrate environmental concerns with the economic restructuring and reform process. Following the European Union's Directive on Environmental Impact Assessments (EIAs) and based specifically on DG VIII and the European Bank for Reconstruction and Development (EBRD) procedures, Phare's horizontal integration of environmental concerns into its own capital operations (through EIAs of infrastructure projects) could be a model for work in this area:
- to develop stronger links with smaller municipal authorities who have responsibility for the provision of environmental services (e.g. supply of drinking water and sewerage facilities).
- to continue training senior managers and policy-makers, in the private and public sectors, in planning, management, financing, forecasting and policy-making. This training will concentrate specifically on the new environmental institutions such as National funds and eco-banks.
- to continue to improve the effectiveness of enforcement agencies through training and advice and through the installation of monitoring equipment and laboratory analysis systems. There is an urgent need for improved pollution monitoring systems in order to ensure that harmful discharges in the air, water and soil can be accurately assessed and that offending enterprises can be efficiently prosecuted.

<sup>1</sup> Phare, the Organisation for Economic Cooperation and Development (OECD) and the European Bank for Reconstruction and Development (EBRD) have already identified a number of effective financial intermediaries within Phare partner countries. These may be used by Phare, through some form of competitive tendering to act as intermediaries and managers for the revolving credits, if these intermediaries have a proven track record.

### Raising public awareness of environmental issues

Environmental improvements in the EU in recent years have largely come about as a result of pressure from the press, the public and a variety of private organisations. As stated in the 'Summary - guidelines for improving the quality of the environment', the raising of public awareness and participation by local communities are both essential to maintain pressure on central and eastern European authorities to carry out sustainable environmental improvements.

Also, environmental awareness among enterprises and business in general is necessary if revenues for environmental improvements are to be raised and environmental sustainability introduced.

For example, the construction of a modern sewage treatment plant and the refurbishment of a drinking water supply station for a medium-sized town can double a local consumer's utility bills. For such increases to be acceptable, consumers must be made fully aware of the benefits that such a system provides. In some countries where new systems have been installed (e.g. domestic gas conversion projects in Poland) large numbers of consumers have simply refused to be connected to the new systems because of the high costs of the services.

### Adapting Phare's programmes, lending instruments and procedures

Phare introduced a fully standardised and decentralised implementation system in 1994. This will greatly simplify and accelerate procedures and their implementation. However, Phare will implement a number of further reforms to ensure that future Phare management and lending tools meet the needs of its central and eastern European partners, such as

- **the introduction of policy advice to complement technical and capital support.** This new service will involve senior EU government and European Commission officials advising their central and eastern European government counterparts on the strategies and initiatives which are required under the Europe Agreements, regarding both general policy and specific legislation, to ensure that the most cost-effective and constructive routes towards union are taken. This new product will complement, but will not replace, the provision of general technical know-how. Phare will provide this service jointly with DG XI, the EU's environmental Directorate, in close cooperation with the Europe Agreement committees.
- **the introduction of cross-border programmes.** The new ECU 150 million facility for cross-border cooperation is another mechanism which will tackle multi-country environmental problems and will promote cooperation between the EU and central and eastern European countries. In 1994, some ECU 40 million will be directed towards environmental issues under this facility. Projects tackling environmental problems which affect both an EU Member State and its Phare country neighbours are eligible for support under this facility. For example, in Latvia and Estonia, the facility will finance master plans for the storage and management of hazardous waste, in association with Denmark. Other environmental cross-border initiatives include the reduction of water pollution in the Elbe and the reduction of air pollution in Bohemia.
- **the introduction of multi-annual programming.** Phare funds are currently requested and committed through annual programmes. While this was an adequate system during the early years of Phare, these annual programmes do not now meet the increasingly sophisticated needs of the client for long-term investment advice and technical support. Phare's partners increasingly require a clear commitment of funds during the first year of a five-year project with disbursement loaded heavily towards the end of the

project. The introduction of multi-annual programming will meet these needs and will considerably raise the cost-effectiveness and efficiency of Phare's programming and implementation procedures.

