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info Phare

Cover story

The Phare countries - towards the internal market

A new European Commission White Paper aims to help central and eastern European countries adapt their legislation to that of the European Union's internal market. This initiative comes in the wake of the European Council's broad pre-accession strategy agreed at Essen on the ninth and tenth of December 1994, trail-blazing the way towards enlargement.

Europe's new partners must align themselves with the policies of the internal market so that their economies can be integrated with those of the European Union. Integration will reinforce their economic reforms and their industrial restructuring, and will also stimulate trade and commerce. This will improve competitiveness, highlight the benefits of economic transition and will increase macro-economic stability.

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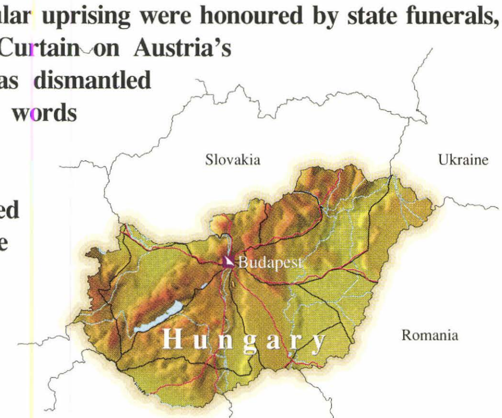
In this issue

Country focus: Hungary

Hungary, together with Poland, was the first Soviet-bloc country to change tack towards democracy following Gorbachev's lead in Moscow. In 1989, the victims of the 1956 popular uprising were honoured by state funerals, the Iron Curtain on Austria's border was dismantled and the words 'People's Republic' disappeared from the country's official title. In 1990, with its first free elections since the war, Hungary formally rejoined the community of European democracies.



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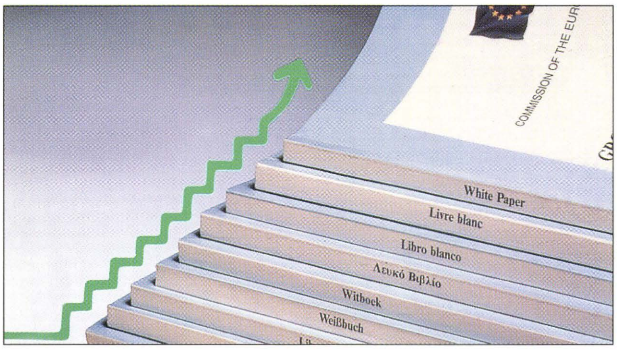
As part of this process, the countries must progressively approximate their legislation with that of the European Union. This is crucial if the internal market is to function effectively after enlargement, for the benefit of all its members, old and new.

The internal market is the lynch-pin of the European Union, a market without internal frontiers, where goods, persons, services and capital move freely, taking the social dimension into account, as well as the need to promote active competition. These fundamental principles, enshrined in the Treaty of Rome and developed further by the European Court of Justice, are complemented by a wide body of secondary legislation adopted at European Union level.

This secondary legislation aims, in particular, to approximate national rules or practices which currently hinder free movement, and to bring about equal conditions for economic operators throughout the EU. When these common rules are not applied in one part of the internal market, the rest of the system is put at risk and its integrity is undermined.



The White Paper: a signpost to the future.

The Europe Agreements, which are in force with six central and eastern European countries (Poland, Hungary, the Czech Republic, Slovakia, Romania and Bulgaria), have been signed with three (Estonia, Latvia and Lithuania) and have been initialled with one more (Slovenia), herald accession and call for progressive alignment with the EU.

The process of approximating legislation has already begun, but some countries have made considerably more progress than others. In addition, each country has different priorities.

The White Paper is intended to make the task of approximation less daunting. While countries themselves must be responsible for approximating their own legislation, they can make good use of guidance in the areas of planning and programming. The White Paper recommends a programme for these countries, identifying the key measures which need approximation in each sector and the best sequence to be followed.

The European Commission regards its White Paper as a general reference document, laying down guidelines. These will need tailoring to individual requirements, with each country drawing up its own timetable and programme of priorities according to its particular economic, social and political circumstances and the progress it has made to date with economic reform. The sequence and pace of each country's strategy will be regularly reviewed to ensure compatibility with economic reform efforts.

However, simply approximating legislation and regulatory systems, standards and certification procedures, is not enough. To be effective, the new legislation must be properly implemented and enforced. The White Paper highlights the administrative and technical structures needed by each country to achieve this objective.

Phare is already providing technical support to help the countries approximate their legislation within the framework of the Europe Agreements. In view of the magnitude of this task, support must be enhanced and adapted to push the process forward and to reflect the White Paper's recommendations.

The European Commission also outlines the content and organisation of a more intensive and coherent Phare-funded programme, involving full participation by all the Member States. This will concentrate on the provision of support for the planning, drafting, implementation and enforcement of legislation.

Two initiatives are of particular interest. The first involves setting up a new technical assistance information exchange office, which would be managed by the European Commission and supported by a multi-country Phare-funded programme. The office would house an internal market database, accessible to all interested parties, and would act as a clearing house, matching requests for support with advice and expertise from the European Commission, the Member States and private bodies.

The second involves participation in certain EU programmes designed to strengthen the internal market, for example KAROLUS (exchange of officials responsible for implementing legislation), MATTHAEUS (for customs officials) and MATTHAEUS TAX (for indirect taxation officials).

The White Paper was drafted after consultation with the six countries which have already signed Europe Agreements. The European Council approved the draft at its Cannes meeting in June. The European Commission will now hold detailed talks with each country to determine approximation programmes and priorities in the light of the White Paper and also to identify technical support needs.

The White Paper will not be binding, nor will it be part of the accession negotiations. Relations with the central and eastern countries will continue to be conducted within the framework of the Europe Agreements, and measures taken in response to the White Paper will be integrated with actions already initiated under those Agreements.

The trail to be followed in the future is clearly signposted - on white paper. ■

Training tomorrow's experts

The youngest of the European Union's institutional family, the European Training Foundation (ETF), has now been operational for six months. Based in Turin, Italy, it is an autonomous agency whose job is to coordinate - and sometimes manage - all European Union programmes dealing with post-compulsory education in the Phare and Tacis partner countries. This means that currently, it has three main roles: it helps the partner countries to define their vocational training needs and helps them to implement the resulting programmes. The ETF runs an observatory to keep track of all initiatives in the EU and the partner countries in the field of vocational education and it helps the European Commission to implement the Trans-European Cooperation Scheme for Higher Education (Tempus II).

