



# **UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE**

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## **EC financial assistance to the Central and Eastern European countries**

**Background Paper for Special Session II on The Role of Official  
Assistance in Creating the Conditions for Sustainable  
Development**

*prepared by the*

**European Commission**

# **UN/ECE Conference on Financing for Development in the ECE Region to be held in Geneva, 6-7 December 2000**

## **Background paper to session II:**

**„The Role of Official Assistance in creating conditions for sustainable development“**

## **EC financial assistance to the Central and Eastern European countries**

### **I. Background/ introductory note**

- The transition towards democracy and market economy in the CEECs/NIS is a historically unique challenge. Transition calls for far-reaching changes of almost every aspect of society<sup>1</sup>.

### **II. The role of aid in the transition process**

- The domestic factors are of primary importance for the transition process; main requirement is the consistent political will to achieve broadly based economic and social progress by the countries concerned.
  - Limitation of technical assistance due to the relatively small flow of aid.
  - Development aid has to be seen as a catalyst that facilitates/supports domestic transition efforts. To ensure maximum impact, this support should concentrate on a limited number of areas.
  - Increased heterogeneity of the region calls for gradual differentiation and individual approaches.
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### **III. The EU aid programmes**

#### **1. PHARE**

**PHARE (Poland Hungary Assistance for the Reconstruction of the Economy):**

It was set up by the EU after the fall of the Berlin wall in 1989 to support the sweeping reforms behind economic and political transition. Phare included emergency aid as well as instruments to support modernisation and restructuring. Its assistance takes the form of grants rather than loans. With an annual budget of 1,5 billion, the PHARE programme co-finances institution building together with associated investment in the infrastructure for the implementation of the acquis and support for economic and social cohesion. It is devoted to 14 Central and Eastern European countries<sup>2</sup>, of which 10 are candidates for EU membership. It is the main channel for the EU's financial and technical support to the CEECs. PHARE has shown a continuing flexibility in adapting to the changing priorities and limitations of the reform process in each of its partner countries.

##### **1.1. International Financial Institutions**

Co-financing with the International Financial Institutions (IFIs). It is especially important for large-scale infrastructure projects. The 1998 Memorandum of Understanding between the Commission and the IFIs to enhance co-ordination and co-financing with PHARE was revised in March 2000 to include ISPA and SAPARD (see below).

##### **1.2. Two new instruments introduced in the year 2000 and valid until each country's date of accession (pre-accession instruments):**

Both programmes came into effect in the year 2000 and are budgeted until 2006. Candidate countries may only benefit from them between the year 2000 and the time they join the Union.

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<sup>2</sup> Poland, Hungary, Czech Republic, Slovenia, Slovakia, Estonia, Latvia, Lithuania, Bulgaria, Romania.

- a) • **ISPA (Instrument for Structural Policies for Pre-Accession)**: finances major environmental, transport, agricultural and rural development projects. It has an annual budget of 1.040 million Euro.
- b) • **SAPARD (Special Accession Programme for Agriculture and Rural Development)**: aims to help candidate countries deal with the problems of the structural adjustment in their agricultural sectors and rural areas, as well as in the implementation of the acquis communautaire concerning the CAP (Common Agricultural Policy) and related legislation. It has an annual budget of 520 million Euro.

## 2. TACIS (Technical Assistance to the Community of Independent States)

- Launched in 1991 by the EU after PHARE as second major program, **TACIS** is a technical assistance programme. It provides grant-financed technical assistance to support the process of transition to market economies and democratic societies.
- In total, TACIS covers 13 countries (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan)<sup>3</sup>.
- TACIS developed into the main aid programme. It is a key instrument of political cooperation between the EU and these partner countries.
- Since 1991, TACIS has committed Euro 4.226 billion in support of transition to market economy and democracy.
- Pivotal instrument of cooperation based on the Partnership and Cooperation Agreements.
- The EU accounts for 59% of global assistance to the New Independent States.

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<sup>3</sup> Countries of the former Soviet Union (except the Baltics) and Mongolia.

- EU assistance focuses on human resources, food, infrastructure, development of the enterprise sector, and nuclear safety. Since 1992, there are special „Democracy Programs“ within both PHARE and TACIS to promote the development of democratic institutions.
- TACIS consists primarily of grant-financed technical assistance and supports:
  - transfer of expertise and know-how, including training
  - industrial cooperation and partnerships for institution building
  - on a case by case basis the cost of supplies required in the implementation of the assistance
  - investment and investment related activities

## 2.1. The new TACIS regulation 2000 – 2006

- The priority areas of co-operation to be supported through TACIS are identified in a dialogue-driven approach (as opposed to demand-driven as in the first years of the programme) between EU and partner states.
- Increased importance is attributed to the "concept of ownership" of the reform process.
- Different programmes for different regions.
- **Larger programmes concentrate on fewer objectives to increase impact.** The concentration on a maximum of three thematic areas of co-operation in each country or multi-country programme seeks to reconcile the need to better focus assistance and the need to maintain flexibility.
- Promotion of the transition to market economy.
- Reinforcement /promoting **democracy** and **rule of law**.
- Ensuring the observance of democratic principles and human rights.
- Development of inter-state economic links and trade flows conducive to economic reform and restructuring.

