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2002 Report on Phare and the Pre-accession instruments for Cyprus, Malta and Turkey

COUNTRY SECTIONS

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ABBREVIATIONS

| | |
|---------------|--|
| CARDS | Community Assistance to Reconstruction, Development and Stabilisation in the Balkans |
| CBC | Cross Border Co-operation |
| CEECs | Central and Eastern European Countries |
| CFCU | Central Financial and Contracting Unit |
| CFSP | Common Foreign and Security Policy |
| CSF | Community Support Framework |
| DIS | Decentralised Implementation System |
| EAGGF | European Agricultural Guidance and Guarantee Fund |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| EDIS | Extended Decentralisation Implementation System |
| EFTA | European Free Trade Association |
| EIB | European Investment Bank |
| EMCDDA | European Monitoring Centre for Drugs and Drug Addiction |
| EMU | Economic and Monetary Union |
| ERDF | European Regional Development Fund |
| ESC | Economic and Social Cohesion |
| EU | European Union |
| FM | Financial Memorandum |
| GDP | Gross Domestic Product |
| HLWG | High Level Working Group |
| IAs | Implementing Agencies |
| IB | Institution Building |
| IE | Interim Evaluation |
| IFIs | International Financial Institutions |
| ISPA | Instrument for Structural Policies for Pre-Accession |
| JHA | Justice and Home Affairs |
| JMC | Joint Monitoring Committee |
| MEDA | Mediterranean Co-operation Investment Programme |
| MNC | Multi-National Companies |
| MOU | Memoranda of Understanding |
| NAC | National Aid Co-ordinator |
| NDPs | National Development Plans |

| | |
|---------------|--|
| NGO | Non-Governmental Organisation |
| NPAA | National Programme for the Adoption of the Acquis |
| NP | National Programme |
| OLAF | European Anti-Fraud Office |
| PAA | Pre-accession Advisors |
| PEP | Pre-accession Economic Programme |
| SAPARD | Special Accession Programme for Agriculture and Rural Development |
| SF | Structural Funds |
| SIGMA | Support for Improvement in Governance and Management in Central and Eastern European Countries |
| SMEs | Small – Medium Enterprises |
| SMSC | Sectoral Monitoring Sub-Committee |
| SMWGs | Sectoral Monitoring Working Groups |
| SPP | Special Preparatory Programme |
| SPP | Small Projects Programme |
| STE | Short Term Experts |
| TA | Technical Assistance |
| TACIS | Technical Assistance for the Community of Independent States |
| TAIEX | Technical Assistance Information Exchange Office |
| TL | Twinning Light |

BULGARIA

The year in review

As noted in the Commission's latest Regular Report (October 2002), Bulgaria continued to make progress in meeting the accession criteria in 2002.

Political developments

Bulgaria continued to fulfil the political criteria. Significant progress has been made on the judicial reform strategy with the adoption of an Action Plan and major amendments to the Law on the Judicial System. These now need to be implemented in order to translate them into concrete improvements in the functioning of the system. Issues relating to the structure of the judicial system and immunity still need to be addressed.

There have also been positive further developments in the fight against corruption, which remains a cause for serious concern, with *inter alia* the adoption of an Action Plan to implement the National Anti-Corruption Strategy. Whilst the need to tackle corruption is now high on the agenda, Bulgaria needs to continue to make concerted efforts to implement the measures.

There has been some further progress on public administration reform with revisions to the legislative framework and the adoption of a Strategy for Modernisation of the State Administration, but serious efforts are now required to develop and implement reforms to ensure an efficient, transparent and accountable public administration.

Bulgaria continues to respect human rights and freedoms. Bulgaria has considerably improved the legal framework, for tackling trafficking, corruption and organised crime as well as for asylum. However, there are a number of areas which continue to give cause for concern. A new issue that has been identified is the very poor living conditions of people in institutions, particularly the mentally handicapped. This needs to be addressed urgently. Bulgaria also needs to strengthen its efforts to reform the child care system, to make sure that the best interests of the child are reflected and to reduce the number of children in institutions. Poor conditions for detainees in particular in police stations and pre-trial detention also need to be addressed. The recent changes to the Penal Code are an important step in removing discrimination on the grounds of sexual orientation.

Concerning the Roma community, little has been done to remedy the problem of social discrimination or to take concrete action to improve very poor living conditions. The adoption of comprehensive anti-discrimination legislation would be an important step forward in this regard.

Macroeconomic developments and structural reforms

Bulgaria is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its reform programme to remove remaining difficulties.

Bulgaria has achieved a high degree of macroeconomic stability and market mechanisms are now working sufficiently to allow for a better allocation of resources. Good progress has been made in structural reforms, especially as regards procedures for market entry, the restructuring of the financial sector and privatisation, thus setting the microeconomic basis for a process of sustained growth.

However, further efforts are needed to improve the flexibility of markets. In particular, the efficiency of the administrative and judicial system has to be reinforced, to allow economic agents to make decisions in a climate of stability and predictability. Administrative procedures affecting the enterprise sector, including bankruptcy procedures, must be streamlined. The level of financial intermediation continues to be low. Specific deficiencies remaining in the land market affect the performance of this market and of related economic sectors. An implementation of these reform measures should contribute to higher levels of private and public investment, which are key requirements for sustained growth and sufficient competitiveness within the Union.

Progress in meeting the *acquis communautaire*

Overall, and in view of Bulgaria's target date for accession, **Bulgaria has achieved a reasonable degree of alignment with the *acquis* in many areas.** Administrative capacity has also developed, although significant further efforts need to be made. More attention needs to be paid to how laws will be implemented and enforced. In this regard, progress on public administration and judicial reform needs to be sustained¹.

Phare in 2002

Programmes launched

For 2002, Phare allocations for Bulgaria totalled € 122.9 million² - National Programme (€ 94.9 million), Cross-border Co-operation Bulgaria-Greece (€ 20 million) and Cross-border Co-operation Bulgaria-Romania (€ 8 million). This figure excludes the benefits to Bulgaria from horizontal and multi-country Phare programmes including on nuclear safety.

The overall aim of the National Programme (€ **94.9 million**) was to assist Bulgaria's preparations for EU membership, on the basis of the priorities identified in Bulgaria's Accession Partnership, approved in December 2001. The National Programme reflected the findings of the Commission's 2001 Regular Report and the priorities identified in the Government of Bulgaria's updated National Programme for the Adoption of the *Acquis* and preliminary National Development Plan.

¹ The information in this section is taken from the Commission's latest Regular Report for Bulgaria (October 2002). A more detailed analysis of Bulgaria's progress in meeting the *acquis* can be found in the Regular Report.

² The National Programme is larger than in 2001, but the overall total is smaller because of the special allocation in 2001 for decommissioning of the Kozloduy nuclear power plant.

The National Programme was designed to meet five main broad objectives, which represented the areas in which the Commission believed that Phare support could most assist Bulgaria to meet the accession criteria.

- **Economic reform and the *acquis*.** The programme included projects to improve the business environment and assist with agriculture pre-accession strategy and institution building; phytosanitary, veterinary and TSE control; company law; competition policy; consumer and health protection; gas liberalisation; wetlands management; and national conformity assessment.
- **Economic and Social Cohesion (ESC).** The programme included projects to enhance youth employment; develop eco-tourism; support reforming vocational education and training; and support Bulgaria's strategy for transition to Structural Funds.
- **Strengthening public administration.** The programme includes projects to implement the strategy for judicial reform; combat corruption; strengthen the Public Prosecutor's Office; strengthen Human Resource Capacity in the public administration; develop customs standards and practices and border control; implement the National Schengen Action Plan; strengthen border control and management; and improve regional statistics; develop tax standards and practice.
- **Ethnic integration and civil society.** The programme includes projects to foster a more active and self-sustaining civil society; and promote social development in areas with disadvantaged minority populations
- **Project Preparation, Twinning Light and EC programmes.** The programme also includes an unallocated envelope for Institution Building (including a Twinning Light facility) to support small-scale *acquis*-related priorities identified during accession negotiations; a project preparation facility to improve the capacity to design and manage Phare projects; and co-financing for Bulgaria's contribution for participation in certain EC programmes and agencies.

The overall aim of the Cross-border co-operation programme (€ 28 million) was to promote economic and trade co-operation between border regions of Bulgaria and counterpart regions in Greece and Romania, and help these regions overcome their specific development problems. The following main projects were supported:

- **Cross-border co-operation projects with Greece:** Road, waste water and river basin management projects (€ 20 million);
- **Cross-border co-operation projects with Romania:** Border crossing, road rehabilitation and air emissions control projects (€ 8 million).

Overview of programmes implemented

The Phare programme allocated some € 1,225 million between 1992 and 2002. In addition to the National Programmes, Bulgaria has benefited from special assistance for the decommissioning of the Kozloduy nuclear power station and from multi-beneficiary programmes.

The end of 2002 saw the successful closure of most of the projects financed from the 1999 programme, covering a range of sectors, and most of the projects under the 2000 programmes were contracted and implemented. Contracting of 2001 programmes was under way.

Phare management performance

At the end of the year 2002, the projects under the 2000 programmes were fully contracted with the following exceptions.

The contracting period was extended by a year for projects worth a total of € 11.32 million:

- BG0004.01 SME Quality Management Systems - € 5 million;
- BG0004.02 Business Incubators - € 3 million;
- BG0004.04 Renovating Vocational Training Institutions - € 2 million;
- BG0006.04 TA for the development of the National Statistics System - € 1.32 million.

Projects or components of projects worth € 5.71 million were not contracted, out of which the following were the most significant:

- Strengthening Regulatory Framework for Telecoms (funds not contracted - € 2.45 million);
- Institution Building at the Energy Efficiency Agency – Technical Assistance and supply (funds not contracted - € 2.20 million);

In the Telecommunications and Energy sectors, the beneficiary agencies underwent internal restructuring with a consequent decrease of their administrative capacity. This was a key factor causing problems in the tendering process and the failure to contract funds.

This result was achieved thanks to management measures taken by the Bulgarian administration and the EC Delegation in the second half of 2002. The EC Delegation alerted the Bulgarian side about this early in the year. The relatively late contracting was to some extent due to the timing of the move of the National Aid Co-ordinator function from the Ministry of Foreign Affairs to the Ministry of Finance in mid 2002, as well as this being the first year of Economic and Social Cohesion which entails more complex contracting arrangements.

NDPs – State of Play

In late 2002, the Bulgarian authorities were working on a revised and strengthened National Economic Development Plan; the Commission has provided preliminary comments on an outline and the final text is expected to be ready in March 2003. The revised NDP should thereafter facilitate coherent planning of Phare ESC and other investment support.

Institution Building highlights

Most new Phare Institution Building projects are now delivered through Twinning. For Bulgaria, fourteen 1999 projects, fourteen 2000 projects and six out of ten 2001 projects were running in 2002. Twinning will contribute to the results of fifteen projects under the 2002 programme. From 2001 a Twinning Light facility project started spanning a broad range of *acquis*-related activities and in 2002 an unallocated Institution Building facility was introduced to allow the EC to respond more rapidly and flexibly to Bulgaria's IB needs.

The selection of Member State partners for the Twinning projects under the Phare 2002 programme took place in October 2002 and the preparation of the covenants started immediately thereafter. Endorsement of most Phare 2002 Twinning projects is expected during the second and third quarters of 2003.

Results and impact

State of play for JMC/SMSC development

During 2002, a progressive acceptance and understanding of the culture of self-monitoring has been observed in the concerned Bulgarian administration. However, it must be noted that this tendency varies considerably between different institutions.

The JMC meeting took place in October 2003 with the 9 Sectoral Monitoring Sub-Committees (SMSCs) under Phare and ISPA and SAPARD Monitoring Committees reporting during which a number of sector specific points in project implementation were raised. The Bulgarian authorities presented consolidated reports on the following horizontal items:

- Administrative capacity of the Bulgarian administration to manage EU programmes;
- Feeding lessons learned from Monitoring and Evaluation into the design and follow-up of new projects;
- Preparation for Extended Decentralised Implementation System (EDIS).

Overall, the JMC meeting, with high-level attendance on the Bulgarian side, proved a useful occasion at which constructive discussions on project implementation were held.

The 9 Sectoral Monitoring Sub-committees operative since 2001 continue to hold regular sessions twice a year.

M&IE Reports in 2002 - Lessons Learned

In 2002 the Interim Evaluator, EMS consortium, carried out evaluations of all sectors producing two reports per sector. A progressive acceptance by the Bulgarian authorities of the utility of the Interim Evaluation Reports was noted. However, additional efforts could be taken to highlight problems with a view to identifying corrective measures and solutions.

Impact of programmes

Overall, the impact of Phare in Bulgaria continues to be positive. In view of the target date for accession, however, sustained efforts need be taken to ensure the capacity of the Bulgarian administration to absorb EC funds.

Sectors with positive results

In the sector of **competition policy**, a Technical Assistance and an IT-supply project for the Commission for Protection of Competition, as well as a Twinning project on State Aid have been successfully concluded. While the projects concentrated to a large extent on highly valued training of institutional staff including judges (in competition issues) and the development of an operational infrastructure, the support in creating an *acquis*-aligned State Aid Law was also successful, and the law was passed by Parliament in the first part of 2002.

Phare support in previous years in the field of **Free Movement of Goods** contributed to the significant progress made in 2002 in transposing fifteen New Approach Directives by adoption of respective ordinances under the 1999 Law on Technical Requirements to Products, which was amended in 2002, as well removing certain inconsistencies with the *acquis*. The development of conformity assessment infrastructure is making some progress, but is somewhat behind schedule, while the level of accreditation and number of accredited testing and calibration laboratories has increased significantly. Phare support during 2002 has contributed considerably to bringing the operational practice in accreditation close to that in the EU.