- **the application of Environmental Impact Assessment on Phare's capital projects.** Phare is applying Environmental Impact Assessment (EIA) to all of its future capital investment projects. In the past, Phare's technical support and equipment initiatives have either not required EIA, or the EIA procedures of Phare's co-financing partners were followed (e.g. EBRD). The systematic application of EIA was first used in Phare programmes for the assessment of the capital investments proposed under the 1994 cross-border facility. Phare's EIA is based on the models used by DG VIII and by the EBRD.
- **the refocusing of national and multi-country programmes.** Future national programmes will focus heavily on capital investment projects in a limited number of priority areas, one of which is the environment. As a result, the next generation of multi-country programmes will focus less on investments and instead will concentrate on
  - the management and coordination of multi-country issues
  - the development of policies, strategies and master plans to tackle multi-country problems
  - limited small-scale capital projects which are clearly multi-country by nature and which cannot be tackled effectively on a national basis.
- **enhancing programme preparation and project management capabilities.** Phare will continue to improve the capabilities of partner countries in environmental project identification, project preparation, project management and in general public sector investment programming.
- **the channelling of implementation through national environmental funds.** The concept behind the national environmental funds which are being established in various central and eastern European countries is simple, that is, the creation of a specialised fund which can raise revenues and can

offer services and products, primarily grants, loan guarantees, soft loans and interest rate subsidies, which boost the level of environmental capital investments<sup>1</sup>. These funds raise efficiency levels and the rates of return on environmental investments through more extensive and effective coordination, planning, specialisation and improved economies of scale. Phare has supported the development of these national funds over the last three years and will channel more of its support for development through them in the future. Phare will, for example, be channelling all future environmental grants in Poland through the national fund.

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<sup>1</sup> The continued freedom of municipal and regional funds to invest in capital works avoids problems of excessive centralisation. Environmental funds are intended to ease access to capital funds that would otherwise be limited by discrimination, institutional barriers or scarcity of capital during the transition period. They offset some of the failings of banks in the environment sector but are not intended to replace them. Funds provide grants, subsidies and soft loans for environment projects. Applications are generally solicited publicly. Funds generally receive their revenues from three sources: pollution charges, external financial institutions and donor inputs, and some central government allocations.



# Annex I - The legal agreements and treaties steering Phare's operations

The legal and institutional basis for environmental cooperation between the European Union (EU) and central and eastern European countries is well defined and appropriate strategies for future initiatives have been developed within frameworks such as the Group 24 (the group of 24 Organisation for Economic Cooperation and Development (OECD) countries involved in supporting the economic transformation of central and eastern European countries).

## **The European Union Treaty**

Environment has a specific legal basis in the Treaty on European Union (Article 130 R) which stipulates that Community policy on the environment shall contribute to the pursuit of the following objectives

- preserving, protecting and improving the quality of the environment
- protecting human health
- the prudent and rational utilisation of natural resources
- promoting measures at an international level to deal with multi-country or world-wide environmental problems.

In particular, the fourth point is the basis for activities in central and eastern European countries.

## **The fifth Environmental Action Programme for sustainable development**

In March 1992, the Commission adopted the fifth Action Programme which was endorsed by the Council in December 1992. Chapter 12.2. of the programme deals specifically with EU cooperation with central and eastern European countries.

## **The international legal basis for environmental cooperation**

The Commission has been involved in the definition of a framework for environmental cooperation at international level. A number of Conventions, which are particularly relevant to central and eastern Europe, have been negotiated and signed:

- the Convention on the Baltic Marine Environment
- the Convention on the Elbe River
- the Convention on the Oder River
- the Convention for the Protection of the Black Sea.

The Convention for the Protection of the Danube River was signed in Sofia in June 1994. Action Programmes have been prepared for the respective areas in parallel with these Conventions.