- Establishment of conditions conducive to private investment.
- Encouragement of regional and subregional cooperation.
- To improve the development of private enterprise and of the market economy , the new regulation allows TACIS funds to be used increasingly to support investment. Up to 20% of the annual programme budget is earmarked for economically sound investment financing in a few predefined areas such as promotion of SMEs and environmental infrastructure.

Priority sectors:

- Institutional, legal and administrative reform
- Mobilizing domestic financial resources for sustainable development
- social consequences of transition
- Infrastructure networks
- Environmental protection and management of natural resources
- Rural economy
- Nuclear safety

### 3) **Aid for the Balkans**

- EC macro-financial assistance in the Balkan countries has mainly been concentrated in the Western Balkans.
- The European Council agreed in June 2000 that all of the countries in the Western Balkans are „potential candidates“ of the Union. This perspective should help each country to accelerate the pace of reform and to begin to align its laws and structures with those in the EU.
- The **Stabilisation and Association process** is the framework for the EU’s policy in the Western Balkans and is seen as „the road to Europe“. It provides for political dialogue, far-reaching trade liberalisation, important financial assistance and close co-

operation in many spheres of economic and social life. This framework allows each country to move at its own pace, with technical and financial support from the Union<sup>4</sup>.

- In Kosovo, the EU has been the leading civilian donor in reconstruction, mainly through the European Agency for Reconstruction. Through its participation in the EU pillar of the UN administration, it has also been helping to shape policy on the future economic structures of the province.

a) **OBNOVA**

Since 1996, EU aid to the Western Balkans (Albania, Macedonia, Bosnia Herzegovina, Croatia and the FRY) was based on this regulation. The OBNOVA programme implemented a large part of EU aid to that region (amounting to 4,5 billion Euro in the last decade) into projects. After the end of the armed conflict the management of OBNOVA funds for the reconstruction of Kosovo was taken over by the Task Force Kosovo which managed to use the funds in an exact and flexible manner. Since spring 2000 this work is done by the EU reconstruction agency for the Kosovo.

In 2001 OBNOVA will be integrated in CARDS. The reconstruction agency will then extend its activities from Kosovo to the whole FRY.

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<sup>4</sup> Negotiations for a Stabilisation and Association Agreement with **FYROM** are nearing completion. The Commission has also proposed to open negotiations with **Croatia** in recognition of the commitment to democratic values demonstrated by the new leadership since the elections there in January 2000, and the far-reaching structural reforms being introduced. The government in **Albania** is working closely with the Commission to introduce the necessary preparatory reforms, in response to the Commission's report on the feasibility of opening negotiations there. With the backing of the wider international community the Commission has set out measures which **Bosnia Herzegovina** needs to introduce to create the conditions for negotiating a Stabilisation and Association Agreement. The people of Serbia have decided to end their isolation and return to the European mainstream. This decision will help to bring stability and prosperity to the whole region. Work has now been initiated to examine ways of progressing towards a Stabilisation and Association Agreement with the **Federal Republic of Yugoslavia**. Throughout the past year the Union has also been active in providing political and financial support to **Montenegro** to help it to maintain its choice of democracy and reform.

b) **CARDS**  
**(Community Assistance for Reconstruction, Development and Stabilisation)**

The European Council passed a regulation introducing a new EU programme called CARDS for the Western Balkans for 2001-2006. The CARDS programme was presented in November 2000. It combines the existing PHARE programme for non-accession candidates and OBNOVA to thereby create greater transparency and efficiency. The reconstruction agency Kosovo takes over the management of the CARDS project not only in the Kosovo but also in the FRY. CARDS will primarily grant aid in the following areas:

- Building up of public institutions and administrations with the aim to strengthen democracy and rule of law.
- Reconstruction, development and economic reforms.
- Regional co-operation.

The total budget of the programme amounts to 4.65 billion Euro. With that, the EU decisively contributes to the peace, stability and development in this warstricken region.

#### **IV. Constraints for the effectiveness of EU assistance**

- Slow pace of aid delivery - Need for a faster delivery and a better quality of delivered aid.
- Poor aid coordination - Need for enhanced coordination and thus more effective EU external action. Aid coordination must be led by the partner country and involve all donors. A new initiative of the Worldbank and IMF in 1999 proposed that country-owned Poverty Reduction Strategy Papers should provide the basis for all Worldbank and IMF concessional lending, and should guide the use of resources freed by debt relief under the enhanced HIPC Initiative.

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