In the area of **nuclear safety**, six Phare projects worth € 9.71 million have started. Two projects are meant to strengthen the capacity of the Bulgarian Nuclear Regulatory Authority (NRA) to assess and license improvements and modernisation of Kozloduy NPP Units 3 to 6. NRA is also benefiting from one project (€ 1.85 million) dealing with the decommissioning of Units 1 and 2. This project has to be closely co-ordinated with the KIDSF (Kozloduy International Decommissioning Fund managed by EBRD) activities, because of the need, by both NRA and KNPP, to review the safety-related documentation (EBRD-KNPP decommissioning projects have a budget of € 96.85 million). A fourth (2002) project will also strengthen NRA competencies in the field of “Management of Sealed Radioactive Sources”. Kozloduy is the beneficiary of a fifth project (€ 2.5 million), which deals with “Phenomena Investigation and Severe Accident Management Guidelines” with the objective of producing a manual for KNPP’s operators able to assist them in handling severe accident conditions. A final project (€ 1.41 million) has been conceived for the re-qualification of the Bulgarian national repository and will supply equipment for the characterisation and control of institutional radioactive waste at the Novi Han Repository.

In the **home affairs** sector, the Bulgarian authorities have, with the assistance of the Phare programme, continued to align with the *acquis* and Member States’ best practices in this area. Substantial aid was provided to strengthen the capacity of Bulgaria to guard the future external border of the European Union, i.e. through reforming the structures of the National Border Police Service, improving the training of border guards and substantial investments to strengthen control over the green and the blue borders. Furthermore, the nucleus for the Schengen Information System was

developed in a project to strengthen the Police services by creating a system for criminal analysis. Also, a national drug strategy was developed under the supervision of a Twinning project. Finally, an ongoing project with the Agency for Refugees is contributing to enhancing the institution's administrative and training capacity.

The Phare projects in the **environment** sector assisted in terms of the transposition of the EU environmental *acquis* and for the preparation of the implementation of EU directives. There are 4 successfully completed Twinning projects in the areas of water, waste, air, Integrated Pollution Prevention Control (IPPC) and Seveso. They contributed to the establishment of the new authorities, adoption of the legislation, administrative capacity, enforcement and training of staff. There are another 4 ongoing Twinning projects in the areas of chemicals, nature protection, water and radiation protection in medicine.

The **Cross-border co-operation Programme with Greece** has continued with the main on-going projects being the opening of new border crossings (including construction of access roads and Border Crossing Check Points), continuation of the closing of Uranium Mines, the construction of Waste Water Treatments Plants in Southern Bulgaria and the start of Joint Small Project Fund that will finance "soft measures" and "people to people" activities. Under the **Cross-Border programme with Romania** activities continued on construction of a Winter Camp on the Danube, upgrade of basic energy infrastructure, opening of new border crossings, establishment of a monitoring system for air pollution, start of the Facilitation of border Crossing along Danube Project and start of financing activities through a Joint Small Project Fund.

Limited assistance was provided to the **Regional Development** Sector as all previous Institution Building projects supporting the sector were completed with no new ones being under implementation. The main reason was that in the past there was an absence of the appropriate framework for the preparation of Bulgaria for future participation in the Structural Funds. This framework was established in 2002 with the preparation and adoption of the Strategy for Structural Funds that defines a time schedule for the establishment of the necessary structures for the regional and structural policies, and for a timely update of the present legislative basis further to the requirements for EU Structural Funds. Within the Strategy there are concrete proposals foreseen for appropriate Institution Building projects that will strengthen the capacity of the involved institutions as managing authorities for the future Sectoral and Regional Operational Programmes.

In the area of **Roma integration**, measures on the education of Roma children and access to quality education were successfully introduced. The activities piloted under a Phare project have become the policy of the Ministry of Education. As a result of this, 400 teaching assistants from Roma origin will be appointed at the beginning of the next school year, which will improve both the access and the quality of the education of Roma children, and at the same time will create job opportunities for Roma people.

Phare continues to be the main financial source in the support of **civil society**. The NGOs continue to play important role in many fields but needs have led to a very high number of project proposals in the social area or in providing social services. Continuity and sustainability of their activities remain a key issue. As a result of

Phare financed projects, thousands of vulnerable people, including Roma, have been targeted and positive results have been achieved as regards their social integration.

In the **agriculture** sector, work continued on the improvement of plant health, vine and wine control institutions, and field inspections and seed control through three Institution Building projects involving Twinning and installation of equipment: laboratory equipment for phytosanitary, wine and seeds control; machinery for post-control plots for seed testing; IT equipment for the wine cadastre and for seed control. One additional Twinning project covering horizontal acquis alignment in the area of fruit and vegetables has been carried out, as well as a Technical Assistance project focusing on the CAP - Common Market Organisations (meat, fish and wine). Other projects that were implemented are the development and supply of a land cadastre for the Ministry of Agriculture, and the design and construction of the Veterinary Border Inspection Post of Kapitan Andreevo (border between Turkey and Bulgaria), the extension in the whole territory of Bulgaria of the Eurovet computer software for the identification and tracking of bovines, as well as of a Greenhouse for the Bulgarian Phytosanitary Service. Projects launched include two Twinning projects for veterinary control and for restructuring fisheries and aquaculture in Bulgaria, as well as Technical Assistance and supply of servers for the SAPARD Agency.

Success story

BG9915-01 Steel and Mining Areas Employment Project (SMAEP) - € 12 million

The Steel and Mining Areas Employment Project (SMAEP), worth € 12 million, was the first grant scheme to be implemented in Bulgaria according to the Practical Guide rules. It supported local job creation and environmental initiatives that assist redundant and unemployed workers in former steel and mining regions, thus minimizing the social consequences from economic restructuring. The project was implemented in five regions of Bulgaria: Sofia, Pernik, Bourgas and the Western and Eastern Rhodopes. The main institutions involved in the project were the Ministry of Labour and Social Policy as the Implementing Agency, the National Employment Service, municipalities, local labour offices, social partners and local bodies.

The impact of the successful completion of 109 projects funded in 51 municipalities of the five eligible regions was substantial. 2,950 job opportunities were created, with 20 % of the employed retaining their jobs after completion of the project. In total, approximately 12,000 man/months of employment and 2,000 man/months of training were delivered under the project. Employment was created in activities and jobs such as: gardening and planting of public recreation areas, solid waste management, renovation of infrastructure facilities, restoration of cultural, historical and architectural monuments and strengthening of river beds. Approximately 600 entrepreneurs were given support to start their own business. More than 30 local and regional centres for training and earning qualifications, and for the provision of information and consultancy services were established under the project. Different sites were reconstructed with the aim of improving the social infrastructure in more than 30 municipalities.

In addition, the project was instrumental in creating a management capacity within the Ministry of Labour and Social Policy in order to implement ESC grant schemes, one of its aims being to prepare for the management of the European Social Fund upon accession.

Tasks ahead

The challenges for 2003 and subsequent years are to improve the programming and implementation of Phare, and to introduce a system of multi-annual programming and EDIS for the 2004-2006 period. These are in turn preparations for Bulgaria's eventual participation in Structural Funds after accession. The immediate priorities are threefold:

- First, there is a need to strengthen the capacity of the Bulgarian authorities, especially the new EU funds Directorate in the Ministry of Finance, to identify strategic programming priorities in a pro-active way, and translate these priorities into mature project proposals that can be supported by Phare. Public institutions

need to collaborate across ministerial boundaries, work in partnership with business and civil society groups, and co-ordinate donor assistance more effectively.

- Secondly, there is a need to strengthen both financial management systems and project implementation capacity in some areas. This is particularly the case for projects involving investment in ESC and grant schemes, which will account for an increasing proportion of the Phare programme. Efforts are needed to reduce staff turnover and provide adequate resources for the contracting, technical and financial aspects of project implementation. Horizontal public administration reform, which is now a major priority for Phare, should help in this respect.
- Thirdly, the new JMC arrangements and evaluation systems must be made to work more effectively, with lessons of monitoring and evaluation fed back into the design of new programmes. In the longer term, the Bulgarian Ministries must develop their own monitoring and evaluation systems so that they can work effectively under more decentralised arrangements.

CYPRUS

The year in review

Political developments

No elections have taken place in the Republic of Cyprus in 2002. The coalition of the Democratic Rally and the United Democrats has continued to govern the country under the Presidency of Mr Clerides.

The UN process

On 16 January 2002, Mr Clerides and Mr Denktash, as leaders of their communities, started direct talks under the auspices of the United Nations to reach a political settlement in the presence of the UN Secretary General's Special Adviser on Cyprus, Mr. A. de Soto. With the endorsement of the Security Council, UN Secretary-General Annan visited Cyprus on 14-16 May. He said that despite their differences on substance and on the timeframe, he was still convinced that between May and the end of June, the two sides could resolve all the core issues, provided they acted decisively and with the necessary political will. He also called on Greece and Turkey for sustained and constructive support. Although no joint declaration was issued, the two leaders assured the UN Secretary-General that they would intensify their efforts and continue the talks in a genuine spirit of give-and-take. However, by 2 August, after five rounds of talks, a total of over 50 sessions had been held without agreement on any core issue.

The talks were resumed on 27 August. On 6 September 2002, UN Secretary-General Annan met the leaders of the two communities in Paris. According to his statement to the press, he asked the leaders to go back to the island and to work with Mr. de Soto on the issues that he highlighted to them, and to meet him once more in New York on 3 and 4 October. Mr. de Soto would be working with them to help them to achieve the requisite progress. The Secretary-General said that he continued to believe that the gaps dividing the parties could be bridged and, on some issues, that they were quite a bit smaller than when the talks began.

On 11 November, UN Secretary-General Annan submitted to the sides a plan as "basis for agreement on a comprehensive settlement". The 137-page complex, comprehensive text has five detailed appendices. A revised version of the plan was presented on 10 December. However, in spite of the combined diplomatic efforts of the United Nations, the European Union and the United States, particularly before and during the European Council of Copenhagen on 12 and 13 December, the United Nations led process to solve the Cyprus problem has not been successful.

EU position

The conclusions of the European Council at Helsinki in December 1999 remain the basis of the EU position: "...a political settlement will facilitate the accession of Cyprus to the European Union. If no settlement has been reached by the completion of the accession negotiations, the Council's decision on accession will be taken

without the above being a precondition. In this the Council will take account of all relevant factors.”

The Seville Summit in June 2002 stated that the EU’s preference continued to be for the accession of a reunited island. It fully supported the efforts of the UN Secretary-General and called upon the leaders of the two communities to intensify and expedite their talks in order to seize the unique window of opportunity for a comprehensive settlement, consistent with the relevant UN Security Council resolutions, before the completion of the accession negotiations. The conclusions also indicated that the EU would accommodate the terms of a comprehensive settlement in the Treaty of Accession in line with the principles on which the European Union is founded; as a Member State, Cyprus would need to speak with a single voice and ensure proper application of EU law. The EU would make a substantial financial contribution to support the development of the northern part of a reunited island.

The European Council of Copenhagen in December recalled the willingness of the EU to accommodate the terms of a settlement in the Treaty of Accession in line with the principles on which the EU is founded. According to the conclusions, in the event of settlement, the Council shall decide upon adaptations of the terms concerning the accession of Cyprus with regard to the Turkish Cypriot community. In the absence of a settlement, the application of the *acquis* to the northern part of the island shall be suspended, pending a solution. The Council invited the Commission to consider ways of promoting economic development of the northern part of Cyprus and bringing it closer to the Union.

The situation in the northern part of the island

The main political event in the northern part of the island was the holding of local elections on 30 June. The National Unity Party (NUP) won 16 out of 28 municipalities, Republican Turkish Party (RTP) 5, Democratic Party (DP) 4, Nationalist Justice Party (NJP) 2, and one municipality was won by an independent candidate. The Republican Turkish Party which favours a settlement in the framework of a bi-zonal and bi-communal federation and EU accession of a united Cyprus made important advances compared with previous elections and holds the mayor’s post in three of the largest cities, including Nicosia.

Macroeconomic developments and structural reform

Cyprus is a functioning market economy and it should be able to cope with competitive pressure and market forces within the Union. The European Commission has already acknowledged on several occasions the economic reform efforts undertaken by the Cypriot authorities to prepare for EU accession. The Cypriot authorities’ commitment to the economic requirements of EU accession has always been sustained.

However, further improvements can be made to the functioning of markets by keeping to plans to liberalise the telecom, energy, air transport and postal services sectors. Adherence to the fiscal consolidation programme will contribute to reducing the current account deficit. Care must be taken to improve co-ordination of the supervision of co-operative financial institutions and banks.

*Progress in meeting the *acquis communautaire**

Since 1998, Cyprus has made substantial progress in the different areas of the *acquis*. The legislative alignment process has accelerated in recent years. Cyprus has continued to pay attention to implementation and enforcement structures.

Over the past year, Cyprus has further advanced with legislative alignment and has improved its position in relation to administrative capacity, in particular in the fields of social insurance, veterinary and phytosanitary inspections, pharmaceutical services, combating money laundering, ship inspection, inland revenue, planning, environmental services, consumer and health protection, and customs.

In the main chapters, the following developments have been recorded:

As regards **free movement of goods**, approximation has been completed in a number of sector-specific areas. The adoption of the framework legislation on the New and Global Approach principle, following an initial delay, has allowed substantial legislative progress and constituted an important step towards further alignment with the *acquis*. In the field of public procurement, full alignment has not yet been achieved. Furthermore, efforts are still required for transposition of the *acquis* relating to the notification procedure, market surveillance and product safety.

In the field of **free movement of persons**, Cyprus has taken a major step by adopting the framework legislation on the recognition of professional qualifications. It has abolished inconsistencies as regards the co-ordination of social security systems and has reached a good level of administrative capacity.