Despite its very short existence, the ETF has already taken on board a large number of responsibilities. For Phare, it is managing eight national vocational education and training programmes, a couple of multi-country programmes and the Tempus higher education programme.

National vocational education reform programmes are taking place in the Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Like other Phare programmes, they are implemented by the partner countries themselves. All of the programmes tend to deal with similar issues, as the major problems facing the region's vocational education systems are to be found in most countries. Formerly, each country provided highly specialised training, leading to the economic over-specialisation prevalent in the region today. Technicians were equipped with skills that were far too detailed - and thus narrow - to be useful in market-driven economies. Consequently, it became obvious years ago that altering the curricula was going to be the most effective way of reforming vocational education and training systems. Originally, Phare itself helped its partners to reform the sector. This function has now been delegated to the ETF.

In all eight countries, curriculum reform is at - or near - the top of the agenda. In some countries, like Poland, new curricula have already been developed and are now being implemented by ETF-supervised programmes. In others, like the Baltic States, the process of definition is still going on. Throughout the region, these actions are complemented by other activities which range from the purchase of equipment to teacher training. Altogether, ECU 50 million have so far been committed to these programmes, with more to come over the next few years.

The ETF is also setting up a partnership programme for the Phare countries to allow them to twin up with partner organisations from the European Union. Experience across a range of sectors has shown that this is a quick, efficient and unbureaucratic way of transferring knowledge. The first grants should be made available in 1996. Another initiative is the staff development programme, whose objectives and procedures will be refined at a workshop to be held in July.

Last but not least, there is the Tempus programme, perhaps the most complex and ambitious of all Phare-financed education reform programmes. It has been around since the very beginning of Phare's life and has at times consumed over ten percent of Phare's annual budget. Now managed by the ETF, interested parties can contact them directly for further information on
Tel (+39-11) 630 22 22
Fax (+39-11) 630 22 00
Email info@etf.it. ■

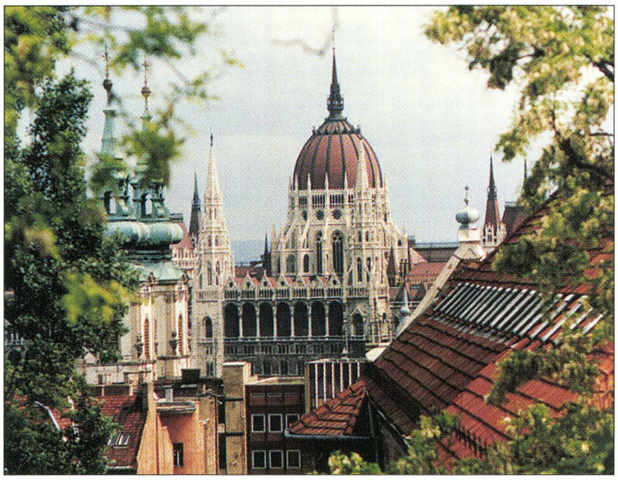
The Director of the European Training Foundation, Peter de Rooij, chairing the last Advisory Forum in Turin, held from 12-14 June 1995.

Country focus

Hungary

Hungary chose to structure itself on the parliamentary model. Members of Parliament, elected for four-year terms, themselves elect the President, the Prime Minister, the Chairman of the Supreme Court, members of the Constitutional Court of Justice, the Chief Prosecutor and other important officials. Six parties have been represented in parliament since 1990 and, although the western model of left and right-wing parties does not really fit into Hungary's political structure, most shades of political opinion are represented.

Necessary but painful reforms were launched with popular support after the elections of 1990. However, in Hungary as in other countries, the transition process took much longer than most people had anticipated, and in the 1994 elections, the country shifted its political allegiances from the right-of-centre party, rewarding parties who promised to soften the pain of reform.



Hungarian parliament - Budapest.

The governments led by József Antall and Péter Boros (MDF) were succeeded by a government led by the Hungarian Socialist Party, with Gyula Horn as Prime Minister. The new government is, in practice, as committed to markets, economic reform, NATO and the European Union as its predecessors.

Hungary's history as the most liberal of Comecon states gave it something of a head start in economic issues, and it was able to attract the largest influx of foreign investment of any country in the region (US$ 7 billion from 1990 to 1994). Nonetheless, Hungary had to endure a painful recession.

The first signs of an upturn came in 1994: unemployment turned out to have peaked in 1993 (at 14 per cent), and the post-revolution decline in gross domestic product (GDP) was halted in 1994, a year which saw growth of two per cent.

However, this growth is consumption-led and is driving the trade deficit to record highs. The current account deficit stands at over nine per cent of GDP, and the consolidated budget deficit reached 7.5 per cent of GDP in 1994. Foreign debt now accounts for 80 per cent of GDP and servicing it consumes over 40 per cent of export earnings.

The government, recognising the gravity of the problem, introduced a tough austerity package in early 1995. The 1996 Expo was cancelled, the forint devalued, and an import surcharge introduced. Public sector employment and wages will be cut and social benefits are being severely curtailed. These measures have met with predictable public hostility, but the government is committed to reform and parliament has started passing the relevant legislation.

The hope is that, if the government's resolve holds, Hungary will be launched on the path to economic stability and sustainable growth.

The next big item on Hungary's agenda is membership of the European Union. Mr Horn has made it clear that he would like Hungary, which has submitted a formal application, to join the EU before the year 2000. Whether that is feasible is unclear.

Spring cleaning in Budapest.

