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REPORT

on the Commission's PHARE 1994 and 1995 Annual Reports
(COM(95)0366 - C4-0022/96 and COM(96)0360 - C4-0176/97)

Committee on External Economic Relations

Rapporteur: Mr Jan Marinus Wiersma

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By letters of 24 July 1995 and 24 July 1996 the Commission submitted to Parliament its PHARE 1994 and 1995 Annual Reports (COM(95)0366 - C4-0022/96 and COM(96)0360 - C4-0176/97).

At the sittings of 19 January 1996 and 23 April 1997 the President of Parliament announced that he had referred these annual reports to the Committee on External Economic Relations as the committee responsible and to the Committee on Foreign Affairs, Security and Defence Policy and the Committee on Budgetary Control for their opinions.

At its meeting of 17 October 1995 the Committee on External Economic Relations had appointed Mr Wiersma rapporteur.

It considered the Commission's annual reports and the draft report at its meetings of 20 March 1996, 29 May 1996, 18 December 1996, 28 January 1997, 18 March 1997 and 16 April 1997.

At the last meeting it adopted the motion for a resolution unanimously.

The following took part in the vote: Castellina, chairman; Moniz, vice-chairman; Wiersma, rapporteur; Elchlepp, Hindley, Janssen van Raay (Rule 138(2)), Kreissl-Dörfler, E. Mann, Plooi-j-van Gorsel, Pons Grau (for Nencini), Sonneveld (for Ferrer), Valdivielso de Cué, van Bladel (for Parodi) and van der Waal (for Souchet).

The opinion of the Committee on Foreign Affairs, Security and Defence Policy is attached. On 24 April 1996 the Committee on Budgetary Control decided not to deliver an opinion.

The report was tabled on 24 April 1997.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

A
MOTION FOR A RESOLUTION

Resolution on the Commission's PHARE 1994 and 1995 Annual Reports (COM(95)0366 - C4-0022/96 and COM(96)0360 - C4-0176/97)

The European Parliament,

- having regard to the Commission's PHARE 1994 and 1995 Annual Reports (COM(95)0366 - C4-0022/96 and COM(96)0360 - C4-0176/97),
 - having regard to its resolutions on the general budget of the European Communities for the 1990 to 1997 financial years,
 - having regard to its resolutions on the discharge to the Commission in respect of the implementation of the general budget of the European Communities for the 1990 to 1994 financial years,
 - having regard to its resolution of 17 April 1996 on the White Paper: "Preparing the associated countries of Central and Eastern Europe for integration into the internal market of the Union"¹,
 - having regard to its resolution of 13 December 1996 on the Commission report on the implementation of cross-border cooperation between the Community and countries of Central and Eastern Europe in 1994²,
 - having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Foreign Affairs, Security and Defence Policy (A4-0165/97),
- A. having regard to the significant contribution PHARE has made in assisting the process of political, economic and social reform in the countries of Central and Eastern Europe, as well as in providing a rapid Community response to short term humanitarian emergencies,
- B. whereas by the end of 1996 the PHARE programme had committed ECU 6.64 bn in financial assistance and had paid out only ECU 3.73 bn,
- C. whereas dissatisfaction is growing in some CEECs with a market economic model incapable of preventing financial speculation and of generating improvements in living conditions, as manifested by recent events in Albania and Bulgaria,
- D. whereas economic and political paths in the CEECs are increasingly diverging and consequently there is an urgent need to define a new, global and diversified assistance strategy for the PHARE programme, taking into consideration the needs of each individual Central and Eastern European country,