On **freedom to provide services**, good progress can be reported in terms of harmonisation, in particular with legislation on insurance companies and banks, including offshore banks. Enhancement of administrative capacity should particularly continue as regards supervisory authorities in the field of financial services.

The liberalisation of **capital movement** is on course to achieve full alignment by accession. Although the administrative capacity for combating money laundering has been further enhanced through the recruitment of additional personnel, Cyprus must continue sustained efforts in this domain.

In the field of **competition**, steady progress has been made in adopting anti-trust and state aid legislation. A substantial improvement in state-aid and in anti-trust enforcement is evident after years of standstill. The State aid monitoring authority and the fully independent authority for the protection of competition function well, but should be developed further.

Cyprus has reached a good level of legislative alignment in the field of **agriculture** and has taken significant steps as regards the establishment of the Common Market Organisations. However, the administrative capacity to implement and enforce the *acquis* needs to be further strengthened in this field. Due priority should be given to the preparation of the Integrated Administration and Control System.

The comprehensive tax reform, concerning both indirect and direct taxation, has moved Cyprus significantly forward in the field of **taxation**. Cyprus has also made

important progress with developing the necessary administrative capacity and has reached an adequate level in this respect. Cyprus can also rely on a well-organised and well functioning **customs** administration.

Cyprus needs to focus on full liberalisation of the **telecommunications** markets, speeding up the implementation of the *acquis*, and the establishment of the regulator's office.

As regards **Economic and Monetary Union**, good progress can be reported, as the Central Bank has now become independent.

Legislation in the **transport** sector is largely in line with the *acquis*, but some legislation, in particular regarding aviation, remains to be transposed. Safety matters have been particularly improved by legislative alignment and strengthened administrative capacities. Efforts in the area of maritime transport need to be continued.

Progress has been made at a moderate pace in the field of **energy**. On-going legislative work in order to conform with the internal energy market *acquis* and to establish the oil stocks authority should be continued without delay, as should efforts to ensure the necessary oil stocks storage capacity.

Cyprus has continued the integration of the **environment** into other policies and has achieved a considerable alignment with the *acquis* in the various sectors of environmental and nature protection. However, measures need to be adopted in the important fields of air and water quality, industrial pollution control, chemicals, and genetically modified organisms. Particular attention should be paid to waste management and to enhancing administrative capacity. Investment needs to be secured in the medium term to ensure implementation of the environmental *acquis*.

Concerning **justice and home affairs** good progress in the fields of visa policy, asylum, the fight against organised crime and corruption can be reported. On asylum, alignment has been accelerated and an independent review authority has been established. Concerning the Schengen *acquis*, Cyprus is continuing its preparations by fully implementing the existing Schengen Action Plan and by developing the National information system. Cyprus has ratified various conventions with respect to data protection, the fight against terrorism, and proceeds from crime. In general, administrative capacity has still to be further strengthened in this area.

As regards **regional policy**, Cyprus has continued to make important progress in aligning with the *acquis* preparing for participation in structural instruments. Cyprus is also well advanced with respect to administrative structures.

Cyprus has achieved further progress in the field of **financial control**. Its Public Internal Financial Control system is well developed and international audit standards are largely met. Efforts should be undertaken as to strengthening the administrative capacity of the Treasury.

Bearing in mind the progress achieved since the 1998 Regular Report, the level of alignment that Cyprus has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission

considers that Cyprus will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading to accession, Cyprus needs to continue its preparations, in line with the commitments it has made in the accession negotiations³.

Pre-accession assistance in 2002

Programmes launched

After the expiry of the 4th Financial Protocol concluded with Cyprus, the Council Regulation 555/2000 of 13th March 2000 replaced the financial protocols from 2000 onwards for a period of five years. The total pre-accession budget allocated to Cyprus for the period 2000-2004 adds up to € 57 million. These pre-accession funds finance co-operation projects and activities which are a priority to prepare for accession, and a third of the funds have to be used to finance bi-communal projects (activities to contribute to the reconciliation of the two Cypriot communities).

The 2002 Pre-accession programme for Cyprus (**€ 11.5 million**) finances activities on priority operations to prepare for accession as defined within the Accession Partnership 2001, the Regular Report 2001 and the National Programme for the Adoption of the Acquis prepared by Cyprus, as well as the participation of Cyprus in Community programmes.

In particular, the 2002 pre-accession budget will be used to finance institutional capacity-building activities in the following areas: internal market, agriculture, environment, regional policy, transport, justice and home affairs, ESC, and the bi-communal activities.

The national pre-accession programme 2002 for Cyprus was approved by the Phare Management Committee in February and the Financing Memorandum signed on 1 August 2002.

Overview of programmes implemented

2000 Financing Memorandum

Justice and Home Affairs – Schengen Information System (SIS) project - Contract signed after an extension of the FM made necessary by changes in the scope of the project.

TAIEX - Activities completed

Support to the department of customs - Activities completed

Development of the VAT service - Activities completed

³ The information in this section is taken from the Commission's latest Regular Report for Cyprus (October 2002). A more detailed analysis of Cyprus' progress in meeting the *acquis* can be found in the Regular Report.

Bi-communal Projects / Nicosia Master Plan - Construction works on both sides (Omeriye and Selimye areas) have progressed (road rehabilitation, pavements and infrastructure). Construction works for the renovation of the Ottoman Bath has begun.

2001 Financing Memorandum

Urban Wastewater Development

- 1 Contract signed on 10/02/03
- 1 Service Contract Award Notice to be published on 21/02/03

Management of the Akamas Forest - Tendering stage

Capacity Building for Accreditation and the New Approach Directives - Tendering stage

Capacity Building for Social Partners - Employment and Social Affairs - Tendering stage

Bi-communal Project - NMP (2nd phase) - Project preparation underway. The Tender documents are expected by end of March 2003.

Bi-communal Projects - Enhancement links Trade Unions - Preparation of grant contract under way.

2002 Financing Memorandum

Establishment of Integrated Administration and Control System -Tendering stage

Enhancement of rural development programming and implementation capacity - Tendering stage

Pre-accession aid management performance

- Despite a delayed start, the implementation of pre-accession assistance by the Planning Bureau of the Republic of Cyprus had made important progress by the end of 2002.
- Preparation for EDIS management has also involved important efforts on the Cypriot side, leading to, by the end of 2002, the perspective of a positive assessment by the Commission early 2003.
- While quality of implementation was improving with time (due to learning process and training operations), the limited number of staff involved in the management of EU funds still gave rise to concern on the Commission side (in particular with regards to Twinning operations).

NDPs – State of Play

The preparatory work for the NDP took place in 2002 and should lead to a presentation of the document to the Council of Ministers at the beginning of 2003. As

far as the Single Programming Document is concerned, DG Regional Policy made some informal comments. The Planning Bureau planned to formally forward the SPD to the Commission in April 2003.

Institution Building highlights

2000 “Customs” Project

This € 1 million, twelve-month project was completed successfully in February 2002.

Particular emphasis was placed on the area of the **enforcement and training** of the Department of Customs, including **intelligence, anti-smuggling and investigation** that will ensure, upon accession, the integrity of the EU external border. Intelligence structures are now in place, centrally and in the districts. Risk based anti-smuggling controls are also in place and operational and the Investigation Service has built the capacity to address complex fraud supported by trained analysts.

In **Excise**, the Project completed the Excise Review under the TAIEX programme and provided detailed guidance on its implementation.

In the area of **MIS and risk analysis**, detailed advice was given through the delivery of five separate reports and the outline design of local risk profiles to aid control in the districts, whilst anti-smuggling staff have benefited from seeing risk-based control in action.

In the area of **post clearance control**, particular advice was given to address post clearance verification procedures and the customs control of goods conditionally released at the frontier.

In the area of **external relations**, project activity has concentrated on the development of an MoU strategy that will more clearly identify where MoUs should be negotiated in support of business, and the development of the Customs Co-operation Committee (CCC) as an effective trade forum.

Trade facilitation concentrated on simplified procedures and the possibilities for trade facilitation after accession, and included a study visit in the UK.

Twinning projects

1) Twinning Light Project - State Aid: This project has been successfully implemented in 2002 (6-month duration) by the Member State - Germany (Federal Ministry of Finance), and the Office of the Commissioner for Public Aid. The administrative capacity has been greatly enhanced via this project. Technical Assistance was provided with regard to the assessment of the compatibility of schemes and ad hoc measures with the State Aid *Acquis*, including workshops of General Economic Interest and on Regional Aid and Structural Funds.

2) Twinning Light Project – Insurance Sector: The project implementation in 2002 (6 months) has considerably contributed to the reinforcement of the administrative capacity of the Insurance Companies Control Service (Twinning partner UK). The project activities included the drafting of various implementing regulations of the Insurance Law, guidance to companies on submitting returns and a

Manual for the Insurance Control Service to assist them in their regulatory duties as well as targeted training for the staff of the Service.

2.3 Results and Impact

State of play for JMC, M&A reports

The Commission is in the process of contracting a private sector firm to provide M&A services to Cyprus and the Commission on pre-accession assistance programmes and projects.

Due to important delays in starting implementation of pre-accession assistance, the first M&A reports are expected for the last quarter of 2003.

The first JMC should also take place at that time.

Success story

2000 “Customs” Project

Cyprus is particularly sensitive to customs issues for several reasons. Being an island, customs duties have traditionally been one of the main sources of revenues for the Cypriot Government. With the specific situation of being an occupied territory, the Republic of Cyprus pays particular attention to the green line that separates the communities. In addition, Cyprus includes two British Sovereign Bases Areas, which have their own custom services. Finally, Cyprus will become an external border of the EU upon accession, which will put extra responsibility on its customs agencies.

Because of the above elements, one of the first projects programmed with pre-accession funds was this € 1 million twelve-month project, which was completed successfully in February 2002.

Particular emphasis was put in the area of enforcement and training of the Department of Customs, including intelligence, anti-smuggling and investigation that will ensure, upon accession, the integrity of the EU external border. Intelligence structures are now in place, centrally and in the districts. Risk based anti-smuggling controls are also in place and operational and the Investigation Service has built the capacity to address complex fraud supported by trained analysts.

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Trade facilitation concentrated on simplified procedures and the possibilities for trade facilitation after accession and included a study visit in the UK.

Tasks ahead

Since the European Union is ready to welcome Cyprus, there should be no ambiguity about the particular political situation in this acceding country. The Republic of Cyprus might enter the EU as a de facto divided island. Despite the unsuccessful UN

negotiations that took place in 2002, there is still hope that an agreement can be found before accession, or even after.

In terms of *acquis* related matters, Cyprus will have to pay special attention to the liberalisation process (energy and telecoms), to the reinforcement of the administrative capacity in the areas of phytosanitary and veterinary control, asylum, the fight against money laundering, and concerning preparations for the Structural Funds.

A crucial step with regard to the Structural Funds should be the introduction of EDIS, transferring full responsibility for procurement and implementation to the Cypriot authorities. Preparatory steps have already been taken and confirmation of EDIS should follow in the course of 2003.

Another major challenge will be to agree on a high quality programming of the 2003 programme and of the transition facility.

CZECH REPUBLIC

The year in review

Political developments

The minority Social Democrat government continued to function normally in both domestic and foreign affairs and to pursue its programme of economic and social reform. It completed its full term in office, which began in 1998 and was brought to a close by the parliamentary election of 14-15 June 2002.

As no party won a simple majority of seats, the President invited the leader of the largest party, the Social Democrats (CSSD), to conduct talks with other parties with a view to forming a government. Subsequently, on 15 July the President appointed the new government composed of the CSSD and the Coalition parties. The CSSD has 11 ministers including the Prime Minister, the Christian Democrats (KDU-CSL), has 3 ministers including Foreign Minister, and the Freedom Union (US-DEU) has 3 ministers. This new coalition government has a majority of 101 seats out of 200 in the House of Deputies.

There continues to be a basic consensus amongst political parties in favour of European Union membership. Prior to the elections the outgoing government continued to meet regularly the main opposition parties to review progress on EU accession. The new government has confirmed accession to the European Union as a top priority.

Macroeconomic developments and structural reform

The Czech economy has enjoyed stable economic growth of around 2.5 % in 2002 in the context of adverse external economic conditions and catastrophic floods, which hit the country in August 2002.

Overall, the economic situation has been stable with sound domestic, mainly household consumption, and public spending triggering the economic performance. Investment growth weakened in 2002 and the external trade contribution to growth remained negative. The appreciation of the Czech koruna, which had been a major challenge for economic policies in the first half of 2002, had been reversed in the second half of the year and the currency stabilised. Inflation pressures have been quasi non-existent as the country achieved year-on-year inflation of 0.6 % at the end of 2002.

Public finance deficit and unemployment remain the main problem areas. While the result of the State budget for 2002 (deficit of 2 % on GDP) as well as public budgets as whole (deficit of 4.5 % on GDP) represented a positive surprise, the tendencies remained negative and in the absence of reforms, it would be difficult to meet the already loose government target of a 5 % deficit in 2006. While the public debt remains largely under control at about 20 % of GDP, it is set to rise in the future as a result of activation of State guarantees and the State budget deficits.

Unemployment is an increasing problem with a rate which had approached 10 % at the end of the year and which is very unevenly distributed across the country. The ongoing restructuring process in the corporate sector is still accompanied by lay-offs. The deficiencies of labour mobility and a generous social system led to a persistently stable rate of unemployment. The balance of payments remained under control as the financial account surplus continued to cover the current account deficit. The trade balance has improved in 2002 (deficit of 3.3 % of GDP, down from 5.4 % in 2001) thanks to lower imports. The financial account is fed by FDI inflows, which have however also shown some slowing tendency if privatisation is not taken into account.

