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The Phare Programme

Annual Report 1998

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In 1998, the European Community's Phare Programme provided financial and technical support to 13 partner countries in central Europe. Phare's aim is twofold: for the ten countries that have applied to join the EU, it is to prepare them for accession. For the other three countries, Phare's aim is to support their transition to democracy and a market economy. This report is intended to review the main achievements of Phare during 1998 and to place Phare within the EU's overall policy framework.

1998 saw the adoption of the Accession Partnerships and the formal launch of the accession process with the ten candidate countries. The Accession Partnerships set out the priorities to be tackled in preparation for membership and the framework for all pre-accession assistance.

Phare guidelines for 1998-1999 were formally adopted and apply to all 1998 programmes. The guidelines provide that Phare will focus on two main priorities: institution building and investment support. A range of measures and mechanisms was foreseen in both these areas. Preparations for twinning, a key instrument of institution building, got under way during 1998, while the Large-Scale Infrastructure Facility, a new investment support mechanism, was also launched during the year.

A crucial aspect of the Guidelines is the focus on improved implementation. The Commission and the partner countries have made considerable efforts to accelerate the implementation of Phare programmes and to ensure that they achieve results. As a result, 1998 saw a record level of contracting (Euro 1.26 billion). Consequently the level of uncontracted funds available under Phare (the so-called backlog) fell significantly for the first time since the Programme's launch in 1990.

This improvement in contracting was combined with an enhanced focus in the programming phase on ensuring that programmes are designed to achieve impact and results. Commitments were made only to mature, well-defined programmes, resulting in the case of Poland in a reduction in the indicative annual allocation.

Phare has made significant progress in 1998. It has shown flexibility in its response to the new demands being placed upon it. New initiatives have been launched. Reforms are working. Decisions are being made more quickly, and are being increasingly taken in the candidate countries themselves. As a result, today's Phare is more efficient and focused than ever, providing a firm support for the accession process.

Phare in 1998

EU-CEC relations

The enlargement of the European Union is one of the most important challenges facing the EU as it prepares for the 21st century. It is also a unique, historic opportunity to further the integration of the continent by peaceful means, extending a zone of stability and prosperity to new members.

1998 was a historic year for the European Union and for the enlargement process.

The fifteen Member States of the European Union are currently involved in an enlargement process with a further thirteen countries, namely Hungary, Poland, Romania, Slovakia, Latvia, Estonia, Lithuania, Bulgaria, the Czech Republic, Slovenia, Cyprus, Turkey and Malta.

At Luxembourg in December 1997, the European Council took historic decisions on the enlargement of the Union and defined the 'overall' enlargement process in a way which encompasses all candidate countries that wish to join the Union.

This enlargement is a comprehensive, inclusive and ongoing process. Each of the applicant states will proceed at its own pace, depending on its degree of preparedness.

The enlargement process has three components:

1) The European Conference

This Conference provides a multilateral framework which brings together all the countries that wish to accede to the Union and share its values and aims. The fifteen Member States of the EU and twelve candidate countries were invited to the Conference, which met first in London on 12 March 1998 and subsequently in Luxembourg on 6 October 1998.

2) The accession process

On 30 March 1998, the accession process, comprising the ten central and eastern European countries plus Cyprus, was launched. It involves the reinforcement of the Pre-Accession Strategy, which will enable the applicant countries to align themselves as far as possible on the 'acquis' (the body of EC legislation) of the Union before accession.

A key element of the reinforced Pre-Accession Strategy is the Accession Partnerships which have been drawn up for the ten central and eastern European countries setting out a series of short- and medium-term priorities for further work in preparing for accession. They are designed to mobilise all forms of assistance to the countries of central Europe in a single framework. In response to the Accession Partnership, each candidate country has prepared a National Programme for the Adoption of the Acquis, which sets out the ways in which the priorities of the Accession Partnership will be implemented, including timetables and human and financial resource allocations. They are updated regularly.

A second element is the proposed doubling of financial aid targeted on accession priorities. The financial assistance will come from a reoriented Phare Programme, new programmes for environment and transport as well as agricultural and rural development. For those countries not yet ready for the opening of negotiations, an additional 'catch-up facility' has been set up. A wide range of Community programmes will be progressively opened to candidates, covering such fields as education and training, environment, research and culture, which will help accustom many different groups in the candidate countries to the working methods of the EU.

Finally a review procedure has been set up under which reports are to be drawn up on each candidate's progress in preparations for accession. The first such Reports were published on 4 November 1998 (see below).

3) Accession Negotiations

Negotiations were launched on 31 March 1998 with the six countries recommended by the Commission (Hungary, Poland, Estonia, the Czech Republic, Slovenia, Cyprus). Negotiations with these countries are being conducted in bilateral accession conferences between the Member States and each of the applicants.

Analytical examination of the acquis communautaire

In order to prepare the negotiations and give an added impetus to pre-accession preparations, the screening exercise was launched in April 1998. The aim of screening is to explain the Community acquis to the candidate countries and to measure the difficulties that they may have in adopting it. In addition to actually adopting Community legislation, all the candidates need to create and/or strengthen the structures needed to ensure that it is effectively implemented.

By the end of 1998, the multilateral and bilateral screening of 20 chapters of the acquis were completed with Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus. Screening reports on all of these chapters, bar one, had been submitted to the Council by the end of the year. The remaining nine chapters will be screened by autumn 1999.

The Commission has also completed the multilateral screening of 29 chapters of the acquis with the countries with which negotiations have not yet started: Bulgaria, Latvia, Lithuania, Romania and Slovakia. A more precise identification of these problems will be made during bilateral screening meetings which will take place between March and July 1999 for all the chapters with the exception for agriculture which will be screened in the autumn of 1999.

The Regular Reports

The Luxembourg European Council also invited the Commission to draw up Regular Reports, from the end of 1998, on the progress made in meeting the Copenhagen criteria by each of the candidate countries. The first Regular Reports were published

in November 1998 and submitted to the European Council of Vienna in December 1998.

In compiling the Regular Reports, the Commission analysed whether, in the light of the Copenhagen criteria, reforms that were announced by the candidate countries had in fact been carried out since July 1997. To ensure that the Reports measured real progress, the Commission only highlighted those reforms that had actually been adopted, rather than those under preparation or in the course of adoption. The Commission also analysed progress in the capacity of each candidate to implement the acquis, and highlighted the steps taken to adapt administrative structures to the requirements of the acquis.

The Reports highlighted the progress made by certain candidate countries in all three areas of the Copenhagen criteria, but also stressed that the rhythm of preparation for accession must accelerate if deadlines are to be met. On the basis of the Reports, the Commission did not feel it necessary to make recommendations “on the conduct or extension of the negotiations” as envisaged by the European Council. The Commission’s conclusions on each candidate country are given in the individual country chapters in this report.

The Vienna European Council

The Vienna European Council (11-12 December 1998) welcomed the Commission’s Regular Reports and the fact that the enlargement process was now well under way. It noted that six of the candidates had entered into substantive negotiations and had reached the first concrete results, while progress had been made in preparation for negotiations with the other five candidates. The European Council also reiterated the “European Union’s willingness to continue to provide pre-accession aid throughout the process.” The European Council stressed that “each country will continue to be judged on its own merits”, and invited the Commission to present further Regular Reports in time for the Helsinki European Council in December 1999.

Implementing the new Phare orientations

General overview

The reorientation of Phare from a 'demand-driven' programme (in which the partner countries requested funding for priorities which they established) to an 'accession-driven' programme based on the Accession Partnerships was unquestionably the major focus in 1998. The Phare Programme in the ten candidate countries is now fully oriented towards preparing these countries for membership of the EU. Phare's new role is to help the candidate countries address the priorities set out in the Accession Partnerships.

Two clear priorities have been fixed: institution building and investment support. These two priorities were set out in the 'Guidelines for Phare programme implementation in candidate countries, 1998-1999', which were adopted in June 1998 and cover the Phare budgets for 1998 and 1999.

Institution building

Institution building covers a number of areas such as twinning, participation in Community programmes and technical assistance.

Concerning Community programmes, a number of programmes were already open in 1998 (e.g. Leonardo da Vinci, Youth for Europe, Raphael, Media, Save, Life, Combating cancer, Equal opportunities, SMEs). The candidate countries were also given the possibility to become fully associated with the Fifth Research and Development Framework Programme (1998-2002).

Twinning

The aim of twinning is to make available the expertise of Member State practitioners to help the candidate countries implement the acquis. The core of twinning is the secondment of EU practitioners, known as Pre-Accession Advisors, to the institutions in the candidate countries responsible for implementing the acquis.

In some cases, twinning will consist only of the long-term secondment (for a period of over 12 months) of one or more Pre-Accession Advisors from a Ministry or other approved body in a Member State to work on a project in the corresponding Ministry in a candidate country. In many cases, in order to achieve the objective of the twinning, it will be necessary to combine different means, including short-term expertise, training, services (such as translation and interpreting) and specialised help (such as specialised computer software), in addition to the Pre-Accession Advisor.

At the very end of 1997 the Commission took the first steps to launch twinning. A network of National Contact Points was established to work with the Commission in the twinning process. Each Member State and each candidate country appointed a person to represent them, to liaise with their own administration and to ensure the flow of information through the network. The National Contact Point network met three times in 1998. Following an initial meeting in December 1997, the network met

in March 1998 for the presentation and discussion of the twinning concept, again in May for the launch of the first round of project selection, and finally in October for an analysis of initial results and further development of the process.

The most distinctive feature of twinning is that it sets out to deliver definite and guaranteed results. It is not designed to foster general cooperation, but to deliver specific results, which have been agreed between the parties in advance, for the implementation of priority areas of the acquis, as set out in the Accession Partnerships. In 1998 the twinning projects under development focused on the same four key areas of the acquis in each candidate country: agriculture, environment, finance, and justice and home affairs. The candidates had the option of including an additional area to meet individual needs. Preparatory measures for the implementation of the Structural Funds was added as a topic later in the year.

Some 120 projects out of the Phare programming exercise for 1998 were circulated to the Member States in May and October. The Member States were then invited to make proposals for ways of meeting the needs identified in the various projects. After discussion between all the parties, the candidate country chose the offer which best corresponded to its individual needs. In some cases, two or more Member States joined forces to provide support, or the candidate country invited Member States offering different elements to combine them in a single project. The 'twins' were then asked to submit a detailed project to the Commission for approval.

Fourteen twinning projects have been approved by the Commission Steering Committee. The first Pre-Accession Advisors will start work in May 1999.

Investment support

Adoption of the 'acquis communautaire' not only means approximating legislation and strengthening institutional and administrative structures. It also means adapting infrastructures and enterprises in the candidate countries to meet EC standards, which requires considerable investment. Accounting for around 70 per cent of the Phare budget in the candidate countries, investment support thus entails mobilising the investments needed to help the candidate countries bring their industries and major infrastructure up to EC standards.

Alongside continued support under the Phare national programmes in the areas of transport, energy and environment, Phare's investment support activities focused on three new areas in 1998:

- increased coordination with the international financial institutions
- the launch of the Large-Scale Infrastructure Facility
- Preparation for the Instrument for Structural Pre-Accession Assistance (ISPA).

Working with the international financial institutions

With a view to increasing infrastructure investments in the CECs, the European Commission took steps in 1998 to deepen its cooperation with the international financial institutions. At the Commission's initiative, a Memorandum of Understanding on Accession was signed on 2 March 1998 with the European Bank

for Reconstruction and Development (EBRD), and the World Bank. The European Investment Bank (EIB) also committed itself to cooperate in the spirit of the Memorandum of Understanding.

Many of the Accession Partnership priorities are consistent with the objectives set out in the country assistance strategies of the EBRD and the World Bank. The shared desire to promote transition and support the accession process has led these institutions to intensify their cooperation efforts. As the main financing arm of the EU, the EIB works closely with the Commission to ensure that the EU's policy objectives are met.

The Memorandum of Understanding sets out common goals and objectives, including the identification of specific projects for co-financing and the development of new financing mechanisms. Four new partners – the Nordic Environment Finance Corporation (NEFCO), the Nordic Investment Bank, the International Financial Corporation (IFC), and the Council of Europe's Social Development Fund – joined the agreement in October.

Co-financing with the international financial institutions helps to make Phare's grant assistance go further – every euro of Phare investment in co-financed projects leverages around EUR 8 from the international financial institutions, national and other sources.

The Large-Scale Infrastructure Facility

The Large-Scale Infrastructure Facility (LSIF) is a central facility which provides co-financing to projects that have a cross-border impact in the environment and transport sectors. Investments are co-financed with the international financial institutions. Projects were selected on the basis of both their impact on accession preparations and their readiness for implementation. Examples of eligible LSIF projects include road and rail rehabilitation projects, upgrading water and waste systems, and anti-air pollution projects.

In 1998 Phare provided around EUR 180 million for large-scale infrastructure projects through both the Large-Scale Infrastructure Facility and the national Phare programmes. LSIF support shall continue in 1999 with a budget of EUR 95 million, focusing on environment investment support. The LSIF will be replaced by ISPA in 2000 (see below).

Planning for 2000: Phare, ISPA and SAPARD

Preparations for the continuation of pre-accession support beyond 2000 have already begun. Phare will continue, and will be complemented by two new pre-accession instruments, called ISPA and SAPARD. Investments in major transport and environmental infrastructure will be financed from ISPA, and those in agriculture and rural development from SAPARD. In November 1998 the Council approved in principle the Regulations on these two instruments and a coordination Regulation. The latter ensures coherence between the three instruments; it stipulates that Phare, ISPA and SAPARD should be coordinated within the framework of the Phare Management Committee.

Pre-accession aid will more than double after 2000, to over EUR 3 billion per year (EUR 1.5 billion for Phare, EUR 1 billion for ISPA and EUR 520 million for SAPARD).

Preparations for ISPA were supported during 1998, under the Large-Scale Infrastructure Facility, while the Special Preparatory Programme, a component of the national programmes, was continued to assist the candidates in setting up the structures and policies for eventual participation in the Structural Funds.

Special Preparatory Programme

After accession, the candidate countries will be eligible for support from the EU Structural Funds. To help ensure a smooth transition to the new system, the Special Preparatory Programme was set up. This programme aims to help the candidate countries put in place the institutions and strategies necessary for the successful implementation of activities financed from the Structural Funds after accession. The Special Preparatory Programme should prepare the candidate countries to design and implement programmes similar to those in EU Objective 1 regions.

Justice and home affairs

The reorientation of the Phare Programme towards accession priorities has also meant an increased focus on the area of justice and home affairs (JHA) in 1998. The Accession Partnerships accord particular importance to the area of justice and home affairs. Along with finance, agriculture and environment, justice and home affairs was one of the four sectors identified as priorities for support under the new twinning programme. Out of 110 twinning projects (costing EUR 75 million) foreseen under the 1998 programme, 25 (worth EUR 14 million) are dedicated to justice and home affairs. These twinning projects focus on customs and border controls (8 projects), judicial institutions (7), asylum and immigration (3), police training (2), and the fight against organised crime (1). A further four projects will tackle horizontal JHA issues.

Justice and home affairs is also one of the three sectors eligible for support from the Catch-Up Facility. In 1998, five projects in the area of justice and home affairs were presented for funding of EUR 6 million. These projects focus on areas such as the fight against corruption, including customs reform and fighting economic crime.

Ongoing multi-beneficiary programmes include the horizontal programme on justice and home affairs. During 1998, this programme financed a mission to evaluate needs and identify JHA projects in Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania, and Slovenia (missions in Hungary, the Czech Republic and Slovakia had taken place in 1997). Reports drawn up by EU experts focused on five priority areas: asylum, immigration, border management and control, policing, and the judiciary. The reports analysed the current state of affairs in these areas and proposed potential projects to be financed by Phare.

1998 also saw the launch of three major new projects under this horizontal Phare programme, which will support the transposition of the acquis in priority JHA areas. These projects deal with training for police (EUR 4.5 million) in the candidate countries, transfer of the acquis in asylum issues (EUR 3 million), and the fight against corruption and organised crime (EUR 1.5).

The Phare Baltic eastern border management programme is designed to strengthen the capacity of Estonia, Latvia and Lithuania to manage their eastern borders effectively, and to combat illegal trafficking. This 1997-1999 programme, which is receiving EUR 6 million from Phare, financed four projects in 1998: equipment for police and border guards in Estonia and Lithuania (EUR 1.5 million each), tender preparation and call for proposals for refurbishing a centre for immigrants in Lithuania, tender preparation for the construction of four border posts, and training for the police forces in all three Baltic states.

In 1998, the customs component of the multi beneficiary transit facilitation and customs modernisation programme focused mainly on improving 'operational capacity' in the customs services of the partner countries. During meetings and workshops held during 1998, 'Customs Blueprints' (establishing standards to be achieved by the customs services in the partner countries) were developed and 'gap analyses' (comparing the existing situation with the standards in the Blueprints) were conducted. Finally, each country's individual gap analysis results were used to identify detailed requirements for assistance. In parallel, in 1998 the programme provided the partner countries' customs administrations with direct assistance in developing their customs business strategies and customs training functions, and in elaborating their national Phare project documentation.

Additionally, a number of major projects were in different stages of implementation:

- 'General customs technical assistance and training', involving 12 Phare partner countries
- 'Measures to improve efficiency at border posts', very successfully implemented in 11 partner countries, aimed to introduce risk-assessment, selectivity and profiling tools and techniques in the customs operational environment
- 'Customs information and intelligence', involving 12 customs administrations, aimed at improving national customs 'Intelligence' teams and programmes and implementing Intelligence tools and techniques in the customs working environment
- 'Transit and application of Single Administrative Document', implemented in Bulgaria, Estonia, Latvia, Lithuania, Romania and Slovenia
- 'Automation Support Unit', providing practical support to all partner countries in implementing their extensive Phare customs computerisation programmes.

Further progress was made during 1998 in implementing the Phare multi-beneficiary drugs programme, which aims to help the candidate countries develop coordinated drugs policies, particularly in the light of enlargement. The programme has been particularly active in the areas of anti-money laundering and precursors monitoring, in compliance with the acquis. It also focused on the development of information and communication structures and on preparing for the integration of the candidate countries into the activities of the European Monitoring Centre for Drugs and Drug

Addiction. Phare also provided know-how to help strengthen drug demand reduction strategies and capacities in the partner countries. Finally, the programme identified new priorities, such as combating synthetic drugs, and gave special attention to the escalating drug problems along the Balkan Route in the framework of the Joint UNDCP-Phare Drug Law Enforcement Programme in South-eastern Europe.

The Catch-Up Facility

Romania, Slovakia, Latvia, Lithuania and Bulgaria received additional support in 1998 to accelerate their preparations for membership. A Catch-Up Facility was set up during the year to help these five countries to complete the process of economic and social reform, to attract investment and to fight corruption. The aim of the Catch-Up facility is to maintain the all-inclusive nature of the enlargement process by financing projects in areas where specific problems were identified by the Commission's Opinions on these five countries. EUR 100 million has been allocated to the Catch-Up Facility for the 1998-1999 period.