¹ OJ C 141, 13.05.1996

² OJ C 20, 20.01.1997

- E. whereas successful policies for tackling the Central and Eastern European countries' transition problems depend on the capacity of national authorities and economic agents as well as on the amount of financial assistance,
 - F. whereas strong support for good and democratic governance of the main reform processes under way in the CEECs can strengthen the structural basis of their economies and enhance the constructive and growth-generating aspects of the reforms themselves,
 - G. whereas technical assistance to associated countries in Central and Eastern Europe should be concentrated to a greater extent than in the past on the elimination of infrastructural, customs, environmental, social and cultural bottlenecks that constrain the modernization process, particularly in view of the future accession,
 - H. whereas, owing to the lack of precise target criteria for assessment and of concrete results, neither of the Commission's Annual Reports provides the means for the European Parliament to draw any valid conclusions about whether the PHARE programme has met its criteria and its impact on the recipient countries,
 - I. whereas no mention is made in the Annual Reports of the Commission's reasons for reallocating budget resources between countries or sectors and whereas assessments of specific projects implemented are also lacking,
1. Notes that, in spite of having allocated ECU 6.64 bn in the framework of the PHARE programme during the last seven years, the Commission has not yet succeeded in introducing an assessment system capable of throwing light on the impact of the assistance given to the CEECs;
 2. Considers that the "backlog" in payment appropriations by comparison with commitment appropriations which exists today within the framework of the PHARE programme should be reduced as soon as possible by speeding up the implementation of the larger PHARE projects aiming at better coordination with other donors;
 3. Notes that the frontrunners among the CEECs benefit more from foreign investments; consequently, believes that the PHARE programme should concentrate more money on those countries which are lagging behind in the economic reform process and which are, therefore, further away from EU membership;
 4. Calls on the Commission to improve its assessment of budgetary appropriations allocated to Central and Eastern European countries in the framework of the pre-accession strategy and, to this end, urges it to take the appropriate steps to concentrate on actions or projects with clearly defined objectives and of genuine value for the successful outcome of the pre-accession strategy;
 5. Notes that the PHARE programme is being transformed from a purely technical assistance programme to an "assistance-for-accession-programme"; considers that, in this context, the launch of a new assistance strategy involving a revision of the PHARE guidelines is essential with a view to handling interventions of a more varied and

complex nature, and in an ever broader range of recipient countries than the actions carried out in the first seven years of the programme;

6. Invites the Commission radically to review the content of its Annual Report made to the Council and the European Parliament on the PHARE programme, with the aim of including for each individual recipient country
 - . an assessment of the concrete results in the light of clearly defined objectives in various sectors
 - . the effective impact of the PHARE assistance on the pace of political, economic and social reforms,
 - . the contribution of the PHARE assistance to the pre-accession strategy and to the goal of enlargement;
7. Asks the Commission to complete its own evaluations and, at the same time, to establish an independent evaluation system; to this end, suggests that the budgetary authority should define, within the framework of the next budget, a clear budgetary basis for financing the independent assessment of global and sectoral PHARE programmes similar to those assessments carried out for the main research programmes;
8. Reminds the Commission that better management, greater decentralization and clarity in the distribution of responsibilities, more information, monitoring and transfer of knowledge from Western consultants are needed in order for the PHARE programme to become an accurate tool for the next pre-accession stage and for the successful completion of the democratic and economic reforms in other CEECs;
9. Emphasizes, however, that decentralization must go hand in hand with sound monitoring of the disbursement of funding and the continuation of certain projects, since decentralized implementation is highly dependent on the degree to which the national or local authorities of the recipient countries are convinced of the usefulness of the projects concerned;
10. Stresses the need for the Commission urgently to improve its definition of and fully discharge its responsibilities regarding the authorization of expenditure, stop delegating to third parties tasks that should be performed by a public service body and clarify the role of external experts and in-house service providers;
11. Calls on the Commission to ensure that interested organizations can readily obtain information about the opportunities offered by the PHARE programme, the criteria for the allocation of PHARE funding and the procedures which must be followed in order to obtain assistance;
12. Asks the political and budgetary authorities for the staffing and administrative resources it believes it needs to implement the new tasks laid down for the PHARE programme in a satisfactory manner;