Basic facts about Hungary

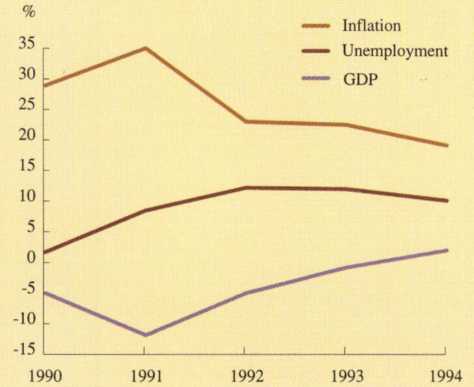
Land area	93,033 km^2
Population	10,278,000
GDP per head in 1994 at PPP	USD 3,200

There are many hurdles left to overcome before Hungary can survive full competition with the comparatively lean economies of the EU. For its part, the EU has recognised the legitimacy of Hungary's desire to join and has prepared a formal pre-accession strategy to help both parties prepare for that day.

Hungary's Europe Agreement has been in force for over a year now. Hungary is working flat out within the pre-accession strategy and has already made good progress, notably by adopting and incorporating large chunks of EU legislation into its own legal corpus. However, there is still much to be done. Both public administration and the judiciary require radical reform. Social welfare systems must be targeted more effectively to be both fair and affordable. The banking system is not yet fully used to private enterprise and is still hindering economic growth.

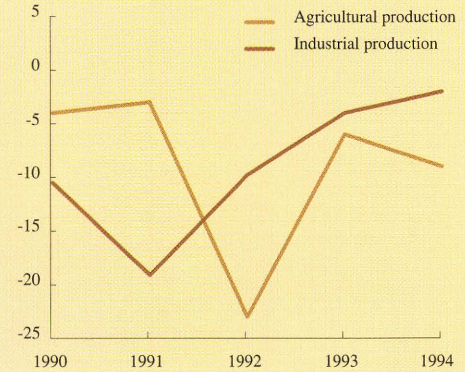
It will not be easy to implement these vital reforms. In Hungary, like anywhere else, there is always resistance to change. But the government's determination to proceed is buttressed by the average Hungarian's desire to join the western 'club'. He knows deep down that he will have to tolerate a few more lean years before he can take a well-deserved break from austerity. ■

Inflation, GDP and unemployment



Source: European Commission

Industrial and agricultural production

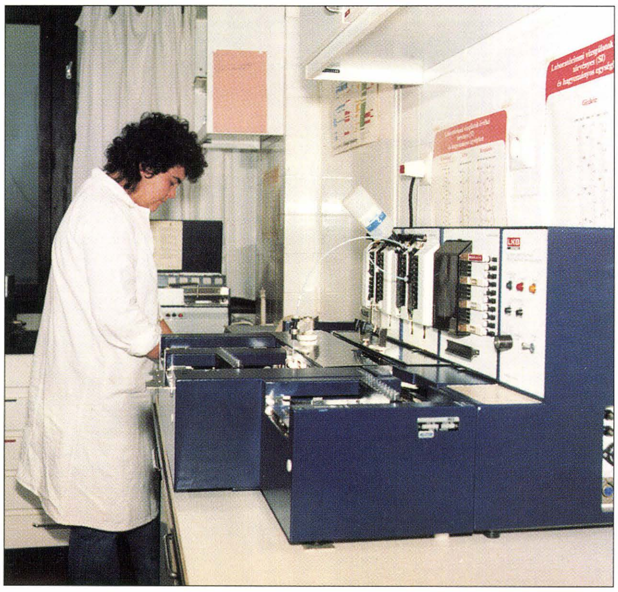


Phare and Hungary

Today, the name Phare describes a programme with a broad geographical scope. Originally, however, Phare was not a word, but an acronym (Poland and Hungary: Assistance to Restructure the Economy) referring to a programme designed in 1989 to channel the European Community's support to the, then only two, liberalising countries in the collapsing eastern bloc. In deciding to offer its support, the European Community recognised the key role that Hungary played in the collapse of the post-war division of Europe. Hungary was not only an example to others but, through its decision to open its border with Austria, contributed directly to the collapse of communism in other countries, notably in East Germany. Hungary, true to its history, was once again demonstrating its independent spirit.

However, the good intentions, the drive for change and the experience gained from goulash communism were not enough to ensure a pain-free transition. Quite apart from the problems suddenly facing its economy, Hungary had to change its attitudes, habits and institutions.

Reform in Hungary was uncharted territory. No one had ever tried to reform a command economy before. No economists had ever drawn up a theoretical framework which could be used to analyse the problems facing transition economies. No political scientist could predict whether democracy would take root or not, no sociologist could tell whether the people would accept the unavoidable decline in their standard of living, and no banker knew whether or not the required capital would materialise. As it turned out, everyone involved had different ideas about the speed of reform and the order in which to do things. Phare and the Hungarian Government were groping around in the dark, and decisions had to be taken on the basis of little more than guesswork.



Phare is helping to upgrade the Hungarian agro-food industry.

There are three possible ways of working under such conditions. The first is to postpone action until things become clearer. The second is to act like a fire-fighter, dealing with emergencies first and accepting the risks inherent in a trial and error process. The last is to instigate effective projects, knowing that the sectors you have chosen may not meet with universal approval. Phare, being pragmatic, adopted all three strategies.

Hungary never required the short-term stabilisation programmes that other countries did. Rather, Phare immediately had to help Hungary create the basic legal and institutional framework for its fledgling market economy.

Most reform efforts involve new legislation, drafted with the support of Phare-funded experts.

Over the first four years of activity, the main priorities of Phare evolved in the following way. In 1990 and 1991, Phare focused its energies on production, particularly on agriculture. In 1992, Phare concentrated on social issues and on regional development. In 1993, sectoral restructuring issues came to the fore. Throughout these four years, the government paid close attention to the education system and this resulted in large shares of the Phare budget being allocated to programmes such as the Trans-European Cooperation Scheme for Higher Education (Tempus).

A large number of individual programmes were launched, covering what turned out to be the initial phase of transition. These programmes, outlined below, encouraged the transfer of know-how and institution-building across a wide range of sectors.

In 1990, Phare helped the government relaunch the economy through a package of measures which included support to set up a privatisation agency, modernise financial services and to help small businesses and entrepreneurs establish themselves and expand. The institutional infrastructure of foreign trade was modernised. Farmers, who almost overnight became the country's largest group of independent economic operators, received virtually a quarter of Hungary's total Phare allocation for that year. On the non-productive side, education reform received massive help. The disastrous environmental legacy of communism provided the catalyst for Phare's largest programme that year, worth ECU 25 million, to protect the environment.