The new Phare cross-border cooperation programme

On 18 December 1998, the European Commission adopted a Regulation on the Phare cross-border cooperation programme, revising the cross-border cooperation programme set up in 1994. The total indicative allocation for the cross-border cooperation programme for the 1995-1999 period is EUR 885 million.

The cross-border cooperation programme aims to promote cross-border cooperation to prepare central European regions for taking advantage of the opportunities and challenges of European integration, notably as future beneficiaries of the EC's Structural Funds. In particular, it aims to stimulate economic development in border regions and encourage socio-economic integration.

The new Regulation provides financing for actions of a structural nature in border regions of Phare partner countries. Actions will be implemented taking into account the Community structural policies and Interreg in particular. The eligible borders for financing under the new Regulation are

- borders between the countries of central Europe and the EU
- borders between the ten candidate countries themselves.

Eligible projects for border regions between the EU and central European countries will normally be linked with measures supported by Interreg. Eligible projects for border regions between the central European countries will demonstrate a cross-border impact, contribute to the development of structures in border regions or facilitate cooperation between the countries as a whole.

EC grants will finance joint projects between the eligible border regions. The aim of these projects will be to

- promote cooperation between border regions in countries and adjacent regions in a neighbouring country, to help the border regions in central Europe overcome specific development problems, in the interests of the local population
- promote the development of cooperation networks on either side of the border and the creation of links between these networks and wider EU networks.

Types of activities which may be financed under the new programme include

- actions to alleviate obstacles to the free movement of persons, goods or services across the border, taking into account the security aspects
- actions to improve infrastructures across border areas
- environmental protection measures
- agricultural and rural development measures
- measures in the fields of energy and transport, to complement the development of the trans-European networks
- actions related to Community policy on justice and home affairs
- measures to promote cross-border business and financial cooperation
- aid to investment and the provision of supporting services and facilities, in particular for technology transfer and for marketing for SMEs
- training and employment measures.

The new programme also seeks to encourage joint small-scale actions involving local actors from the border regions and to enhance local capabilities to develop and implement such actions. For this purpose, each border region may set up a joint small project fund; activities that could be funded under a small project fund include

- actions to foster local economic development, including tourism
- measures to promote cooperation on health, particularly through the sharing of resources and facilities
- measures to develop facilities and resources to improve communications between border regions, such as cross-border radio, TV, newspapers and other media.

The new programme incorporates the recommendations of an **evaluation** which was concluded in November 1998. The purpose was to analyse the problems leading to delays in implementing the sub-programmes and to make recommendations on strengthening management, programming and expenditure mechanisms.

The evaluation found that the cross-border cooperation programme had produced a number of positive results. In particular, dialogue and cooperation between EU border regions and adjacent regions in central Europe have been established. Economic development in the border regions of those countries has been helped, promoting greater convergence with the level of development on the EU side. The countries also had an opportunity to familiarise themselves with Interreg procedures, including the design of regional development strategies for border regions.

However, a number of problems were identified by the evaluation team. There were differences in the way Phare and Interreg operated, and the evaluation recommends that further steps were needed to harmonise the two. The cross-border cooperation programmes still placed greater emphasis on hard measures than did the Interreg programmes, very few projects had a real cross-border nature, and implementation had been rather slow. Local and regional capacities in the candidate countries need strengthening and the involvement of local and regional actors must be encouraged. More emphasis needs to be placed on the setting up of small project funds, which help strengthen planning capacities.

The multi-annual approach to programming, intended to correspond with Interreg programming, had not been entirely successful: common development concepts, strategies and objectives were missing and the external coherency of programmes was lacking. The programmes also tended to lack a regionally specific approach, and few were drafted in partnership with regional and local authorities or with social partners.

These problems cannot be fully resolved as long as Phare continues to have an annual budget and Interreg a multi-annual one and as long as two separate Regulations continue to apply, limiting spending to the territory of the candidate countries and Member States respectively. However, some improvements can be made. The new Regulation provides for common cross-border programmes to enable definition of common development strategies and priorities for the border region. Common programming and monitoring structures will be used, involving an integrated joint cross-border cooperation committee. The new programme also extends the geographical scope of the programme. In addition to the EU-candidate country borders, the new programme covers borders between the candidate countries themselves.

Implementing operational changes

One of the aims of the new Phare Guidelines is improved implementation. The Commission and the partner countries have made considerable efforts to accelerate the implementation of Phare programmes and to ensure that they achieve results. This has involved both deconcentration (increased responsibility for the Commission's Delegations in the partner countries) and decentralisation (transfer of responsibility to the partner countries themselves). As a result, 1998 saw a record total of contracting (EUR 1,260 million), and the level of uncontracted funds available under Phare since the Programme began in 1990 fell for the first time. This improvement in contracting was combined with an enhanced focus in the programming phase on ensuring that programmes are designed to achieve impact and results.

Deconcentration

Deconcentration means the transfer of responsibilities for Phare programme implementation within the Commission from its headquarters in Brussels to its Delegations in the partner countries, enabling decisions to be taken where they belong – on the ground.

The new Phare Guidelines envisaged greater responsibility for the Delegations in the partner countries in the supervision of programme implementation. Deconcentration is supported by the Court of Auditors and the European Parliament to reduce the duplication of controls and decision-making processes between headquarters and the Delegations. It has also represented an important step towards the further decentralisation of the Programme to the partner countries themselves.

A certain level of deconcentration already existed under the Phare Decentralised Implementation System (DIS), whereby the Head of Delegation in the partner country had the authority to approve contracts up to EUR 500,000. Now the Head of Delegation has the authority to approve all tender documents and to approve tender evaluations and endorse contracts up to EUR 5 million.

Deconcentration is being implemented in all the partner countries' Delegations. In order to ensure that the Delegations are able to manage the increased workload that it entails, extra staff are being sent to them and internal procedures are being improved. Under deconcentration each Delegation will have a dedicated Financial Officer who is responsible for checking that Phare procurement rules are correctly followed.

Following the recruitment and training of local agents and Financial Officers, deconcentration was introduced in seven Delegations – Hungary, Poland, Czech Republic, Estonia, Latvia, Lithuania and Slovenia – by the end of 1998, and preparations were well advanced for its early introduction in early 1999 in Bulgaria, Romania and Slovakia.

Decentralisation

Decentralisation means the transfer of greater management responsibility from the Commission to the partner countries themselves. This means that, to the extent permitted by the European Communities' Financial Regulation, the implementation of national programmes will become the responsibility of the candidate countries, under the supervision of the European Commission, which remains ultimately responsible for the use of the funds.

Decentralised implementation has actually been a feature of Phare since 1990. One of the aims of decentralisation is to progressively prepare the candidate countries to administer Community funds after accession. The intention is to establish, within limits and in a gradual manner, a relationship between the Commission and the candidate countries in which responsibility is shared, similar to that which exists with Member States for implementing the Structural Funds.

Decentralisation is authorised by the Commission on a case-by-case basis in those sectors where predefined criteria can be respected by the candidate country and/or Implementing Agency in question, which will ensure sound and efficient management and transparency of the use of the funds in line with the objectives of the agreed programmes. Under this system, candidate countries would be bound by the rules governing Phare as well as the Community's Financial Regulation. The partner country would be financially accountable and, if the rules are not complied with, funds would be recovered by the Commission for the total value of the Phare contract in question.

This further decentralisation calls for amendments in the current Financial Regulation of the European Communities, which requires that the Commission exercises ex ante control on tenders and contracts. The Commission has proposed in its discussion paper on the modification of the Financial Regulation (SEC (1998) 1228) to allow ex post control with regard to Community assistance projects in the candidate countries.

New implementation structures

The new Phare Guidelines contain new implementation structures to improve the delivery of support in the candidate countries, with two objectives:

- to increase the transparency of financial operations and avoid the dispersion of funds over many agencies
- to use, as far as possible, sustainable institutions and implementing agencies which would be responsible after accession for the management and implementation of programmes financed from Community funds.

Thus, during 1998, a National Fund was set up in each candidate country, usually in the Ministry of Finance, to receive and administer Phare funds. Headed by a National Authorising Officer, the National Fund enables the coordination of the use of Phare funds with other funds available in the country concerned, whether from the national budget or from international financial institutions.

In each of the ten candidate countries, a single Central Financing and Contracting Unit was created to handle tendering, contracting and payments on behalf of Ministries. Project selection and monitoring remains the responsibility of the Ministries benefiting from the support. This has greatly improved transparency and has permitted a dramatic reduction in the number of Programme Management Units, which fell from over 150 to under 50.

Improving the delivery of assistance

Changes in programming were also introduced in 1998, to ensure that Phare support is linked closely to accession priorities and is delivered quickly and efficiently.

The new system for programming Phare is to draw up a 'Programming by Objectives' outline for each country based on the short- and medium-term priorities identified in the relevant Accession Partnership and National Programme for the Adoption of the Acquis. The outline, drawn up by the Commission in close consultation with the partner country, lists a limited number of key objectives to be achieved with Phare support for the year in question, and the approximate budget for each activity. Detailed project fiches are then drawn up for each activity before final approval of the National Programme. The project fiches must show precisely what the funds will be used for and provide evidence that the project is ready to be implemented immediately. This ensures swift implementation.

Other improvements in programme implementation have also focused on improving efficiency and speed. As far as possible, contracting should take place within 6-12 months after the signature of the Financing Memorandum (although in some cases, such as for large-scale infrastructure projects, a longer period may be needed). Extensions of time for slow-performing projects, once common, are now almost always refused. Projects must be completed on time.

Fewer but larger projects are now being financed, and a minimum size of EUR 2-3 million has been stipulated. This ensures greater impact and visibility in the priority areas, and reduces the management burden.

As described above, greater responsibility has been transferred from Brussels to the Commission's Delegations in the candidate countries for the management of national and cross-border programmes. Twenty posts have been transferred from Brussels to the Delegations and each Delegation now has its own financial officer. This speeds up decision-making and reduces management costs.

The Joint Service for the management of Community Aid to Non-Member Countries

The Joint Service for the management of Community Aid to Non-Member Countries (SCR) in Brussels was set up in mid-1998, and became fully operational in September 1998. The SCR provides an in-house service for the Directorate Generals responsible for implementing EC aid to non-EU countries. The SCR is responsible for the financial, accounting, contractual, and legal side of project management. It is also responsible for implementing multi-beneficiary programmes and other programmes

that are not affected by decentralisation and deconcentration. The SCR is also responsible for monitoring the progress of all Phare programmes.

The SCR is divided into a number of Directorates:

- Directorate A is responsible for implementing and monitoring projects (A1 is responsible for infrastructure and A2 for institution-building)
- Directorate D is responsible for financial management, including budgetary issues, contracts, accounting and payments
- Directorate E publishes calls for tenders for both services and supplies, and is also responsible for legal matters and disputes
- Directorate F is responsible for various tasks including personnel, administration, management of the SCR computer network, relations with the European Council and Parliament, etc., evaluation, and information and communication.

The creation of the SCR should lead to improved implementation (particularly of multi-beneficiary programmes), more effective monitoring of operations, and the rationalisation of management procedures.

Monitoring and assessment of Phare in 1998

The Phare Monitoring and Assessment System monitors the implementation of ongoing Phare programmes in all partner countries and assesses to what extent they are achieving their objectives as set out in the programming documents. M&A reports provide information on the progress of programmes in a sector, assess them, and put forward concrete recommendations on their management and on the design of future programmes in the same sector. As such, they are a management tool for all relevant parties in the implementation of Phare and an integral part of the Decentralised Implementation System.

Three important changes were made to the system in 1998.

- For the first time since the system was introduced in 1996, reports were produced in accordance with an Annual Workplan. The Annual Workplan was drawn up following consultation between all the parties involved in the management of programmes, and took account of the timing requirements of each. The 1998 Workplan foresaw the launch of 103 reports on programmes in 11 Phare countries – Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Slovenia, Hungary, Romania, Bulgaria and Albania – as well as on multi-beneficiary programmes.
- A follow-up system was introduced. Shortly after a report is issued, the Delegation organises a debriefing session during which the steps to be taken to effect recommendations, and the timing for them, are agreed between all parties. The outcome of this discussion is then followed up by the Commission.
- In May 1998, the Monitoring and Assessment system was extended to the former Yugoslav Republic of Macedonia.

During 1998, a total of 115 reports were completed and issued (including 54 which had been initiated at the end of 1997). A total of 107 reports were initiated in 1998, of which 61 were completed by year end. The reports covered some 350 programmes in 25 sectors.

Evaluations of the Phare Programme

In response to the Commission's Sound and Efficient Management initiative (SEM 2000), DG IA set up an Evaluation Unit for the Phare, Tacis and Obnova Programmes in January 1997. This Unit is now part of the SCR Evaluation Unit. With a view to increasing transparency and accountability, evaluation reports are being published on a regular basis and are accessible to a wide public.

Within the framework of the Phare Programme, the Evaluation Unit has undertaken the following types of evaluations: sectoral evaluations, to provide input for policy and strategy development; country evaluations, to provide inputs for the annual planning exercise; and evaluations of Phare cooperation instruments, to provide input for the future revision of the Phare Regulation as well as for the Accession process.

Following the Phare Interim Evaluation, published in July 1997 and intended to set a benchmark upon which the Evaluation Unit would conduct further sectoral and instrument evaluations, seven evaluation studies were completed in 1998. They cover four sectors (banking, enterprise restructuring and privatisation, customs reform, and public administration reform), two instruments (the Cross-Border Cooperation and Partnership Programmes) and one emergency initiative (Essential Aid Programme for Bosnia and Herzegovina). They are publicly available on the Internet.

Financial overview

1998 showed improvement in financial data which, combined with the enhanced focus on quality programming, should lead to improved impact and results.

In 1998, the Phare Programme committed a total of EUR 1,153.9 million to its partner countries. This represents a commitment rate of 99.4 per cent, as compared with the budget of EUR 1,161.4 million.

The following chart shows the break down year by year of the Phare funds committed in the period 1990-1998 (EUR million):

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|------|-------|-------|-------|-------|---------|---------|---------|---------|
| 493 | 758.9 | 996.2 | 998.4 | 966.9 | 1,153.3 | 1,222.5 | 1,147.7 | 1,153.9 |

In terms of financial performance, 1998 showed a continuing improvement in the area of contracting. Over the year, the Commission headquarters and partner countries signed contracts totalling EUR 1,260 million, a rise of EUR 124.5 million on the 1997 figure of EUR 1,135.5 million, and an increase of 10.9 per cent. In total, 75.3 per cent of all committed Phare funds have been contracted.

As a result, the overall contracting backlog (i.e. the difference between total commitments and total contracting since Phare began) also fell for the first time, by EUR 125 million. The total backlog has now fallen to below EUR 2.2 billion.

A record level of payments was also achieved in 1998. Phare paid EUR 1,042.7 million on signed contracts in 1998 (payments on Commission headquarters contracts and advance payments to partner countries). This represents an increase of just over 27.2 per cent on the 1997 figure (EUR 819.3 million).

The situation with regard to implementation may therefore be summarised as follows:

| | |
|---|---|
| Total commitments 1990-1998 | EUR 8,890.9 million |
| Total value of contracts signed 1990-1998 | EUR 6,697.3 million (thus 75.3 per cent of all commitments have been contracted) |
| Total payments under signed contracts 1990-1998 | EUR 5,589.1 million (thus 62.9 per cent of all committed funds have been paid, and 83.4 per cent of all contracted funds have been paid). |

Phare in the individual partner countries

Candidate countries

Bulgaria

The year in review

Following the introduction of a wide-ranging and comprehensive reform programme in May 1997, the macroeconomic situation in Bulgaria improved considerably during 1998. The reform programme included the introduction of a currency board arrangement, a tightening of fiscal policy and the revitalisation of structural reform efforts. Thus, despite the less favourable external environment, the continuation of prudent policies ensured that economic developments within the country remained generally positive. Economic growth reached an estimated 4 per cent, and annualised inflation fell to just 1 per cent, compared with the 1997 rate of 580 per cent. The budget is expected to post an overall surplus of 1.3 per cent of GDP.

However, other economic indicators were less positive in 1998. The rate of registered unemployment remained relatively high at 12 per cent. Developments on external accounts were less favourable than in 1997, resulting in a current account deficit estimated at around 1 per cent of GDP. There was also less foreign direct investment inflow, due to the relatively slow progress in privatisation and the declining interest of foreign investors in emerging markets. As a result, foreign direct investment inflows fell by over 50 per cent to around EUR 150 million, compared with the substantial inflow in 1997.

Bulgaria has made considerable progress in implementing an ambitious structural reform programme. Measures have been taken to liberalise the economy, including the removal of most price controls and the lifting of export bans on agricultural products. Major budgetary reforms have also been carried out. Following early success in 1997, privatisation slowed in 1998, and was largely limited to employee buyouts. Ongoing privatisation also meant that public sector employment continued to shrink. The amount of privatised assets rose to almost 30 per cent at the end of 1998, compared with around 20 per cent at the end of 1997. However, this still remained well below the Government's target of 50 per cent. Privatisation in the banking sector continued, but at a slower pace. Finally, efforts to stem the losses of ailing state-owned enterprises and certain large utilities had only mixed results.

Overall macroeconomic stability was matched by stability in the political arena: the Government that came into office in May 1997 continues to enjoy a majority in the National Assembly. Democratic institutions and mechanisms have functioned well, and progress has been made in the fight against corruption. Maintaining close links with the Euro-Atlantic integration process was one of the cornerstones of Bulgaria's foreign policy in 1998. Free trade agreements with neighbouring countries were concluded and Bulgaria acceded to CEFTA during the year. A solution to the Macedonian language dispute meant that relations with the former Yugoslav Republic of Macedonia improved, as did those with Turkey.

Relations with the European Union moved forward significantly in 1998, with the launch of the accession process in March, the adoption of the Accession Partnership and the publication of the first Regular Report in November. Negotiations on fish products and wine were conducted, and discussions on new concessions for agricultural products began. A number of Association Council decisions were taken,

notably regarding Bulgaria's participation in Community programmes and the prolongation of regional state aids. Finally, an antidumping complaint regarding steel products was launched by the Commission in 1998.

**Conclusion of the European Commission's Regular Report,
November 1998**

Bulgaria meets the Copenhagen political criteria although continuing efforts are needed in the fight against corruption and to reform the judiciary.

Although Bulgaria has made progress recently in the creation of a market economy it would face serious difficulties in coping with competitive pressure and market forces within the Union in the medium term. The momentum reached in transposition of legislation, if matched with the strengthening of corresponding institutions, should eventually allow Bulgaria to take on the obligations of membership. However, further efforts are needed particularly in the internal market and in the areas of standards and certification, control of state aids, the future of Kozloduy and in justice and home affairs.