13. Underlines the need to strengthen close coordination within the PHARE programme and with similar Member State assistance programmes and measures taken by the international financial institutions; points out that, in the absence of a mutually consistent and updated assistance strategy for supporting diverging economic and political paths in some CEECs, the risk of wasting bilateral aid will be increased;
14. Takes note of the cooperation established by the Commission with the World Bank in order to exchange information on the evaluation of development programmes in the PHARE recipient countries; hopes that this initiative will enhance the effectiveness of the EU financial assistance;
15. Supports the Council's decision to propose a broadening of the EIB's operational potential in the CEECs by creating a substantial pre-accession support facility with a view to the future accession of CEECs; invites the Commission and the EIB to develop full cooperation with the EBRD to ensure complementarity and maximise effectiveness in the use of funds;
16. Reaffirms its support for the EU - Central and Eastern European countries' Cross-Border Cooperation programme (CBC), specifically for the PHARE programme, as a vital instrument of cohesion in the pre-accession strategy; expects that the PHARE programme can be used for cross-border projects with partner countries of the EU in the future in order to ensure synergy with other EU support programmes (such as Interreg 2); regrets that in 1995 and 1996 implementation remained slow owing to the recent introduction of multiannual programming and the lack of the types of structures required for the effective implementation of the Structural Funds;
17. Believes that, in future, the PHARE Cross-Border Cooperation programme should give priority to projects that aim:
 - . to reinforce democracy, respect for human rights, the full integration of different ideological and religious groupings into society and the promotion of stability in all Central and Eastern European countries (defence of minorities) and their economic and social integration, and the development of civil society through support for NGOs in order to foster cultural change,
 - . to encourage sustainable economic development, infrastructure and the enhancement of commercial relations between the region's countries;
 - . nuclear safety and the combating of environmental pollution, in particular by means of more effective and more environmentally friendly technologies for energy generation;
 - . to foster mutual understanding between the EC and the CEECs via the strengthening and development of cultural and education programmes and exchanges;
18. Stresses the need to extend the geographical scope of the PHARE CBC programme, taking into consideration not only the borders between Central and Eastern European countries and EU Member States, but also the possible future external border of the Union;

19. Considers that, with a view to the future accession, the contribution of own funds from the PHARE recipient states to the financing measures (co-financing) should be considerably increased; believes that such a step would strengthen their commitment to the measures undertaken and would introduce a financing process similar to that of the future model of the Structural Funds;
20. Calls on the Commission to step up measures aimed at strengthening the management capacities of regional and local structures in Central and Eastern European applicant countries;
21. Considers that, given the lack of well-developed financial systems and capital markets in most of the CEECs, the new Commission strategy should preferably be one that:
 - . enhances the capability of recipient countries with regard to the scope and implementation of detailed legislation relating to the prudential supervision of credit institutions and to the stability of the financial system;
 - . encourages the development of local banking and financial systems capable of allocating internal resources efficiently and rapidly facilitating the structural adjustment and privatization of industries;
 - . involves better coordination with the IMF in order to devise macroeconomic policies that do not penalize growth while fostering stabilization;
22. Asks the Commission, in this regard, to step up its technical assistance efforts and to coordinate its operational resources more effectively with those of the other international financial institutions, in particular the EBRD;
23. Instructs its President to forward this resolution to the Council and the Commission, the parliaments of the Member States and the governments and parliaments of the Central and Eastern European countries.

B

EXPLANATORY STATEMENT

1. Introduction:

The PHARE-programme, one of the largest funding-programmes of the EU, was launched in 1990. Originally the programme only offered technical assistance to Hungary and Poland, but now already 13 partner-countries receive funding from the EU for all kind of projects through the PHARE-programme. The general purpose of the PHARE-programme, as originally formulated by the European Commission, is to offer support for economic restructuring and strengthening democracy.

Since the Council decided in December 1993 that the EU will enlarge in the future with Central and Eastern European countries, the PHARE-programme is officially and directly linked to enlargement, that is for those countries that signed a Europe-Agreement with the EU. The purpose of the PHARE-programme has in fact become much more specific.

The PHARE-programme actively assists the future member states to meet the membership-criteria through the financing of the Europe-agreements but also through support for the improvement of infrastructure, through expansion of the transeuropean transport networks, by stimulating interregional cooperation projects between Central and Eastern European countries, by promoting cooperation on environmental matters, common foreign and security policy, justice and home affairs and culture, and finally through education and (political) training.

Six months after the end of the IGC accession talks with all applicant countries will start. When the actual accession will take place for each individual country is difficult to predict at this moment. The PHARE programme should, in any case, be applied as efficiently as possible in the process of enlargement.

This report is not only a reaction to the annual reports 1994 and 1995 written by the Commission about the PHARE programme. The European Parliament is using this report as an opportunity for a broader evaluation of the PHARE programme and for the necessary discussion about its future, also using additional information presented by the Commission. Although in general this report is critical, the Parliament would like to mention here that much good work has been achieved through the PHARE programme.