## **Europe Agreements and the environment - the role of Phare**

As noted throughout the above text, the EU's Europe Agreements with particular central and eastern European countries commits both parties to the gradual harmonisation of environmental laws and standards to those applicable in the EU over the next decade. The Europe Agreements state that the Phare Programme is the principal vehicle through which the EU will support its central and eastern European partners in realising this harmonisation and assimilation process.



## Annex II - Past Phare environment programmes by country

### Albania

Albania has been the country to benefit most recently from the introduction of a Phare environmental programme. A total amount of ECU 3.3 million was approved in 1993 to support the implementation of the Albanian national environmental action plan through

- enhancing institutions, developing policies and establishing legal frameworks (improving the institutional capabilities of the Committee for Environmental Protection and Preservation (CEPP) and the individual performance of its staff members, supporting the development of policies and a legal framework, improving inter-governmental coordination and developing public awareness)
- sustainable use of water and other natural resources (formulation of a national strategy for the management of water, water and sewage treatment, watershed management, wetland management and forestry conservation projects)
- handling of municipal waste.

### Bulgaria

The programme in Bulgaria, totalling ECU 25.5 million, has concentrated on upgrading and renovating the national monitoring systems for air, water and radioactivity. A team of advisers from the Irish Government managed by the Irish Development Agency have a long-term contract to assist the Bulgarian Ministry of the Environment to implement selected projects and to develop their skills in environmental management through appropriate training. They have provided expertise in defining terms of reference and supply specifications for major tenders. The team have also organised a series of workshops in Environmental Impact Assessment and other policy areas. The 1993 Bulgarian environment programme will continue activities to augment the activities of institutions and to develop skills in project management through concentrating on a number of specific pollution abatement projects.

### Czech Republic

Some ECU 22 million have been allocated to the Czech Republic during the time of the Czech and Slovak Federal Republic. These funds have been used to improve systems to monitor air and water and to plan ways to deal with hazardous waste, etc. Part of the support provided by the Phare Programme will be used in the Czech Environmental Revolving Fund supporting investments by municipalities and industry to reduce environmental pollution. In addition, essential and urgent measures were carried out in Soviet developed nuclear reactors. In 1994, support by the Phare Programme will be provided within a framework of cross-border cooperation. It will amount to ECU 12.5 million and be used to encourage investments in strategies to reduce pollution in water and air. Considerable support has had to be given for the provision of technical know-how within ministries which were formed after the disintegration of the former Czech and Slovak Federal Republic.

### Estonia

Environmental issues in Estonia focus on oil shale, which provides about half of Estonia's energy and which causes problems with the water supply and causes high levels of pollution when it is mined, crushed or burned. Activities in Estonia have concentrated on

- helping the Environmental Fund become more effective
- funding a model land reclamation project in an area of contaminated oil shale waste
- providing legal, regulatory and contractual know-how for the newly privatised Municipal Services Agency (designed to provide financial and technical services to municipalities).

A major capital project is currently being prepared for the development and installation of a facility for the management of hazardous waste.

## Hungary

Some ECU 45 million has been provided during the years 1990-1992. The 1990 budget was used for urgent initiatives which became essential after the initiation of the transformation process, such as

- the improvement of systems to monitor air and water
- the initiation of pilot projects in energy and energy conservation ( e.g. thermal energy )
- the development of waste management plans.

Support during 1991 focused on

- raising public awareness and improving environmental management systems
- continuing work on the reduction of air pollution
- tackling the problems caused by waste matter in a more systematic way, through the raising of public awareness and preventing the production of waste
- an increasing emphasis on nature conservation.

The 1992 budget responded to local investment needs by

- creating a revolving Fund to co-finance environmental investments made by local authorities and industry
- by supporting the drafting of legislation and policy formulation.

