



# PHARE *Slovakia*

## 1993 INDICATIVE PROGRAMME SUMMARY

### PHARE Adapts to Independence



PHARE assistance to Slovakia from 1990 to 1992 was part of the programme for Czechoslovakia. Total commitments to Czechoslovakia so far amounted to 233 million ECU (34 million ECU in 1990, 99 million ECU in 1991, and 100 million ECU in 1992). With the exception of TEMPUS, all sector programmes were still under implementation at the time of the dissolution of the CSFR. As a consequence, the PHARE programme for the CSFR was split into two separate national programmes for the Czech Republic and Slovakia. Based on the agreements on the split of the individual sector programmes and on estimates of benefits of already implemented components, the total PHARE assistance of 1990-92 for Slovakia amounts to roughly 88 million ECU.

Out of this total, some 26 million ECU were allocated for the development of the private sector, including restructuring and privatisation of state enterprises, SME development, foreign investment promotion, and regional development. The second largest amount (21,6 million ECU) was committed for infrastructure development comprising environment, energy, and telecommunication. Smaller allocations were agreed for sector programmes for educational reform (4,5 million ECU) and for the development of civic society (1,4 million ECU). The TEMPUS programme for

Slovakia amounted to 11,2 million ECU. The Labour Market Restructuring Programme (15 million ECU) is still operating as a joint programme of the Czech and Slovak Republics and as such is the only programme which was not split at the end of 1992. In addition to the sector programmes, two General Technical Assistance Facilities were established for the CSFR amounting to a total of 50 million ECU: the Slovak share after the split amounts to about 17 million ECU. These funds are used to initiate reform policies in a series of sectors like finance, transport, health, agriculture, social security, science and technology, and to complement and reinforce initial technical assistance from regional PHARE programmes like customs, statistics or public administration.

At the end of 1992, only 27% (excluding TEMPUS: 14,2%) of the total allocation for Slovakia was contracted for. This is mostly attributable to the fact that none of the 1992 sector programmes could start in 1992 thanks to the split of the country. The process of reorganising the PHARE operation started in early autumn 1992 after extensive discussions. By March 1993, PMUs for all current PHARE programmes had been established within the relevant Slovak ministries or other organisations, and the implementation of the programmes is now expected to gain momentum.

Slovakia's establishment as an independent state has necessitated management and budgetary restructuring of PHARE supported programmes. This has meant that the introduction of multi-annual programming, in response to the EC Council conclusions and in accordance with the PHARE Guidelines 1993-97, has been postponed by one year.

1993 is therefore seen as a transition period. The Slovak Republic will enter the full multi-annual programming cycle next year, covering the period 1994 - 1997, after having established clear multi-annual PHARE priorities in the context of a review of the country's achievements in its transformation process and of its medium term reform objectives. It is envisaged that preparatory work for 1994-97 programming will be initiated in mid-1993.

### Future Priorities

In line with the Government's firm commitment to the transformation to a market economy, programmes supported by the PHARE commitment for 1993 will aim to:

- support the Government's economic and social reform policies and its efforts to maintain economic stability;
- develop and strengthen both institutional and human resources in the private and public sectors;
- enhance the effectiveness of PHARE assistance through a clear targeting on key policy priorities, including measures to expedite disbursements and seek complementarity with the actions of other donors, taking into account absorptive capacity;
- carry out the selection of priorities and programming of assistance in a medium-term perspective within the framework of national medium-term policy objectives.

## PHARE Assistance in 1993

### Continued Support For Private Sector Development

The principal objective would be to support the development of the private enterprise sector, by actions directly facilitating industrial restructuring and by the strengthening of the institutional framework of the emergent market economy. This would include:

- a) continuing support to the Government's privatisation and restructuring policy both by focussing existing programme funds more on institutional support to the National Property Fund and on direct support to enterprises, as well as by the provision of additional resources for restructuring assistance to larger enterprises in priority sectors. Consideration will also be given to a special restructuring investment fund for medium sized firms;
- b) extension of support to SMEs, including the provision of financing mechanisms such as small loans, guarantee funds or seed capital schemes;
- c) extension of support to central and commercial banking (in particular with reference to the bad debt problem), fiscal reform, audit and accounting and budgetary management;

Whenever appropriate, the above programmes would have a regional aspect, covering areas with tourist development and foreign exchange potential.

### Restructuring Enterprises

With the privatisation process now well under way, attention will shift to firms partially or fully privatised. The criteria for selection of firms will continue to stress the larger ("intermediate") enterprises not receiving substantial foreign investment. An additional facility will be provided for firms needing help in negotiating successfully with potential foreign partners and/or financial institutions.

Preparatory work will be undertaken on the possible establishment of a special restructuring investment fund, aimed at medium-sized enterprises, with participation from other financial institutions such as the EBRD.