2. Two fundamental points of criticism:

2.1. Absence of criteria for judgement:

A first point of criticism of the Parliament on the annual reports PHARE '94 and PHARE '95 of the Commission, but also in general, is the absence of criteria for judgement. Apart from the targets of the PHARE programme as stated above (economic restructuring, strengthening democracy and since 1994 assisting to meet membership criteria) in both reports no precise targets were defined for the PHARE programme in 1994 and 1995.

As a result of the lack of these criteria both reports of the Commission are not much more than a summing up of the projects that have been executed in those two years. Without clearly formulated targets, however, the Parliament is unable to write down any thorough conclusions

about whether the PHARE programme has met its criteria and in what sense it has been successful or not.

What is needed is a thorough discussion about what the criteria for judgement should be for each country and for each sector. What do we want to achieve more precisely with the PHARE programme, more than just generally helping applicant countries to meet the membership criteria? Therefore the Commission is requested to develop a detailed document about the contribution of the PHARE programme to the goal of enlargement.

Also for Albania, FYROM and Bosnia that have not applied (yet) for the EU membership, criteria for judgement (targets) should be written down by the Commission. Finally a discussion is needed about if, when and how Croatia can become a 'PHARE country' (again) and what we want to achieve through the PHARE programme there. The Parliament is of the opinion that this country should be integrated in the near future into the PHARE-democracy-programme.

2.2. Absence of concrete results:

Next to criteria for judgement and impact of instruments another prerequisite for being able to draw a thorough conclusion, -evaluations of specific projects that have been executed-, was lacking in both reports. The reports of the Commission contain a lot of general remarks about how much money has been spent in different countries and in different sectors, but what can be concluded from it and how the projects went, has not been described. What happened, for instance, with the extra money available for infrastructure in '94/'95? Has much progress been achieved in this sector ?

Since the PHARE programme has been transformed from a purely technical assistance programme to an 'assistance-for-accession-programme' one should expect that from 1996 onwards improvements in political and economic development should become visible. The Parliament would very much like to be kept informed on this.

2.3. A first general conclusion:

Concrete results in practice compared with criteria for judgement (which should have been formulated beforehand) and concrete impact of instruments in some sectors are essential ingredients in any evaluation. Until now all reports from the Commission on the PHARE programme are missing these ingredients. The Parliament therefore asks the Commission to include them both in her future annual and evaluation reports.

Now that we are beginning to get a clearer picture of what enlargement entails, it is time to draw up a more precise definition of what contribution we expect of the PHARE programme as well.

3. The budget:

In the past the Commission gave priority to sectors and projects with a rapid rate of disbursement (e.g. food aid and programmes based on one-year subsidies such as TEMPUS). Programmes in key sectors for a smooth economic transition (social sector, public administration, private sector and restructuring, environment, infrastructure and democratisation) continue to have a low rate of implementation. Sometimes this is due to absence of a clear legal framework in various sectors. In fact the Commission has had the tendency to direct sectoral aid to those areas where

legal and institutional reforms have been applied by the beneficiary countries in order to facilitate full implementation of PHARE appropriations.

Although the Parliament is in itself of the opinion that the Commission should do her utmost to have as much money spent as possible, the implementation rate should never be a decisive argument in the choice between sectors. In relation to the future enlargement of the Union especially programmes in key sectors for a smooth economic transition are needed.

4. Management:

4.1. In general:

The Commission states in its '94 report its new objectives for management of the PHARE programme: increased decentralisation, long term planning, control and evaluation and improved communication. Also in the 1995 report a lot of attention has been spent on the question how management can be improved.

In principle the Parliament agrees with these objectives but asks whether it would be possible to receive an indication of the progress made in these areas ? On the grounds of such an overview managerial adjustments could be discussed where appropriate.

4.2. Who should be responsible for what ?

An important aspect of management is political responsibility. The Commission, who is politically responsible, should look after those tasks that lie at the heart of the PHARE programme. Therefore it is necessary for the Commission to be well-equipped. Unfortunately, and even from the Commission's point of view, this is not the case. The Commission staff based in Brussels has too large a workload and, therefore, cannot devote enough time to the PHARE tasks. As a consequence too many consultants are involved in the preparations. The Parliament agrees with the Court of Auditors that the subcontracting of the tender procedure, for the PHARE programme, which the Commission entrusted to consultants, results in confusions of interest in the awarding of public contracts. Also the western consultants play too large a role in monitoring and evaluation; they are in fact sometimes monitoring themselves.