These initiatives, the foundation of Phare's involvement in Hungary, were extended in 1991. Farmers, financial services, foreign trade and small and medium-sized enterprises (SMEs) received further help. A privatisation and enterprise programme dealt with ownership reform, helped the State Property Agency, and financed restructuring plans. A company registration system was also established and customs started computerising their service. The first sector-specific programmes were launched to help the energy and transport sectors. The Hungarian statistical service received help to modernise its methods. Another environmental programme was financed.

Social programmes came to the fore in 1992. The development of policy, the reform of local authority social programmes, the support for social dialogue and the development of labour markets were all given a high priority. For the first time, Phare funded a development programme targeted at regions facing unusually severe structural difficulties. Of course, other issues were not neglected. The reform of public administration, the environment, agriculture, education and the small enterprise sector all received Phare support that year.

By 1993, economic restructuring was absorbing more than 31 per cent of Phare's budget allocation, with the lion's share going to SMEs, who benefited from financial instruments, micro-credit schemes, advisory centres and institution-building. Agriculture received almost as much in order to deal with issues as diverse as animal health, land registration, and access to capital, credit and insurance. A programme was launched to restructure health care.

In these early years of transition, not all programmes were as effective as one might have hoped. Sometimes, the partner organisation was unable to digest the vast amount of support suddenly on offer. Too many disparate goals were targeted, spreading resources too thinly. But most programmes achieved at least some of their objectives, with a large number of sectors receiving in-depth exposure to western know-how for the very first time thanks to Phare.

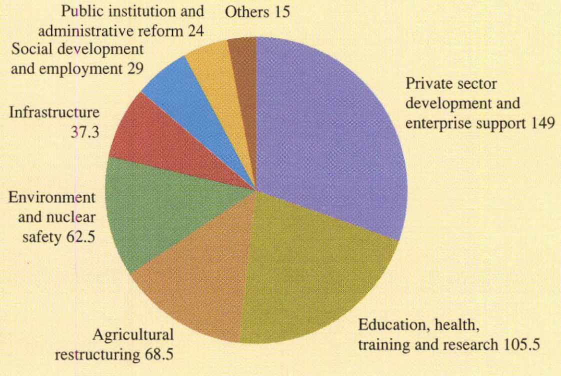
Phare redefined its strategy for Hungary in 1994. A much more limited number of sectors received comparatively greater amounts of support. Phare diverted resources from issues of straightforward economic restructuring to direct financial interventions in transport, energy and the environment. Co-financing mechanisms were developed for the infrastructure components.

Phare support does not occur in a political vacuum. The Europe Agreement includes a whole raft of detailed measures to prepare Hungary for membership of the European Union. Since 1992, Phare has funded packages of measures, bundled together under European General Technical Assistance Facilities, to help Hungary implement its commitments under the Agreement.

Phare will do everything it can to help Hungary prepare for accession. Two medium-term goals have already been agreed. The first is to integrate the body of European legislation known as the acquis communautaire into Hungary's legal corpus. This process must be complete on the day of Hungary's accession, and involves making fundamental changes to large areas of Hungarian legislation. The second is to help Hungary solve the remaining problems that are slowing the process of economic transformation and are preventing the country from enjoying rapid economic growth. Many people, from Budapest to Brussels, are already involved in planning this active future. If this work is carried out thoroughly, the day cannot be very far away when Hungary joins as a full member. ■

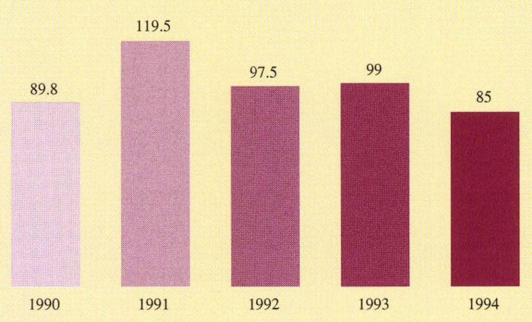
Phare funding for Hungary by sector 1990-1994

In ECU million



Phare funding for Hungary by year 1990-1994

In ECU million



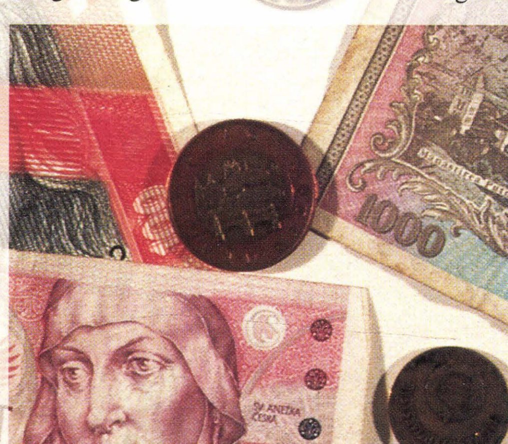
General overview of the banking sector

The development of a strong banking sector in central and eastern European countries is vital for their transformation from centrally-directed economies to market economies. An efficient banking system contributes to the growth of an economy through the mobilisation and commitment of savings to productive investment. If this process is lacking, the success of reforms in, for example, agriculture or private sector development, may be impaired.

Central and eastern European countries have been wrestling with these fundamentals for the past five years. The banking sector has had to contend with the banking system changing from a single-tier to a two-tier structure. The latter system involves independent commercial banks operating alongside the separate central bank, offering a range of commercial services (including credit) to enterprises according to risk.

Born-again currencies need nurturing.

A range of different solutions have been adopted by these countries to achieve these objectives. Poland, for example, has created regional banks from the central bank's regional activities. Romania has created commercial banks out of specialist sectors such as agriculture and trade. By mid-1994, every central and eastern European country had adopted the two-tier system.



However, further measures are required before a credible banking system can be created. Change has been necessary and continues to be essential within the institutions themselves and to the approach of bank personnel, so that key functions can be established in the crucial areas of credit allocation, security of deposits, and the transfer of funds. After all, a banking sector which cannot undertake these functions is ineffective and may hinder domestic investment rather than encourage it.

Moreover, the banking sector and its Phare programmes have to operate within the constraints - legal or otherwise - imposed by a country's national infrastructure. This link is particularly important where the heavy bad debt portfolios of banks in many Phare partner countries are concerned. Such banks cannot be restructured without also restructuring the enterprises which have the bad debt - many of which are not viable in a commercial environment.