The 1994 budget will continue to develop the strategies outlined in the 1992 Financing Memorandum. Twenty per cent of the 1994 budget (approximately ECU 15 million) will be devoted to the approximation of laws and standards as well as environmental education. Another 20 per cent will be used to enhance Hungary's regional environmental inspectorates ( law-enforcement ) and the remaining sum will be placed in a fund to act as an investment catalyst for municipalities and industry.

## Latvia

Phare is funding

- feasibility studies for Liepaja and Daugavpils, two areas in the Baltic Sea which have been severely affected by pollution
- the development of a national strategy and action plan for the environment
- a leakage detection and pipeline restoration project
- a strategy and a capital project for the management of hazardous waste.

The feasibility studies are all focused on preparing major loan packages from international financial intermediaries. The projects are being financed by various national, multi-country and cross-border programmes. In addition, a new approach to project management support is being piloted in Latvia whereby a highly effective Latvian project management initiative is being complemented by a Phare financed framework contract in which the Latvian project managers are able to call on the expertise of foreign contractors, as and when necessary. This initiative will, within 12 months, fulfil the role of a foreign long-term adviser, and if successful, will become a model for other Phare Project Management Units.

## Lithuania

Phare is financing

- a national environmental strategy and action plan project
- project preparation and management
- major civil works in waste water treatment plants in Vilnius, Klaipeda and Kaunas
- legislative reform
- scoping and strategy project for the cleaning of contaminated military sites.

Further projects are being prepared in 1994 to develop a plan of action for the environment, a financial framework, and to build on the strategy project, on the institutional strengthening of municipal level water authorities and on the continuing provision of project management and legislative support for the Ministry of Environment.

## Poland

ECU 75 million has been provided for environmental projects in Poland in the 1990, 1991 and 1992 national programmes. Additional funds have been channelled through Phare's multi-country programmes and further funds will be allocated for environmental initiatives in the 1994 national programme. These funds have been directed towards

- feasibility studies and master plans followed by the purchase of equipment
- capital projects in waste water, the reduction of industrial emissions, the management of hazardous waste and the prevention of serious environmental accidents
- technology transfer
- education and training
- institutional improvements within implementation agencies and hazard prevention agencies
- provision of legal advice to the Ministry.

The establishment of non profit-making foundations which work in the areas of nature conservation and education has been encouraged. A regional implementation unit was opened in 1992 in Katowice to manage the Upper Silesia programme which involves a number of strategic approaches to reduce damaging emissions from low-level sources, to water and waste water management, and a programme to encourage the growth of non-food crops in areas where the soil has been contaminated. Environmental Impact Assessments of sensitive hydro-electric developments have also been funded.

## Romania

The programme in Romania has concentrated on helping the Ministry of Water, Forests and Environmental Protection to develop a new institutional framework for environmental management. A master plan for the development of a national monitoring system for air, water and soil has been drafted and pilot studies on air pollution monitoring in the city of Bucharest are underway. A long-term adviser has also been recruited. Projects to train Romanian officials in the various aspects of environmental management have been initiated and equipment will be supplied to develop the monitoring system.

## Slovakia

Before the split of the Czechoslovak Federation, the Slovak programme has followed the same strategy as the Czech programme. A substantial sum of money has been invested in an extensive study of the management of ground water in a large area around the dam of Gabčíkovo. Since 1993, the Slovak Ministry has paid a great deal of attention to more systematic approaches to environmental problems, such as the national environmental action plan, and in 1994 there is a move to build economic incentives into the environmental policy of the country. In total the Slovak Republic has received some ECU 12 million for its 1990, 1991, 1993 programmes and for its forthcoming programmes in 1994.

## Slovenia

Support has been provided to finance the establishment of an Environmental Fund in Slovenia. Technical know-how is being provided for the development of financial management techniques as well as for the provision of equipment. In addition, the same initiatives carried out in Poland, for the national fund, will be carried out in Slovenia. A long-term adviser is being recruited as the first step in a major programme for the reduction of air pollution through support for the widespread use of gas rather than coal. A gas conversion fund will be provided as part of this programme.