Phare in 1998

A total of EUR 149.5 million was allocated to Bulgaria under the 1998 Phare budget to support Bulgaria's accession to the European Union, in line with the priorities highlighted in the Accession Partnership.

Phare support for Bulgaria's accession preparations was channelled through four main programmes: the National Phare Programme (with a budget of EUR 68 million), the Cross-Border Cooperation Programme with Greece (EUR 51 million), the Large-Scale Infrastructure Facility (EUR 20 million) and the Catch-Up Facility (EUR 10.5 million). Bulgaria also participated in Phare multi-beneficiary and horizontal programmes in 1998, including customs, democracy, standardisation, nuclear safety, environment, SMEs, statistics, public administration reform and TAIEX.

In line with accession priorities, the 1998 **National Programme** focused on a range of key areas and a number of new programmes were launched. Assistance for the ongoing but fragile economic reform process includes support for private sector development and the Bulgarian Post-Privatisation Fund (EUR 11.7 million). Institution building is clearly a priority, and Phare support will focus on strengthening Bulgaria's institutional and administrative capacity, through institution building for the Ministry of Agriculture, Forestry and Agrarian Reform, and the transformation of customs (EUR 18 million). The Ministry of Environment and Water is also receiving support for institution-building and investment projects (EUR 7.3 million).

Transport sector projects with IFI co-financing include work at Sofia Airport (EUR 7.6 million). Nuclear safety remains a priority, with Phare financing nuclear safety measures at the Kozloduy Nuclear Power Plant (EUR 6 million). Bulgaria is also

receiving support from the Special Preparatory Programme for Structural Funds and from the Project Preparation Facility (EUR 10 million) to support the development of regional policies and regional cohesion. In the area of education and training, an allocation of EUR 5.4 million will support Bulgaria's participation in EU programmes, of which EUR 4 million was for Tempus, allowing for the funding of 20 Joint European Projects, among which 8 were in the field of Institution Building. Finally, reflecting the importance of a healthy civil society in Bulgaria, the civil society development programme received an allocation of EUR 2 million from the 1998 national programme.

The 1998 **Cross-Border Cooperation Programme** with Greece consisted of three main components. The first concerned the rehabilitation of major roads in the cross-border cooperation region, including the E79 (Sofia to Thessaloniki), the E85 (Haskovo to Alexandroupolis) and the reopening of an access road to the new border crossing at Illinden (total EUR 44 million). Phare also supported the construction of the cross-border checkpoint at Illinden (EUR 3 million). Finally, EUR 4 million was earmarked for the preparation of future CBC projects and programme management.

Under the **Large-Scale Infrastructure Facility**, EUR 20 million was provided as Phare co-financing towards the completion of the Government's Rail Rehabilitation Project, which has a total budget of EUR 285 million. Total Phare funding for this project thus amounts to EUR 35 million. Sections of track to be renewed under this project lie on two important pan-European transport corridors.

Bulgaria also received pre-accession support through the **Catch-Up Facility** in 1998. A total of EUR 10.5 million was channelled into projects in banking and enterprise reform, land restitution, and the fight against corruption with the Bulgarian customs administration.

Including the 1998 allocation, Phare grant funding to Bulgaria since 1990 now stands at almost EUR 755 million.

Achievements

A number of ongoing Phare programmes made good progress during 1998. Launched in 1997, the second Emergency Social Assistance Programme was successfully implemented from December 1997 onwards. With a budget of EUR 20 million, this programme continued to provide support to those parts of the population most severely affected by the 1997 economic crisis, through household income support and job-creation measures (co-financed with and managed by the United Nations Development Programme).

The Structural Adjustment and Reform Assistance (SARA) programme was launched in 1997 to support the implementation of the Government's economic reform programme. During 1998, the programme (EUR 20 million) provided essential and targeted know-how transfer in the areas of enterprise and banking privatisation, banking supervision, and institution building for the Foreign Investment Agency.

The employment generation project, Beautiful Bulgaria, was also completed during 1998 (see box below). Under the civil society development programme, some 120

grants were allocated. These grants have been awarded to Bulgarian NGOs providing social care, humanitarian aid, and support for marginalised and ethnic groups in Bulgaria.

The overall performance of the Phare programme in Bulgaria improved in 1998, due both to the stabilisation of the political environment and to the improved administrative environment. Indeed, the need to strengthen implementation structures was given particular political emphasis. However, with the public administration reform process still in its infancy in Bulgaria, the operational level inevitably continues to face various constraints and uncertainties.

Bulgaria also started to put in place new implementation structures, as foreseen in the new Phare Guidelines. Thus a National Fund, a Central Financing and Contracting Unit and a limited number of Implementing Agencies were set up during the year. These new structures should improve implementation procedures, allow for increased deconcentration and decentralisation, increase the scope for co-financing, and help prepare for the two new pre-accession instruments, ISPA and SAPARD. However, further efforts will be needed to establish effective internal and external financial control mechanisms, and to adopt and implement public procurement legislation in line with EC norms.

By the end of 1998, nearly all programmes committed under the 1994-1997 Phare budgets had been contracted, bringing the overall contracting rate for 1990-1997 close to 94 per cent. Including the 1998 commitments, the overall contracting rate has stabilised at around 72 per cent.

Case study: Beautiful Bulgaria

The aim of this project was to alleviate poverty in a number of regions of Bulgaria by generating new employment, training unemployed people and improving urban infrastructures in the cities of Sofia, Plovdiv, Varna, Veliko Turnovo and Russe. Programme management and implementation was carried out by the UNDP, in close cooperation with the municipal authorities and the Regional Employment Services. The project's total cost came to EUR 3.4 million, of which EUR 3 million was contributed by the Phare Programme. The project was successfully completed by end December 1998.

The project achieved remarkable results.

- 3,500 people became involved on a temporary basis in the job-creation schemes, in a total of 14,371 man-months. An estimated 4-20 per cent of these people have kept their jobs, depending on the city.
- 2,058 people received vocational training and developed skills in areas such as painting, gardening and landscaping.
- 216 buildings, architectural sites and parks were renovated and rehabilitated.
- New cooperation structures were set up between municipalities, employment offices, etc.
- 54 companies were contracted to carry out renovation work in the five cities, which promoted the development of the private sector and SMEs.
- The project encouraged the municipalities involved, and others by example, to set up funds for improving urban infrastructure.
- The project gave high visibility to the work of the Phare Programme in Bulgaria.

Czech Republic

The year in review

The economic situation in the Czech Republic remained difficult in 1998. Real GDP fell, unemployment rose sharply, and real incomes started to contract. The downturn in the economy has proved to be deeper and lengthier than anticipated, and macroeconomic prospects continue to look bleak. However, there were also some positive trends in 1998. Export performance was strong and, combined with lower domestic demand, this has resulted in a reduction in the external trade deficit. Inflation also fell during 1998.

The ongoing economic problems in the Czech Republic have highlighted the need to press ahead with structural reforms. Prior to the elections in June 1998, economic decision-making had been complicated by political difficulties, which have not entirely disappeared with the appointment of the new minority government. However, there was good progress in the implementation of the two economic reform packages that had been announced by the previous government in April and May 1997.

Trade relations remain good. Disputes that did arise – such as the Import Deposit Scheme, the import quota for apples, and import restrictions on EU potatoes – were resolved through the consultation mechanisms provided for in the Europe Agreement.

Elections in June 1998 led to the nomination of a Social Democrat minority government in July. The new government under Prime Minister Zeman has begun to address problem areas that had been neglected during the previous period of political uncertainty.

With regard to relations with the European Union, the most significant events in 1998 were the launch of the accession process, the adoption of the Accession Partnership, and the publication of the first Regular Report in November.

Conclusion of the European Commission's Regular Report, November 1998

The Czech Republic continues to fulfil the Copenhagen political criteria although continued attention needs to be focused on the situation of the Roma in Czech society.

The Czech Republic can be regarded as a functioning market economy and it should be able to cope with the competitive pressure and market forces within the Union in the medium term, provided that it improves corporate governance and accelerates enterprise restructuring.

The Czech Republic should be able to take on the obligations of membership provided that the momentum in the adoption of the *acquis* and the strengthening of the related administrative structures is resumed rapidly so as to make up for the slow progress in the last year, particularly in the areas of internal market, agriculture and justice and home affairs.

Phare in 1998

On 12 October 1998, the Czech government and the European Commission signed the Memorandum of Understanding for the establishment of the National Fund, the Financing Memoranda for the Phare National Programme for the Czech Republic and the two Cross-Border Cooperation Programmes, and the exchange of letters relating to the project fiches of these memoranda. The Financing Memorandum for the third Cross-Border Cooperation Programme had already been signed earlier in the year.

In line with the new Phare Guidelines of March 1997, the 1998 National Programme focused on the short-term priorities of the Accession Partnership and the National Programme for the Preparation of the Czech Republic for Membership of the EU. However, a limited number of activities in support of medium-term priorities were also included.

The 1998 National Programme allocation to the Czech Republic amounted to EUR 22.45 million, not including the Tempus programme (EUR 1 million) and support for participation in Community programmes (EUR 3.55 million). The EUR 1 million for Tempus allowed for 11 Joint European Projects among which 7 were in the field of Institution Building. Reflecting comments made in the European Commission's Regular Report, EUR 2 million was allocated to measures to help integrate the Roma community into Czech society and to strengthen civil society organisations. EUR 7 million was allocated to developing policies aimed at strengthening economic and social cohesion, with particular emphasis on activities to support the Czech Republic's preparation for the Structural and Cohesion Funds.

Strengthening institutions remains a key objective, and institution building support was provided over a range of priority areas. EUR 3 million was allocated to projects designed to strengthen the capacity of institutions and administrative structures to implement the 'acquis communautaire'. In the same vein, the Czech Ministry of Agriculture will receive institutional and policy support (EUR 3 million), including support to improve regulatory capacities in veterinary and food control. Justice and home affairs is also a priority area, and EUR 4.8 million was allocated to projects for strengthening border controls, law enforcement and asylum, and the independence and proper functioning of the judiciary. In the environment sector, new projects focused mainly on strengthening institutional and regulatory capacity and the implementation of policies relating to EC air and waste Directives (EUR 2.15 million). Finally, EUR 500,000 was allocated to support project management.

Twinning arrangements, including long-term secondments of Member State officials, were foreseen in the sub-programmes concerning economic and social cohesion, strengthening the institutional/administrative capacity to implement the acquis, agriculture, justice and home affairs, and environment.

The Czech Republic also received support under the Phare **Cross-Border Cooperation Programme** in 1998. A total of EUR 19 million was allocated to cross-border activities related to Interreg II programmes in regions that share a common border with Germany and Austria. Three cross-border cooperation programmes were

developed in 1998, concentrating on infrastructure, environment and economic development. The first programme consists of activities to help improve transport links and technical infrastructure, such as energy supply networks and sewerage and waste water systems. The second focuses on the renewal of rural areas and reforestation activities. And the third is designed to boost economic development, particularly through support for the tourism industry in the Czech Republic. The Small Projects Fund also continued to deliver support to projects designed to foster cooperation between local and regional authorities on both sides of the border.

Achievements

Phare achieved positive results in a number of key areas during the year.

Within the framework of **preparing for the Structural Funds and regional development**, a series of regional seminars were held to raise awareness among local authorities, culminating in a well-attended conference in December. The Ministry also organised the first meetings of the National Programming Committee, which is responsible for preparing the National Development Plan by September 1999.

Under **cross-border cooperation**, major investment projects worth EUR 16 million were completed during 1998, covering two sewage pipelines, four waste water treatment plants, two gas pipelines, and a road bridge. With a Phare contribution of EUR 7 million, these projects had a positive impact on the environment on both sides of the border and gave local authorities experience in working with EU funds. A further EUR 55 million of contracts were signed during the year and EUR 1.16 million was spent by the Small Projects Funds.

Phare is playing an important role in encouraging government support to **private sector development**. During 1998, the government took over financing of the majority of the costs of CzechInvest, the foreign direct investment agency established by Phare. The government also took over financing of the advice and training delivered by the previously Phare-funded Regional Business Advisory Centres, and, encouraged by the success of the Phare-financed venture capital fund in Ostrava, launched an incentive scheme for venture capital. Finally, advice delivered to the Ministry of Finance is playing an important part in the development of the government's economic policy.

With regard to **infrastructure and environment**, the largest Phare project in the Czech Republic got under way in 1998, namely the improvement of the Brno-Vranovice railway line (part of the Prague-Vienna line), worth EUR 34 million (out of a total of approximately EUR 37 million for the whole project). The Phare Energy-Saving Fund provided almost EUR 8 million of low-interest loans for investments that reduce energy consumption. And the Business Environment Fund was set up to provide similar loans to SMEs for environmental investments. Both these Funds were co-financed with a commercial bank.

The Czech Republic has made progress in the **legal approximation** effort, as demonstrated during the screening exercise. Czech preparations for accession in this area were supported by the Phare-financed Consortium for Legal Approximation, a group of legal firms and expert institutions providing legal advice to the Czech

government. A new contract (worth EUR 1 million) was signed in 1998, providing for an improved service including a Czech standing expert and an EU standing expert to cover each legislative sector. In addition, a pool of highly specialised lawyers is available to provide more specific help.

In September 1998, the government set up a Coordination and Revision Centre to speed up work on Czech translations of EC legislation, a precondition for the approximation of legislation. During the next few years the Centre should revise 70,000-80,000 pages of EC documents, partly translated by an agency selected through a Phare tender. The revised texts will stand as the authorised Czech translation of the *acquis*.

The **civil society development** programme provided support to 378 NGO projects (EUR 1.8 million) in 1998, covering environmental protection, health and social care, human rights, consumer protection, community development, information on citizens' activities in the EU, and NGO information and training. A further 27 grants (EUR 150,000) were awarded to NGOs for projects in the areas affected by the floods in 1997. Under the Phare Democracy, LIEN and Partnership programmes, Czech NGOs also received 82 grants for micro-projects totalling EUR 440,000.

Finally, Phare supported the provision of **social services** through the Social Welfare Initiative Fund. A total of 46 projects (EUR 475,000) brought together local authorities and NGOs in 10 model districts in order to broaden the range of social services available. Such services were previously managed in a centralised way or were not available at all.

Case study: Public administration reform

Public administration reform in the Czech Republic gained momentum in 1998. In the spring, the interim government of Prime Minister Tošovský took account of the need to strengthen the capacity of the Czech civil service to implement and enforce harmonised EU legislation. A law on the creation of 14 autonomous regions was passed and these new regional structures, which will come into being in 2000, are expected to function effectively after 2001.

Under the new government of Prime Minister Miloš Zeman, public administration reform was included as a priority in the government manifesto, and a new post of Deputy Minister of Interior was created with overall responsibility for public administration reform issues. The Ministry of Interior subsequently assumed responsibility for an ongoing Phare project for the improvement of public administration (EUR 500,000) which had started in November 1997. Managed by the National Training Fund (also established by Phare), this project aimed at producing an in-depth analysis and a draft Reform Strategy. These two documents will form the basis for public administration reform in the Czech Republic for years to come. The draft Reform Strategy was submitted to the government in January 1999.

In 1999, a number of key issues will be decided on the basis of these two documents: the introduction of a Civil Service Law, the development of a career and promotion system for civil servants, and new training schemes in cooperation with the academic sector, coupled with the development of new courses for civil servants supported by the Phare Tempus programme. In cooperation with the Ministry of Foreign Affairs (responsible for training Czech officials in EU affairs) and the Diplomatic Academy (co-funded by Phare in 1997-1998), a new institutional basis has thus been created for EU-related training and research for the civil service in the Czech Republic.

Estonia

The year in review

Following a very good performance in 1997, the Estonian economy suffered a slowdown in 1998. The economic growth rate reached 5.4 per cent in 1998, compared with a high of 11.4 per cent of GDP growth in 1997. However, the average rate of inflation also declined to a rate of 8.2 per cent year-on-year (it had topped 11 per cent in August 1997). The level of foreign direct investment remained high (as a percentage of GDP), but so did the current account deficit, which continues to be a cause for concern. However, the current account deficit did show some signs of recovery toward the end of the year from 12.1 per cent of GDP in 1997 to 9.2 per cent in 1998. This was partly attributed to the fall in external demand and to a lesser extent, at least in 1998, in domestic demand. The financial crisis in Russia also had negative effects, hitting exporting industries (such as fisheries and dairies) and decreasing consumer confidence. The number of registered unemployed grew to 4 per cent of the workforce.

Having posted record-breaking profits in 1997, the banking sector had a turbulent year. Restructuring of the sector continued in 1998, with the merger of the four largest banks and the liquidation of three under-capitalised banks. In response to dangers linked to overheating that had appeared in 1997, the Government and the Central Bank tightened fiscal policy and strengthened control over the sector. In addition, the fiscal stance became looser as 1998 passed and the country finished with a deficit of 0.3 per cent of GDP (vs a surplus of 2.2 per cent of GDP in June). Real GDP Growth in 1998 was 4 per cent after 10.6 per cent in 1997. Estonia has pursued a rapid privatisation programme in recent years and privatisation was largely complete by the end of 1995, apart from large utilities. During 1998, steps were taken for the privatisation of the railways, energy and telecommunications, all of which should be sold off during 1999. Land reform, however, does not move fast enough to create a good framework for developing agriculture.

Estonia continued to enjoy political stability and a smooth functioning of its democratic institutions. Further measures to integrate minorities were taken, such as the adoption of amendments to the Citizenship Law to allow the naturalisation of stateless children. In foreign policy, membership of the European Union continues to be a major policy objective.

Regarding EU relations, the most significant events in 1998 were the entry into force of the Europe Agreement, the launch of the accession process in March, the start of negotiations, the conclusion of the Accession Partnership, and the publication of the first Regular Report in November.

Conclusion of the European Commission's Regular Report, November 1998

Estonia continues to fulfil the Copenhagen criteria, although decisions need to be taken on the naturalisation of stateless children. In addition, there is an important need for training and career development in the judiciary.

Estonia can be regarded as a functioning market economy, and should be able to cope with the competitive pressures and market forces within the Union in the medium term, provided that prudent macroeconomic management continues to limit the risks associated with its large external imbalances.

Provided that the problem of administrative capacity is resolved, Estonia will be able to take on the obligations of membership in the medium term although a particular effort should be made in the internal market and justice and home affairs.

Phare in 1998

A total of EUR 28.5 million was allocated to Estonia under the 1998 Phare budget to support Estonia's socio-economic transformation and thus facilitate Estonia's future integration into the European Union. Phare support for Estonia was channelled through three main programmes: the National Phare Programme (EUR 21 million), the Large-Scale Infrastructure Facility (EUR 5 million) and the Cross-Border Cooperation Programme (EUR 2.5 million).

The **1998 Phare National Programme** committed funds in accordance with the priorities of the Accession Partnership, in particular related to

- the reinforcement of institutional and administrative capacity, in particular in the agriculture sector, in strengthening the Ministry of Finance, in setting up the necessary administrative structures in preparation for the Structural Funds (EUR 9.11 million)
- strengthening of the judicial system (EUR 1.49 million)
- the approximation of legislation in the environment sector including investments in environmental infrastructure (EUR 5.81 million)
- upgrading of transport infrastructure (EUR 2.5 million).