The various types of reform required by the banking sector vary from country to country, though certain needs are universal.

- Central banks must be organised and equipped to fulfil their functions in a commercial economy. These include handling and supervising monetary, fiscal, foreign exchange and payment systems and regulating and supervising commercial banks and other credit institutions.
- The banking system must have a comprehensive and coherent legislative/regulatory framework. Basic banking laws have been enacted in most countries but may eventually require amendment in order to cope with recent developments and comply with existing legislation in the European Union.
- Bank staff throughout Phare partner countries need basic, thorough training in commercial practices and attitudes, consistent with a modern market economy. Furthermore, the number of banking staff is still growing rapidly. In Poland, for example, the figure has quadrupled over the past four years. Already over-stretched training resources have therefore come under severe pressure.

- Lending criteria differ from those used in standard, commercial practice in western Europe. Even now, the state is often involved in the lending decisions of state-owned banks and may therefore continue lending to enterprises which cannot repay. Furthermore, the banks know little about risk evaluation, are burdened by bad loans and are often undercapitalised.
- The extensive bad debt problems raise concerns about political will and/or economic capacity. If banks need to be recapitalised and enterprises restructured, governments must take tough decisions and commit significant funds from the state budget but are often unwilling and unable to do so.

Although progress is being made, a great deal remains to be done before each central and eastern European country has a banking sector which is able to perform the functions required by a modern market economy. The provision of funding and the transfer of know-how is most effective where partner countries recognise just how important an efficient banking sector is to their development, and acknowledge the need for positive, mutually beneficial support to achieve this aim. ■

Banking - a modernising sector, inside and out.

Phare activities in the banking sector

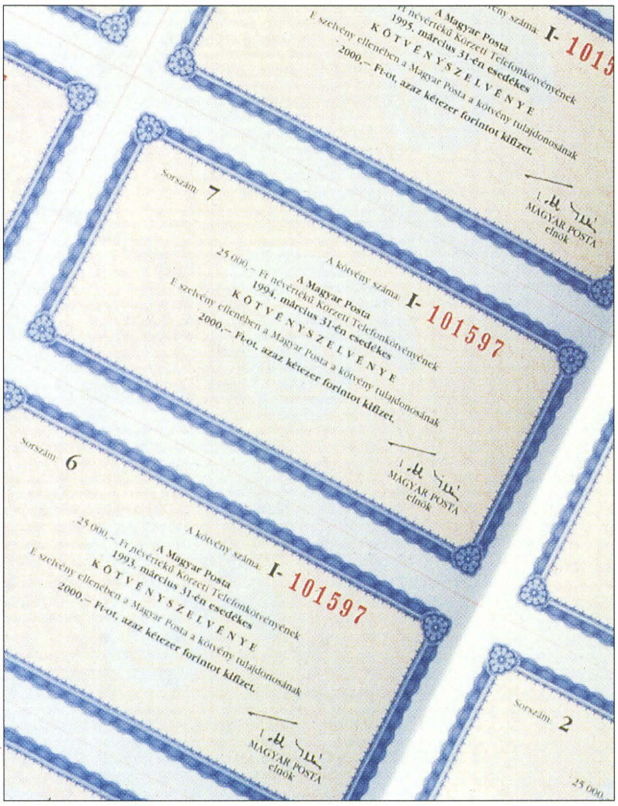
By the end of 1994, the banking sector in central and eastern Europe was being supported through 30 Phare programmes and a total funding of around ECU 103.32 million. This support is divided between 11 different countries: Albania, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania , Slovakia and Slovenia.

The objectives of support in the banking sector are broadly based and Phare's programmes are designed to be flexible enough to handle the rapidly changing banking environment, especially where major shifts in government policy are involved.

The activities and progress of programmes are influenced by many factors including the current reform status in the banking sector of each country, and the importance it is granted by national authorities. Poland is a good example of a country where the government is focusing resources on the banks.

Support for banking is directed, in the main, towards central banks, training and banking institutes and towards the strengthening and restructuring of commercial banks.

Since 1993, certain Phare partner countries, Poland, Romania and Slovakia, have received support to develop an integrated approach to enterprise and bank restructuring. This includes departments or "workout units" dedicated to loan recovery and debt restructuring, and the establishment of special restructuring vehicles, such as the Bank Restructuring

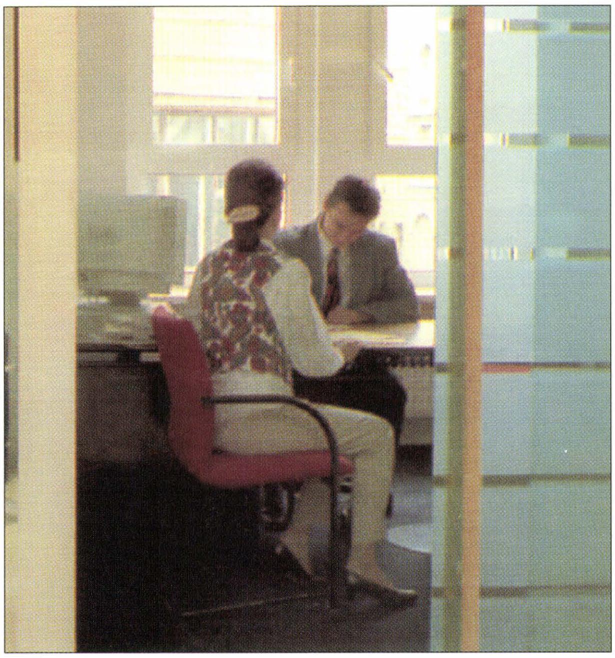


These vouchers privatised industry: now credit is needed.

Agency in Slovenia. This reflects the importance attached to state banks' bad debt portfolios as a core banking issue.

Other methods used by Phare are: feasibility and strategic studies, the placement of short or long-term advisers, twinning arrangements, strategic audits and equipment supply.

Generally, Phare's influence has been greatest where there is unequivocal government support. The Polish Government, for example, has passed legislation and has committed government funds to recapitalise banks and restructure non-



With credit comes advice.

viable enterprises, with Phare programmes supporting the process. The Romanian authorities have also drawn up a mid-term economic and social reform programme.