# Annex III - Environmental Action Programme for central and eastern Europe

## The major environmental problems

[A major multi-country environment initiative in 1993 led to the adoption by all the central and eastern European countries of the Environmental Action Programme for central and eastern Europe (EAP). The EAP brings the strategy a major step further and emphasises the selection criteria for the most urgent environmental actions and the strong linkage between administrative capacity building, the proper policy framework in central and eastern European countries and the preparation of investments to reduce emissions. Along with the Phare Programme's partners, national strategies and work on harmonisation, this regional EAP is a critical strategy document steering Phare's activities in the environmental sector. The executive summary of this report is laid out below.]

Ministers agreed during the conference that priorities should reflect the urgency and importance of environmental concerns. Setting environmental priorities involves making difficult choices.

The damage to human health caused by poor environmental quality is the first concern in the area, as was the case in the west when major environmental health threats were first addressed. Initial evidence suggests that the following types of environmental pollution have affected human health (and also caused economic damage) in particular areas in central and eastern Europe:

- lead in air and soil from lead and zinc smelters and from transport
- airborne dust and other gases, especially in combination with dust.

Other important health impacts arise from

- nitrates in water from inadequately maintained/designated feed lots and agricultural enterprises, inappropriate fertiliser application, and rural septic tanks
- contaminants in food and water, especially where heavy metals or toxic chemicals threaten drinking water supplies either directly or through poor disposal of hazardous/nuclear waste.

But human health is not the only criterion to set priorities. In certain areas, the following are of major significance in the entire area

- productivity losses caused by damage or destruction of physical capital and natural resources
- the deterioration of a threat of irreversible damage to bio-diversity in general, and in particular to wetlands (lakes, reservoirs, rivers), grasslands, coastal and marine eco-systems, forests and mountain habitats.

Finally, priority might also be attached to low-cost/high-gain measures to address issues of growing importance in the medium-to-long-term and where there may be a long lead time to effect changes (e.g. transport).

Each central and eastern European country must decide how the resources can be best allocated to remedy the problems that it regards as having the greatest priority, bearing in mind that the above problems have been generally recognised as the most serious concerns in central and eastern Europe.

The scarcity of resources does not just imply that environmental investments should be scaled down. Rather, the benefits of broad economic policies should be captured, and a judicious mix of different technologies, management, institutions, and policy approaches applied. An important question that should be asked is: 'How much environmental improvement can be achieved at different costs?' The answer will provide the flexibility to achieve the best result for the available resources.

Establishing priorities involves a combination of the following complementary measures:

- better economic and environmental policies
- expenditures that are carefully targeted to projects with high benefit to cost ratios
- institutional development and capacity building, including training, education, and exchange programmes.

These are described in the following sections.

## Policy Reforms

**Economic Policies:** The transition from central planning to a market economy should not only improve the countries' economic performance in the longer term, but will contribute to environmental improvements by penalising the massive waste of resources, and the resulting pollution, which characterised production in the past. Among the key factors that can bring about economic and environmental improvements are restrictions on access by enterprises to government money ('hard budget constraint'), and removal of subsidies on natural resources such as energy, minerals, or water. Many central and eastern European countries have already made major strides in reducing energy subsidies. These efforts should be, and are being, continued.

Declining economic activity brought substantial reductions in emissions. Market reforms should allow these environmental improvements to be sustained or extended over the next decade by promoting a shift towards less resource-intensive and cleaner activities and technologies. As the industrial capital stock is renewed, emissions of most air pollutants, other than those associated with traffic, can be kept stable or even reduced until 2010, even with quite rapid economic growth. However, emissions of water pollutants will be less affected by industrial restructuring because of the dominant contribution of agriculture, households and services, so that the focus of attention will shift from air to water in the longer term.