The **1998 Cross-Border Cooperation Programme** consists of three main components.

- Phare will help develop administrative capacity within the local authorities of Estonia, Latvia and Lithuania in the management of cross-border cooperation projects and publicly financed activities more generally (Estonia: EUR 138,000).
- Phare will finance the purchase of equipment for the construction of a wastewater treatment plant and sewerage system in the town of Jogevea (EUR 612,000), in

order to reduce the pollution of ground water and the level of untreated waste discharged into local waterways and ultimately into the Baltic Sea.

- Phare will provide financing for the supply of equipment for the development of a vessel traffic system for the port of Tallinn (EUR 1.75 million), with a view to improving maritime safety in accordance with international maritime safety requirements.

In addition to these new commitments, a range of programmes and projects were launched in 1998, and projects from previous years were continued or completed.

In the area of **public administration**, Phare support has included advice on the establishment of a public administration bureau, on composing a code of ethics, and on developing the principles for a law on transparency; Phare has also provided assistance for the decentralisation of local governments, and has helped to develop a public service training programme. The Association of Estonian Cities also received help to develop appropriate institutional and administrative structures for local governments. Finally, Phare provided support for the development of Estonia's public procurement system.

The Phare/UNDP **language training** programme (EUR 1.4 million) was launched in 1998. This programme responds to a point made by the Commission's Opinion stating that measures are needed to naturalise Russian-speaking non-citizens and to integrate them into Estonian society. The programme will help facilitate naturalisation to foster mutual acceptance between ethnic groups. The initial focus will be on language education for non-Estonian-speaking children and adults (including preparation for the Citizenship Exam) through the preparation of teachers and teaching materials.

Estonia also received a budget of EUR 1.5 million for Tempus, allowing for the funding of five Joint European Projects, among which two were in the field of Institution Building.

Phare continued to provide support to the **environment** sector in 1998. The second phase of a project on pollution reduction in oil shale mining areas and water resource management in the Ida Virumaa region began in 1998, as did the rehabilitation of water services in Keila. EUR 4 million was allocated to water treatment in three other cities, Kuresaare, Pärnu and Valga. Finally, the Ministry of Environment received support from previous years' Phare programmes for institution building and for the approximation of legislation, and this support will continue with 1998 funding with two major twinning projects in the air and water sector.

In the **transport** sector, EUR 5 million from the 1997 budget was contracted in 1998 for the repair and renewal of the Tallinn-Narva railway line, the most important line in Estonia. The reconstruction of the Tallinn-Paldiski road (EUR 1 million), financed out of the Cross-Border Cooperation budget, was completed during 1998.

In the **public finance** sector, an IT Masterplan for the Budget and Treasury Department in the Ministry of Finance was developed, and will be implemented with funds allocated under the 1998 Phare programme. The National Tax Board also received Phare support during the year. In the area of **customs** administration,

implementation of the new computerised customs and transit system, known as ASYCUDA, began in 1998.

Support for the Estonian regional development programme continued in 1998, most notably through the development of regional statistics and the drafting of a regional development plan. Preparations for the launch of the Special Preparatory Programme for Structural Funds, financed with EUR 3 million from the 1998 programme, also began during the year. Support in this area will be provided through a variety of measures and will focus particularly on sound financial management and control, the legal framework, the formulation of a National Development Plan, and preparatory activities regarding the new ISPA and SAPARD programmes.

Achievements

Achievements have been recorded in a number of key sectors in Estonia.

The **agriculture** sector has been the scene of ongoing and new Phare collaboration. For example, institutional and capacity building support was provided to the Ministry of Agriculture, to help with the development of rural tourism and an alternative land-use policy. In addition, essential equipment for an agricultural register and an integrated food quality/safety information network was procured (and will be supplied in the first quarter of 1999). A new project designed to develop a micro-credit scheme was also launched during 1998.

As land reform is still in its infancy in Estonia, Phare continued to provide much-needed support for the acceleration of land reform. Assistance was provided for the design of a land information system (including the procurement of equipment), and for capacity building within the National Land Board.

Finally, preparations for three institutional twinning projects, to be financed from the 1998 programme, have begun. Through these twinning projects, support will be provided for the development of an agricultural information system, for phytosanitary controls and for fisheries.

European integration and legal approximation remain high priorities and Phare projects continued to supply valuable support in this area. Phare provided strategic advice on EU integration, assistance for the European Integration Office in training civil servants in EU affairs, and support for the EU Integration Subdivision of the Ministry of Economic Affairs. The Estonian Translation and Legislative Support Centre also received Phare support during 1998.

Institution building also reached into the **social affairs** domain. A number of Phare projects helped strengthen the administrative and institutional capacity of the Ministry of Social Affairs, the National Labour Inspectorate and the National Labour Market Board. Support was also provided for the improvement of occupational health and safety.

Justice and home affairs is a high priority right across the region, and includes the effective management and control of borders. Relatively large allocations had been set aside in 1997 to strengthen Estonia's eastern border, and in 1998 a contract worth

EUR 2 million was prepared for the procurement of thermal imaging equipment for the Estonian border guard. This new equipment will bring surveillance capability up to EU standards and enable Estonia to reach the Schengen standard in a short period of time.

A number of projects begun under the **Cross-Border Cooperation Programme** during recent years were successfully completed in 1998. These include the Tallinn Transfer Station for Hazardous Waste, which was inaugurated in mid-1998, an Old People's Home in Kuressaare, the first phase of a Rural Economic Development Project, and the Development of Nature Tourism for Western Estonia project. The allocations made in 1998 continue to focus on infrastructure investments in the environment and transport sectors and on institution building for local and regional authorities.

Phare has also provided valuable support in the area of **export and investment promotion**, including help with staff training and development at the Estonian Export Agency. A draft export policy has been elaborated with Phare assistance; final government approval is expected in 1999. Phare support to the Estonian Privatisation Agency (see box below) will help complete the privatisation process in Estonia.

Case study: the Estonian Privatisation Agency

A rapid privatisation programme in Estonia has meant that the privatisation process was largely complete by the end of 1995, with the exception of the railway, energy and telecommunications sectors, which were still undergoing reforms. However, thanks to Phare support, the Estonian Privatisation Agency has now been able to help prepare these large utilities and companies for privatisation in 1999.

Phare support to the Estonian Privatisation Agency included the provision of data that will enable the future privatisation of

- Estonian Railways
- Estonian Energy
- Estonian Telecom
- the Oil Shale Company
- the Port of Tallinn.

Hungary

The year in review

As in 1997, Hungary's macroeconomic performance remained positive in 1998. Economic growth reached an estimated rate of 4.5 per cent (compared to 4.4 per cent in 1997), and external and internal accounts both showed signs of continued improvement. The current account deficit stood at 3 per cent of GDP (down from 6 per cent in 1997) while the budget deficit decreased slightly at 4.5 per cent of GDP (4.6 per cent in 1997). Foreign direct investment remained relatively strong at around USD 1,500-1,700 million, allowing Hungary's net external debt to continue its downward trend, to around EUR 6,900 million. The average rate of inflation slowed to an estimated 14.9 per cent year-on-year, and the unemployment rate also declined to 8.1 per cent.

Structural reforms continued. Pension reform was implemented during the year and marked the first important step towards an overhaul of the entire social security system. Good progress had already been made in the privatisation process, and mass privatisation was completed and sales for cash continued. Revenues from privatisation amounted to around EUR 1.3 billion, more than half in foreign currency. Following amendments to the Privatisation Act in 1997, the State Property Agency will retain a stake in 116 companies.

The current economic performance should continue if Hungary maintains the right conditions for trade integration and enterprise restructuring. However, additional efforts are needed in reform of the health sector and in the implementation and enforcement of the legal framework, particularly with regard to regulated enterprises and the financial sector.

Both parliamentary and local elections were held in Hungary in 1998. The parliamentary elections resulted in a change of government, which demonstrated the smooth functioning of the country's democratic institutions. In foreign policy, the major development was clearly the opening of accession negotiations with the European Union.

With regard to EU relations, the most significant events in 1998 were the launch of the accession process in March, the start of accession negotiations, the adoption of the Accession Partnership, and the publication of the first Regular Report in November.

Conclusion of the European Commission's Regular Report, November 1998

Hungary continues to fulfil the Copenhagen criteria. Continuing attention needs to be paid to combating corruption more effectively and to improving the situation of the Roma.

Hungary can be regarded as a functioning market economy. It should be well able to cope with the competitive pressures and market forces within the Union in the medium term, provided that it maintains the conditions for trade integration and ongoing enterprise restructuring.

Hungary's rhythm of transposition has remained steady and has generally been accompanied by adequate institutional and financial provisions facilitating implementation. The Commission considers that Hungary's steady progress will, if sustained, enable it to take on the obligations of membership in the medium term provided that the pace of transposition in environment picks up.

Phare in 1998

On 17 December 1998, the Hungarian Government and the European Commission signed the 1998 Phare National Programme (EUR 67 million).

Under the **1998 Phare National Programme**, Phare will give priority to both institution building measures and the investments needed to meet the obligations of EU membership. Support will focus on the sectors identified as short- and medium-term priorities in the Accession Partnership.

EUR 7.8 million has been allocated to the reinforcement of **institutional and administrative capacity** in Hungary. Projects through twinning arrangements with the Member States will focus on the development of a state aids monitoring system, taxation, anti-trust authorities, supervisory bodies, and audit and accounting standards committees. Phare will also support the improvement of financial and statistical data, the strengthening of the State Audit and Government Control Offices, the facilitation of foreign trade and the improvement of border management.

Phare support will also be used to enable further integration into the **internal market** (EUR 3 million) through continuing work on the adoption and implementation of the White Paper legislation, including the development of testing and certification bodies. Support in this area will also cover the development of market surveillance institutions and the provision of expertise in EU law.

The **justice and home affairs** programme (EUR 15 million) aims at the improvement of cooperation in the fight against organised crime, through the provision of training, and equipment for the police, border guards, the State Prosecutor's Office, and the

Migration Office. Border management is a priority and funds will be used to modernise two major border posts on Hungary's southern border.

Phare support in the **agriculture** sector (EUR 16 million) will help to establish border inspection posts, develop veterinary and phytosanitary information systems, upgrade diagnostic laboratories and raise standards in phytosanitary control. The agriculture programme will support the development of institutions that will be responsible for the future implementation of the Common Agricultural Policy. Compliance with EU quality control and quality assurance regulations will be targeted, as will the development of management structures for the implementation of structural and rural development measures.

The need to transpose and implement the environmental acquis was highlighted in the Commission's Regular Report, and the 1998 **environment** programme (EUR 14.2 million) will focus on the implementation of key environmental Directives (such as air pollution, habitats, Seveso), on strengthening the Central Environmental Protection Fund to achieve full conformity with EU standards, and on modernising environmental inspectorates.

With regard to **regional development**, a Special Preparatory Programme (EUR 7 million) will aim to introduce project identification, planning, implementation and supervision capacities to help Hungary prepare to participate in the Structural Funds after accession.

Hungarian end-users will receive support for their **participation in Community programmes** (EUR 3 million). Subsidies provided through Community programmes only cover part of the total project cost, meaning that final beneficiaries have to co-finance their own participation. External support is essential if Hungarian institutions and individuals are to benefit fully from the possibilities arising from participation in Community programmes. Phare will provide financial support to final beneficiaries of a number of programmes, including Kaleidoscope, Ariane, Raphael, Equal Opportunities, Life and Save.

Finally, EUR 1 million will contribute to improve the Phare **Programme Management** through the establishment of a Central Finance and Contracting Unit (CFCU).

An additional allocation of EUR 10 million has been committed in 1998 for the continuation of the Tempus Programme and for the Opening of Community Programmes (for the costs of the 'entry tickets'). EUR 5 million alone went to Tempus, allowing for the funding of 22 Joint European Projects, among which 14 were in the field of Institution Building.

Achievements

While programming proceeded smoothly in 1998, some difficulties developed in programme management. The implementation capacity of the Hungarian authorities has been steadily declining over the last four years. In 1995, total contracted funds for the year reached around EUR 110 million; the figure dropped to EUR 93 million in 1996, to EUR 72 million in 1997 and to just EUR 60 million in 1998. The

Commission is working with the Hungarian authorities to try to address these difficulties.

The achievements of the Phare programme can be seen across a range of sectors.

In the field of **European integration**, Phare has helped set up European Study Centres in Hungary. Following a call for tenders, 12 higher education institutes were appointed as European Study Centres in February 1998. The European Study Centres programme (EUR 3 million) allows Hungarian higher education institutions to create comprehensive training programmes in European affairs. The main target groups are students and postgraduates, but courses are also offered to civil servants, lawyers, journalists, teachers and the business community.

A Phare-supported **export promotion** programme has also achieved great success. Ten knitwear companies are taking part in the Knitwear Industry Development Programme, launched with Phare support. The aim of the programme is to help companies develop their collections and market them effectively. The companies vary in size, organisation and location, but are united by the common ambition of wishing to reach European markets with high-quality products. The first phase of the project (May 1997-March 1998) concentrated on the selection of potential Hungarian participants, and the development of their autumn-winter collections. The collections were presented at international fairs (financed from Phare funds) with great success: the companies took orders of EUR 60,000 at the fairs alone. They also made contact with many different EU wholesales and retailers. The second phase of the project (May 1998) aimed to involve more companies in the project, while a new component focused on the development of corporate identities for the companies. The new collections will be presented at trade fairs in Europe in 1999.

The Phare Democracy Programme and the LIEN programme have also been very successful in Hungary, with numerous micro-projects providing support to a whole range of organisations and individuals.

The **Democracy** Programme has provided support to 140 NGOs in Hungary over the last three years. For example, one micro-project has fostered the development and coordination of NGOs in the Szabolcs-Szatmár-Bereg County. By publishing and distributing a bimonthly newsletter to NGOs in the region, the project helped to inform NGOs about events, training sessions and relevant calls for proposals. Another project helped to educate the region's Roma youth about democracy, through lectures, study tours to Hungarian Roma organisations and training sessions for the most talented young people.

Successful **LIEN** micro-projects include the operation of a day care centre for people with Alzheimer's disease and senile dementia and their relatives, providing therapy and advice two days a week. Another LIEN micro-project supported the operation of a non-stop mobile health service, staffed by psychologists, psychiatric assistants and social workers, to treat mentally ill patients and drug addicts, and to provide support to their families. The service carries out home visits in response to emergency calls.

Implementation of the Phare programme in Hungary will be improved by the creation of a National Fund and a Central Financing and Contracting Unit in December 1998.

The newly elected government also appointed a minister in charge of Phare in July 1998, in recognition of the need to ensure efficient implementation.

Case study: Support for SMEs

In the SME sector, Phare has helped SMEs in a number of different Counties, including Bacs-Kiskun, Borsod and Nograd. Through a micro-credit fund providing grants of EUR 3,900, Phare has helped local entrepreneurs to expand their business, improve the quality of their products and create new jobs.

In Borsod County, for example, an unemployed man started up a bakery as a family business. He attended Phare-funding training and obtained micro-credit to start the business. He bought a garage with the help of the micro-credit, converted it into suitable premises for his business, and was subsequently able to employ two more people. He has continuously expanded his business and is now the owner of one of the largest bakeries in the region, which provides a living for 20 families.

Another example of success in the SME sector is the creation of an firm of auditors, with expertise in accountancy, taxation and social security, services that are sorely needed by the growing number of SMEs in the regions. The founders of the company attended Phare-financed advisory sessions and obtained micro-credit, with which they bought specialised software and IT equipment. The enterprise now employs seven people and provides services to around 100 SMEs.

Latvia

The year in review

Latvia's economy developed favourably in 1998, in terms of both macroeconomic performance and structural reforms. Overall economic growth for the year was 3.6 per cent: in the first half of 1998, GDP growth rose to 6.4 per cent, but it subsequently fell following the Russian financial crisis. The trade and current account deficits continued to grow in 1998. The current account deficit increased from 6.3 per cent of GDP in 1997 to 11 per cent in 1998. The general budget fiscal balance was in equilibrium, but tax revenues dropped sharply at the end of the year. Inflation also continued to fall, and reached just 2.8 per cent in January 1999. Registered unemployment rose from 7 per cent at end 1997 to 9.2 per cent at end 1998.

By the beginning of October 1998, 1,039 of the 1,097 enterprises selected for privatisation since 1994 had been transferred to majority private ownership. However, completion of the sale of some of the remaining large state-owned enterprises (mainly in the infrastructure sector) could pose problems and cause delays to completion of the privatisation process. Foreign direct investment inflows continued to increase, and Latvia is one of the best-performing countries in the region as regards FDI per capita. The banking sector had also been performing well, but was hit by the Russian financial crisis in mid-year, which led to losses for most Latvian banks.

Democratic institutions continued to develop positively in 1998, with the executive and legislative powers operating satisfactorily. Elections in October led to a reduction in the number of parties represented in the Parliament. A minority government was formed by Prime Minister Kristopans consisting of three centre-right parties. The formation of this government was possible due to support from the Social Democrats, with whom a cooperation agreement was later signed and who were accorded one ministerial post (Agriculture).

Following a referendum on 3 October, Latvia decided to liberalise the citizenship law. The 'window system', which restricted applications for naturalisation to certain age groups, was abolished, and, in addition, stateless children born in Latvia can now obtain citizenship. This resulted in a significant rise in the number of applications for citizenship at the end of 1998.

With regard to relations with the European Union, the most significant events in 1998 were the entry into force of the Europe Agreement on 1 February, the launch of the accession process in March, the adoption of the Accession Partnership and Latvia's National Programme for Integration into the EU, and the publication of the first Regular Report in November. The analytical examination of the *acquis* (or screening exercise) began on 3 April.

Conclusion of the European Commission's Regular Report, November 1998

Latvia continues to fulfil the Copenhagen political criteria. Major progress has been made in dealing with weaknesses identified in the Opinions and the Accession Partnership priorities, in particular as concerns the integration of non-citizens. Continuing attention needs to be paid to the promotion of Latvian language learning among non-citizens, public administration reform, strengthening the judiciary and the fight against corruption.

Latvia has continued to make progress in establishing a market economy and is well on the way to being able to cope with the competitive pressures and market forces within the Union in the medium term.

It has made a lot of progress in transposing the acquis but needs to consolidate its implementation and enforcement capacity. Provided it does so, Latvia will be able to apply the acquis effectively in the medium term.

Phare in 1998

A total of EUR 32.5 million was allocated to Latvia under the 1998 Phare budget to support Latvia's accession to the European Union, in line with the priorities highlighted in the Accession Partnership and the Latvian National Programme for Integration into the EU. Phare support for Latvia's accession preparations was channelled through four main programmes: the National Phare Programme (EUR 21 million), the Cross-Border Cooperation Programme (EUR 2.5 million), the Large-Scale Infrastructure Facility (EUR 5 million) and the Catch-Up Facility (EUR 4 million).