The structural changes of the Czech economy have mainly been triggered by high inflows of foreign direct investments. Successful activities of the Czech Consolidation Agency, which found strategic partners for some Czech companies and sold a package of claims with a nominal value of almost 40 billion CZK also contributed to this process. Finally, the Cabinet succeeded in concluding the privatisation of the national gas utility company, Transgas, to RWE of Germany.

In August 2002, the Czech Government adopted an update of the Pre-accession Economic Program (PEP) submitted annually to the Commission. In its assessment, the Commission stated that the PEP focuses on the main issues relevant for the medium-term economic perspectives of the Czech Republic and welcomed the analytical content of the document as well as the planned structural reform measures. However, the fiscal consolidation path has been seen as “not ambitious and envisaging only a very modest improvement in the general government deficit.”

In the 2002 Regular Report the European Commission concluded, “**The Czech Republic is a functioning market economy.** The continuation of its current reform path should enable the Czech Republic to cope with competitive pressure and market forces within the Union. Improvements can be made as regards the management of public finance, in particular by addressing the high and rising mandatory and quasi-mandatory government expenditures. Reforms of social expenditure, such as pension and health care schemes, must be pursued. Furthermore, a more decisive approach towards selling off bad assets of the Czech Consolidation Agency to private investors would free the economy of misallocated resources.”

Progress in meeting the *acquis communautaire*

During 2002, significant progress in legislative harmonisation has been achieved in a number of sectors, in particular regarding the internal market and justice and home affairs. Legislative progress has been noted in chapters such as free movement of people and free movement of capital. In addition, further legislative developments could also be reported in other sectors, including environment, taxation or EMU. Delays in completing legislative alignment with the *acquis* have, however, occurred in some areas.

Specific legislative alignment efforts remain to be made in a number of chapters, including free movement of persons (alignment as regards mutual recognition of qualifications, in particular in the health sector), free movement of goods (alignment with the *acquis* on public procurement), free movement of capital (harmonisation of prudential rules relating to placement of assets of insurance companies, pension funds and saving and credit unions), company law (intellectual and industrial property

rights), taxation (closure of duty free shops at land borders), telecommunications and information technologies (delays in introducing effective regulation of the sector, both for Telecommunications and Postal services, and in transposing the postal *acquis*), culture and audio-visual policy (adoption of legislative amendments to the Broadcasting Act yet to be finalised) or environment (delays in completing the legal alignment in the sectors air quality, waste management, water quality, nature protection as well as industrial pollution and risk management).

As regards administrative capacity, even though there have been some further improvements, additional efforts in this direction need to be made, particularly as regards agriculture, environment and regional policy⁴.

Phare in 2002

Programmes launched

A total allocation of € **108.2 million** was made available to the Czech Republic under the **Phare programme in 2002**. Two Financing Memoranda for the 2002 Phare National Programme were concluded in May and October for Institution Building and related investment. These amounted to € 84.8 million and, in accordance with the Regular Report for 2001, focused on the issues highlighted in the Accession Partnership of October 2001.

The programme concentrated on several priorities. It financed efforts aimed at:

- Improving the long-term sustainability of civil society organisations and combating the marginalisation of vulnerable groups in society, particularly the elderly, through grants to non-governmental organisations (€ 3.0 million). A further allocation of € 1.0 million was also used to channel funds through non-governmental organisations to vulnerable groups affected by the floods of August 2002 (please see **Success story** box below).
- Strengthening the competitiveness of the Czech Republic's market economy (€ 17.1 million) with a view to its full integration in the internal market, including improving capital markets legislation and regulation, insurance supervision, and links between Czech and foreign companies.
- Helping the Czech Republic adopt and implement the *acquis* and strengthening the institutional and administrative capacity in the *acquis* (€ 49.3 million), including the spheres of **agriculture** (e.g. strengthening BSE detection capacity), the **environment** (e.g. improving the ability to prevent and control industrial pollution), **justice and home affairs** (e.g. the provision of training to the probation and mediation service), **employment and social affairs** (e.g. improving the public health administration), and **public administration** (e.g. the establishment of a generic system of training for employees of the recently created regions).

⁴ The information in this section is taken from the Commission's latest Regular Report for the Czech Republic (October 2002). A more detailed analysis of the Czech Republic's progress in meeting the *acquis* can be found in the Regular Report.

- Preparing for the management of Structural Funds (€ 6.3 million), mainly through building the implementation capacity at key ministries (Ministry for Regional Development, Ministry for Industry and Trade, Ministry for Labour and Social Affairs).

Also included in the 2002 national allocation for the Czech Republic was Phare support to the Czech Republic's participation in various Community Programmes (€ 8.1 million).

In October and December 2002, three Financing Memoranda were signed for the 2002 **cross-border co-operation** (CBC) programmes; € 10 million was allocated for co-operation with Germany, € 4 million for co-operation with Austria and € 5 million for co-operation with Poland. Further Financing Memoranda on nuclear safety and preparing the Czech Republic for sole management of Phare funds were signed with an allocation of € 4.1 million and € 0.3 million respectively in December and September.

In 2002, the Czech Republic continued to participate in Phare financed multi-beneficiary programmes, such as SIGMA, the Small and Medium Sized Enterprise Facilities and the Statistics Programme.

Overview of programmes implemented

During 2002, both the 1998 and 1999 National Programmes (€ 22.5 and € 16 million respectively) came to an end. These were the first programmes which focused on addressing the weaknesses identified in the Commission's Opinion of 1997 and subsequent Regular Reports and Accession Partnerships. Projects under these programmes had positive results and have led on to follow-up projects in later years. They confirmed the change in orientation of the Phare programme from "demand driven" (i.e. according to the requests of candidate countries) to "accession driven", and the usefulness of the Twinning mechanism. The 1998 National Programme has been the subject of a positive ex-post evaluation on the impact of its results.

Projects are now being implemented under many programmes from different budgetary years, including the 2000, 2001 and 2002 National Programmes, the 1999 and 2000 CBC Programmes, the Supplementary Investment Facility and Access 2000. In most cases, projects are progressing according to schedule and in line with expectations. Where this is not the case it is usually caused by lack of capacity within beneficiary institutions or by appropriate legislation not having been passed or implemented.

Phare management performance

All final payments were made in time under programmes which closed during 2002. Programmes worth over € 130 million had to be contracted during 2002, including the 2000 National Programme (€ 59 million), the CBC 1999 (€ 45 million) and 2000 (€ 19 million) programmes, the Supplementary Investment Facility (€ 8.1 million) and Access 2000 (€ 1.7 million). 99 % of these funds were contracted, which represents **one of the best performances in the Czech Republic's history**, and was mostly due to a speeding up of the procurement process which allowed spare funds to be re-allocated to already existing or new projects.

Looking ahead, the news is encouraging, as the 2001 National Programme is well on the way to being fully contracted, tenders have been launched under 2002 programmes and, in some cases, contracts signed and implementation already started. A particular mention should be made concerning the time taken for the preparation of Twinning covenants, which is almost incomparable with that taken in the early years of the Twinning mechanism.

Altogether, € 120 million was contracted and € 78 million disbursed in 2002, compared to € 66 million and € 70 million respectively in 2001. The percentage of total Phare funds contracted and disbursed remained almost as for 2001 (contracted: 81 % as compared to 79 %; disbursed: 69 % as compared to 70 %).

NDPs – State of Play

Comments were received in February 2002 on the second draft of the NDP, submitted in the summer of 2001. These comments were taken into account, and it was discussed progressively at Programming Working Group meetings. A consultation process involving ministries, local and regional bodies and other partners was held in late 2002. After the financial framework had been modified in line with indicative allocations following the Copenhagen summit, it was submitted to and conditionally approved by the Government on 16 December 2002. The conditions yet to be fulfilled are the incorporation of the results of the ex-ante evaluation of the NDP, of additionality data, and the completion of the financial framework. It should be ready for submission to the Commission in English by the end of February 2003.

Institution Building highlights

Twinning remained the key instrument for Institution Building under Phare. Thirteen projects were completed in 2002 (10 under 1999 programmes and 3 under the 2000 National Programme) and another 24 projects were endorsed under the 2000 and 2001 National Programmes (6 and 18 respectively). At the end of 2002, the total number of Twinning projects under implementation had increased from 24 at the end of 2001 to 36. Projects are active, for example, in the sectors of pension reform, monitoring of waste, state aids, water management, the prison service, equal treatment for men and women, management and control of EU funds, and regional government.

The selection of Member State partners for the 15 Twinning projects under the 2002 National Programme part 1 took place in the first quarter of 2002, and in the third quarter for two projects under part 2 of the same programme. In two cases, project documentation had to be recirculated since no partners were identified at first. Preparation of the covenants started immediately after selection in all cases. The EC Delegation organised a training seminar in June, which resulted in further improvements to the quality of the covenants, and has speeded up the process of their drafting. Endorsement of most Phare 2002 Twinning projects is expected during the first two quarters of 2003.

2002 also saw the first Twinning Light projects begin implementation, in the sectors of the environment, tax administration, and agriculture. It is, however, too early to assess their effectiveness and results.

A Twinning project at the **Czech National Drug Commission**, implemented under the Phare 2000 programme, substantially contributed to the Czech Republic's ability to meet the obligations of the *acquis* in the area of drug policy, in line with the National Drug Strategy 2001-2004. The project, involving the long-term secondment of Austrian experts, leaves a fully operational national centre for monitoring the drug situation, and enhanced co-operation between the Czech police, customs and the National Monitoring Centre. Czech professionals were trained in the setting up of primary prevention, substitution services, and on the management of drug related issues in prisons and police. More specifically, Czech and Austrian experts developed a new funding model for drug policy, improved the accreditation system for drug services, elaborated relevant guidance material and manuals, improved the co-ordination of drug policy between the different ministries as well as within and between the regions. Finally, the Czech Republic acquired a leading position among future EU Member States because it achieved a level of drug monitoring above average in comparison with many EU Member States. As a result, the Czech National Monitoring Centre has been invited to join the European Centre for Drugs and Drug Addiction (EMCDDA) in Lisbon as an observer as of January 2003, more than a year before accession.

In the sector of the environment, a Twinning project is underway concerning the monitoring of air quality. The project has already contributed to the establishment of procedures in line with the *acquis* for licensing regional authorities in the area and to the development of air quality measuring plans for the regions. As a result of the project, methodologies and techniques for monitoring of air pollution and the structure for their implementation have been upgraded. In addition, secondary legislation and regulations have been elaborated. Recommendations to the Ministry of the Environment to implement the Clean Air Act via this legislation and regulations are highly valued by the central implementing authority.

Results and Impact

State of play for JMC/SMSC development

The monitoring and evaluation system introduced in 2000 was streamlined to fit with local needs and capacities. The number of Sectoral Monitoring Sub-Committees was reduced from two to one annually, which has helped focus attention, while allowed for the monitoring reports, prepared by the national authorities, to be improved.

The Joint Monitoring Committee (JMC) (the co-ordinating body for Phare, ISPA and SAPARD) was held on 26 June 2002. The monitoring and evaluation schedule improved in efficiency and speed on 2001: in total 16 Sectoral Monitoring Sub-Committees (SMSCs) were held covering all sectors, and acted as debriefing meetings for the interim evaluation reports produced by EMS (see below).

The National Authorities have become more pro-active in monitoring and evaluation, designing a new type of monitoring report, and having contracted a company with Phare funds to provide ex-post evaluation of individual Phare projects and training to relevant staff. However, there needs to be more co-ordination between those Czech bodies responsible for monitoring and evaluating the Phare programme, and those to be responsible for monitoring and evaluating post-accession funds, particularly the

Structural Funds. In addition, the national authorities need to prepare for the interim evaluation of Phare programmes after EMS is phased out.

M&A Reports in 2002

EMS, the external contractor which conducts interim evaluations of the Phare programme on behalf of the Commission, produced 16 reports during 2002, covering all sectors (2 sectors were covered twice). Eleven were rated as satisfactory, three as unsatisfactory, while two were mixed.

The recommendations included in these reports proved to be very useful and in some cases, action was taken which might not otherwise have occurred. It is strongly hoped that EMS continues to operate in the Czech Republic up until the date of accession at least.

Most of the horizontal recommendations were focused on project design, particularly with regard to the quality of project documentation (e.g. implementation schedules, indicators of achievement), and the fulfilment of conditions by project beneficiaries and the Czech Republic in general (e.g. co-financing, passing of relevant legislation) in order to guarantee that projects realise the impact desired and are sustainable. These issues have, as a result, been more clearly addressed in the project documentation drafted for the 2002 and 2003 Phare programmes.

Four ex-post evaluations were conducted in 2002, the first centrally from DG Enlargement, the remaining 3 by the Delegation. The conclusions of all reports were more positive than interim evaluations since the impacts of projects were easier to discern, and since day-to-day implementation issues, such as late payment, are seen from a more distant perspective. They therefore give much encouragement for the future.

Sectors with positive results

Phare continued its support to the **political criteria** through classic Technical Assistance and grant schemes for non-governmental organisations. 2002 saw the completion of a project focused on improving relations between Roma and the majority population, and included a highly regarded, though controversial, advertisement campaign. The campaign will be continued with Czech funds. Over € 9 million was awarded via 240 grants in order to strengthen civil society, support the consolidation of democratic practices and to address socially excluded groups.

With regard to the **economic criteria**, Phare financed a € 1.5 million project aimed at improving links between selected Czech suppliers and multinational companies (MNCs), via Twinning and Technical Assistance. 45 SMEs were involved, with 20 of these receiving intensive support. While the general consensus among the Czech companies was that positive changes are taking place within their organisations as a direct result of the project, the true measure of the success of the project lies in the perception of supplier performance by MNCs. These reported improvements in three primary areas of supplier/client relationship involvement: communication, understanding customer needs and response to enquiry. This appears to have manifested itself in increased involvement with suppliers and greater order volumes.