For this reason the Commission urgently needs to improve its definition of and fully discharge its responsibilities regarding the authorization of expenditure, stop delegating to third parties tasks that should be performed by a public service body, clarify the role of external experts and in-house service providers and ask the political and budgetary authority for the resources it believes it needs to implement the programmes in a satisfactory manner.

4.3. Decentralisation:

A second aspect of management is decentralisation. The Parliament shares the Commission's view on decentralisation of the PHARE programme. This means in first instance decentralisation towards the applicant countries. Also decentralisation within the countries from the national government to local governments can be very useful for a lot of projects. One should however take into account that sometimes (national or local) governments are not really convinced of the use of a certain project. Especially the follow-up is in danger then. Therefore we should think about how this could be checked.

4.4. Monitoring and evaluation:

A third important aspect is monitoring and evaluation. Although the Commission mentions improvements in this field the Court of Auditors still noticed a shortcoming in monitoring of programmes and operations. Even though the Commission established in July 1995 the new monitoring and evaluation unit and teams of independent experts were set up in the second quarter of 1996, the systematic evaluation and, where appropriate, adaptation of the multiannual programmes are essential with a view to handling interventions of a more varied and complex nature than the actions carried out in the first years of the programme, as was stated already in the introduction.

4.5. Information:

A fourth aspect of management is the way information is given about the different projects. In the first place this is of course necessary for participants. Also it is very important towards citizens to be as transparent as possible. They should know that a PHARE programme exists, what it is for and how they can apply for a project. These rules should be as simple as possible. To have a page on internet (although useful in itself) is, in this respect, not enough.

4.6. Transfer of knowledge:

The last aspect of management is if and how consultants are transferring their knowledge to people in Central and Eastern Europe. In the beginning it is logical that a lot of western consultants are involved. Later on knowledge should be transferred to consultants from Central and Eastern Europe. To get an impression of the transfer of knowledge which has taken place up until now, the information the Commission has given recently about this is very useful. One can see a general shift of service contracts from the EU countries to the countries in Central and Eastern Europe, although the largest share of service contracts still has been awarded to consultants in the EU.

5. Experiences of participants:

To be able to judge if the PHARE programme is developing in the right direction, it is necessary to take a close look at the experiences of participants as well. The Parliament therefore approves that recently the Commission offered some examples.

The rapporteur is aware of some of the experiences by participants in PHARE projects, and lists these below. It should be stated here that one should keep in mind that in general participants get into contact with members of Parliament if they have negative experiences. Therefore positive experiences are not mentioned here. This doesn't mean however that the Parliament is of the opinion that there are no good functioning projects.

From these (negative) examples in practice it became clear that improvements are still needed in relation to the execution of projects. Less bureaucracy and clear criteria for applicants are desirable.

Evaluations of participants referred to the bureaucracy which often caused delays in application for projects and in their realization. Participants regularly complain about the complexity of the

application forms and the difficulties in contacting the 'right person' in Brussels when they have questions.

According to the participants they often are not informed about the criteria necessary to qualify oneself for a project. It is often impossible to find out where to obtain the applied criteria.

And finally, feelings of surprise and even indignation were uttered by participants when projects, which had proved to be successful did not receive funding a second time. One foundation even mentioned that the Commission had asked them to apply for a project (which has been very much awarded the first time), but when they did the project was rejected.

Some participants (in the PHARE-Democracy-programme for instance) even got the impression that decision-making on the allocation of projects is sometimes arbitrary, in the sense that quality seems not always to be the most important element, but that the Management Committee tries to give all EU countries an equal share of projects. The Parliament would like to ask the Council to give a reaction to this impression.