In line with accession priorities, the **1998 National Programme** focused on a range of key areas and programmes, including

- transport (EUR 2.5 million)
- environment (EUR 4 million)
- justice and home affairs (EUR 2.2 million)
- alignment with the internal market (EUR 1.3 million)
- reinforcing institutional and administrative capacity (EUR 6.037 million)
- agriculture (EUR 1.6 million)
- acceleration of the integration of non-citizens (EUR 1 million).

Under the **Large-Scale Infrastructure Facility**, EUR 5 million was allocated to the rehabilitation of railways on the east-west rail corridor. This track renewal project is part of a larger project to renew some 340 km of track on the trans-European east-west transit corridor over the period 1998-2002.

Under the 1998 Baltic **Cross-Border Cooperation Programme** (Estonia, Latvia, Lithuania and Poland), Latvia was allocated a total of EUR 2.5 million. This programme consists of four main components:

- Phare will help develop administrative capacity within the local authorities in the management of cross-border cooperation projects and publicly financed activities more generally (Latvia: EUR 100,000).
- With a view to reducing pollution of the Baltic Sea and associated health risks, Phare will finance sewerage works in the towns of Ainazi and Saulkrasti (EUR 1.025 million).
- Phare will finance construction works to improve road traffic safety and reduce transport bottlenecks on the section of the Via Baltica running through the city of Bauska (EUR 400,000).
- Phare will co-finance the construction of a depot for contaminated soil sediments in the port of Liepaja, in order to reducing damage to the environment caused by the dredging of the port (EUR 975,000).

Latvia also received support from the **Catch-Up Facility** in 1998. Assistance will be provided to improve the economic performance of twelve to fifteen medium-sized enterprises in three or four different sectors, along with retraining and re-employment schemes for employees affected by the restructuring process (EUR 2 million). In addition, support will be provided for a comprehensive programme of anti-corruption measures (EUR 2 million), including a legislative component, training for civil servants, police and customs officers, and a public awareness campaign.

In addition to these new commitments, a range of programmes and projects were launched in 1998, and projects from previous years were continued or completed. Namely:

- In the area of **public administration**, the Public Administration Reform project (EUR 3.7 million) was launched in November 1998. Sizeable in input and coverage, this project should play a key role in Latvia's preparation for accession.
- In **education**, a Financing Agreement was signed with the Ministry of Education (EUR 100,000) in 1998 to support Latvia's preparations for participation in Community education programmes. In November 1998, the Association Council adopted the decision on Latvia's participation in the Leonardo, Socrates and Youth for Europe programmes. Phare also continued to provide support for language training for non-Latvian speakers during 1998. The programme is being financed from the 1996, 1997 and 1998 programmes, and is supported by a number of bilateral donors and managed by UNDP. Phare is now the largest single financial contributor to the UNDP language programme in Latvia. Latvia also received a budget of EUR 1 million for Tempus, allowing for the funding of six Joint European Projects among which two were in the field of Institution Building.
- A number of **environment** projects financed from previous programmes were launched or completed during 1998. The Daugavpils water supply project (1995 programme, EUR 1.76 million) began in September 1998, while the Jurmala sewage pipeline project (EUR 1.9 million) was completed in June 1998. Technical

assistance (EUR 1 million, 1997 programme) to the Latvian Environmental Investment Fund was agreed and a Financing Agreement (EUR 2 million) was signed.

- In **infrastructure**, two major Phare transport projects, the Traffic Service Control Tower in Riga Port (EUR 1.5 million) and the ‘Supply of rails for Rezekne-Zilupe railway connection’ (EUR 2.6 million), were completed in 1998. In the energy sector, the Phare ‘Energy Efficiency Fund’, financed from the 1995 programme, was contracted and an executive bank was selected to provide co-financing.
- **Private sector development** remains a priority in Latvia. A Framework project providing support to enterprises for the development of exports (EUR 300,000) was launched, and involves the Ministry of Economy, the Latvian Development Agency (LDA), the Chamber of Commerce and the Union of Employers. Phare support to the LDA (EUR 1.65 million) to develop exports and promote FDI continued in 1998. The Latvian Privatisation Agency also received support (EUR 2.2 million), with emphasis on the privatisation of the remaining state-owned enterprises. A major Phare project in support of SMEs (EUR 5.2 million) was completed in January 1999. Business Advisory Centres have been established, which will provide advisory services to enterprises, in particular small and medium-sized enterprises, as a part of the strategy to promote the development of entrepreneurship and growth of the private sector.
- In the **social sector**, a Phare project (worth EUR 0.9 million) that aims to provide accession-related support to reform of the social protection system in Latvia began in September 1998. Support for the approximation of legislation in the area of occupational health and safety also continued in 1998. The Latvian health care system is currently undergoing reform, with particular emphasis on improving health care availability, quality and cost-effectiveness. Phare support is focusing on three main areas: restructuring health care finances, human resources development and restructuring of the pharmaceutical sector.
- The **legal approximation** process remains a priority and the ALL (Approximation of Latvian Legislation) project worth EUR 4 million began in February 1998. This project is helping the Latvian ministries and the European Integration Bureau (EIB) to draft and implement 992 Directives which are part of the White Paper or are relevant to the first Copenhagen criteria. Phare is also providing support to strengthen the Latvian **Parliament** (Saeima). Two new projects were launched in 1998, one helping the Legal Bureau to analyse legal compliance and the other providing training for MPs and staff and raising public awareness of European integration.
- The **agriculture sector** is also benefiting from major Phare support, and three large projects are currently under way. Under ‘Support to diversification of the rural economy’ (EUR 1.2 million), activities in selected pilot regions are providing essential input into the formulation of a rural development policy in Latvia. Institution building support (EUR 1.8 million) for the Ministry of Agriculture includes training, policy analysis, legal approximation and reorganisation of the Ministry itself. A third project is providing support to improving food quality controls (EUR 1.8 million). Finally, the Phare 1998

programme provided for a twinning project aimed at assisting the Latvian Ministry of Agriculture in the implementation of the EU acquis. Germany and France have been chosen as twinning partners for the project.

Phare projects in a number of other areas got under way in 1998:

- ‘Technical Assistance to Public Investment Programme in Latvia’ (EUR 0.6 million)
- a twinning project with Krajbanka (EUR 0.47 million)
- ‘Policy and European Integration Advisory Unit in the Ministry of Economy’ (EUR 0.76 million)
- ‘Pilot Regional Development Plan Project’ (EUR 0.475 million)
- phase II of support to the European Integration Bureau (EUR 1 million).

Achievements

Concrete results have been achieved in the **transport** sector in Latvia, particularly regarding the development of Latvia’s ports and railways . Phare support in these two vital and interrelated areas is helping to upgrade and modernise transport and thus trade links with Latvia’s economic partners.

Latvia has major ports in Riga, Ventspils and Liepaja, and Phare support has focused on ensuring that these ports remain the hubs of Latvia’s transport and distribution network, providing competitive services all year round. Riga port, for example, has a capacity of about 15 million tons and handles container, general and bulk cargo shipments. With Phare support of EUR 1.5 million, Riga port can now boast a modern vessel traffic control tower equipped with a high-performance navigation control system. In addition, Phare has helped finance several safety installations, such as an echo sounder system, a radio communication system for search and rescue, and the renovation of navigational aids (total Phare support EUR 1.75 million).

In the railway sector, the most significant Phare projects have focused on the development of the key east-west transport corridor linking the three Latvian ports with the economic hinterland of Russia and Belarus. The reconstruction of the railway link between Ventspils, Krustpils and Rezkene on the Russian border includes the modernisation of railway trucks, the removal of level crossings, and the modernisation of the signalling system. Phare provided EUR 2.6 million to help finance the supply of rails and, through the 1998 programme, will finance the second tranche (EUR 5 million) of rail supply along with installation of a modern welding system. Additional loan financing from the European Investment Bank and the EBRD (EUR 55 million) is being used for the rehabilitation of the line and railway infrastructure in the port of Ventspils.

Case study: Support to the Ministry of Finance and State Treasury

As part of Latvia's preparations for EU accession, Phare has been providing know-how to the Ministry of Finance and the State Treasury since June 1996 (budget of EUR 2.5 million). The project has focused on establishing an effective system of management of Latvia's finances.

The primary task of the project was to reorganise key departments within the Ministry of Finance and the State Treasury. New structures were agreed with senior management and revised job descriptions prepared for key staff. Cross-departmental working groups were established, facilitated by the project team, which helped to promote internal communications within the Ministry as a whole.

National budgeting and macroeconomic experts worked together to redesign the budget process. Medium-term macroeconomic and fiscal models were designed to help the Ministry in the planning process, by allowing reliable forecasting. Modern treasury techniques were introduced to guide the State Treasury and its management of the national debt. The project also helped to develop government accounting functions and reporting standards reflecting best international practice within the State Treasury. The development of an information technology strategy was also covered by the project.

The project is due to run until October 1999.

Lithuania

The year in review

The Lithuanian economy continued to make healthy progress in 1998, in terms of both macroeconomic performance and structural reforms. GDP growth was estimated at 5.2 per cent (5.7 per cent in 1997). While external accounts remained problematic – the current account deficit reached 13 per cent of GDP – internal accounts continued to improve, demonstrated by the budget deficit which decreased to just 0.3 per cent of GDP as of 1 October. Foreign direct investment inflows were strong and in 1998 reached an estimated cumulative amount of EUR 1.7 billion. Lithuania's external debt continued to grow, reaching EUR 1.32 billion. However, the average rate of inflation remained low, at 2.4 per cent year-on-year. The unemployment rate dropped fractionally to 6.4 per cent (6.7 per cent in 1997).

Privatisation continued in 1998: 344 companies were privatised during the first 11 months of the year, yielding a revenue of EUR 495 million. Private sector activity is responsible for almost 70 per cent of GDP in Lithuania, and 68.4 per cent of the workforce are employed in private enterprises. In order to sustain the current economic performance there is a need for further structural reforms and continued privatisation. Additional efforts are also needed in terms of enterprise restructuring and the adoption of new technologies.

Lithuania continued to enjoy political stability and a smooth functioning of its democratic institutions in 1998. Following free and fair presidential elections in December 1997 and January 1998, a new president, Mr Adamkus, took office on 26 February 1998. The transfer of power took place smoothly and in accordance with the law.

With regard to relations with the European Union, the most significant events in 1998 were the entry into force of the Europe Agreement, the launch of the accession process in March, the signing of the Accession Partnership, and the publication of the first Regular Report in November. The Regular Report underlined that Lithuania had made considerable progress, although additional measures are needed before it can be considered to meet the Copenhagen economic criteria (see box below).

Conclusion of the European Commission's Regular Report, November 1998

Lithuania continues to fulfil the Copenhagen political criteria. It should intensify the fight against corruption and pursue reform in the judiciary.

Sustained implementation of the remaining reform agenda would complete the establishment of a functioning market economy and enable Lithuania to make the progress necessary to cope with competitive pressure and market forces within the Union in the medium term.

Further efforts are needed in the internal market and to establish a comprehensive long-term energy plan including the closure of Ignalina. Lithuania has made progress in transposing the acquis, although this is uneven. Efforts are needed to consolidate implementation and enforcement capacity.

Phare in 1998

In line with the new Phare orientations, the 1998 Phare Programme for Lithuania focused assistance on sectors with high relevance for the country's accession to the European Union. Phare support to Lithuania in 1998 was based on the short-term priorities of the Accession Partnership. In addition to the two main components of the programme, institution building and investment support, Phare also contributed to Lithuania's participation in EU programmes for the first time in 1998.

Phare support for Lithuania's accession preparations was channelled through four main programmes: in addition to the National Phare Programme (with a budget of EUR 32 million), Lithuania received support under the Cross-Border Cooperation Programme, the Large-Scale Infrastructure Facility and the Catch-Up Facility, which between them added a further EUR 12 million, bringing total support to EUR 44 million in 1998. The creation of the National Fund and the beginning of the decentralised and deconcentrated system in Lithuania have brought major changes to programme implementation.

Major sectoral allocations under the 1998 programme go to the transport sector (EUR 4 million), energy (EUR 5 million), environment (EUR 4.8 million) and justice and home affairs (EUR 3.5 million). Transport and environment projects also receive funding through the Cross-Border Cooperation Programme and the Large-Scale Infrastructure Facility.

In addition to new funding, a number of Phare projects were launched or completed in these three sectors. In the **transport** sector, the supply of rails (EUR 5.1 million) for upgrading the east-west railway Corridor IX was completed. This is part of the overall rehabilitation of the Vilnius-Kaunas-Klaipeda railway link. Phare also contributed to the renovation of some sections of the Via Baltica road Corridor I.

The **energy** sector has received continuous Phare support since 1991. In 1998, a number of projects were successfully completed: elaboration of a draft law on energy conservation, the preparation of energy regulation legislation and an evaluation of the potential for renewable energy resources. Particular emphasis has also been placed on supporting the revision of the National Energy Strategy. Several infrastructure projects were completed, including the Panevezys-Siauliai gas pipeline (see box below) and the gas distribution network in Utena. Several projects also commenced during the year, such as the provision of equipment for the State HFO storage facility in Vilnius and the underground gas storage facility in Vaskai.

In 1997, Lithuania received multi-donor support to improve security at the Ignalina nuclear power station. The 1998 programme will build on this by providing support for capacity building in the Nuclear Power Safety Inspectorate, a decommissioning plan for Ignalina, and the preparation of the National Energy Strategy. In addition, EUR 19 million was allocated under the multi-country nuclear programme for the second shutdown system at Ignalina.

Phare projects in the **environment** sector are focusing on approximation activities and on infrastructure development. A major project has been providing support to the Ministry of Environmental Protection for pre-accession preparations since 1997, and has helped develop a national strategy for approximation in the sector. 1998 support will continue the work of previous projects, including work on transposing the environmental acquis. The sector has also received funding for investments in infrastructure. In 1998, waste and waste water treatment projects in Kaunas and Klaipeda continued, and the renewal of the air monitoring system should be completed with 1998 funding.

The first steps to prepare Lithuania for the EU Structural Funds were taken in 1998, through the creation of a **Special Preparatory Programme**. Support will be provided through various measures focusing on sound financial management and control, the legal framework, the formulation of a National Development Plan and actions related to ISPA and SAPARD.

Phare support in the **social** sector has focused on the State Social Insurance Fund Board, and from 1996-1998 Phare helped draw up the requirements for a new Integrated Information Technology System for social insurance in Lithuania. Work on the collection and billing system continued in 1998. Phare also continued to support institutional capacity building in the Ministry of Social Security Labour and in occupational health and safety institutions during the year.

In **education**, reform of the higher education sector has been a priority for Phare. A White Paper on Higher Education was produced, along with a law on higher education which was accepted by all higher education institutions and is expected to be adopted by Parliament during 1999. Phare also provided support in the vocational education sector. Lithuania also received a budget of EUR 1 million for Tempus, allowing for the funding of five Joint European Projects, of which 1 was in the field of Institution building.

Phare continued to assist in the **approximation** of Lithuanian law to that of the EU, through support to the interministerial working groups. Support was also given to the modernisation of commercial laws, to the Lithuanian Parliament and to the creation of translation and interpretation facilities. In **public administration**, a major new project was finalised during 1998. This aims to provide a concept for civil service training needs and methodologies, to provide advice on civil service legislation and to strengthen local government.

Phare has provided a range of support to the **customs** administration. A major reorganisation at central and regional level had helped improve administrative capacity, and a new intelligence system for customs control was introduced. In addition, a new ASYCUDA-based processing system has been tested and is now being put in place. Funding from the 1998 programme will ensure introduction of the entire system.

In **statistics**, funding from Phare has helped strengthen the administrative capacity of the Lithuanian Department of Statistics; the 1998 programme will build on this by focusing on preparations for the forthcoming census. In the **public finance** sector, Phare has focused on supporting the tax administration and on developing modern accounting and auditing systems, including the provision of IT equipment for the Ministry of Finance.

Justice and home affairs was included for the first time in 1997, with an allocation of EUR 0.5 million. Following an assessment carried out by Member State officials, a further allocation of EUR 1.4 million was made under the horizontal Border Management Programme for complementary surveillance equipment for strengthening Lithuania's eastern border. In addition, EUR 3.5 million from the 1998 programme has been allocated for the construction of border police stations. This range of measures complements substantial efforts by the national authorities to strengthen the eastern border and bring standards up to those adopted at Schengen. Finally, a rigorous anti-corruption policy has been adopted, providing the basis for a substantial allocation of funds from the 1998 Catch-Up Facility.

Achievements

The **agriculture** sector provides an excellent example of Phare cooperation in Lithuania. Phare has been providing support to the sector since 1992, and projects have been successfully completed in a range of different areas. For example, Phare has provided valuable support to the development of the food control system since 1995. A major project to upgrade the national veterinary laboratory and to formulate a revised food law began in 1997 and is still ongoing. A Phare project has also helped to assess needs in the areas of veterinary and phytosanitary controls; follow-up support will be provided with funding from the 1998 programme. Building on support provided since 1992, Phare has helped with the development of a land registration system and a land market, through strategic management support and supply of technical equipment.

Concrete results have been achieved in the **dairy sector**. In 1998, 11 Lithuanian dairies received licences for the export of dairy products to the EU. The quality of their dairy products was clearly a vital factor in this achievement, and Phare projects in the field of quality management played a key role in raising awareness of the importance of quality issues throughout the sector. While several management training programmes for the agribusiness sector have stressed the importance of quality management more generally, a further dedicated project is providing direct consultancy and advice to ten of the largest dairy companies in Lithuania. This project covers HACCP analysis, control of raw milk quality, and the pursuit of ISO 9000 accreditation in processing facilities. Through training, study tours and consultancy, the project is successfully raising awareness among management and staff of the importance of quality management – thereby increasing the international competitiveness of the dairy industry as a whole.

In the **health** sector, Phare has helped make the reform of the primary health care system a reality. With Phare support, primary health care systems were set up and piloted in three areas. The concept of general practitioners was introduced and a corps of doctors was trained which will, in 1999, train a larger group of general practitioners with the cooperation of the University of Vilnius. Phare also supported the development of community nursing programmes and the improvement of the public health service. The 1998 Phare programme will continue to support the development of the primary health care system and will also help set up a statutory health insurance system.

Case study: gas pipeline from Panevezys to Siauliai

The aim of this project was to provide affordable, clean gas fuel to the people in this region of Lithuania, to encourage them to move away from other less environmentally friendly fuels like coal, wood or oil. The project entailed the construction of around 80 km of pipeline to be connected to the main pipeline and two gas distribution stations. Phare contributed EUR 2.5 million within a EUR 52 million project to supply and apply a corrosion system for 27 km of the pipeline. More significantly, the Phare funds helped the project to attract further loans from the IFIs, including the Kuwait Fund, the EIB and Danish Unibank. While the Phare part of the project was completed in June 1997, the entire project was completed at the end of 1998. The pipeline was opened on 4 December.