The project was completed in 2002 and a follow-up project from the Phare 2002 budget commenced in January 2003.

In the area of **Employment and Social Affairs**, 2002 saw the completion of the last funding year for the Pro-Active Labour Market Initiative Fund under which over € 1 million was channelled to Labour Offices or to non-governmental organisations through 28 individual grants to increase employment amongst marginalised groups. For instance, one of the grants funded the introduction of a Norwegian method of supported employment in South Bohemia direct at mentally handicapped people and created 18 new jobs.

Under the 2002 budget, Phare is at present funding a grant scheme mirroring the Structural Fund Initiative EQUAL, which concentrates on the four pillars of the European Employment Strategy - Employability, Entrepreneurship, Adaptability, and Equal Opportunities. Not only have individual projects already commenced, but the implementation of the programme is also providing valuable experience with regard to the future management of Structural Funds. The Phare allocation has also acted as an important stimulus for the commitment of a significant *tranche* of Czech funds (the scheme is being funded 50/50 for a total of € 8 million).

In the sector of **Justice and Home Affairs**, 2002 saw the procurement of large amounts of equipment. A € 0.8 million allocation was used to purchase necessary equipment for the newly established Judicial Academy, while € 1 million of € 6 million was used to finance information technology for the first stage of the computerisation of the whole justice network. The latter included over 3,000 personal computers and 112 printers for 97 state attorney offices and 97 courts, and should be followed up by further Phare financing in 2003. The Czech Republic's preparations for Schengen were supported by a € 3.8 million allocation for similar items for sections of the police which will need to be properly equipped for Schengen, such as the transport police. Again, Phare allocations were matched by significant Czech co-financing. While the purchase and delivery of the equipment is important, the responsibility for ensuring that it is used properly and by trained staff rests with the relevant Czech authorities. These Phare projects should therefore be considered as necessary, but first, steps.

Success story

Repairing the damage caused by floods – € 11.5 million

As was widely publicised, extensive floods were experienced in the Czech Republic, Germany and France in August 2002. While in the latter two countries, Structural Funds could be used to address the devastation since they are Member States, this was not possible in the Czech Republic. The Czech Republic and the Commission reacted swiftly to examine the possible funding options.

From the 2001 and 2002 Phare programme, € 10.5 million and € 1 million were respectively re-allocated to two grant schemes: the first to repair public infrastructure, and the second to provide aid to communities damaged by the floods through material assistance, counselling and volunteer help. The schemes were launched at the end of September, and individual projects selected by late November. Implementation either commenced in December, or will start in the first quarter of 2003. In total just under 100 contracts were concluded.

Though project implementation has not finished, it is already clear that this initiative has been very successful, mainly due to the speed of its execution. Individuals or organisations benefiting from grants should be able to repair damage caused by the floods within a year of its occurrence. In comparison, the usual time taken from the proposal of initiatives to the conclusion of contracts is at least twelve months. In this case it was three.

There were many other positive aspects to these schemes: the swift preparation of the accurate data by the Czech authorities and the speeding up of procedures by the Commission; the excellent co-operation between all parties; the building up of public bodies experience with regard to handling EU funds, especially in the regions; and the ability of Phare to complement not only other EU aid, such as under the Solidarity Fund and ISPA, but also Czech financing.

Last but not least, it was demonstrated that due to its flexibility, Phare is able to reach the local level better than other EU programmes. For example, ISPA is primarily designed for large infrastructure projects, and it is therefore more difficult to divert funds to smaller measures required in the case of emergencies. Phare is therefore a very useful instrument for showing the “man in the street” that the European Union is not just concerned with benefiting central government. Phare also contributed over € 9.5 million to two similar schemes in response to the 1997 floods in the Czech Republic.

In total, the EU contributed € 370 million to alleviating the damage caused by floods of 2002 through Phare (€ 11.5 million), ISPA (€ 30 million), the Solidarity Fund (€ 129 million) and the EIB (€ 200 million) which represents around 16% of the estimated total (€ 2.2 billion).

Tasks ahead

According to the 2002 Regular Report, further steps are necessary as regards the full implementation of the Civil Service Act, which is the legal framework for the central public administration reforms and the reform of the judiciary.

Additional efforts are also required with regard to remedying discrimination of the Roma community in access to education, housing and employment, as well as the full alignment of the public procurement legislation, the full implementation of the public internal financial control, the structures necessary to ensure sound and efficient management of EC funds, and the mutual recognition of professional qualification in the health sector.

As regards the preparation for Structural Funds, further efforts are necessary to reinforce the administrative capacity of the implementation structures, to further improve the inter-ministerial co-operation and partnership, and to strengthen systems and procedures for effective monitoring, financial management and control.

Another major challenge will be the introduction of EDIS for Phare and ISPA, transferring full responsibility for procurement and implementation to the Czech authorities. After the finalisation of stage 1 (gap assessment), increased efforts are necessary in order to ensure that EDIS is in place by the day of accession at the latest, which implies that EDIS requests for the National Fund and the five Implementing Agencies (Central Finance and Contracts Unit, Centre for Regional Development, Czech-Industry, National Training Fund, Civil Society Foundation-NROS) are submitted to the Commission by autumn 2003, therefore forming the basis of the verification audits done by the Commission before the approval of the Commission Decision.

ESTONIA

The year in review

Political developments

During 2002, Estonia made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. **Estonia continues to fulfil the Copenhagen political criteria.**

In early January 2002, the centre-right coalition government resigned. A new cabinet was formed, headed by PM Siim Kallas, in late January 2002. It is a centrist coalition, formed by the Reform Party (centre-right) and the Centre Party (centre-left). It will remain in place until the general election on 2 March 2003. Local elections were held in October 2002.

Implementation of the **public administration reform** programme has continued, and the functioning of the Estonian civil service and its administrative procedures continue to be satisfactory. There remains a need to continue to improve transparency in personnel matters and in co-ordination across different bodies.

Judicial modernisation has progressed well and the independence and administration of the judiciary have been enhanced. Improvements in the training of judges have continued and court information systems have been upgraded. However, vacant prosecutors' posts still need to be filled and Estonia needs to continue to increase efficiency in dealing with court cases as well as regarding the quality and enforcement of court decisions.

Estonia continues to respect **human rights** and freedoms. Estonia has encouraged the further integration of non-citizens by removing language requirements for candidates in parliamentary and local elections and by supporting language learning and cultural exchanges through the state integration programme. Estonia should continue efforts to increase the rate of naturalisation and to facilitate the process. Estonia should also ensure that the implementation of language legislation continues to respect the principles of justified public interest and proportionality, Estonia's international obligations and the Europe Agreement. In May 2002, Estonia signed Additional Protocol No. 13 to the European Convention for the Protection of Human Rights and Fundamental Freedoms concerning the abolition of the death penalty in all circumstances.

Macroeconomic developments and structural reform

The Regular Report 2002 confirmed that **Estonia is a functioning market economy** and should be able to cope with competitive pressure and market forces within the EU in the near term. Macroeconomic stability has been achieved, reforms have deepened while the Estonian authorities' commitment to the economic requirements of EU accession has been sustained. Improvements can be made by the government and the private sector to the functioning of labour markets by taking a more active role to tackle the unemployment problem. Furthermore, the consolidation of the local

authorities' finances should be taken up to reinforce the prudent stance of fiscal policy. In addition, the restructuring of the oil shale sector should be actively pursued.

Despite the economic slowdown in the EU and the United States, the Estonian economy maintained its growth. Exports fell sharply—especially during the first half of 2002—as the recovery in the EU lost momentum, and growth was supported entirely by a strong domestic demand financed to a large extent by borrowing and FDI-related investment flows. Notwithstanding the negative contribution from net exports, economic growth was maintained at 4.5 % for 2002. The growth was mainly based on industry, transport, and service-related trade. Inflation fell to 3.8 % in 2002, after reaching almost 7 % in mid-2001. The unemployment rate (10.5 %) continued to fall, following the peak reached in 2000. However, employment gains remain moderate, while considerable skills mismatch still hamper improvement in labour market conditions.

Fiscal discipline, and better than expected growth performance, both contributed to a small increase in the general government surplus from 0.5 % of GDP in 2001, to almost 0.75 % of GDP in 2002. The deterioration in the external environment, and a booming domestic demand, contributed to the widening of the current account deficit to some 11.5 % of GDP in 2002.⁵

Accession requires Estonia to implement a significant number of structural reforms in the areas of health, environment, education and transport for example. This requires a substantial transfer of EU assistance for Institution Building and for Investment. However, absorption capacity of EU assistance is insufficient, either because of insufficient administrative capacity or due to co-financing constraints. The country's high rate of structural unemployment is a concern, given the limited size of the labour force. Sharp regional disparities remain an obstacle to regional cohesion and to the sustainability of rural Estonia. Phare is assisting Estonia to meet these needs through Economic and Social Cohesion projects, which also are a precursor to post-accession assistance from Cohesion and Structural Funds. In addition, rural areas are being assisted through SAPARD funds.

Structural reforms and the privatisation of public enterprises have been largely completed and there are no significant barriers to entry into markets for either domestic or foreign enterprises. The reform of the pension system has advanced considerably with the implementation of the 2nd pillar (quasi-compulsory privately managed funded scheme). An independent Financial Supervision Authority was established at the beginning of 2002. Land reform has advanced steadily. However, progress has been rather slow in the reform of the health system, while plans for privatisation in the energy sector have been cancelled.

Progress in meeting the *acquis communautaire*

Overall, **Estonia has now achieved a high degree of alignment with the *acquis* in the large majority of areas.** Estonia has made further advances in many areas including in the internal market, agriculture and justice and home affairs. It is also relatively advanced in having developed adequate administrative capacity to

⁵ Economic indicators from DG ECFIN forecast for the candidate countries.

implement the *acquis* in a considerable number of fields. Estonia has most of the necessary institutions in place. Nevertheless, in some sectors, further efforts are required to strengthen the capabilities of these institutions, in particular as regards the fisheries administration, the establishment of the Anti-Discrimination Equality Body, as well as the structures for financial management and control for Structural Funds upon accession (including their final definition)⁶.

Phare in 2002

Programmes launched

A total of € **33.4 million** was allocated to Estonia under the 2002 Phare budget to support Estonia's accession to the EU, in line with the priorities highlighted in the Accession Partnership. This amount includes the annual allocation for the Phare National Programme 2002 presented in two parts (2002/000-266 and 2002/000-579) and including participation in Community Programmes, and the Cross-Border Co-operation programme (Co-operation in the Baltic Sea Region 2002 – ES 2002/000-636).

In addition to this amount, assistance was also provided through Multi-country/Horizontal programmes, SIGMA, TAIEX, the Administrative and Technical Assistance programme and the Small Projects Programme.

According to the accelerated procedure initiated in 2002, the Phare 2002 National Programme for Estonia was presented in two parts, allowing for an early implementation of the most urgent Institution Building projects. The Phare Management Committee approved the first part of the Phare 2002 National Programme in February 2002 and the Financing Memorandum was signed by the Estonian government and the European Commission on 27 March 2002, for an amount of € 5.1 million.

The second part of the 2002 National programme was submitted to the Phare Management Committee in July 2002, and the Financing Memorandum was signed by the Estonian government and the European Commission on 12 November 2002, accounting for € 25.3 million.

Phare funds are used to support Institution Building through Twinning, including the newly introduced Twinning Light, Technical Assistance and investment in the *acquis*, aimed at supporting the institution activities by providing equipment to assist Estonia in complying with EU norms and standards. Phare funds are also used to invest in ESC.

The Phare 2002 National Programme provides € 30.43 million for:

- **Administrative capacity : € 7.36 million**

⁶ The information in this section is taken from the Commission's latest Regular Report for Estonia (October 2002). A more detailed analysis of Estonia's progress in meeting the *acquis* can be found in the Regular Report.

- Integration of the Estonian Customs Information System with DG TAXUD computer systems - € 3.2 million (First Part)
- Phare project preparation, training and management facility - € 1.16 million (First Part)
- Reinforcement of the administrative and operational capacity of the Estonian Customs Board - € 3 million (Second Part)
- **Trade - Internal Market: € 1.71 million**
 - Competition, State Aids, Public Procurement - € 0.26 million (First Part)
 - Enforcement of EU intellectual and industrial property legislation – € 0.655 million (Second Part)
 - Implementation of the INTRASTAT system - € 0.792 million (Second Part)
- **Transport : € 2.29 million**
 - Strengthening enforcement of maritime safety - € 1.453 million (Second Part)
 - Creation of the system of licensing and supervision of aviation personnel € 0.833 million (Second Part)
- **Justice and Home Affairs : € 0.44 million**
 - Improving the effectiveness of Criminal Procedure - € 0.438 million (First Part)
- **Agriculture and Fisheries : € 6.15 million**
 - Development of administrative capacity for monitoring and evaluation of the agri-environment measures- € 0.395 million (Second Part)
 - Development of Agricultural Information Management Systems - € 2.489 million (Second Part)
 - Strengthening of TSE control system in Estonia - € 0.677 million (Second Part)
 - Minimisation of the number of rabies cases - € 2.107 million (Second Part)
 - Successful implementation of the Common Fisheries Policy - € 0.477 million (Second Part)
- **Environment : € 3.72 million**

- Development of Estonian Air Quality Management System - € 3.26 million (Second Part)
- Drinking Water, Urban Waste Water Treatment, and Discharge of Dangerous Substances to the aquatic environment directives implementation - € 0.455 million (Second Part)
- **Social Sector : € 1.44 million**
 - Enhancing employment opportunities for people with disabilities - € 0.410 million (Second Part)
 - Implementation of the social security co-ordination rules - € 0.693 million (Second Part)
 - Increasing the coverage and effectiveness of Occupational Health services - € 0.333 million (Second Part)
- **Economic and Social Cohesion : € 4.44 million**
 - Development of work-linked training programmes and network in the Northeast, South and Island regions - € 2 million (Second Part)
 - Special Programme for Strengthening the civil society - € 0.7 million (Second Part)
 - Completing preparations for the management of EU Structural Funds Phase II € 1.741 million (Second Part)
- **Community Programmes : € 2.88 million**
 - In addition, € 3 million is allocated to the Co-operation in the Baltic Sea Region in 2002.
 - Short-term assistance was also provided by TAIEX on various issues, through visits of experts (on mutual recognition of goods and services, mutual recognition of qualifications in particular in the field of veterinarians, rabies control programme, consumer protection, etc.), study visits to Member States or the Commission. TAIEX also conducted a series of peer reviews in Estonia in order to monitor implementation of the *acquis*.
 - As regards multi-country programmes, the benefits that Estonia derives from such programmes can be estimated at approximately € 2-3 million per year.
 - The EC Delegation also uses the ATA facility to assess tender dossiers and send experts as observers to tender evaluations.