A report about PHARE projects in Romania (written by the Netherlands Economic Institute in association with Doxiadis Associates from Greece) confirms some of the general points of criticism mentioned before and adds some recommendations for attention. The report states that there often were no 'targets of performance indicators'. The transfer of knowledge from western consultants to local people sometimes was difficult. This was to be expected because political and administrative culture emerges as the main limitation to a speedier programme implementation. This should become a point of concern in the future. Authorities often blocked the follow-up by concrete projects of preparatory studies, because the solutions recommended were not acceptable for them. Too often consultants involved in policy advice were not of sufficient calibre and experience to appreciate the local context and come up with advice not only made sense technically but was also political relevant and acceptable. During a project adjustments are not made (not flexible enough). Too often it is perfectly well known that a certain programme is in trouble, but no action is taken to correct the shortcomings. It would be highly advantageous, if the recipient knew better 'who is doing what'.

When involving local (consultancy) organisations in a leading role in executing a programme, in order to achieve a transfer of technology, a loss in efficiency in achieving direct project objectives should be accepted as the cost to achieve this. Good staff in PMU's is a condition sine qua non for good project management.

Finally, the rapporteur would very much like to get the possibility to visit some PHARE projects himself and/or have a public hearing with participants about their experiences with the PHARE programme.

6. The future:

6.1. In general:

What really is needed is that the Commission will in the near future formulate clear criteria for judgement about the role the PHARE programme should play in the accession process and continue to give concrete results of projects. Only then evaluation is possible. Projects can (on the basis of a thorough evaluation) be adjusted or even stopped, while others can be continued.

Although enlargement of the Union will not be a fact in the very near future, it is very important that we prepare ourselves and the future member states for this moment. The PHARE program-

me has a very important role to play. Choices should be made in order to make the PHARE programme as efficient as possible.

The framework in which the PHARE-programme operates should be made clear and the function of PHARE should be defined as narrowly as possible.

6.2. Larger projects:

To make quicker spending of money possible in the future it is better to concentrate on larger projects instead of concentrating on projects with a rapid rate of disbursement. As was stated before, especially programmes in key sectors for a smooth economic transition are needed in the context of enlargement, while they often have a low rate of implementation. Once again, political arguments however should continue to be decisive in the choice between projects.

6.3. More attention for Human rights and democracy:

The PHARE-Democracy programme is funded through a separate budgetline but should nevertheless be considered an integral part of the support for the countries of Central and Eastern Europe. It will gain importance as the accession process progresses especially in those applicant countries where democracy and civic society are still fragile. This raises the question whether the budget should be increased. Already the sums available are vastly oversubscribed. There should also be a better balance between money invested in civic society and democracy building. The Commission is about to select an external organization to evaluate the democracy programme. In the evaluation special attention should be given to the question how often PHARE grants have been followed up by self sustained activities. It is positive that the Commission is developing new procedures to tackle the contracting and payment problems.

6.4. Interregional projects:

Interregional co-operation has become more important. By linking PHARE to INTERREG projects in EU-PHARE countries (projects for) border-areas have become possible. There is however a considerable backlog in committing the available funds. The linking of two programmes causes long preparation periods. One could say that there is too much money for too few regions. The rapporteur is of the opinion that the EU should look into the possibility of creating a new mechanism that would allow for a more speedy execution of programme's in EU-PHARE, PHARE-PHARE and PHARE-TACIS regions.

6.5. Individual treatment for each country:

The countries in Central and Eastern Europe should, under the PHARE programme, be treated in an individual way, just as in the enlargement process. The partner-countries should be consulted in the decision about what project should be executed.

6.6. Co-financing projects:

More co-financing projects are needed in the future. This will have the positive effect that the Central and Eastern European countries will be more committed to the projects that will be executed.

6.7. Priority to those lagging behind:

In the future more attention should be given in the PHARE programme to those countries that are lagging behind on the road to EU-membership. Countries close to becoming a EU-country will have more advantage from foreign investments than from financial support programmes.

22 January 1997

OPINION
(Rule 147)

for the Committee on External Economic Relations
on the Commission's reports for 1994 and 1995 on the PHARE programme
Committee on Foreign Affairs, Security and Defence Policy
Draftsman: Mrs K. Daskalaki

At its meeting of 6 February 1996 the Committee on Foreign Affairs, Security and Defence Policy appointed Mrs K. Daskalaki draftsman of an opinion.

It considered the draft opinion at its meeting(s) of 4 February 1997.