Poland

The year in review

The Polish economy continued to make noticeable progress in 1998, although some economic indicators deteriorated in comparison with 1997. Economic growth in 1998 amounted to 4.8 per cent, compared with 6.9 per cent in 1997. More pronounced was the slowdown in industrial output, with an annual growth of 4.7 per cent in 1998, compared with nearly 11 per cent in 1997. These downward trends were caused by the Russian and Asian financial crises and by diminishing domestic demand as a result of a strict monetary policy and slower wage growth.

Foreign direct investment increased in 1998, allowing Poland to become the prime target for foreign investment in central Europe. The total FDI inflow for 1998 should reach an estimated USD 7.5-8.5 billion – nearly double the 1997 total. This will help compensate for the current account deficit, which increased again in 1998. The trade deficit in 1998 was slightly larger than in 1997, with exports growing faster than imports in the first half of the year. The government's budget deficit was 2.5 per cent of GDP and Poland's external debt amounted to EUR 28.8 billion. The average rate of inflation continued its downward trend and fell below the 10 per cent mark for the first time since the beginning of the transition process. The rate of unemployment amounted to 10.6 per cent at the end of 1998.

As in previous years, the size of the public sector continued to shrink in 1998. In July, the government adopted a plan to sell most of the remaining state assets by the end of 2001. This includes the sale of 10 per cent of TPSA, the telecommunications operator. On 30 June 1998, a plan to restructure the Polish steel industry was presented to the Commission. Privatisation revenue amounted to EUR 1.75 billion in 1998. Almost 65 per cent of GDP now comes from the private sector in Poland. Other major reforms were initiated in 1998, notably pension and health reform, and education reform; these reforms should all be implemented in 1999.

The need to sustain current economic performance calls for continued efforts to maintain the pace of economic restructuring and to avoid reversals in trade policy. Priority must still be given to the implementation of reforms, restructuring of the coal and steel industries, and the modernisation of agriculture.

In 1998, Poland continued to enjoy political stability and an improvement in the functioning of its democratic institutions. A major reform was prepared in 1998 for the decentralisation of the public administration. This reform includes a reduction in the number of regions from 49 to 16, and the introduction of a new county-level administration (powiats). Elections at the three administrative levels (voivodships, powiats, gminas) took place in October 1998, with a view to the reform coming into force as from 1 January 1999.

With regard to relations with the European Union, the most significant events in 1998 were the adoption of the Accession Partnership for Poland in March 1998 and the opening of accession negotiations. In November 1998, the Commission published its

first Regular Report on Poland's progress towards preparing for membership of the EU.

**Conclusion of the European Commission's Regular Report,
November 1998**

Poland continues to fulfil the Copenhagen political criteria.

Poland can be regarded as a functioning market economy, and it should be well able to cope with competitive pressures and market forces within the Union in the medium term, provided that it strengthens the pace of economic restructuring and continues to avoid reversals in trade policy.

Its rhythm of transposition is uneven and there are gaps in administrative and institutional capacity in certain key areas, in particular environment, standardisation and state aid control. Progress to date in industrial restructuring and justice and home affairs should be maintained. Nonetheless the Commission considers that Poland's progress will, if sustained, enable it to take on the obligations of membership in the medium term.

Phare in 1998

In 1998 the Commission took a number of important steps to reinforce the pre-accession strategy, including reforming the Phare programme to make it accession driven. The Phare programme now concentrates on helping the candidate countries implement the priorities of the Accession Partnerships and their National Programmes for the Adoption of the Acquis, in order to prepare them for membership.

In this context, the Phare budget for Poland in 1998 had to be reduced by EUR 34 million. The Commission had applied the same criteria to all candidate countries and had examined all projects proposed by Poland to see whether they were relevant to the priorities of the Accession Partnership, whether they would have an impact on Poland's alignment or implementation of the acquis, and whether they were cost-effective and technically and institutionally ready. As a result, the Commission could only accept a more limited programme than that originally envisaged, and, in line with the new Phare orientations, the remaining EUR 34 million was transferred to the Large-Scale Infrastructure Facility from which all countries could benefit, including Poland. The experience in 1998 programming prompted enhanced efforts in Poland to ensure that programmes developed for commitment in 1999 were well designed.

In 1998, the European Union committed a total of EUR 198 million for Poland. This included EUR 95 million for national programmes, EUR 53 million under the Cross-Border Cooperation Programme, EUR 10 million for Tempus, EUR 20 million for Poland's participation in Community programmes, and EUR 20 million from the Large-Scale Infrastructure Facility. Poland's EUR 10 million for Tempus allowed for the funding of forty Joint European Projects, of which 13 were in the field of Institution Building.

Twinning has become the core of institution building in Poland. Under the 1998 National Programme, around EUR 20 million will be devoted to institution building in four key areas, namely agriculture, environment, justice and home affairs, and preparing for structural funds. A total of seven twinning projects were approved, and relate to strengthening the judicial system, border management, veterinary administration, environmental strategies, administration of the Common Agricultural Policy, an animal identification system, and preparation for structural funds. In 1999, twinning will be gradually extended to cover the whole acquis.

EUR 45 million has been allocated to **infrastructure investment** from the 1998 National Programme. This support will cover key environmental investment projects, such as waste water treatment facilities for major Polish cities, and the construction of the Krakow city bypass (part of the ongoing renovation of the A4 motorway on Trans-European road Corridor III, Berlin-Katowice-Kiev). Under the **Large Scale Infrastructure Facility**, Poland also received EUR 20 million to help fund the construction of the Gdansk bypass on the A1 motorway.

Under the 1998 National Programme, a total of EUR 30 million was committed for a project to alleviate the social effects of **coal and steel restructuring** in Poland. This project should be seen in the context of the Polish government's plans to restructure the coal and steel sectors and to lay off more than 150,000 workers over a period of five years. The project is conditional on the government's commitment to continued restructuring and privatisation of the steel sector in Poland, which is one of the main priorities of the Accession Partnership.

A total of EUR 9 million was allocated for institution-building activities to help Poland **prepare for structural funds** upon accession. This will also include preparation for the new ISPA and SAPARD instruments.

As in previous years, Poland received support from the **Cross-Border Cooperation Programme** (EUR 53 million) in 1998. Under this programme, the main focus is on transport and environment infrastructure projects in regions on Poland's border with Germany and the Baltic Sea. Further efforts were also made to strengthen the capacity of the Polish authorities to manage the Cross-Border Cooperation Programme.

Achievements

In the **transport** sector, Phare made a major contribution in 1998 with the launch of construction of the Katowice bypass (EUR 35 million) and the Poznan bypass (EUR 45 million). These are located on the A4 motorway (Trans-European Corridor III) and the A2 motorway (Corridor II) respectively, and aim to link Berlin with Kiev and Moscow.

In **agriculture**, support was provided to the government to help identify priorities in the modernisation of the agriculture and food processing sectors. This should enable the government to elaborate a rural development and agricultural restructuring strategy in 1999. In addition, investment programmes were started, focusing on equipment for packaging, grading and weighing fruit and vegetables in nine wholesale markets. In the dairy sector, a cooperative investment programme was set up to

provide farmers with equipment for cooling and transporting raw milk products from the farms to the dairies. Following the milk exports ban of December 1997, this pilot project provided a powerful demonstration to dairies and milk farmers in Poland on how to upgrade their production to EU standards.

Building on the STRUDER **regional development** programme of previous years, Phare continued to fund small-scale municipal infrastructure development in the ten least developed regions of Poland in 1998. In addition, a regional development strategy was completed for every selected region: the analysis and identification of objectives and development needs at local level should help build a comprehensive approach to rural development. In addition, 89 small infrastructure projects were completed in these regions, targeted mainly at upgrading municipal water supply networks, waste water treatment plants, roads, and SME development through local business incubators.

In the **banking** sector, a management training scheme together with an audit programme was completed in 1998, covering the more than 1,000 local and regional cooperative banks in Poland.

In **environment**, a major project in the Zakopane region focused on the reduction of air pollution through the modernisation of the existing heat supply system, as well as the replacement of polluting fuels with clean geothermal and natural gas. Other projects focused on forest protection and development (see box below).

Following the **floods** of July 1997 and an official request by the Polish Prime Minister, EUR 65 million of Phare funds were reallocated for a flood damage reconstruction programme, which was successfully completed in 1998. The programme focused on the reconstruction of small-scale infrastructure in the south and south-west regions of Poland, notably roads, bridges, water supply and waste water treatment systems, schools and other public facilities. Fast implementation and decentralisation helped ensure the success of the programme. More than 2,000 small-scale projects received funding, contracting was completed by the end of 1998 and most of the projects were implemented within 15 months of the start of the programme. The programme has achieved high visibility in Poland, with a high degree of commitment from the people and institutions involved. It has been greatly appreciated by the people living in the rural areas concerned.

Implementation of Phare programmes was generally satisfactory in 1998. Although lower than in 1997, contracting amounted to EUR 206 million in 1998, and the rate of contracting at the end of 1998 stood at 79 per cent of all funds allocated to Poland over the 1990-1998 period.

Case study: Forestry development in Poland

Forestry represents a major natural resource in Poland, and forests cover 28 per cent of the country's territory – giving it one of the largest forest holdings in Europe. Over the 1995-1998 period, the Phare Programme has provided EUR 12 million for the restoration and protection of Polish forests.

Phare support for forestry development has helped achieve the following results.

- A comprehensive programme of financial and technical support was carried out to eradicate pests in the Polish forests, which had been spreading to forests in the EU, using environmentally safe biological control agents. A total of 250,000 ha of forests in Poland were treated.
- Phare helped develop an early-warning system – including airstrips, watchtowers and storage facilities – to prevent and detect fires in the large forested areas of northern and southern Poland.
- An afforestation programme was launched and financed by Phare, with the procurement of 44 million seedlings for the afforestation of 6,000 ha of private agricultural land. This is part of Poland's National Afforestation Programme, which plans to create 700,000 ha of new forests by 2020. Transportation equipment was purchased to help develop an environmentally friendly harvesting system.
- The programme undertook the restoration of eroded forests in south and west Poland. The Phare contribution included the supply of specialised fertilisers to restore the balance of damaged soils, tree protection materials, construction of 14 water reservoirs, where watershed irregularities and erosion made replanting and growth almost impossible, and the supply of fencing for 3,000 ha of forest.
- A former Soviet military camp was refurbished and converted into a forest nursery and study facility for forest scientists, along with the development of a forest gene bank and storage facilities for certified seeds for the future restoration of damaged forests in Poland.

Romania

The year in review

Romania again experienced negative economic growth in 1998, with the economy shrinking by 7.3 per cent and industrial output falling by 17 per cent. However, the budget deficit was reduced to 3.3 per cent and inflation came down massively to 40.6 per cent (compared to a high of 150 per cent in 1997). The current account deficit (about EUR 2.75 billion) deteriorated in line with the trade deficit, and stood at around 7.9 per cent of GDP. Foreign direct investment inflows also remained low (EUR 1822 million on a net basis) and could not reduce the size of the overall external debt, which stood at EUR 8.6 billion. The rate of unemployment increased significantly, to 9.7 per cent of the workforce.

Although important structural reforms had been introduced in the first half of 1997, reform momentum stalled in the second half of that year and there was little progress in the rest of the year with few substantial results achieved in 1998, with the noticeable exception of the privatisation of Romtelecom. Overall, privatisation figures show some acceleration of privatisation compared to 1997 but about two thirds of large companies remained to be sold at the end of 1998. Progress in creating a legislative framework for a market economy was mixed, and there have been repeated changes to the legislation on privatisation and foreign investment.

Restructuring of large public enterprises did not progress much in 1998, and although the authorities have developed restructuring plans for some of the large public companies and utilities, there are doubts concerning the effective implementation of these plans. The financial sector also remained weak, with many large public banks burdened with non-performing assets and overdue loans. As a result, lending to the private sector dropped sharply in 1997 and did not recover in 1998. Finally, the number of privatisation transactions slowed considerably in the first half of 1998, and receipts from privatisation fell short of the authorities' expectations.

There was some political uncertainty during the year, including a change of government and several reshuffles within the same governing coalition. Following a government crisis triggered by alleged delays in the reform process, the coalition government of the National Peasant-Christian and Democratic Party was replaced by a new government on 15 April 1998. The majority of ministers remained in their posts and there were no major shifts in government policy following the reshuffle.

With regards to relations with the European Union, the most significant events in 1998 were the launch of the accession process, the adoption of the Accession Partnership, the publication of the Regular Report and the conclusion of the Adaptation Protocol for the commercial aspects of the Europe Agreement.

Conclusion of the European Commission's Regular Report, November 1998

Romania meets the Copenhagen political criteria. Much remains to be done in rooting out corruption, improving the working of the courts and protecting individual liberties and the rights of the Roma. Priority should also be given to reform of the public administration.

Romania has made very little progress in the creation of a market economy and its capacity to cope with competitive pressure and market forces has worsened.

Despite progress made in transposition of key parts of the acquis, Romania has a long way to go in terms of additional legislative transposition, implementation and enforcement before the country will be able to assume the obligations of membership.

Phare in 1998

For 1998, the total Phare support in Romania is related to five key objectives in line with the Accession Partnership:

- strengthening democracy, the rule of law and human rights, through projects focusing on child protection and improvement of the situation of the Roma
- strengthening the institutional and administrative capacity to manage the acquis, through institution-building projects with the Ministries of Finance, Agriculture and Environment, the Customs Administration, and support to public administration reform
- further integration of Romania into the internal market, through projects concerned with the restructuring of public utilities and the financial sector
- helping Romania meet its obligations in the area of justice and home affairs, including projects with the Ministries of Interior and Justice
- economic and social cohesion, including regional development and support for the rehabilitation of roads.

Phare support to help Romania meet these objectives is being provided through three programmes: the National Phare Programme, the Large-Scale Infrastructure Facility and the Catch-Up Facility.

In October 1998, the Commission and the Government of Romania signed a Financing Memorandum providing EUR 106.6 million under the **National Phare Programme**. Within this budget, EUR 34.6 million has been allocated to public administration and institutional strengthening, EUR 12 million to democratisation and civil society, and EUR 60 million to regional development measures. It also includes an allocation to support Romania's participation in Community programmes. Phare is also providing an additional EUR 6 million for the Tempus

programme for higher education, allowing for the funding of 23 Joint European Projects, of which 7 are in the field of Institution Building.

Romania will also receive funds from the **Large-Scale Infrastructure Facility** (EUR 25 million) for the rehabilitation of roads, and from the **Catch-Up Facility** (EUR 16 million) for financial sector restructuring and for a project on rehabilitation of mining regions. As a result, the total allocation for Romania in 1998 is EUR 155.2 million.

Phare projects receiving support under previous programmes continued in 1998. For example, Phare support under the **1997 programme** amounted to a total of EUR 100 million, and covered a range of projects, from investment in municipal water supply systems to projects dealing with statistics, food standards, strengthening the judiciary, local public administration reform, SME development, income tax and health care financing.

A significant level of funds from the **1996 programme** remained uncontracted at the end of 1998. This is due to the long lead times involved in the preparation of the contracts for the Romanian railways and waste water treatment in the Jiu Valley. The **1995 programme**, with its strong focus on policy reform in the key infrastructure sectors of telecoms, energy and transport, was more than 80 per cent contracted by the end of 1998. However, a significant proportion of the funds under these programmes was allocated to emergency projects (Floods 1997 and 1998). The rather slow implementation of the policy support projects within the 1995 programme reflects the relatively slow development of reform policies in the sectors concerned.

Achievements

Implementation of the Phare programme in Romania was affected significantly by the creation of a single Central Financing and Contracting Unit (CFCU) in the Ministry of Finance. The CFCU will contribute to increased efficiency in the management of Phare contracting procedures, and represents the first step in the development of the sorts of financial management structures that will be needed to handle Community funds in the pre-accession period. The advantages of having a strong, specialised contracting unit in the Ministry of Finance are now beginning to be felt.

The Municipal Utilities Development Programme (MUDP II) is co-financed by Phare, the EBRD and the Romanian government. The total Phare allocation is EUR 35 million of which, by the end of 1998, EUR 27 million has been contracted. The Phare contribution (investment in water supply and waste water infrastructure and technical assistance) is resulting in improved water supply services and environmental standards in ten Romanian cities, and is also contributing to the development of the institutional and financial framework. This will permit the necessary increased investment to flow into municipal infrastructure in future years.

Progress was made during 1998 in implementing the health care financing reform programme, worth EUR 4 million. The objective of this programme is to assist the Romanian government in formulating new policies in support of the health system. It is increasing the decentralisation of the actual system organisation and is strengthening its efficiency and effectiveness.

Under the 1996 Phare programme, major investment in the national transport infrastructure has been undertaken. The implementation of investments in the Romanian railways on the European corridors has been continuing in 1998. The total value of this programme is EUR 58 million, and works for the rehabilitation of the Constanta port were initiated in 1998 (EUR 17.5 million).

Case study: regional development in Romania

Through a series of projects beginning in 1994, Phare is contributing to the creation of the institutional and legal framework for the development of regional policy in Romania, and to preparations for programmes to be implemented along the lines of the EU structural funds.

- Under a 1994 Phare budget, EU and Romanian experts prepared an analysis of regional disparities in Romania, and drew up proposals for a legal and institutional framework for the development of regional policy.
- In 1997, the conclusions of a Phare-financed study were published as a Green Paper on Regional Development, which proposed the establishment of a number of macro regions as planning units, based on associations of elected county councils. The Green Paper also defined a national framework for the development of regional policy and the financing of programmes.
- The government adopted the main points of the Green Paper as its policy on regional development; consequently, a 1997 Phare budget was approved, providing support for institution building at national and regional level.
- In 1998 a Law on Regional Development was passed, creating an appropriate institutional framework and establishing a National Agency for Regional Development and a National Fund for Regional Development.
- A 1998 Phare budget was approved, providing preliminary financial support for projects which would be proposed by the regions and financed out of the National Fund for Regional Development. Linked to this is technical assistance under the Special Preparatory Programme for Structural Funds, which provides further support and training to relevant institutions at regional and national level.

Slovakia

The year in review

As a result of a lack of structural reforms and unbalanced macroeconomic policies, the macroeconomic situation in Slovakia worsened in 1998. Although GDP continued to grow by 4.4 per cent, external and fiscal accounts showed signs of continued deterioration. For the third year in a row, the current account deficit was higher than 10 per cent of GDP, while the general government deficit increased to more than 5 per cent of GDP. Substantial efforts are needed to reduce the current account and government deficits to more sustainable levels.

Although foreign direct investment in 1998 was substantially higher than in the previous years, at about 2% of GDP, the amounts are far from sufficient to cover the current account deficit. The cumulative total for the 1990-1998 period amounted to only EUR 1.230 billion. The average rate of inflation remained relatively low at 6.7 per cent. However, the rate of registered unemployment continued its upward trend and reached 15.6 per cent in December 1998, compared to 12.5 per cent in December 1997.