The Phare Programme has also had more impact where support from other donors has been coordinated, thereby maximising the effective application of funds and resources, and avoiding conflict or duplication.

A good example of effective joint funding is the McKinsey project for the restructuring of the Romanian Bank, involving, among others, the World Bank, the European Bank for Reconstruction and Development (EBRD) and Phare. Joint missions and exchanges of information such as this should be encouraged.

Phare activities have been most useful in specific areas such as central bank accounting and supervision. These are areas where the European Union is experienced in the harmonisation of national regulations and standards. These types of programmes have, in particular, supported the Czech Republic, Romania, Latvia and Slovakia. This, in turn, has led to improved working methods.

Another key area for support has been the payment and clearing systems of the partner countries, which are slow and inefficient. Several Phare programmes have been put in place to improve these systems in Poland, Romania, Hungary and Slovenia.

Bank training was immediately identified as a crucial area for Phare support. Many staff have now been trained, for example, in credit analysis and accounting. Early projects concentrated on individual training courses.

Finally, Phare operational audits and diagnostic studies have proved very successful in pinpointing areas in banks where support is particularly needed, as in Romania, for example, where projects involving information technology, credit policy and strategic planning are well under way. Similar techniques are being used in the Czech Republic, Slovakia , Bulgaria and Estonia. Audits such as these have also helped quantify the extent of bad debt problems and have familiarised the banks with the concept of international accounting standards.

Phare has also put in place a number of credit lines for specific purposes, such as SME support, using banks as delivery institutions, etc. This has involved the provision of know-how in credit analysis and bank administration.

In conclusion, Phare activities to date have largely been aimed at providing technical know-how and strengthening state-owned banks. The future thrust of the financial sector programme lies in supporting the privatisation of those banks which have been strengthened during this period. ■

Banking sector - Phare methods

- "workout units"
- restructuring vehicles
- feasibility and strategic studies
- placement of long and/or short-term advisers
- twinning arrangements
- strategic audits
- equipment supply

EIB financing in central and eastern Europe

The European Investment Bank (EIB) is the European Union's long-term financing institution which provides support for capital investment projects to advance European integration. Although the EIB's main objective is to finance projects in the European Union's (EU's) least favoured regions. It also supports other EU policies, including cooperation with non-EU countries.

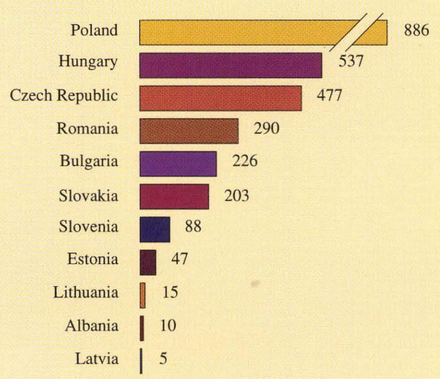
Since 1990 therefore, the EIB has provided resources, know-how and expertise to support central and eastern European countries in their transition towards market economies. By June 1995 it had committed a total of ECU 2.7 billion to a variety of projects in the region in the transport, telecommunications, energy, industry and environmental sectors. For the three years 1994 to 1996, a total of ECU 3 billion has been earmarked for projects in ten countries: Albania, Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania and Slovakia. Since July 1993, the EIB has also been permitted to lend up to ECU 150 million in Slovenia.

EIB lending, whether in the public or private sector, is only permitted where projects are considered technically, economically and environmentally sound. Furthermore, as a non-profit-making organisation, the EIB provides financing for projects at close to the cost of the EIB's own borrowing on capital markets (plus 0.15 per cent to cover operating expenses). It may also only finance a maximum of 50 per cent of the cost of a project, co-financing investments with other banks and specialised institutions. The EIB's most frequent financial partners in central and eastern Europe are the European Bank for Reconstruction and Development, the World Bank and funding bodies of the EU Member States.

Since it started lending in central and eastern Europe, the EIB has provided, as of May 1995, approximately ECU 2,784 million for projects in the region. This breaks down into the following:

EIB lending to central and eastern Europe, 1990-1995

In ECU million



In central and eastern Europe, the EIB, with the agreement of national governments, is giving priority to projects in the sectors detailed below. ■

Transport - The EIB has already, for example, provided substantial funds to modernise air transport schemes in the region, helping the countries to develop communications cost-effectively and linking them to the trans-European networks. Conscious of the vital role air transport plays in both developing a market economy and facilitating integration with the rest of Europe, the EIB has already provided a total of ECU 155 million to upgrade air traffic control systems in Bulgaria, Hungary, Estonia, Romania and Slovakia. In September 1994, the Bank's first loan in Lithuania was for some ECU 10 million to modernise and upgrade Vilnius international airport, and it has provided ECU 50 million for the extension of Warsaw airport.

Road networks and railways have also received financial support from the EIB, with ECU 125 million recently going to the Czech State railway company to modernise the Czech section of the Berlin-Prague-Vienna line. The work is being closely coordinated with German and Austrian railways, which are updating their sections of this major north-south trans-European link and which includes branches to Bratislava and Budapest.

Telecommunications - The Bank has financed the modernisation of telecommunications networks in Bulgaria, the Czech Republic, Hungary, Poland and Slovakia. In May 1995, it announced a loan to Romania of ECU 80 million for the installation of some 700,000 new telephone lines by 1997.

Energy - In the energy sector, priority is being given to the rationalisation and rehabilitation of existing supply and the development of the region's own resources. Power station modernisation and gas storage and transport is being financed in a number of countries including Poland, Romania, Slovakia and the Czech Republic.

Industry - In terms of industry, priority is being given to joint-ventures with EU partners and direct investment by EU firms. The Bank is providing global loans or temporary credit lines to the region's banks, to fund small and medium-sized projects. The local banks lend these funds according to EIB criteria.

The European Bank for Reconstruction and Development

European Bank
for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) is a multinational financial institution. It was founded in 1991 to help those countries of central and eastern Europe and the former Soviet Union 'committed to and applying the principles of multi-party democracy, pluralism and market economics' to develop market-oriented economies.

Its 59 shareholders are 57 countries (including its 25 'countries of operations') plus the European Union and the European Investment Bank.