Overview of programmes implemented

In total, the Community has made more than € 430 million available to Estonia for the period 1992 – 2002. The Phare programme allocated around € 280 million (EEK 4.4 billion) to Estonia during this period. In addition to the National Programme, Estonia also benefits from Phare funded multi-beneficiary programmes, which are open to several Central and Eastern European countries. Estonia was allocated around € 36 million under SAPARD from 2000 – 2002 for agriculture and rural development as well as around of € 90 million from ISPA for environment and transport infrastructure projects in the same period. The currently active Phare National Programmes 2000-2002 add up to around € 88 million and are managed by the EC Delegation in accordance with the Deconcentration Instructions.

For the agricultural sector, a twinning project for Development of Market Regulation Systems started in 2002, and the twinning on Development of Agricultural Support Systems Administration (IACS) continued.

Phare management performance

The Phare management performance in terms of contracting and payments reaches around 90 – 95 % for contracting annually, and 85 – 90 % for disbursement at the end of their typically 2-year contracting and 3-year disbursement period. Considerable delays are encountered in carrying out the procurement once funds have been allocated to Estonia in Financing Memoranda. In order to improve the situation, the EC Delegation has increased its co-operation with the Estonian authorities in this area and increased its attention on procurement plans.

NDPs – State of Play

Estonia submitted the draft Single Programming Document (SPD) for Structural Funds for informal Commission comments during 2002 based on the National Development Plan 2003 - 2006. A final draft SPD was submitted to the Commission in the first quarter of 2003. The preparations for Structural Funds are supported by Phare Twinning projects: two on-going projects, special facilities (SPP+ and SPP++), programmed in 2001 and 2002 (total € 3 million), are specifically targeted to the preparations for Structural Funds, covering central administrative level, local municipalities and final beneficiaries, including preparation of a project pipeline for Structural Funds.

Institution Building Highlights

Estonia has made especially good use of Phare support in the area of Public Finance and thereby considerably strengthened its capacities and skill levels in fields such as the supervision of financial services and financial control of EU and government funds. The Ministry of Finance has also used the Phare instruments for project preparation, management and training to improve the level of preparation of Phare projects for implementation at the programming stage and to provide training on issues related to the Phare project management cycle.

The Twinning Light tool proved to be a highly effective instrument for a small and dynamic country such as Estonia, because it allows for the quick and flexible

provision of assistance to be targeted to selected sectors. All Twinning Light projects foreseen under the 2001 project on EU Accession were successfully programmed in 2002.

Results and Impact

State of play for JMC / SMSC development

The Joint Monitoring Committee (JMC) for the decentralised monitoring system in Estonia is fully operational. Its second meeting took place on 4 February 2002. There are currently four Sectoral Monitoring Sub-Committees (SMSC) for Agriculture; Transport and Environment; Economic and Social Cohesion; and other Institution Building and Investment Projects based on the NPAA, which meet on a bi-annual basis. There are ten Sectoral Monitoring Working Groups (SMWG), which prepare the Monitoring Reports that are submitted to the relevant SMSCs. The SMWG meetings are chaired by the Programme Authorising Officer from the Ministry of Finance. The SMSC meetings are chaired by the Delegation (Head of Phare/ISPA Section).

M&A Reports in 2002

During 2002, assessments were finalised on CBC (satisfactory), JHA (satisfactory), Economic and Social Cohesion (highly unsatisfactory), Education (satisfactory), Agriculture (unsatisfactory), Finance (satisfactory) and Social Affairs (unsatisfactory). The reports generally stressed the need to increase administrative capacity for a proper management of Phare projects and to put more emphasis on the monitoring of projects as an effective management tool rather than as an ad-hoc exercise.

Sectors with positive results

The implementation of projects in the **Education sector** proceeds smoothly, mainly due to the successful implementation and management of the Language Training programme for non-Estonians with a Phare contribution of € 3.14 million. Due to the continuous need for language training and successful implementation, a follow-up project will be programmed under Phare 2003.

The **Environment sector** can be rated as satisfactory. In general, the projects are well focused and on average deliver effective results. The Sillamäe tailings pond project was completed successfully and could be used for disseminating good practice for addressing similar problems in other countries in the region.

Phare assistance to the **Finance sector** is highly relevant and well targeted. The beneficiaries are making proper use of Phare assistance. The immediate objectives of the projects are being achieved and the effective programme implementation demonstrates the positive impact of Phare on achieving the wider objectives of the agreed reforms. The successful implementation of the Phare 2001 project on “Strengthening Good Governance and Accountability in the Public Sector by building up Sound Financial Management and Control System” can be quoted as an example of the efficiency of Phare assistance in the Finance sector. This two years project, which ended on 24 March 2003 with a final conference, has during its implementation

assisted the Financial Control Department and Internal Audit network in Estonia in a big leap forward.

Success story

Expansion of the Kuressaare Water and Sewage Network

Phare support has been used to improve the degraded and incomplete water and waste water systems of the biggest town of the West Estonian island of Saaremaa, as part of the Small Municipalities Environmental Programme. The Phare contribution consists of € 2 million, and the project was completed by the end of 2002. Improved water and waste water systems in Kuressaare will also make a contribution in reducing pollution into the Baltic Sea and are expected to have positive spill-over effects on the tourism sector in this island resort.

Tasks ahead

Phare 2003: Finalise the programming of Phare 2003 (including the Phare National programme following the accelerated procedure, CBC, External Border initiative, etc.) and continue to speed up implementation with a view to accession. Prepare for post accession IB funds: “Transition Facility” and “Schengen Facility” at new external borders of the Union for the implementation of the Schengen *acquis* and external border control.

Structural Funds: Complete preparations for Structural and Cohesion Funds in order to be able to absorb the funds available from 1 January 2004. Complete measures related to the Single Programming Document. The administrative structures and capacity must be put in place to programme, manage and monitor the funds.

Extended Decentralised Implementation System (EDIS): Complete the process towards EDIS for ISPA and Phare, with the goal of gaining EDIS accreditation by the end of 2003 or, at the latest, before accession.

HUNGARY

The year in review

Political developments

Hungary has achieved the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.

Following the Parliamentary elections in April 2002, the former Centre-Right Government was replaced by a Socialist-Liberal Coalition. Accession to the European Union has continued to be the key priority for the new Government and all political parties in Parliament.

In line with the 2001 reform of the legal framework for civil servants, further progress has been made to modernise the public administration and to enhance its professionalism. The reform of the public administration at central level has been completed to a large extent. Following a complex review of the salary structure, the gap between earnings in the public and private sector has been further reduced.

The judicial reform implementation has continued, and the efficiency of Hungarian courts has been further improved. A decision to introduce the Regional Courts of Appeal has been taken and the judiciary's financial independence has been strengthened. Moreover, there has been an overall increase of staff at all court levels. In line with the anti-corruption strategy a number of new measures have been taken in order to tackle corruption, which continues to be a problem in Hungary. There is still a need to address police behaviour concerning the reported cases of ill treatment. In the public service media, the government and the opposition are now again equally represented in the Presidium of the Boards of Trustees. New steps have been taken to improve social dialogue.

With regards to the Roma minority, the institutional framework has been further strengthened and a new monitoring system introduced. However, Roma policy is still not well integrated into general social development strategies. In fact, the Roma community continues to suffer from widespread discrimination in education, employment, access to public services and health in particular. Some results in the areas of education, employment and health have, nonetheless, been achieved.

Macroeconomic developments and structural reform

Hungary is a functioning market economy. It has achieved robust economic growth and a decline in unemployment, combined with sustainable external deficits. The macroeconomic situation continues to be sound, with high GDP growth underpinned by a rising investment share and favourable current account development, which is also backed by an expansionary fiscal policy. Since mid-2001, inflation has fallen rapidly, to around 4.6 % last July. Hungary has made good progress in catching up with the EU average income level, but there are still significant regional disparities in GDP purchasing power standards between the central region around Budapest and the North Great plain. The opening up of the telecom market in early 2002 was a step forward in price liberalisation. It is hoped this will continue with the partial opening

up of the electricity market in 2003. Public transport, household energy and certain publicly subsidised pharmaceuticals remain tightly regulated.

Delays have occurred concerning the implementation of the reform of the health care system with a view to guaranteeing the medium-term sustainability of public finances. The authorities will need to maintain fiscal discipline to ensure that fiscal policy supports the new monetary policy framework and the external balance, thus contributing to lower inflation.

Progress in meeting the *acquis communautaire*

Hungary continued to make progress in aligning and implementing the *acquis* in many areas. In the reporting period, the country has moved steadily towards achieving a degree of administrative capacity needed to satisfactorily implement the *acquis*.

Hungary has further advanced in a number of areas, such as social policy, justice and home affairs, telecommunications, culture and audio-visual and energy, with the exception, among others, to a certain extent in the field of agriculture and regional development. The remaining gaps to be covered have been agreed in detailed plans in the negotiations or in the Action Plan⁷.

Phare in 2002

Programmes launched

In 2002 the Phare National Programme for Hungary was split into two main parts. In order to accelerate Institution Building activities as much as possible, Part I of the programme, which concentrates on Institution Building, was prepared in advance, and a corresponding Financing Memorandum amounting to € 37.7 million was signed by the European Commission and the Hungarian authorities in April 2002.

Part II of the National Programme, which concentrates more on Economic and Social Cohesion, was prepared later in the year, and the corresponding Financing Memorandum amounting to € **74 million**, was signed in October 2002. Additional Financing Memoranda confirmed Phare funding for the Cross-Border Co-operation Programmes.

The **2002 Phare National Programme Part I** concentrates on several priorities. It finances efforts in the fields of:

- **Agriculture and Food Safety**, including two projects to prepare for the management of Common Agricultural Policy funds (via Common Market Organisations and rural development measures), two projects to meet *acquis* requirements related to foodstuffs, seeds and registration of animals, a project to help ensure that Hungary's cattle can be proved to be free of TSE-type diseases and a further project to help set up a Food Safety Agency.

⁷ The information in this section is taken from the Commission's latest Regular Report for Hungary (October 2002). A more detailed analysis of Hungary's progress in meeting the *acquis* can be found in the Regular Report.

- **Social Policy and Employment**, including support for institutions that deal with Occupational Safety and Health, assistance to the Public Employment Service in accordance with the Joint Assessment Paper on Employment, and provision of laboratory equipment to prevent the spread of communicable diseases.
- **Regional Policy**, ensuring that Hungary will be able to participate in the Community Initiative Interreg.
- **Environment**, concentrating on the implementation of the Water Framework Directive, and strengthening the capacity of the Hungarian environmental inspection system.
- **Justice and Home Affairs**, equipping the Public Prosecutor's Office to share information with EU counterparts, and supporting actions to tackle the problem of drug abuse.
- **Other Institution Building Activities**, via an Unallocated Institution-Building Envelope that can be programmed rapidly to respond to urgent needs identified in the monitoring of the accession process.

The **2002 Phare National Programme Part II** concentrates on several priorities. It finances efforts in the fields of:

- **Preparing for Structural Funds**, largely by three major grant schemes in the areas of education, human resource development, and regional development. These are designed to be as similar as possible (within the constraints of Phare programme rules) to measures that may be financed by Structural Funds after accession. These grant schemes are designed to be continued under the Phare 2003 programme. In addition, a Project Generation Facility will make available technical assistance to prepare a pipeline of fully documented project proposals that can be rapidly implemented after accession.
- **Promoting integration of the Roma minority**, by Twinning support to the Office of National and Ethnic Minorities, and by an extensive public information campaign to promote attitudes of tolerance and non-discrimination.
- **Justice and Home Affairs and Customs**, continuing Phare support for information systems that are a vital part of the Schengen *acquis*, giving Twinning assistance to the Prisons Service on rehabilitation of juvenile offenders, and facilitating electronic information exchange between the Hungarian Customs and its EU counterparts.
- **Participation in Community Programmes and Agencies**, by providing partial funding for Hungary's participation in programmes such as Socrates and Leonardo and agencies such as the European Environment Agency.

An additional € 19 million was allocated to the **Cross-Border Co-operation (CBC)** programmes: € 10 million for co-operation with Austria, € 5 million for co-operation with Romania, € 2 million for co-operation with Slovakia and € 2 million for co-operation with Slovenia. Hungary also continues to participate in and benefit from Phare funded horizontal programmes such as TAIEX, SIGMA, Small and Medium

Enterprises Facility, Justice and Home Affairs, Statistical Co-operation and Business Support Programme.