With regard to structural reforms, privatisation has been continuing, and more than 80 per cent of GDP now originates in the private sector. However, the privatisation methods that were used have not been conducive to enterprise restructuring. Moreover, the largest banks, which are still state owned, are burdened by bad debts and are undercapitalised. Considerable efforts are needed to promote market-based enterprise restructuring, to restructure and privatise the state-owned banks, and to attract foreign direct investment to accelerate the modernisation of enterprises.

Slovakia continued to suffer from political difficulties in 1998. Parliament was unable to elect a new President, and as a result presidential powers shifted to the government, which proceeded to use them in controversial ways. The EU made several statements highlighting its concerns regarding the stability of democratic institutions and good governance in Slovakia.

National elections in the autumn resulted in victory for the opposition, which formed a new government in November 1998. This resulted in a significant change in the political climate in the country. The new government set out to stabilise democratic institutions and to reform the economy. The last two months of the year saw substantial improvements in Slovakia's relations with the EU, its neighbours and international organisations like the Council of Europe, the OSCE and the OECD.

With regard to relations with the EU, the most significant events in 1998 were the launch of the accession process with the adoption of the Accession Partnership and the National Programme for the Adoption of the Acquis, and the publication of the first Regular Report in November. The Regular Report underlined the Commission's concerns about political developments in the period before the elections and the macroeconomic situation in Slovakia.

Conclusion of the European Commission's Regular Report, November 1998

The recent elections offer an important opportunity for Slovakia to address the political weaknesses outlined in the Opinions and to take steps to ensure that it will in future meet the Copenhagen political criteria.

Slovakia has implemented most of the reforms necessary to establish a functioning market economy, but there has been a lack of transparency due to government interference. Nevertheless, Slovakia should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that the market economy is allowed to function.

Slovakia needs to accelerate the pace of approximation particularly in the area of internal market, environment and justice and home affairs. A concerted effort is needed to set up and strengthen the corresponding institutional and administrative capacity.

Phare in 1998

In line with the short-term priorities of the Accession Partnership and the National Programme for the Adoption of the Acquis, the aim of the Phare Programme in 1998 is to support Slovakia in its efforts to meet the Copenhagen criteria and to prepare for membership of the European Union.

Slovakia received support from four Phare programmes in 1998: the Phare National Programme (EUR 45.9 million), the Catch-Up Facility (EUR 7.5 million), the Large-Scale Infrastructure Facility (EUR 15 million) and the Cross-Border Cooperation Programme (EUR 5 million).

Phare support under the 1998 **National Programme** is focusing on six key areas: helping Slovakia meet the Copenhagen political criteria, continuing the economic reform process, institutional strengthening and integration into the internal market, strengthening justice and home affairs, approximation in the environment sector, and participation in Community programmes.

In order to help Slovakia meet the **political criteria**, Phare will provide support to strengthen the capacity of local government and the judiciary (EUR 1.5 million). In the area of **economic reform** (EUR 3.5 million), Phare support will include the establishment of medium-term economic policy priorities and a joint assessment of within the framework of the Europe Agreement. Assistance will be provided to improve rights of ownership and property, and Phare will support the implementation of the National Cadastral Policy and the creation of a land registration system.

Slovakia needs to strengthen its **institutional and administrative capacity** and support in this area will focus particularly on accession-related issues. Phare will provide support for harmonising legislation and strengthening institutions in the fields of standards and certification, state aids, capital markets, intellectual property, public procurement and agriculture (veterinary and phytosanitary fields). Assistance will also be provided to prepare Slovakia for the EU Structural Funds, by helping develop regional and structural policies and the capacity to implement them. Phare support in this area comes to EUR 17 million in 1998.

Justice and home affairs (EUR 5.2 million) remains a priority area and support in this field will include strengthening the police and judiciary, developing effective border management and migration control, and helping the fight against organised crime, trafficking in drugs and persons, corruption, and money laundering. Support will also focus on the alignment of JHA policy to that of EU and international conventions.

In the **environment** sector (EUR 17.5 million), support will be provided for the continued transposition of framework legislation, and the creation and implementation of detailed approximation programmes including financing and investment strategies related to the adoption of the environmental acquis.

Finally, an allocation of EUR 1.2 million will support Slovakia's **participation in Community education programmes** in 1998.

In addition to the above, EUR 4 million has been allocated to the Tempus higher education programme for 1998, allowing for the funding of 24 Joint European Projects and of which 12 are in the field of Institution Building.

Slovakia also received an allocation from the **Catch-Up Facility** in 1998, and four projects have been identified for support:

- support to the Supreme Audit Office (EUR 1.05 million)
- strengthening the capacity of the National Council (Parliament) (EUR 2 million)
- Slovak Post-Privatisation Fund (EUR 4 million)
- Spisska Nova Ves – a regional development project improving the position of Roma (EUR 0.45 million)

Slovakia has received an allocation of EUR 15 million from the 1998 **Large-Scale Infrastructure Facility**, which will help finance the construction of a bypass around Bratislava. The project, co-financed by the European Investment Bank and the Slovak Government, involves the construction of 6.5 km of motorway (the D-61) around the city. Construction of the bypass will reduce congestion and pollution in Bratislava and contribute to the development of the country's transport network.

Slovakia is also receiving support from the **Cross-Border Cooperation Programme** (EUR 5 million). Focusing on border regions with Austria, the programme will support actions in four priority areas: technical infrastructure, economic development and tourism, environment, and institutional support and human resources.

Achievements

The performance of the Phare programme in terms of contracting and payments has substantially improved. By the end of 1998, all 1990-1996 programmes were fully contracted. The contracting rate for the 1997 programme reached approximately 35 per cent at the end of 1998.

Phare has provided support across a range of sectors in Slovakia and has implemented and completed a number of successful projects.

In the **agriculture** sector, a project developing agricultural extension services is being successfully implemented, in collaboration with the Ministry of Agriculture. Phare has also provided support to private sector organisations such as the Agriculture and Food Chamber and the Association of Private Farmers. Additional support has been provided in the area of plant and animal health, including phytosanitary and veterinary diagnosis. Modernisation of the Geodesy, Cartography and Cadastre Authority was also undertaken with Phare support.

In the area of **legal approximation**, a central translation unit has been set up at the Institute of Approximation of Law to provide translations of the *acquis* in the Slovak language. A legal team, funded by Phare, is continuing to provide the government with advice on a range of issues in the legal approximation field.

A major project in the **public administration** sector is focusing on civil service reform, the development of a legal framework for a professional, non-political civil service and civil service training. Public administration institutes in Germany, Finland and the United Kingdom are all involved. Under the same project, the Parliament received Phare-funded printing equipment to support the legislative process. A number of commercial courts received IT equipment to computerise the commercial registers.

Phare has provided valuable support in the area of **civil society development**. In 1998, the Phare-funded Civil Society Development Foundation in Slovakia supported non-partisan NGO activities to raise awareness among young voters and to monitor the parliamentary elections. This campaign – called OK 98 – had a significant impact on the record voter turnout (84.6 per cent) in the elections. Particularly remarkable is the fact that eight out of ten first-time voters went to the polls. The election monitoring activities of the NGOs concerned also helped to ensure that the elections were free and fair. The campaign has strengthened the role and prestige of NGOs in Slovakia.

Phare has contributed to the strengthening of the market economy in Slovakia through its support to small and medium-sized enterprises (see box below) and through the **Slovak Post Privatisation Fund** (SPPF). Established at the end of 1996, the SPPF is a EUR 40 million venture capital fund which involves a joint partnership between the EBRD (EUR 30 million) and Phare (EUR 12 million). In addition to equity, Phare also provides EUR 8 million of funds which are available for technical assistance for pre- and post-investment support. This combination of venture capital and technical assistance means that the fund can provide support to second-tier companies that would not otherwise receive support from the financial markets and banks. It is

expected that the SPPF will play a catalytic role in attracting foreign investors into Slovakia.

Case study: the SME sector in Slovakia

The SME sector is playing a key role in stimulating economic growth and providing employment in Slovakia. The number of SMEs in the country has grown constantly since 1991 and they now account for around 60 per cent of total employment and over 50 per cent of economic output.

Phare has played an important part in this development, by providing technical and financial support directly to SMEs and by creating institutions that provides services to SMEs. With government support, Phare helped to establish the National Agency for SME Development and a network of twelve Regional Advisory and Information Centres and five Business Innovation Centres. Spread widely over the country, these regional organisations provide training, information and advice to SMEs. Through these centres, Phare has helped generate around 5,000 new jobs and create 1,300 new SMEs.

The Phare SME Loan Scheme (EUR 16.7 million) has also proved very successful. Through a unique blend of Phare, government and commercial funding, the Loan Scheme makes capital available to SMEs at favourable rates. To date, the Loan Scheme has provided 480 loans to enterprises employing on average 45 workers, for an average loan size of EUR 60,000. The present default rate is under 1 per cent.

An assessment of the SME programme was carried out in 1998 by OMAS. Phare support was rated as highly satisfactory, in terms of programme implementation and achievement of Phare objectives, and the programme is considered to be one of the most successful of its kind in central Europe. Phare support to the SME sector in Slovakia amounts to EUR 31.9 million to date.

Slovenia

The year in review

Slovenia's economy made good progress in 1998. Real GDP grew by 4 per cent during the first six months of the year, and the rate for the whole year is estimated at 3.9 per cent, an improvement on the 1997 rate of 2.9 per cent. The current account, which recorded a surplus of 0.2 per cent of GDP in 1997, was expected to be in balance in 1998, while the budget deficit, which stood at 1.1% of GDP in 1997 was expected to fall fractionally to 1 per cent in 1998.

Foreign direct investment inflows for the first half of 1998 reached EUR 136 million, while Slovenia's net external debt stood at EUR 4.08 billion at the end of August. Inflation continued to fall, and dipped to 6.4 per cent in November 1998, compared to 9.4 per cent in 1997. Unemployment (according to the ILO definition) stood at 7.5 per cent at the end of September 1998.

Following the law on the conclusion of the privatisation process, privatisation of all socially owned enterprises was formally completed on 1 November 1998. However, these enterprises still require restructuring. Additional efforts are also needed in the privatisation of public utilities, state-owned banks and insurance companies, and the liberalisation of the capital market.

Slovenia continued to enjoy political stability and a smooth functioning of its democratic institutions in 1998. In foreign policy, Slovenia presented a strategy for its integration into NATO to the North Atlantic Council in March.

With regard to EU relations, the most significant events in 1998 were the formal launch of the accession process and the opening of negotiations, the adoption of the Accession Partnership in March and the publication of the Commission's Regular Report in November.

Conclusion of the European Commission's Regular Report, November 1998

Slovenia continues to fulfil the political Copenhagen criteria. Continuing attention needs to be paid to streamlining the judicial and parliamentary process and to ensuring that Europe Agreement obligations as concerns property ownership are met.

Slovenia can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that planned reforms are fully implemented on time.

Provided that the process of approximation and institution building accelerates so as to make up for the lack of progress this year, Slovenia will be able to assume the obligations of membership in the medium term. Efforts are needed in the area of internal market, especially VAT, state aids control, and justice and home affairs.

Phare in 1998

Phare committed a total of EUR 16 million to Slovenia in 1998. Support was provided through two Phare programmes: the Phare National Programme (EUR 10 million), including EUR 1.25 million for the Tempus programme, and the Cross-Border Cooperation Programme (EUR 6 million).

It was decided to carry over a substantial part of the 1998 allocation to 1999, in order to prepare detailed investment projects. The 1998 **National Programme** therefore focuses mainly on institution building, which will be implemented through the new twinning arrangements (finance, environment, agriculture) and where appropriate through classical technical assistance (statistics).

Further integration into the internal market and the strengthening of administrative and institutional capacity are priority areas. Support will include raising standards in the field of statistics (EUR 2 million), and institution building for the Ministry of Finance (EUR 0.85 million)

EUR 3 million has been allocated to the Special Preparatory Programme for Structural Funds, providing support in the development of regional policy and cohesion.

Phare will also provide support for feasibility studies for future investment projects (1999) in the fields of environment and agriculture (EUR 1.9 million) and for monitoring and implementation control structures in these two sectors (EUR 1 million).

Tempus II received an allocation of EUR 1.25 million for work in the higher education sector, allowing for the funding of 5 Joint European Projects, of which 1 is in the field of Institution Building.

The **Cross-Border Cooperation Programme** (EUR 6 million) supports actions in border regions with Austria and Italy.

Achievements

Implementation of the Phare programme in Slovenia faced a number of challenges in 1998. It was the first year of programme implementation under the Decentralised Implementation System (DIS), and the National Fund was also established during the year (the Memorandum of Understanding was signed in December). With the support of the Central Financing and Contracting Unit, the National Fund will supervise financial management and ease the transfer of funds to the final beneficiaries in Slovenia.

The amount of work involved in the **approximation and enforcement of laws** and technical regulations does not differ significantly according to the size of the country. As a small country, Slovenia is having to cope with this workload with a small administration. The pre-accession strategy programme, introduced under the 1996

programme, helped the Office for European Affairs and other ministries to handle the tasks of planning, coordinating, and supporting the pre-accession process.

In the **financial sector**, Phare continued to play a major role in the introduction of VAT in Slovenia (planned for 1 July 1999). Phare provided technical assistance for the formulation of the legal framework, policy development and organisational issues. This resulted in the adoption of the law on VAT by Parliament on 25 November 1998. In addition, Phare assisted the Ministry of Finance with the development of a capital movement liberalisation strategy and with setting up a monitoring and reporting system of capital flows. Additional support to the Ministry included training for the insurance sector, and training and privatisation support for the banking sector.

The **cross-border cooperation programmes** in Slovenia have continued to have a positive impact on stimulating economic and social development in the border regions with Italy and Austria. Projects with a clear cross-border effect were identified and implemented in a range of sectors, in close collaboration with counterpart Austrian and Italian authorities. Activities included the improvement of cross-border links, protecting and improving water catchment areas, local development initiatives, SME development, and improvement to infrastructure (e.g. water supplies).

Case study: Environmental Credit Scheme

The objective of the Environmental Credit Scheme (ECS), co-financed by Phare, is to help the EcoFund to service the investment financing needs of the corporate and municipal sectors in Slovenia, for the reduction of pollution, promotion of waste management systems and the introduction of environmentally friendly technologies. The EcoFund is an independent non-profit-making investment fund set up by the Ministry of Environment.

The ECS is based on a Phare-funded feasibility study (market demand analysis and institutional analysis) conducted in 1996. This study indicated substantial demand for environmental investment financing in the corporate and municipal sectors, but a reluctance to borrow at market rates from the commercial banks. A major source of demand comes from privatised companies that have a legal obligation to make environmental investments as part of the privatisation process.

The ECS provides loans to municipal and private sector borrowers at attractive rates for the financing of projects in three main areas: improving air quality and reducing air pollution, improving water quality and water resource management, and minimising the production of solid or hazardous waste. The ECS has provided over EUR 2 million worth of EcoFund loans at competitive rates for environmental investments in these three sectors.

Non-candidate countries

Albania

The year in review

With per capita GDP in 1998 of around EUR 675, Albania remains the poorest country in Europe. Following the dramatic fall in economic output that accompanied the collapse of the centrally planned economy, when real GDP fell by almost 40 per cent between 1989 and 1992, Albania entered a period of rapid recovery, recording among the highest economic growth rates in Europe. Real GDP increased by over 45 per cent between 1992 and 1996, and had reached 90 per cent of 1989 levels by the end of 1996. The 1997 crisis resulted in a drop of real GDP of 7 per cent as compared to 1996. Growth resumed in 1998: it is estimated at 10 per cent in real terms and at a reduced rate of 7 per cent for 1999. Albania's success in reducing inflation, from a high of 237 per cent in 1992 to 8 per cent in 1998, has been an outstanding achievement. Foreign direct investment, mainly from Italy and Greece, remained at around EUR 42 million in 1998.

Progress, in terms of macroeconomic stabilisation, was confirmed throughout 1998, but economic development is vulnerable to continuing political instability and lack of public order and security. First steps towards structural reforms with respect to institutions and public administration are encouraging, but should be confirmed and completed by sustained efforts in the fight against fraud and corruption.

The process of stabilisation, recovery and democratisation in the country continued to develop rather unevenly and is still confronted with severe problems. Political life remained highly confrontational and public order rather volatile, as highlighted by renewed turmoil in September 1998 followed by a new government in October 1998. The continued high levels of corruption in public administration and the judiciary together with organised crime have considerably undermined the efforts of the government. The worsening of the situation in Kosovo and the arrival of forcefully displaced persons have placed additional demands on the government and have adversely affected the security situation in north-eastern Albania.

With regard to Albania-EU relations, Albania benefits from the Generalised Preference Scheme (GSP) treatment and from a Trade and Cooperation Agreement since 1992. Albania has requested an association agreement since 1995, but further strengthening of relations are subject to the EU's Regional Approach and real progress in terms of stabilisation and development.

Phare in 1998

In 1998, as in 1997, Phare resources were concentrated in four main areas of interest:

- public administration and institutional reform
- local community development
- large-scale infrastructure development
- agriculture.

For 1998, Phare has committed EUR 30.5 million in national and EUR 12.0 million in cross-border cooperation programmes.

In the area of public administration reform, technical assistance has been deployed in 1998 in different fields (Supreme Audit Institution, DOPA/Department of Public Administration, etc.).

In the area of judiciary reform, considerable efforts have been made, to a substantial extent with the support of the Council of Europe, whose involvement is funded by Phare. Two Joint Programmes have already been implemented.

Since late 1997, the Commission has been providing support, in cooperation with WEU/MAPE, for advice and equipment for the Albanian police. Up to 1998, almost EUR 8 million has been committed and implementation of the programme is ongoing. This support is targeted to equipment (special police equipment, uniforms, vehicles and spare parts) and to rehabilitation of the Police Training Centres.

In the area of customs, a Customs Assistance Mission (CAM) was established in June 1997 for a nine-month period and was still ongoing in 1998. Its main task is to assist the Albanian customs authorities with restoring their ability to efficiently collect customs and excise revenue. During 1998, activities that concentrated on the reform of the customs service and computerisation (ASYCUDA) have been delayed due to civil unrest.

In the sector of local community development, the 1998 programme included development of pilot projects for urban regeneration in Tirana which consist of labour intensive works for the maintenance of public space or buildings.

The water sector is recognised as a key area for infrastructure development by both the Albanian Government and the donor community. Water supply and distribution networks continue to deteriorate. Phare's PMU continued to play a key role in 1998 in stimulating and coordinating donors' intervention in this crucial sector.

In the sector of agriculture, efforts were concentrated on extension services, land mapping, veterinary services and fisheries. In late December 1998, the Government of Albania approved a strategy for the development of Albanian agriculture – the Green Strategy – which will be very useful in the future development of agriculture.