The EBRD sees its strengths as being able to operate in both public and private sectors, being flexible through the use of a focused range of financial instruments, and being able to concentrate on a single region.

The Bank also believes it has, as a result of its shareholder base, a market edge in "its willingness and ability to accept risk" which allows it to "act at the frontier of commercial activity and to lead the way for other investors". The EBRD also shares project risk with other private sector bodies and, by supporting companies that have difficulty securing financing, it complements the efforts of other lenders.

The EBRD is financed by an initial share capital of ECU 10 billion subscribed by its shareholders. It also borrows in various currencies on the world's capital markets. It offers finance through loans, equity investment and guarantees.

Many joint ventures have received support through the Bank's financing, particularly those with foreign sponsors. Co-financing is an important element of the Bank's work. By the end of May 1995, the EBRD had approved 276 projects for a total of ECU 5.8 billion. Combined with other sources of finance this will provide a total investment of over ECU 18 billion for projects in the region. Sixty-six per cent of total approved funding was for private sector projects.

Project-related technical cooperation is another major feature of the EBRD's activities. By the end of April 1995, 38 cooperation fund agreements (totalling over ECU 312 million) had been concluded between the Bank and bilateral donors for this purpose. Eight hundred and forty-two projects had been committed with a total estimated cost of ECU 200 million.

The Bank invests in a wide range of sectors. These include: finance, manufacturing, telecommunications, transport, energy and power generation, natural resources, agriculture-related businesses, property and hotels. Signed projects approved in 1994, for example, include a loan of ECU 35.1 million to Barum Continental, a company in the Czech Republic, to upgrade its tyre production and retailing capacity (total project investment ECU 189.3 million).

A loan of ECU 10.8 million was also granted to the prestigious Athénée Palace hotel in Bucharest to refurbish it to international standards (total project investment ECU 44 million).

In addition, shares to the value of ECU 9.6 million were made available to the Advent Fund, which provides capital and management guidance for private companies in the Czech Republic, Hungary, Poland and Slovakia (total project investment ECU 46.5 million).

The Bank is increasingly working through local financial intermediaries in the region by lending to, and investing in, local financial institutions, which in turn support small and medium-sized enterprises. At the end of May 1995, the EBRD had committed ECU 1.4 billion through 78 operations involving financial intermediaries. ■

Source: JimHodson/F. Spooner Photo News

The Bank's headquarters are located in London and it has offices in 15 of its countries of operations.

News

Estonian Oil-Shale Company cleans up its act

In one short working season, the Estonian Oil-Shale Company has adopted and adapted reclamation techniques for open-cast mining which took 25 years to develop in the United Kingdom.

UK consultants Richards, Moorehead and Laing Ltd. have introduced these changes under the Phare Programme. The two-phase project of design and implementation has involved a radical change of practice which is vitally important for this Estonian industry. Previously, reclamation of land for agriculture has not been successful owing to the neglect of soil drainage and soil quality issues. New designs have produced plans for a traditional 50-hectare mixed farm in which soil-handling, ground-profiling and drainage considerations have been given priority. During 1994, 2.5 hectares of land were prepared for cultivation and 3.5 hectares developed as an area of woodland. Reclamation work will continue as mining proceeds in future years.

The managers of the Estonian Oil-Shale Company, local farmers and community leaders, are delighted with the work which they regard as having the real potential to rehabilitate land successfully for agricultural use. Whilst on a site visit, Mr Ivor Richards OBE, Managing Director of Richards, Moorehead and Laing Ltd. was told by Mr Mae, Director of Kohtla Mine, that "an historic change had been made in the operation of the oil-shale industry in Estonia". ■

Yesterday, waste; tomorrow, prime agricultural land.

News

Sewage - a tradeable commodity

On March 16, at a ceremony in the Saxon village of Seifennersdorf, Arnold Vaatz, the Saxon Minister for the Environment, and Vladimír Novotny, the Czech Deputy Minister for the Environment, gave their blessing to the launch of the most fragrant of German exports to the Czech Republic. With the formal opening of a brand-new pipe, Saxon sewage started flowing to the Czech border town of Varnsdorf.

This rather unorthodox form of 'trade' is simply a case of good neighbourly relations. Here, one partner is quite literally helping the other out of a sticky situation.

Seifennersdorf is a cosy little place, typical of the Saxon-Czech border. Like many other villages, it does not have a sewage treatment plant of its own. The standard solution to this problem would have been to build a small plant specifically for the village, before repeating the exercise in dozens of other places. Albeit expensive and wasteful, that seemed to be the only conceivable course of action, until the Saxons and the Czechs decided to cooperate. Both parties wanted to reduce pollution in the Mandau and Neisse rivers. It had already been noticed twenty years earlier that Varnsdorf's sewage treatment plant had a capacity that greatly exceeded the town's needs. What better solution than to treat the sewage of Seifennersdorf as well? Prior to the Velvet Revolution, it proved impossible to get the project off the ground. Today, it is a reality.

Together, Phare and the state of Saxony financed the construction of the sewage pipe from the border to the plant at Varnsdorf. That pipe is merely the first link in a much larger network: the next step will be to run sewage from the Czech town of Rumburk through the new pipe of Seifennersdorf to Varnsdorf. Later on, other cross-border projects could be constructed. As Mr Vaatz said, "this is only the first step, but already, the Mandau and Neisse are visibly cleaner." ■

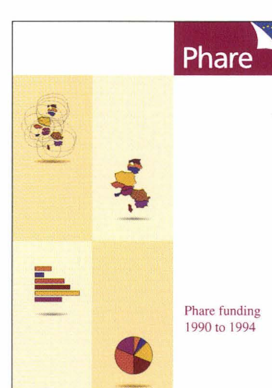
Mr Hegarty from the European Commission's Delegation in Prague and Mr Brant from the Phare Coordinating Unit declaring this sewage pipeline open.

New publications

The funding booklet is now available from the Phare Information Office.

It has been produced to give comprehensive details on how Phare funds have been allocated. The information is shown in two different forms; a presentation by country and a presentation by sector showing both total funding and annual funding.