In certain instances, it may be appropriate to provide incentives for environmental investments by the private sector, such as those that have the greatest potential to reduce major threats to human health or natural ecosystems. However, environmental investments that are made in the industrial and energy sectors should be consistent with least-cost planning and policy objectives, and private sector decision-making. More generally, the integration of environmental requirements in the design of sectoral policies is a key factor in environmental improvement.

**Targeted environmental policies:** Including a judicious mix of regulations and economic instruments, will be required to ensure that the potential benefits of economic restructuring are fully realised. For example, while removal of energy price subsidies will bring about a reduction in energy use and hence pollution levels, pollution charges can complement these policies by promoting the use of cleaner fuels and technologies.

To achieve the most cost-effective use of resources, economic instruments, such as charges and taxes, should be applied where appropriate. Existing central and eastern European systems of pollution charges can be developed further to provide an effective incentive for sound environmental practices. There is scope for large savings in achieving environmental objectives by applying simple market type approaches which are realistic even in the current economic and institutional situation. There is also considerable scope for reconciling environmental and fiscal policies.

As far as **regulatory measures** are concerned, for instance to control emissions of heavy metals and toxic chemicals, central and eastern European governments should introduce a framework of standards and requirements, such as, where appropriate, that adopted within the European Union (EU) or an equivalent phased system like those in effect in the United States, Canada, or other OECD countries. Many internationally accepted standards are being reviewed in light of experience with the aim of improving their efficiency. The framework of standards adopted by central and eastern European countries should provide for the phased implementation of increasingly stricter emission limits which, over a 10-20 year period, would approach the internationally recognised standards that will be in effect at that time. Enterprises should be given a well-defined period to comply with new standards which should be strictly enforced. For this reason, both economic instruments and regulatory measures should be accompanied by strong monitoring and institutional enforcement capacity to ensure their effective implementation.

Ambient (i.e. emission) standards should be used as part of a decision framework to guide policy-making at the local level. Appropriately set, ambient standards reflect environmental and economic sustainability criteria. In addition, the efforts of several central and eastern European countries to apply bio-diversity conservation standards should be recognised and expanded.

**Old and new enterprises:** Conflict between economic, social and environmental considerations is inevitable, especially when the resources available to mitigate the social or environmental consequences are so limited. Some old and highly polluting plants will be allowed to continue operating because of the large social costs of closure. Even so, it is possible to insist that such plants improve their environmental performance without committing any significant amount of investment.

Large gains can often be achieved by simple 'good housekeeping' measures; better maintenance, repairing leaks, installing better controls, insisting on stricter standards of plant and process management. These are all highly cost-effective 'win-win' actions which will improve the economic results of enterprises as well as lessen the environmental damage that they cause. Such small-scale actions underpin the environmental improvements from economic policy transformation. They are essential because much of the large-scale introduction of cleaner technologies in different industrial sectors may not occur until new markets for the different products have been identified, and the economic viability of specific enterprises is assured.

Thus, it is crucial that governments not direct all of their resources, human as well as financial, towards new investments or enterprises, since remarkable improvements can be made if the managers of old plants are put under pressure to make continuous improvements and are rewarded appropriately for above average performance. Evidence suggests that the greatest contribution to achieving a continuous decline in total emissions in the short-to-medium term is likely to come from improving the environmental performance of old plants which continue to operate. Moreover, to achieve conditions equivalent to those in western Europe, emissions per unit of output equivalent to those obtained by applying best available technology (BAT) would, for the purpose of immediate improvement, only be required in some of the worst 'hot spots' and only for some pollutants.

**Privatisation:** Ministries of environment should work with ministries of finance, industry and privatisation, as well as health and social security, to ensure that environmental considerations are built into decisions about which plants or enterprises in the public sector should be closed and which should be allowed to continue to operate. By affecting the pattern of closures and the conditions which must be met before plants receive know-how to support their continued operation, the environmental authorities can have a significant impact on the damage caused by old plants at a low cost.