At that meeting it unanimously adopted the following conclusions.

The following were present at the vote: ..., Daskalaki, draftsman; Aelvoet, Alavanos, André-Léonard, Balfé, Bernard-Reymond, Bertens, van Bladel, Burenstam Linder, Caccavale, Cars, Cohn-Bendit, De Melo, Dillen, Donner, Ephremidis (for Piquet), Graziani, Habsburg, Imbeni (for Colajanni), Kirstoffersen, La Malfa, Lenz, McMillan-Scott (for Spencer), Nencini (for Occhetto), Newens, Oostlander, Piha, Poettering, Sakellariou, Schroedter (for Gahrton), Striby, Terrón i Cusi (for Barón Crespo), Titley, Truscott and Väyrynen.

1. ORIGINS

The upheavals in the East towards the end of the decade led the European Community to cooperate with the Group of 24 in setting up aid arrangements for these newly independent countries.

The PHARE programme (Poland Hungary Assistance for Restructuring the Economy), initially intended for Hungary and Poland and set up in 1989, has become one of the main financial instruments for providing aid to the CCEs. It now covers 12 countries (Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, Romania, Latvia, Lithuania, Estonia and Slovenia have all signed European agreements, while former Yugoslavia is a special case).

Although originally intended to establish reforms bringing a transition to a market economy, PHARE was very soon extended to cover the political, social and cultural aspects of cooperation and is already part of a genuine long-term overall policy. To that end the PHARE programme allocates financial aid to encourage the process of economic transition and democratization in these countries.

It is financed under the Community budget and operates under Article 235 of the EEC Treaty, and since its inception has released ECU 5,416.9 million to the partner countries.

Commented [COMMENT3]:
Amendment ##

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As the success of the programme has been reflected in its growing budget, its role has extended now that the principle of enlarging the EU to include the CCEEs has become a certainty (Copenhagen European Summit, June 1993).

2. THE PHARE PROGRAMME TODAY

- Targeted action ...

The consolidation of reforms in progress and accession are the two key principles of PHARE operations. The programme therefore concentrates its efforts on the following fields: legislative and administrative reform, social restructuring, increasing investment aid, increasing infrastructure investment, cross-border programme, removal of cross-border bottlenecks, encouraging multiannual and intra-regional cooperation.

The final objective is CCEE membership of the EU and the funds allocated under the PHARE programme for 1995 therefore concentrated on long-term programmes. Although aid to the private sector was still substantial, special attention was paid to sectors such as inter-regional cooperation (11 programmes started) and infrastructure (ECU 457.2 million in 1995), as they are directly linked to the pre-accession strategy.

- ... and appropriate management

The PHARE programme, being tailored to demand, is decentralized. The recipient country establishes the priorities and submits an application for funding in collaboration with the Commission. Activity in Brussels is therefore more concerned with drawing up strategic policy and guidance, having regard to the special needs of each country.

Changes were also made in 1995 to the PHARE programming procedure. Multiannual indicative programmes were introduced in agreement with the partner countries. PHARE will thus be able to make a more consistent contribution to the medium-term adjustment process and its payment procedure will be simplified. The intention is rather to have PHARE aid more faithfully reflect the medium-term reform priorities of each country than for it to be a series of individual annual initiatives.

- ... for better future accession.

The pre-accession strategy adopted by the Essen Council in December 1994 provided the CCEEs with a framework for their preparations for full membership of the EU. The PHARE programme is the financial instrument for that strategy.

PHARE is one of an array of tools provided by the EU under the pre-accession strategy. The European agreements and the structured dialogue provide, alongside the PHARE operations, the space required for negotiations and understanding between the Union and the CCEEs, in which context there needs to be improved cultural relations between them.

International organizations such as the EBRD, the World Bank, the European Investment Bank and the OECD are also helping the CCEEs. The Commission is therefore seeking to coordinate its activities with these other donors to increase the effectiveness of the PHARE programme.

3. REMARKS

- Budgetary problems

Although the Cannes European Council agreed to increase the budget for the programme until 1999 (from ECU 1,154 m in 1995 to ECU 1,634 m in 1996), it is still small in relation to its increasingly ambitious objectives. Increasing its efficiency therefore greatly depends on coordination with the other bodies (to avoid any duplication of effort), staff management and the pinpointing of its priorities.