The sectoral spread will continue to concentrate on manufacturing, including food processing, heavy

engineering and the conversion of defence industries, but will be widened to cover other enterprises where the expertise available through framework agreements (or other arrangements) makes this possible.

### SMEs

The support for SMEs will continue in the framework established by the 1991 SME support programme. Technical support for SMEs is being provided through Business Innovation Centres (BICs) and Regional Advisory and Information Centres (RAICs). These networks will be completed and further support provided to make these centres fully effective.

The main use of PHARE finance will be for three funds. The Small Loans Fund and the Loan Guarantee Fund started operating in 1992 and will be replenished from the 1993 programme. The third fund will be new: a Seed Capital Fund designed to provide reimbursable venture capital to firms selected as showing good growth potential in output, exports or employment.

Special attention will be given to support the agenda of the Ministry of the Economy to create a strong autonomous National SME Agency, which is seen as an institutional prerequisite for the successful development of the SME sector.

### Banking and Fiscal Management

Assistance under the 1993 programme will focus on further strengthening the Central Bank's management systems, including its accounting systems and its supervisory role with regard to commercial banks.

The Central Bank will also receive support to explore the means to resolve the serious bad debt problem facing principal commercial banks. Attention will also be given to encouraging commercial banks to meet the investment and export finance needs of the small business sector.

Further support to the Ministry of Finance will focus on the immediate need to enhance the state's revenue collection capacity and budget control systems and also to improve commercial audit and accounting practices to meet EC and international norms.

### Development of Human Resources

Higher education will continue to be supported by a commitment for TEMPUS of 5 million ECU. The latter sum will cover the "overhang" from 1991 and 1992, honouring outstanding commitments and administration and planning activities, but no new projects will be commenced.

The prospective role for a TEMPUS II programme will be considered during the 1994-1997 programming phase which will be undertaken later in 1993. The idea would be to focus TEMPUS II on key priorities in the context of the Government's higher education reform policies.

The programme will also provide funds through co-finance or grants on a competitive basis to education and training programmes, of private and public origin, which meet urgent needs with respect to the economic transition process and the implementation of the

education/training policy reforms presently under preparation. Current sector-specific funding and programme implementation mechanisms will be supplemented by the establishment of a Human Resource Development Fund (HRDF), representing multi-sectoral interests and able to address targeted HRD needs and priorities across a wide spectrum of the economy where commonalities of need apply.

#### **Infrastructure**

The 1993 programme for infrastructure development will contribute to the development of those institutions responsible for policy development and implementation. The aim is to prepare a multi-annual PHARE programme for 1994-1997 by laying the foundations for comprehensive medium term programmes in line with the government's priorities. In particular, the following sectors will be tackled:

- **Transport:** the 1991 and 1992 programmes have focused on technical assistance and training activities. The focus in 1993 will be to support the review of transport policy and the initiation of a more coherent transport development programme. Emphasis will be placed on a combined transport strategy in the context of European integration, and on providing support to review the restructuring options available for ports, river transport and air transport.

- **Energy:** the emphasis will be on energy efficiency and conservation, with a Fund to be established for small businesses and local administrations, based on the results of earlier PHARE studies. Energy audits will be offered, with recommendations for efficient and clean technologies (including options for alternative energy sources). The Fund would offer loans on concessional terms to finance investments for the implementation of these recommendations if alternative sources of finance are not available. A preparatory study for establishing the Fund and to initiate pilot projects will be undertaken under the 1993 programme.

- **Environmental protection:** this is becoming a major preoccupation of the new state. The current PHARE-supported programme launched in 1990 is now expected to make considerable headway after a slow start-up period. A key element in the ambitious programme under preparation for PHARE support during 1994-97 is an Environmental Fund which will aim to facilitate the efficient implementation of well-targeted programmes and to ensure fast fund disbursement. The 1993 programme will support the establishment of the Fund and test suitable pilot projects.

#### **Agriculture and Land Restitution**

The 1993 programme will be principally concerned with facilitating land restitution measures as they are seen as a basic pre-requisite to a successful market reform programme. Land restitution will affect not only the restructuring of the management and ownership of land resources (and hence evolution of a market economy in agriculture), but also the development of related industries and the privatisation process in general. Funds will support the enhancement of land information capability

and the strengthening of the land registry network. These institutions are responsible for the registration of land claims and for the consolidation of the highly fragmented plots that currently prevail. The other major component of the 1993 programme will address the need to restructure primary production co-operatives and the establishment of market information systems.

**Funding:** To finance these priorities, the following indicative breakdown of available resources will be used:

1. Private Sector Development	45 - 55%
2. Human Resources Development	18 - 22%
3. Infrastructure	18 - 22%
4. Other Areas (GTAF)	10 - 15%

The **PHARE** Information Office can help you !  
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## **1993 Funding**

To support the priorities defined, the Community will make available 40 million ECU for commitment to Slovakian programmes in 1993.