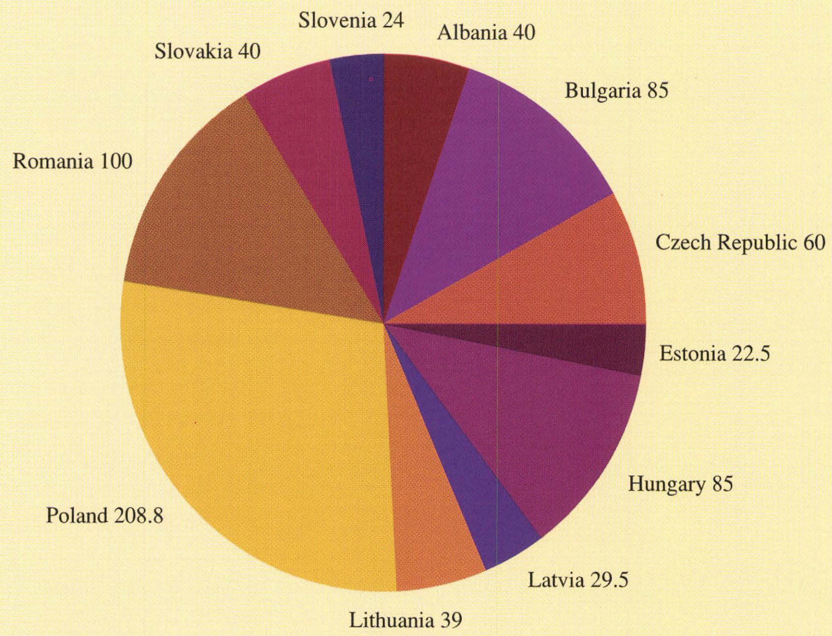
A summary of some of the information contained in the funding booklet can be seen on the opposite page.



Summary of Phare grants in 1994

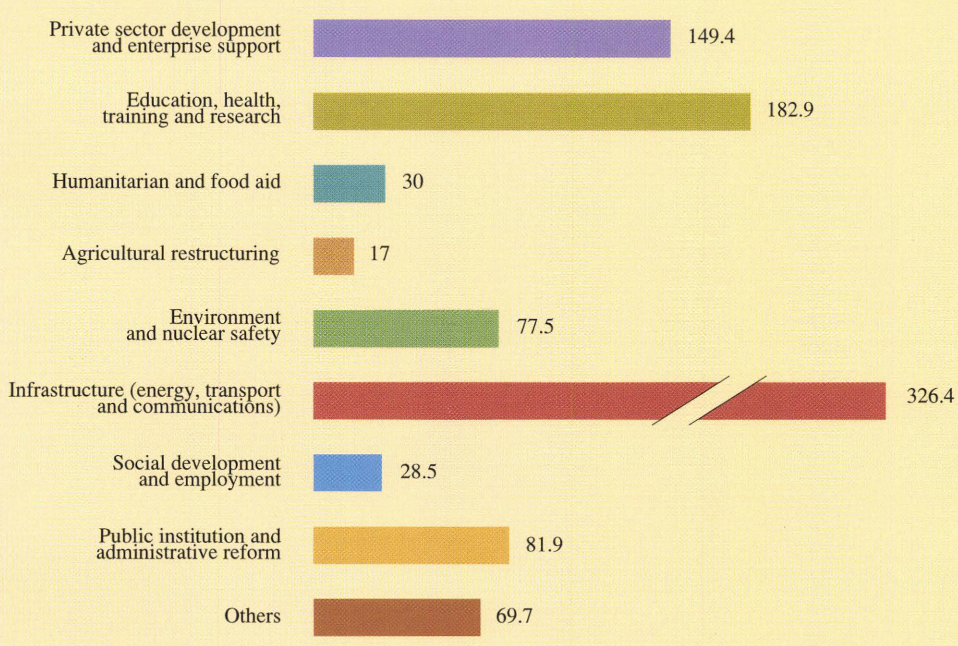
Phare funding by country in 1994

In ECU million



Phare funding by sector in 1994

In ECU million



News

News round-up

- On June 7 the European Commission decided to open Delegations to the European Union in Estonia, Latvia and Lithuania. Delegation matters had previously been dealt with by the Swedish Delegation, which has now closed following Sweden's accession to the EU. Whether or not the Delegations will become operational this year is dependent on the resources available.
- EU Foreign Ministers meeting on June 12 agreed to make central and eastern Europe their top foreign aid priority for the next five years. Under the aid agreement, central and eastern Europe will receive ECU 1.24 billion from the European Union this year.
- Although to a large extent overshadowed by the crises in Bosnia and Chechnya, this year's summit of the seven most industrialised nations (G7) in Halifax, Canada, nevertheless reached a number of important agreements. Heads of government agreed to convene a special summit next year to discuss nuclear safety and ancillary issues such as smuggling and nuclear waste disposal. The G7 also promised to reinforce crime-fighting institutions in the face of the growing threat of organised crime to the security of G7 nations.
- European Union leaders agreed at the European Summit in Cannes on June 27 and 28 to spend ECU 6.7 billion over the next five years on the Phare Programme. The Heads of State also endorsed the White Paper (see our cover story). Although the summit's final declaration that "integration was the main element of the strategy of preparation for accession" was well received by the countries of central and eastern Europe, Poland nevertheless voiced disappointment that the meeting had not gone on long enough to discuss the possibility of multiannual programming for Phare.
- Directorate General IA's structure has been revised and took effect as of July 1995.
- On June 12 the General Affairs Council decided to accept Croatia as a new Phare partner country. The amount and type of support to be given are still to be established.
- On 13 June 1995, Slovenia signed a free trade agreement with the European Free Trade Area (EFTA). It has also initialled a free trade agreement with Poland, an important step which allows Slovenia to join the Central and Eastern European Free Trade Agreement (CEFTA) ■

Forthcoming events

Date	Organiser	Event	Place	Contact
4-6 October	UIC, CER, the EU and UNIFE	EURAILSPEED '95	Lille, France	Constant Berns Tel (+33-1) 44 63 56 24 Fax (+33-1) 44 63 56 27
5-6 October	European Study Conferences	Business Strategies for a wider Europe	Brussels, Belgium	Tel (+44-171) 386 93 22 Fax (+44-171) 381 89 14

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