Albania also received a budget of EUR 0.7 million for Tempus, allowing for the funding of 6 Joint European Projects.

Achievements

Over the period 1991-1998, Phare assistance to Albania has exceeded EUR 500 million. Despite delays in programming and implementation due to the situation in Albania, overall implementation of Phare assistance remains satisfactory, with a level of contracting of 66 per cent of total funds allocated in 1991-1998. 1998 saw an acceleration of implementation, in particular with regard to large infrastructure projects. A good example of this is the construction of the Durres-Roghizina road. In 1998, the target to contract EUR 120 million was very nearly reached.

Phare conditioned its budgetary support to the Government's public administration reform programme on a certain number of measures. Thanks to this leverage, the following measures have been taken: adoption of the Organic budget law, transformation of the State control service into an independent Supreme Audit Institution, adoption of the Decree on transitional measures of recruitment and dismissals, creation of the State publication office, etc.

In the field of support to the Albanian police, several targets were met in 1998: 13 police stations have been rehabilitated, more than 100 hand-held radios with transmitters have been distributed, rehabilitation of the training centre at the Tirana police academy has been completed, spare parts for police vehicles have been delivered, etc.

Water and waste strategies funded by Phare were finalised in line with the recommendations of the Albanian National Environment Action Plan. This will serve as a basis for further infrastructure investments in sectors which are critical for both health and the environment.

Case study: Customs

The Customs Assistance Mission to Albania (CAM-A) has been one of the most successful technical assistance programmes in Albania as demonstrated by the strong increase in the revenue collected by customs. CAM-A was originally conceived as part of the international response to the pyramid investments crisis in Albania in 1997. The customs services in particular had suffered badly from the civil unrest. This had particularly serious consequences for the public finances, as the majority of the budgetary revenues are collected by the customs service. The CAM-A deployed a team of specialists in order to help the government restore its ability to combat fraud and to collect revenue, as well as to modernise and grow into a self-sustaining viable service. This mission has been very successful. Revenues from duty fees have increased substantially and have reached about 150 per cent of the pre-crisis level. In 1998, CAM-A turned into a modernisation and development programme, but was hindered by civil unrest in September 1998. The International Conference held in Tirana in October 1998 highlighted the importance of this mission.

Bosnia and Herzegovina

The year in review

Despite a difficult post-war situation in Bosnia and Herzegovina there has been considerable progress with regard to economic revival in 1998. External assistance fuelled a strong economic recovery in 1995-1998, during which GDP growth averaged around 35 per cent per year. Inflation has fallen to moderate levels in both entities (post-war Bosnia is made up of two entities: the Muslim-Croat Federation and the Serb Republic (RS)), mainly thanks to the tight fiscal discipline maintained by the entity authorities. Although progress has been made, GDP stands at about half of its pre-war level, and the GDP per capita at less than half of its pre-war level. Overall unemployment stands at 30-40 per cent, and in the RS it is reported to be as high as 50-60 per cent.

In the context of the current IMF-supported countrywide macroeconomic and structural reform programme, which was adopted by the Bosnian authorities in May 1998, important progress has been achieved with regard to promulgating an appropriate legislative framework which encompasses common institutions suited to a market economy. Key achievements so far include: the introduction of a new common currency, the Convertible Marka, the adoption of a common State Budget in the spring of 1998 and the promulgation from 1 January 1999 of a new uniform Customs Code, drafted with the assistance of the EC-funded CAFAO programme.

In 1998 Bosnia and Herzegovina continued to experience political difficulties in the sense of resistance to integration, especially in the eastern part of the Serb Republic and in some parts of the Federation. Furthermore, the work of Bosnia and Herzegovina's common institutions seemed still hampered by the lack of political will to take decisions. The judicial system reform is still awaited. And serious obstacles remain on refugee return.

With regard to EU-Bosnia and Herzegovina relations, the EU Declaration on BiH of June 1998 represents an important step in bilateral relations. It emphasises that the future of BiH is in Europe and provides the framework for closer cooperation. The Member States have also created the 'EU/BiH Consultative Task Force' (CTF). The CTF provides a joint EU/BiH vehicle for technical and expert advice in the fields of administration, regulatory framework and policies.

Conditionality

The Commission applies the conditionality principles to the programmes it manages in Bosnia and Herzegovina. This is notably based on the Regional Approach adopted in April 1997 which outlines the political and economic conditions to be fulfilled in order to permit the development of bilateral relations.

Phare and Obnova in 1998

The two main EC instruments for reconstruction in Bosnia and Herzegovina are the Phare and Obnova programmes which are complementary, as Bosnia is not eligible for full Phare assistance. In line with the conditions and steps laid down in the Regional Approach, “Phare assistance will be limited to projects in direct support to the peace agreements, in particular the building of cross-entity links and refugee return”. Obnova funding will be used to further “underpin the reconstruction process, to encourage return of refugees, reconciliation and regional economic cooperation, and to create the economic and social conditions that will lay the foundations for the development” of Bosnia and Herzegovina by supporting CAFAO, economic development activities, integrated assistance activities, social development and media projects.

As Bosnia entered its third year of reconstruction, the return and reintegration of refugees and displaced persons became the focus of a major new international effort. Creating sustainable reconstruction by moving away from emergency interventions and toward targeted programmes in support of economic development and institution building was the other guiding theme for the Commission’s strategy. The Commission directed approximately half of the 1998 programme to refugee return initiatives. In addition, the Commission undertook several large institution-building projects, promoting the development of customs and taxation systems, a modern central bank, and democratic media. Bosnia-Herzegovina also received a budget of EUR 1.5 million for Tempus, allowing for the funding of 7 Joint European Projects.

The total allocation in 1998 was more than EUR 186 million (Phare and Obnova).

Other EC-funded programmes in BiH

ECHO (European Community Humanitarian Office), the humanitarian arm of the European Commission. Since the beginning of the conflict, ECHO has granted EUR 1,623 billion to the victims of the conflict in the former Yugoslavia.

The Customs and Fiscal Assistance Office (CAFAO) programme funded under B7-544 (managed by European Commission Directorate General XXI)

Specific aid to the reception and voluntary repatriation of refugees in the European Union, managed by the Task Force on Justice and Home Affairs of the Secretariat General of the European Commission.

Democracy, LIEN, Tempus, LIFE programmes.

Achievements

In 1998, integrated refugee assistance was the number one priority. The Commission designed an ambitious refugee return programme mainly implemented through European NGOs (see box below).

In 1998, the Commission funded institution-building projects in a wide range of economic and social sectors, including banking, the constitutional court, the central bank, the police, economic reforms, education, health care, civil aviation, customs and taxation, statistics and environmental legislation.

A wide range of economic regeneration projects were funded in 1998. Through an industrial development programme started in 1998, the Commission is working with immediately viable economic sectors and attempting to engage European firms in them. With a contribution to the EBRD's micro-entreprise bank, the Commission is attempting to stimulate investment in small and large Bosnian enterprises. Through support to Village employment projects, the aim is to help create jobs. Finally, through direct intervention in the agriculture and forestry sectors, the EC is securing a firm base for two important economic sectors.

In 1998 the Commission continued to fund large and small infrastructure projects like roads, bridges, telecommunications and energy supply projects.

In the field of democracy and human rights, the EC funded independent media in BiH, and offered support to the Commission for Human Rights.

In 1998, significant steps have been taken to improve the level of implementation: amendments brought to the Obnova Regulation have simplified the decision-making process for project approval and implementation; the management of the programmes has been deconcentrated to the Commission Representation in Sarajevo.

Case study

Making return possible: The 1998 Refugee Return Programme

Getting Bosnia and Herzegovina's many refugees and displaced persons to go back to their places of origin is an absolute priority for the European Commission. It hopes that at least 30,000 people will return home thanks to its 1998 integrated return programme. Most of the projects are still under way and it is difficult to give a precise assessment of the results, as the return programme will have a sizeable impact during the second half of 1999. Even at this early stage, however, it is clear from reports from NGOs and field visits that the European Commission's integrated return programme has led to a breakthrough at local level in minority returns: by the time the projects are finished, 7,500 houses will have been rebuilt and 30,000 refugees or displaced persons should have gone home.

Rebuilding houses, however, is not enough, if that goal is to be met. The 1998 return programme is also helping to rehabilitate essential infrastructure, like electricity and water networks, schools and health centres. It also helps create jobs. The Commission may be counting on helping 30,000 people return home. But the figure will probably be double that, because many families that returns to a house rebuilt by the EC vacate other homes, meaning that yet other families can return. And the domino effect does not end there. Developments over the past year demonstrate that when a small group of people returns to a municipality thanks to an assisted programme, other people follow. Thus European Commission-sponsored projects act as a catalyst, sparking off the process and encouraging people to go back to their places of origin.

Refugees and displaced persons: the figures

In 1998 140,000 refugees and displaced persons returned home. 100,000 of them were refugees from abroad, mainly Germany. Of those, 35,000 were people returning home to places where they are in a minority – a slightly higher number than in 1997. That leaves 375,000 refugees still abroad along with 860,000 internally displaced people who would be in a minority if they returned to their pre-war homes. Of those internally displaced people, 120,000 would be prepared to return if the conditions were such that they could feel safe and build a future for themselves and their families. However, three years after the Dayton accord was signed, real barriers to return persist. The biggest barrier is an appalling lack of political will on the part of the authorities (source: RRTRF, OHR).

The former Yugoslav Republic of Macedonia

The year in review

The authorities in the former Yugoslav Republic of Macedonia continued to pursue a policy of economic stabilisation in 1998, in line with the IMF programme. As a result of tight monetary policy and the effects of external factors, prices were kept low. The rate of inflation came down slightly, from 1.3 per cent in 1997 to just 1 per cent in 1998. The budget was also brought under control, with an estimated overall fiscal deficit of 0.7 per cent of GDP in 1998. GDP growth was estimated at 3.5 per cent in 1998. Although this is an improvement on the 1997 rate of 1.5 per cent, it still below the target of 5 per cent. However, aggregate demand grew even more: the trade deficit stood at 15 per cent of GDP in 1998, while the current account deficit remained at 8 per cent of GDP. Unemployment remains high, at around 30 per cent.

With regard to structural reforms, the liberalisation of trade has almost been completed. Trade relations with the EU have improved considerably: exports to the EU rose by almost 30 per cent in 1998, while the import of goods from the EU increased by 3.4 per cent. Trade Agreements with Slovenia and Croatia were signed, and, following the recent agreement on the language issue, the establishment of a Free Trade Agreement with Bulgaria is expected to begin in 1999. Over 80 per cent of prices of goods and services have been liberalised.

By the end of 1998, 1,435 enterprises had been privatised, which means that over 88 per cent of all enterprises are now privately owned. The legislative framework still does not reflect this new environment, however, and as a result there are insufficient incentives for restructuring and foreign direct investment remains low compared with other central European countries. The government is taking measures to tackle these problems, including a proposal to amend the privatisation laws and a commitment to privatise the remaining agricultural and metal enterprises. Private sector development is also hindered by the fact that nine out of twelve state-owned enterprises are incurring heavy losses, placing a heavy burden on the banking sector and on public finances.

A plan for the rehabilitation of the banking sector has been gradually developed over the last four years. Despite this, the sector remains vulnerable and is burdened with bad loans. The privatisation of the largest credit institute, Stopanska Banka, therefore remains a priority.

There was a slowdown in the pace of reforms during the period leading up to the elections in 1998. However, following successful elections and major changes within the Parliament, the new government, which took office in December, outlined an impressive plan of reforms of the legal framework and the economy.

With regards to relations with the European Union, the most significant events in 1998 were the entry into force of the Cooperation Agreement on 1 January 1998 and the first EU-former Yugoslav Republic of Macedonia Cooperation Council held in March. The Cooperation Agreement includes a financial protocol, including particular

provisions on transport for loans worth EUR 150 million from the European Investment Bank as well as a corresponding EC budget allocation of EUR 20 million as interest subsidy. These resources are intended to support the upgrading of transport infrastructures. The appointment of the EC Resident Envoy in Skopje in mid-1998 is considered a first step toward the upgrading of the Commission Representation in the former Yugoslav Republic of Macedonia.

Phare in 1998

In December 1998 the Commission and the government of the former Yugoslav Republic of Macedonia agreed a Financing Memorandum providing EUR 13 million for the Phare National Programme, to continue to support reforms initiated under the 1996 and 1997 programmes.

The 1998 Phare **National Programme** concentrates on the following key objectives:

- infrastructure development: construction of a bypass for the town of Tetovo, on the E65 Skopje-Tetovo road (European Corridor VIII); this is part of the Skopje-Tetovo motorway project co-financed by the EIB and the World Bank
- continuing the reform of the statistical system through provision of know-how, training and equipment to the State Statistical Office
- strengthening the institutional capacity of the Aid Coordination Unit within the office of the Deputy Prime Minister to manage foreign resources, and supporting preparations within the Ministry of Finance for the decentralisation of Phare.

Phare also provided EUR 2 million for the continuation of the Tempus higher education programme in 1998.

Finally, the 1998 Phare programme provided EUR 10 million for **cross-border cooperation** in border regions between Greece and the former Yugoslav Republic of Macedonia. Support will focus on

- upgrading cross-border transport infrastructure: first phase of the project upgrading the Negotino-Demir Kapjia section of the E75 (European Corridor X)
- socio-economic development: implementation of second round of Small Project Fund projects and grant support for local economic infrastructure projects.

Phare allocations to the former Yugoslav Republic of Macedonia under the **1996 and 1997 programmes** amounted to EUR 58 million. These allocations are supporting programmes and reforms in a wide range of sectors, including the development of SMEs (see box below), reform of the banking and payment system, approximation of economic legislation, the public investment programme, agriculture and land reform, environment, public administration reform, education reform, statistics, and cultural development. The Cross-Border Cooperation Programme is supporting the upgrading of border crossing facilities, upgrading the E75, environmental activities and a first round of small projects to be implemented in border regions. FYROM also received a budget of EUR 2 million for Tempus, allowing for the funding of 12 Joint European Projects.

Achievements

The **1997 programme** provided valuable support to reforms in both the banking sector and the public administration sector, which received Phare support for the first time. Support was also provided in other new areas, including environment, cultural development and the preparation of a public investment programme and related feasibility studies.

Activities under the **1996 programme** also continued during 1998, and achievements include the approximation of economic legislation project, which produced 63 recommendations for modifications to the entire legal framework related to SMEs. The agriculture and land reform programmes developed a property registration system and started a training programme on agricultural policy. The statistics programme prepared a Master Plan for all statistical activities and conducted a labour force survey. Finally, the cross-border cooperation programme started work on improvements to two border-crossing points with Greece and on the first 5 km section of the E75 road from Gevgelija to the Greek border.

By the end of 1998, contracting under the 1996 and 1997 programmes amounted to 74 per cent of total funds committed, and payments amounted to 17 per cent. Uncontracted funds from the 1997 programme were mainly due to the fact that the public investment, land reform and payment reform programmes have specific allocations for studies, equipment and activities to be identified following completion of a first technical assistance phase. However, the slow rate of contracting under these programmes also reflects the relatively slow development of reform policies in the sectors concerned.

At present, all Phare programmes are centrally managed in Brussels; decentralisation of programme implementation will be introduced during 1999, and is conditional upon the upgrading of staff in the Office of the Resident Envoy.

Case study: Development of the SME sector

Phare has been supporting the development of the SME sector in the former Yugoslav Republic of Macedonia. With an allocation of EUR 4 million from the 1996 Phare programme, Phare has supported the creation of the National Enterprise Promotion Agency, the first Regional Enterprise Centre in Skopje, and a dedicated SME credit line within a number of commercial banks.

Although the creation of the SME support institutions has been hindered by the unfavourable legal framework and bureaucracy, the credit line set up within six commercial banks has been very successful. Advice was provided to the banks and business guidelines were provided to individual entrepreneurs. A specific training programme addressed the implementation of International Accounting Standards. By the end of 1998, almost 200 individual business plans had been reviewed and recommended to the banks and 80 were approved, for an average of EUR 20,000 per loan. A further EUR 4 million was allocated to the credit line from the 1997 programme.

Statistical overview

Phare funding by country, 1990-1998

Total Phare commitments, contracts and payments, 1990-1998, in million EUR

| Partner country | Commitments | Contracts | Payments |
|-----------------------|-----------------|----------------|-----------------|
| Albania | 493.13 | 347.82 | 315.88 |
| Bosnia & Herzegovina | 282.33 | 206.98 | 152.11 |
| Bulgaria | 746.94 | 518.13 | 479.44 |
| Czech Republic | 389.73 | 246.12 | 196.46 |
| Estonia | 162.83 | 116.76 | 95.48 |
| FYROM | 167.33 | 127.68 | 93.57 |
| Hungary | 864.04 | 586.59 | 566.92 |
| Latvia | 206.57 | 149.56 | 115.07 |
| Lithuania | 272.03 | 197.33 | 146.46 |
| Poland | 1,731.51 | 1,386.04 | 1,251.30 |
| Romania | 971.85 | 675.75 | 598.13 |
| Slovakia | 253.23 | 149.45 | 132.95 |
| Slovenia | 131.29 | 95.65 | 77.67 |
| Ex-Czechoslovakia | 232.71 | 228.85 | 229.17 |
| Multi-country | 880.69 | 701.07 | 544.67 |
| Horizontal programmes | 1,104.68 | 963.51 | 593.81 |
| Total | 8,890.88 | 6,697.3 | 5,589.10 |

Phare funding by sector, 1990-1998

Total Phare commitments, contracts and payments, 1990-1998, in million EUR

| Sector | Commitments | Contracts | Payments |
|---|-----------------|----------------|-----------------|
| Administration & public institutions | 761.23 | 395.35 | 291.58 |
| Agricultural restructuring | 562.60 | 459.01 | 438.57 |
| Civil society and democratisation | 104.84 | 79.79 | 64.95 |
| Education, training and research | 1,012.09 | 959.93 | 867.51 |
| Environment and nuclear safety | 753.12 | 544.62 | 447.19 |
| Financial sector | 268.68 | 257.82 | 248.76 |
| Humanitarian, food and critical aid | 533.02 | 521.07 | 501.52 |
| Infrastructure (energy, transport and telecoms) | 2,145.59 | 1,298.24 | 958.04 |
| Approximation of legislation | 84.07 | 73.81 | 19.66 |
| Consumer protection | 12.91 | 12.63 | 8.97 |
| Private sector, privat. & restructuring, SMEs | 1,156.02 | 924.98 | 815.81 |
| Integrated regional measures | 340.15 | 124.91 | 83.34 |
| Social development and employment | 272.84 | 233.64 | 202.37 |
| Public health | 105.57 | 98.92 | 88.46 |
| Other (multidisciplinary, general TA, etc.) | 778.15 | 712.59 | 552.39 |
| Total | 8,890.88 | 6,697.3 | 5,589.10 |