Because of Hungary's imminent accession to the EU, a special effort was made in 2002 by the Commission and by the Hungarian authorities to start **Phare Twinning projects** as quickly as possible. Member State partners were chosen for the ten Twinning in Part I of the programme in spring, and by autumn the Pre-Accession Advisers for most of these Twinning had already moved to Hungary to start their work.. There were a further two Twinning in Part II of the programme; these will start early in 2003. In addition, many important Twinning from the Phare 2001 programme continued their work. In particular, the new Special Preparatory Programme (SPP) for EU Structural Funds supplied a total of eight long-term Pre-Accession Advisers and a vast array of additional short-term expertise. The SPP will advise on programming documents and establishment of Managing Authorities for Structural Funds and Cohesion Funds. A special component of SPP concentrates on the key issue of Public Internal Financial Control for EU post-accession spending in Hungary.

Hungarian performance in **Phare programme management** in 2002 maintained the improved performance that was already evident the previous year. The contracting deadline for the 2000 programme fell at the end of September. By this time, the Hungarian Implementing Agencies had committed over 97 % of the available funds for the National Programme. The major deficiency of Phare programme management in Hungary continues to be that the bulk of contracting is not completed until the last few months of the two-year contracting period. This creates a serious risk that, in the case of tenders cancelling, or when procurement is performed with less than the maximum foreseen budget, there is insufficient time to re-tender or to re-allocate the funds.

There are three Implementing Agencies for Phare in Hungary. These are the Central Financing and Contracting Unit (CFCU), the National Agency for Regional Development (NARD), and the European Social Fund Implementing Agency (ESFIA). Together with the Office of the National Authorising Officer (which includes the National Fund) and the Office of the National Phare Co-ordinator, these agencies are preparing to apply for EDIS accreditation which, if granted, will allow them to manage Phare programmes in a completely decentralised manner i.e. without the Commission exercising ex-ante controls on the contracting process. Preparation for EDIS began in 2002, with a gap assessment performed by the Hungarian Government Control Office. The National Authorising Officer aims to be ready in June 2003 to submit an application to the Commission for EDIS accreditation.

Programming for the Structural Funds

The Hungarian administration began preparation of its **National Development Plan (NDP)** towards the end of 2000. The NDP will provide a strategy, based on a socio-economic analysis, for the implementation of the Structural Funds, and will form an input for Structural Fund negotiations with the Commission. After the plan has been negotiated and adopted by the Commission, it will be known as the Community Support Framework (CSF). The CSF will be implemented through Operational Programmes (OPs).

The preparation of the NDP encountered serious delay during 2001 and part of 2002. In agreement with the Commission, it is expected that the NDP will be officially submitted to the Commission by 31 March 2003.

Phare resources have been allocated to prepare the *ex-ante evaluation* of the NDP. The ex-ante evaluation started in January 2003 and is currently ongoing. It is foreseen that the ex-ante evaluators will also take part in the negotiation with the Commission for the establishment of the CSF.

The Hungarian administration has established a framework for the NDP programming process with assistance from Phare Twinning and Technical Assistance. The main bodies involved in the NDP preparation process are:

- Inter-ministerial Co-ordination Committee for Development Policy (FKTB): A high level inter-ministerial body responsible for decision making on proposals and drafts prepared at a lower level.
- The FKTB Planning, Financial and Evaluation Sub-Committees.
- NDP Task Force consisting of the heads of the four Sectoral and one Regional Working Groups.
- Five thematic working groups (one for each planned OP)

Hungary is preparing the following five OPs parallel to the preparation for the NDP:

- Economic Competitiveness Operational Programme (ECOP)
- Environment and Infrastructure Operational Programme (EIOP)
- Human Resource Development Operational Programme (HROP)
- Agriculture and Rural Development Operational Programme (AROP)
- Operational Programme for Regional Development (OPRD)

The preparation of the OPs began in earnest at the beginning of 2002. Phare provides resources for the financing of the ex-ante evaluations of the five Hungarian Operational Programmes. The projects are expected to start in the course of February/beginning of March 2003.

In agreement with the Commission it is expected that the Operational Programmes will be submitted to the Commission by 31 March 2003 together with the NDP.

According to Council Regulation 1260/99 Hungary must establish a Managing Authority (MA) for the CSF and for each OP. Following the change of government in April 2002, the government decision 2199/2002 of 26 June defined the location of the Managing Authorities as follows:

- CSF Managing Authority: Prime Minister's Office
- ECOP Managing Authority: Ministry of Economy and Transport

- EIOP Managing Authority: Ministry of Economy and Transport
- HROP Managing Authority: Ministry of Employment and Labour
- AROP Managing Authority: Ministry of Agriculture and Rural Development
- OPRD Managing Authority: Prime Minister's Office

Phare as a tool to prepare Hungary for the Structural and Cohesion Funds

Phare has made a substantial contribution to preparing Hungary for optimum use of the Structural and Cohesion Fund resources that will be available following accession.

The first Institution Building assistance serving this aim was the ***HU9808 Special Preparatory Programme for the Structural Funds*** (€ 7 million), which had a Twinning component and a Technical Assistance component. The project assisted in the Institution Building and programming for the Pre-accession Funds SAPARD and ISPA and the post-accession funds Structural Funds and the Cohesion Fund. In addition, it assisted the programming of the Preliminary National Development Plan that served as a basis for Phare ESC.

The ***HU0008-01 Regional Preparatory Programme for the Implementation of Structural Funds Regulations (RPP)*** started on 14 August 2002 and has a life span of 18 months. With a € 4 million budget, the project involves four pre-accession advisors - three of which are located in the regions - aiming to prepare the seven NUTS II regions for their role in the programming, implementation and monitoring of the Structural Funds.

The covenants of a further Phare Institution Building project for Structural Funds, ***HU0105-01 Completing preparations for Management of EU Structural and Cohesion Funds*** are in their final stages. The project consists of three Twinning:

1) *Finalisation of programming and development of the capacity of the bodies identified as future Managing Authority (MA) and Monitoring Committee for the CSF and each of the Operational Programmes (€ 3 million)*

This Twinning started on 14 August 2002 and involves five Pre-Accession Advisors from the UK and Ireland – the team leader is located in the Managing Authority for the future Community Support Framework, and one PAA is located within the Managing Authority for each of our Operational Programmes (the Operational Programme for Agriculture and Rural Development will be covered by a separate Phare 2002 Twinning- see below).

2) *Developing capacity of the Implementing Agencies for ISPA and the future Cohesion Fund (€ 0.8 million)*

This project started on 12 December 2002 and involves two PAAs - from the UK and Greece respectively – who assist in the definition and strengthening of the structures for the Cohesion Fund, as well as helping to prepare for the decentralisation of ISPA.

3) *Public Internal Financial Control - Financial Management and Control systems and Internal Audit (€ 1.2 million)*

This Twinning started on 25 July 2002 and involves one PAA from France who assists in the establishment and/or strengthening of the structures for Internal Financial Control, Internal Audit and the payment functions for the Structural Funds in accordance with Commission Regulations 438/2001 and 448/2001.

There are two smaller Technical Assistance components under the project target:

- assisting the establishment of the project pipeline in the region. This assistance will mainly target the Regional Development Agency. Furthermore, the project includes the establishment of an IT system to help develop a Structural Fund project pipeline in the regions
- training of the staff to be involved in Internal Audit and Internal Financial Control of the Structural Funds.

Phare 2002 finances the **2002/000-180-01-03 Preparation for the management of Community funded measures in the areas of rural development, fisheries and aquaculture** Twinning project (€ 0.55 million). This French/UK Twinning assists the Managing Authority for the Operational Programme for Agriculture, Rural Development and Fisheries and the unit responsible for the management of measures co-financed by the EAGGF Guarantee section.

Under Phare 2002, the **2002/000-315.01.03** project will provide further Technical Assistance (€ 27 million, € 15 million of which is from Phare) for the establishment of a project pipeline. This so-called Project Generational Facility will provide direct assistance to potential beneficiaries of the Structural Funds-financed Operational Programmes to develop project ideas into fully-fledged project proposals.

The Phare national programme for 2002 foresees **three large Grant Schemes** for ESC that are intended to continue under the Phare 2003 National Programme. These Grant schemes are as follows:

2002/000-315.01.04 Combating Exclusion from the world of work (Phare 2002: € 6 million) including:

- Labour market reintegration programme based on local initiatives of local governments and associations of local governments or NGOs to improve delivery of social services
- Labour market integration programme based on local initiatives to improve the living conditions and social inclusion of the Roma population

2002/000-315.01.05 IT in Primary School (Phare 2002: € 2 million) including:

- Development of ICT-based teaching material
- In-service teacher training in ICT
- Provision of ICT devices for educational institutions
- Reconstruction of existing educational premises (primary schools)

2002/000-315.01.06 Promotion of Integrated Local Development (Phare 2002: € 15 million) including:

- Regeneration of settlement areas for the establishment of economic or public functions
- Improving accessibility within regions through the development of public road infrastructure
- Promoting employment based on local initiatives

The grant programmes have been designed in a way to simulate Structural Funds practice within the limitations set by the Phare regulations. It is intended that measures financed under these Grant Schemes will be continued under the Structural Funds-financed Operational Programmes.

Results and Impact

The spending of EU pre-accession funds in Hungary is carefully monitored and evaluated by Commission services and by the Hungarian Administration. Phare projects are divided into nine clusters of projects on related subjects. Monitoring reports for each cluster are prepared twice a year, and are discussed at a Sectoral Monitoring Committee. An independent contractor is hired by the Commission to prepare Interim Evaluation Reports on each sector at least once per year. These Evaluations use the Monitoring Reports as the starting point for investigation. The highest level officials on both sides participate in the Joint Monitoring Committee. This Committee considers the most important Phare questions in detail, and also receives reports from the ISPA and SAPARD Monitoring Committees.

While the 2002 programme is still in the contracting phase, a wide range of **successful results** has been achieved in earlier Phare programmes. The sectors of border management and customs provide good examples. An on-going **Twinning** project in co-operation with Spain, which started in April 2002, aims to align the customs procedural rules and the resulting customs operations to the customs *acquis* and the Common Agricultural Policy (Phare contribution: € 0.8 million). Reconstruction began in 2002 of three new Border Crossing Points at the future external border (Tomba, Barcs and Beregsurany at the Yugoslav and Croatian border) with a total of € 5 million Phare support. Furthermore, three mobile X-ray systems mounted on vehicles for the fast inspection of containers and trucks (for the detection of smuggled or illegal goods or people) were delivered. This system can be set up within one hour and therefore facilitates a very flexible inspection strategy at varied locations (Phare support: € 1 million).

Success story

HU 2001/IB/JH/01 Strengthening of Border Management (Twinning)

The Border Management Twinning began in April 2002 and will last for 16 months. It involves a Pre-Accession Adviser from France supported by short-term experts from Austria and Germany. Phare support amounts to € 1million.

The project aims to establish a Schengen-conforming, effective filter system on the external borders in order to further strengthen the prevention and detection of illegal migration, and to increase the readiness to combat cross-border organised crime at the future external borders. It builds on the results of two previous Twinning projects on border management and law enforcement from the COP 97, and targets the Hungarian Border Guards, the Office of Immigration and Nationality and the National Police.

The project consists of 4 components:

- 1) Border Control with three (3) modules: external border, internal border, and Border Guard management.
- 2) False document experts with three (3) modules: methodology, training of multipliers and training of 100 experts.
- 3) Liaison Officers with two (2) modules: training of 50 liaison officers, training of short-term document experts.
- 4) Development of a Human Resources Strategy

One very concrete result of the Twinning project is that the Hungarian Border Guard has appointed their first Border Guard Liaison Officer to work in Germany from March 2003. Moreover, the Twinning project has contributed significantly to the improved co-operation between the various Hungarian law-enforcement bodies involved (Border Guards, Office of Immigration and Nationality, National Police) and also between Hungary and France, Austria and Germany. Good personnel contacts facilitate international co-operation.

Tasks ahead

In the comparatively short time that remains before Hungary's accession to the EU, some substantial tasks remain to be accomplished. In the field of **agriculture**, for example, much work remains to be done to ensure that systems and trained people are in place to ensure the efficient distribution of EU support to farmers.

Completion of programming for the Structural Funds and Cohesion Funds is another major task that must be completed in the year or so that remains before accession.

In the field of Phare management, Hungary's preparation for EDIS must be successfully completed if implementation of the Phare programme is to continue smoothly after accession. Although 2003 is the last programming year for Phare, implementation of the 2003 programme will continue up to the year 2006.

In addition, a Transition Facility will provide funds for additional Institution Building actions identified by the Commission's comprehensive Monitoring Report that will be published in late 2003.

LATVIA

The year in review

Political developments

Parliamentary elections took place in October 2002 and the new coalition government is led by the recently established New Era (Chairman and Prime Minister Einars Repse), and consists of Latvia's First Party, Greens and Farmers Union and For Fatherland and Freedom/LNNK. EU membership continues to be a key objective.

Latvia continued to address remaining Public Administration Reform issues and the legislative and administrative framework. The timely introduction of and sufficient funding of the uniform civil service pay system is required.

While most deficiencies of the judicial system have been identified, they have only partly been addressed. A thorough systemic reform, based on political support for modernising the judiciary and sufficient funding is of importance. Significant efforts to strengthen the de facto independence, efficiency and quality of the judiciary are needed.

With regard to integration of society, positive developments have included abolition of language restrictions in the election law, further facilitation of naturalisation with a view to increase the rate, inception of the Society Integration Foundation and its funding, and extended language training. A Special Tasks Minister for Society Integration was established. In accordance with the provisions of the Education Law, all state-funded schools will provide secondary education in Latvian only as of 2004. Further efforts to involve parents and minority schools and to train and recruit bilingual teachers will continue to be necessary.