Privatisation can assist the changes promoted by market reform. Governments can both expedite privatisation and facilitate environmental progress by establishing clear rules assigning liability for past environmental damage, and by holding the new ownership of enterprises accountable for all current missions. In many cases, the government must be willing to assume responsibility for past damage, but there are a variety of ways of structuring that responsibility to provide protection both for the government and for the environment. Environmental audits, which can be carried out without causing significant delay, should be conducted to separate past from ongoing pollution. Where privatised enterprises are out of compliance, the enforcement of stricter emission standards should be carefully phased in.

The transition from central planning to markets may result in irreversible effects on the rich biological and landscape diversity in part of central and eastern Europe. Central and eastern European countries could be supported through existing international conventions and agreements in their efforts to identify networks of areas of high natural value, to develop policy for protection and sustainable use within the transition process, and to ensure a sustainable, environmentally-sound use of privatised land. Short-term support in the provision of extension services in agriculture and forestry, legislation and integrated planning are required to prevent the kinds of developments that have occurred in western Europe.

## Immediate investment priorities

In the long-term, market reform, especially industrial restructuring, in combination with appropriate environmental measures, will take care of a large part of the emissions causing health and economic damage in the region. This will occur as alternative sources of employment are found for workers in economically inefficient and polluting industries which need to be closed, and as economic activity picks up and viable enterprises can afford to invest in new technology.

In the short-term, however, public investment is warranted

- to speed up the process of environmental improvement where there are social and economic constraints (heavily polluting enterprises are not closed, households cannot quickly respond to increased energy prices and cannot easily shift from coal to cleaner energy sources, etc.)
- to begin to address environmental problems that will persist after the transition to a market economy (e.g. air emissions from mobile sources).

New environmental investments should only be carried out if expenditure in the following three areas can be adequately addressed: recurrent cost financing for operation and maintenance (especially at the municipal level); environmentally beneficial expenditures which can be justified on economic grounds; and the development of institutions.

- **Operation, maintenance, repair and selected rehabilitation of existing public environmental services** - safe drinking water, collection and disposal of municipal waste, well-functioning public transportation systems, and the monitoring of the disposal of hazardous, toxic and nuclear wastes are all vital concerns. These require funds to cover recurrent costs, but they should generally not, in the short-run, require major new capital investments.

- **'Win-win' investments** - small investments (often less than \$ 0.5 million) in energy and water conservation e.g. metering, reducing leakages, low-input and low-waste technologies, and above all expenditures on 'good industrial housekeeping' and minor plant improvements which reduce spills, leaks and material use. These are all investments which are justified on economic and financial ground alone, but which also have major environmental benefits.
- **Institution building** - different levels of government need to continue to build up a solid financial and tax base to ensure the availability of funds for meeting recurrent costs, industrial managers should be trained in better management practices, and institutions need to be developed that can in the future make well-informed decisions such as on water-related investments in a river basin framework. Efforts should also continue in promoting environmental topics in school education, and in supporting worker training programmes.

## Environmental investments

Once these measures are assured, the priority categories for short-term domestic environmental investments are as follows:

- **Immediate investments to address the most serious health programmes.** In areas with poor air quality, the initial priorities should be better dust controls for non-ferrous (lead, zinc, copper, aluminium) smelters and steel plants, and the use of cost-effective cleaner fuels in district heating plants and households. With regard to water quality, the priorities are pre-treatment of industrial waste water, where heavy metals or toxic chemicals threaten the quality of ground or surface waters, and measures to reduce excessive levels of nitrates and microbiological contamination in rural drinking water supplies. For hazardous wastes, the priority must be to ensure that leachates from disposal sites do not contaminate ground or surface water sources.
- **Measures to deal with problems particular to different countries.** These include waste water treatment to protect valuable coastal, ecological and tourist resources, the phased completion of incomplete waste water treatment plants where appropriate and where this will have the most impact on water quality, and programmes to prevent irreversible damage to and loss of productivity in important eco-systems on domestic and transboundary levels.
- **Support to reinforce and accelerate environmental investments by enterprises in response to environmental policies.** For example, the reduction and treatment of saline water and other discharges by mines, industrial waste water treatment in pulp, textile, metallurgical and chemical plants, and for measures to reduce discharges of toxic materials from chemical and petrochemical plants.
- **Low-cost measures to address long-term environmental priorities** For example, where prompt action can avoid the need to spend much larger sums in the future. Improved transport management, phasing out leaded gasoline and reducing vehicle emissions, formulating and applying practices for sustainable agriculture and tourism, applied research on the protection of threatened species and eco-systems, and the development of systems to collect, interpret and disseminate environmental data all fall into this category.

## Multi-country and global concerns

The central element of a strategy to address multi-country or global problems of air and water pollution must be to build, as far as possible, on the overlap between the local and the transboundary impacts of measures to reduce emissions.

**Air Pollution:** Market reforms and targeted policies or investments to meet domestic environmental goals will lead to large reductions in emissions of multi-country and global air pollutants. In considering further reductions in the central and eastern European countries to meet multi-country and global concerns, donors may wish to contribute towards measures to accelerate the necessary reductions. There might be scope for mutually beneficial agreements which could result in larger reductions in environmental damage than could be obtained by spending the same resources domestically.

**Water Pollution:** Maximising the joint domestic and transboundary benefit of improving water quality implies that resources need to be directed to reducing the flows of nutrients and emissions of harmful substances from agricultural, domestic and industrial sources (including dumping sites for radioactive waste) to bring about the overall reduction of contaminants in coastal and estuary locations. The Baltic Sea environmental programme to a large extent reflects this philosophy. (From a domestic perspective, waste water investments should focus on up-stream areas.)

Central and eastern European countries have committed themselves to addressing acidification, global warming, the depletion of the ozone layer and other multi-country and global environmental problems in the context of the relevant conventions, protocols and other forms of international agreements. While action to meet these commitments will continue well beyond the horizon of the Environmental Action Programme, as part of the EAP's policy reform and institutional and investment programmes, central and eastern European countries may need to take selected measures which go beyond those they would take as part of economic transformation.

With regard to the phase-out of ozone depleting substances (ODS), they should, for example, focus on the aerosol and flexible foam sectors where ODS use can be eliminated at low cost, and prepare national recovery/reclamation/recycling strategies. They should review national legislation and strengthen institutional and technical capacity and measures in light of, for example, the Convention on Biological Diversity and the Basel Convention.

## Institutional prerequisites to support policies and investment

Experience in western countries shows that successful environmental policy requires the explicit commitment of the whole government, as well as the cooperation of the independent sectors, and an open approach to setting priorities and making choices. The enthusiasm and expertise of non-governmental organisations should be mobilised to contribute to the successful implementation of environmental programmes, particularly through close monitoring of their implementation.

The greatest contribution to improved environmental management is likely to come from strengthening local and regional institutions within countries, in particular, improving their capacity for identifying priorities, developing policy, ensuring environmental compliance, and also for operating financial systems. National environmental authorities should place more emphasis on policy coordination and create task-oriented teams to work on priority issues. Substantial savings are possible by making environmental decisions at the level of river basins or air sheds, but this requires institutions that integrate the different local and sectoral interests.

Studies for project preparation and industrial reviews need to be rethought. They must focus on those areas where scarce investment resources can provide the greatest benefits rather than offering pre-packaged recommendations based on conventional western technologies. In particular, far more effort should go into project identification, rather than project preparation. Substantial local participation is essential both to formulate advice that can be implemented and to improve local capacity to achieve better environmental performance from existing facilities. These changes in approach will require much more careful attention to the terms of reference for studies to ensure that the resulting proposals meet clear objectives and address the financial and institutional constraints.



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