The Commission's reports of 1994-95 are only giving general aims for the activities under the PHARE programme. It would be desirable to have more detailed information on the implementation of the programme in order to evaluate the specific projects.

For example, the decentralization of responsibility to the European delegations (set up in the partner countries) should continue, with the possibility of ex-post monitoring of operations.

- Regional cooperation

The fact that the programme stresses cross-border cooperation programmes is likely to contribute to the political stabilization of the region, and, in infrastructure terms, to make for better integration of these countries into the EU.

There is also a need for detailed coordination and joint planning of transnational PHARE programmes, structural funds and the TACIS programme in order to improve regional cooperation and make better use of resources for the benefit of all those involved, and in particular the countries of S.E. Europe, in view of their specific problems.

*- Accession and the *acquis communautaire**

According to the Copenhagen Summit, accession will require the applicant countries to have stable institutions ensuring democracy, the rule of law, human rights, respect and protection for minorities, the existence of a viable market economy and the ability to cope with competitive pressures and market forces within the Union.

PHARE prepares the CCEEs for their future accession; for that purpose they must meet the requirements of the '*acquis communautaire*'. The Intergovernmental Conference has been called upon for a ruling, and the negotiations with applicant countries are therefore in suspense and not expected to begin until early 1998, pending the final decision by the Conference. 'While the EP cannot of course intervene in the negotiations ... it can demonstrate that Europe is listening in', as President Hänsch of the EP put it. Until their actual accession the CCEEs, if they are not to lose heart, must have a hearing from the EU, and the EP is working to that end.

The CCEEs and the EU must clearly set out a joint pre-accession strategy. To that end, the Union itself must take a consistent line.

Security aspects

CCEE accession to the EU will de facto involve their active participation in the common European security and defence policy. Parliament is aware of the concern aroused in the former Soviet Union by this possibility, which could be defused if a strategic and security partnership

were set up, between the EU, the United States, Russia and the other CIS States involved to accompany the extension of NATO.

The fields of energy and nuclear safety will also require special attention. In respect of nuclear power no assessment device has been able to confirm the improvements to reactor safety on which the CCEEs have embarked, and much remains to be done. As a sizeable energy source, nuclear power has yet to be fully brought under control. For example, innovation must be encouraged in more efficient and more environmentally-friendly energy production technologies. In military terms the nuclear security question still arises; a firm commitment to non-proliferation of nuclear weapons is still a matter of urgency.

- Democratization

The applicant countries should now be familiarizing themselves with accession and the operation of the EU and Community's principles. The EP is playing a vigorous part in this process by for example organizing conferences and meetings, important fora for the exchange of ideas. To these new democracies the idea of the nation state is still very powerful. A stepped-up effort in European education will be required to pass on to the present and future leaders of those countries the concept of European integration we are pursuing.

Similarly the protection of minorities, inter-institutional balance and the independence of the media and the international bodies still leaves something to be desired in certain cases where further progress will be necessary to ensure political stability and the respect of human rights. The PHARE programme will therefore have to incorporate an enhanced cultural dimension.

4. CONCLUSIONS

The Committee on Foreign Affairs would encourage better coordination of the PHARE programme with other donors (partner countries, the EIB, EBRD and World Bank). Closer cooperation and suitable co-financing arrangements between these various bodies would make the administration of the PHARE programme more efficient and decentralized, less costly and bureaucratic, with greater transparency of detail and a better rate of utilization of funds.

The Committee on Foreign Affairs notes the Commission's intention to conduct a review of the Democracy Programme in 1997 and to organize a 'Conference for Democracy' involving Parliament, to assess the progress of democratization in the applicant countries. It also stresses the need to strengthen democratic institutions in the CCEEs. The proper operation of public administrations and local government, and the organization of free elections are key elements in the democratic life of the country.

The Committee on Foreign Affairs calls for economic development aid programmes to take account of cultural, environmental and energy considerations.

As the final objective of the PHARE programme is to prepare the countries of Central and Eastern Europe for accession to the EU, and having regard to the security concerns they share with the EU, the Committee on Foreign Affairs calls for an open and structured dialogue on these matters with a view to creating conditions conducive to stability throughout Europe.