Macroeconomic developments and structural reform

Macroeconomic development has been favourable. GDP growth has been strong, steady and broad-based. Strong private consumption and investment have led to a large current account deficit, nonetheless covered by FDI to a large extent. Despite strong domestic demand, inflation remained moderate and stable. Recent economic trends have, by and large, confirmed these trends, although the weakening external demand has begun to influence exports. The budget law for 2002 provides for an increase in the budget deficit to 2.75 % of GDP, where as the real deficit was around 2 %.

The financial sector has undergone substantial progress. The volume of bank deposits has increased and the rate of borrowing has decreased. The performance of financial institutions has been strengthened and a regulatory authority supervising the banking, insurance and stock market sector was put in place. Pension reform has been largely completed and while some large enterprises are still awaiting privatisation, this process is also near completion. Transition to a market economy and subsequent restructuring has contributed to an income-rise, although mostly concentrated in the Riga region.

*Progress in meeting the *acquis communautaire**

Over the past year, further advancements can be noted in completing alignment, creating or restructuring related specialised bodies in a vast majority of areas. Training with a view to comply with requirements of the *acquis* has been conducted with increased intensity. Overall, **Latvia has achieved a high degree of alignment with the *acquis* in many areas** and is well advanced towards reaching adequate administrative capacity in most fields.

The preparation for participation in the internal market is well advanced and Latvia has achieved a good level of alignment in this area. A significant step forward was the entering into force of the new Labour Code in the field of **social policy and employment**.

In the area of **regional policy** and co-ordination of structural instruments, progress was made in preparing for the implementation of structural policies and designation of the main institutions involved. However, efforts will need to focus on building up adequate and efficient administrative capacity for the management of Structural and Cohesion Funds at all levels. There is a particular need for progress as regards preparation of projects eligible for Community funding⁸.

Phare in 2002

Programmes launched

A total of € **36.311 million** was allocated to Latvia under the 2002 Phare budget to support Latvia's accession to the EU. Phare support to Latvia was channelled through the following programmes:

- Phare National Programme (€ 32.141 million)
- Co-operation Programme in the Baltic Sea Region (€ 3 million)
- Horizontal Programme for Community Support in the field of Nuclear Safety (€ 0.67 million)
- Horizontal Programme preparing candidate countries for extended decentralisation (EDIS) in the management of pre-accession funds (€ 0.5 million)

On 18 December 2002, Latvian authorities and the Commission signed the Financing Memorandum for the **2002 Phare National Programme**, which focused on the following priorities:

- *Political Criteria* (€ 3.1 million), including Promotion of the Integration of Society in Latvia and Civil Society

⁸ The information in this section is taken from the Commission's latest Regular Report for Latvia (October 2002). A more detailed analysis of Latvia's progress in meeting the *acquis* can be found in the Regular Report.

- *Free Movement of Goods / Consumer Protection* (€ 2.2 million), including Market Surveillance in the Non-Food Sector and Food Chain Surveillance
- *Free Movement of Services* (€ 0.8 million) including Data State Inspection
- *Agriculture* (€ 0.9 million), including TSE/BSE Control
- *Statistics* (€ 1 million), including Intra-Community Trade Statistics
- *Social Policy and Employment* (€ 1.8 million), including the Employment Strategy (Institution Building)
- *Telecommunications and Information Technologies* (€ 0.5 million), including the Public Utilities Commission
- *Regional Policy and Co-ordination of Structural Instruments* (€ 4.5 million), including Public Finance Management and a Project Preparation Facility
- *Environment* (€ 1.9 million), including Environment Monitoring
- *Co-operation in the Field of Justice and Home Affairs* (€ 6.5 million), including Preparation for Participation in the Schengen Information System, Sea Border Surveillance and State Police
- *Customs Union* (€ 4.8 million), including Customs Business Strategy and Customs Data Systems
- *Overall Administrative Capacity* (€ 4.2 million), including Community Programmes and Agencies, Twinning Light Facility.

In 2002, Latvia also participated in Phare-funded multi-country and horizontal programmes, such as TAIEX, the Small and Medium-sized Enterprises Facility, SIGMA and the Small Projects Programme.

Furthermore, Latvia participated in the following Community programmes: Leonardo da Vinci II, Socrates II, Youth, Life III, the Multi-annual Programme for Enterprises and Entrepreneurship, Culture 2000, Gender Equality, Combating Social Exclusion and the Fifth Framework on Research and Technological Development. It is also affiliated to the European Environment Agency.

Overview of programmes implemented

In the **public finance sector**, the Public Expenditure Management Twinning project continued successfully throughout the 2002.

As regards **free movement of goods**, a project aimed at strengthening institutions involved in Quality Assurance was launched, with a significant training component as well as a supply part.

Concerning the **Central Statistics Bureau (CSB)**, a Twinning project aimed at institutional strengthening, including drafting a development strategy for the CSB,

was carried out in 2002. One output delivered was the regionalisation plan of the CSB. The implementation of the associated data management system and survey expansion projects followed the above-mentioned plan.

In the **social sector**, the Consensus III Twinning project was implemented in 2002 aiming at legislative approximation in the field of occupational health and safety. A Twinning project promoting bipartite social dialogue was launched and the project focusing on improving working environment was successfully completed.

Concerning **regional development**, under the Phare 2000 Economic and Social Cohesion (ESC) grant scheme nine projects were awarded (seven for Latgale, two for Zemgale) for € 6.616 million, and contracting of almost 30 investment contracts for these projects was completed at the end of November 2002.

The projects to be supported under Phare 2001 ESC programme will be selected from those prepared in the framework of the Phare 1999 Project Preparation Facility (PPF). PPF supporting the preparation of tender documentation for selected projects was implemented throughout 2002. Tender documents for five individual projects were approved.

In the **agriculture sector**, a Twinning project developing management mechanisms of the Latvian agriculture in line with the Common Agriculture Policy commenced in 2002. A Twinning project in the **fishery sector** continued during the year to support the Latvian administration in preparing for the Common Fisheries Policy, including approximation of legislation and strengthening of administrative capacity of the national fisheries organisations. Associated projects on dioxin tests for fish, and supply of equipment are on-going.

In the field of **EU Integration and Law Approximation**, smaller projects strengthening the administrative and institutional capacity of the legislator (Saeima) in European Integration and Law Approximation, and modernising EU related databases, were completed in 2002.

In the area of **Society Integration**, the implementation of Phare 2000 Society Integration Programme advanced as the Technical Assistance contract aiming to assist the Society Integration Foundation (SIF) to become an Implementing Agency as well as to build an independent and transparent foundation in line with best practices of EU Member states, was launched. The pilot grant scheme testing the SIF's capacity to implement Phare programmes was successfully launched, evaluated and contracted in 2002. The implementation of the programme continues in 2003, when the SIF intends to become an Implementing Agency for Phare society integration and civil society related projects.

Phare continued to support the **Latvian Language Training Programme**, through the Latvian Language Programme Unit (Ministry of Education and Science). A language training project was completed in 2002, and a new one was launched to develop teaching materials and train teachers in view of the bilingual education reform, and promote society integration initiatives among schools.

Implementation of **Cross Border Co-operation (CBC) Small Project Fund 2000** projects commenced in October 2002. The projects promote economic and social

activities such as small-scale regional development, tourism and the environment, in areas such as Cesis, Ventspils, Riga, Liepaja, Rujiena, and Dobele. CBC 1999 projects finished in 2002.

Under CBC investments, an environment project developing sewerage services in the towns of Grobina and Aizpute was launched in 2002.

In the area of **Home Affairs**, 2002 saw the completion of a Twinning project on the integrated border management strategy. Four border posts in Vorzova, Kaplava, Skaune, Piedruja on the border with Belarus, and four local surveillance towers were built, co-financed by Phare in 2002. The building of a border control post in Terehova on the Russian border, of border crossing points in Lavasnieki and Skilvene, and of border guard stations in Krivanda and Opuli began.

In the area of **Justice**, a Technical Assistance project on prevention of corruption within Court system, accompanied by IT equipment, was completed. A Twinning project on drug abuse and prevention master plan was on-going throughout 2002, and a service contract for surveys on drug prevalence and large supply of analysis software were concluded. Another Twinning project on asylum and migration management system was launched during the year.

As regards **civil society**, the Access 1999 programme was managed by the EC Delegation and completed in 2002. Access 2000 programme was launched under responsibility of the Latvian authorities in 2002.

In the **transport** sector, a Twinning project on maritime safety was launched in September 2002. The project has two components: Institution Building and supply.

In the **energy** sector, the project “Energy Sector Restructuring”, launched in 2001, continued its implementation.

Phare Management Performance

The Phare management performance in terms of contracting and payments is satisfactory. By the end of 2002 the contracting rate for 1998 programmes was 99 % and the disbursement rate 93 %. For 1999 programmes 99 % was contracted and 97 % disbursed; accordingly for 2000 programmes 95 % contracted and 22 % disbursed. For 2001 programmes, which have just started, the corresponding rates for contracting and disbursement are 14 % and 7 % respectively.

The National Fund operated successfully during 2002, continuing its administration of Phare programmes, as well as strengthening its own capacity, in particular where ISPA procedures are concerned. Furthermore, the National Fund started processing the first payments for the SAPARD programme. During 2002, the assessment of ISPA EDIS Phase I was made and a plan for implementation was elaborated upon.

NDPs – State of Play

The National Development Plan for Latvia was submitted to the EC in January 2002. This document shall be considered as a background paper for further preparation of the Development Plan (DP) and the draft Single Programming Document (SPD), which is required to apply for EU Structural Funds after accession. The EC provided

its assessment of the prepared NDP in June. In September the public discussions were launched and the draft DP was published on the Internet and distributed among a wide range of non-governmental, professional organisations, municipalities and relevant state institutions. A number of seminars were organised to present the rationale and objectives of the DP and to discuss relevant issues.

Institution Building highlights

In 2002, most of the Institution Building projects were implemented through the twinning mechanism. A total of 5 projects for an overall amount of € 4.26 million were finalised:

- Legal approximation in industrial policy, common agriculture policy, intellectual property rights and occupational health and safety
- Consensus III Occupational Health and Safety
- Modernisation of food control at national and regional level
- Integrated Latvian Border Management strategy
- Upgrading of Latvian statistics information system.

Twinning projects assisting the development of administrative and institutional capacity for the implementation of structural funds, public expenditure management, fisheries administration with regard to the Common Fisheries Policy, and developing drug abuse and prevention master plan in line with the EU requirements, were on-going. A further five projects started in 2002 – promotion of bipartite social dialogue, management mechanisms of Latvian agriculture, maritime safety, asylum and migration management system, and institutional strengthening of tax and customs administration. Twinning partners active in 2002 were Finland, Sweden, United Kingdom, Spain, France, Germany, the Netherlands, Greece and Denmark. Selection rounds for 2002 twinning projects were on-going. The Twinning Light instrument started in 2002 with three project fiches prepared, including one on gender equality.

Results and Impact

State of Play for JMC/SMSC development

A Joint Monitoring Committee (JMC) was held on 5 December 2002 to supervise the progress of EU-funded assistance and to provide recommendations on the management of Phare programmes. This was preceded by two sets of Sectoral Monitoring Sub-Committees (SMSCs) held on 2-3 May 2002 and 16-17 October 2002, both reviewing all programmes. Eight Monitoring Reports for the second SMSC (16-17 October) were sent back for revision to the various ministries, as the quality was considered too inadequate. These were CBC, Public Finance, Justice (Society Integration), Social Sector, Statistics, Energy & Quality Assurance, Home Affairs and Transport.

The SMSCs were held on the basis of 14 monitoring reports (Energy and Quality Assurance, Agriculture, CBC, Regional Development, Civil Society, Social Sector,

Home Affairs, Justice, Public Finance, European Integration, Statistics, Energy, Environment and Transport) prepared by the responsible ministries. During the SMSCs, the reports were discussed together with line ministries, CFCU and the NAC. The status of implementation of Phare programmes was reviewed, recommendations made by the EC Delegation and the National Aid Co-ordinator's Services were discussed and agreed upon and follow-up actions from previous SMSCs were examined.

IE Reports in 2002

In 2002, EMS Consortium submitted 11 Final Interim Evaluation reports in the following sectors: Agriculture, Public Finance, Justice and Society Integration, Statistics, Energy and Quality Assurance, EU Integration, Social Sector, Regional Development, CBC, Environment and Transport and Civil Society. Eight programmes were rated as "satisfactory" and three programmes as "unsatisfactory" (Justice and Society Integration, Regional Development and Civil Society). EMS also provided an Interim Evaluation Country Summary Report which was presented to the JMC. In addition, an ad hoc report on Assessment of the Adequacy of the Definition of Phare Programme's Objectives for all ten candidate countries and a multi-country ad hoc report on Small and Medium-sized Enterprise Development was produced by EMS.

During the autumn of 2002, the responsibility for co-ordinating interim evaluations and organising kick-off and de-briefing meetings was transferred from ECD to the NAC Services as part of the revised Interim Evaluations system. Further decentralisation of these tasks is foreseen during 2003.

Sectors with positive results

In the area of Home Affairs, a Twinning project with Finnish and Swedish Twinning partners was completed, resulting in an integrated border management strategy drafted by October. It is currently awaiting adoption at the Cabinet of Ministers. Moreover, in the course of the project, a number of co-operation agreements both among the involved national institutions, i.e. Customs, Border Guards, etc. and with the counterpart institutions on the bordering Russia and Belarus, were concluded. The aim of the agreements is to ensure the co-operation of all involved parties in the implementation of the strategy.

In 2002, the Access programme supported 6 macro and 18 micro project initiatives of Latvian NGOs. The programme provided for the implementation of concrete measures by NGOs in *acquis* related areas, especially in the social sphere and environment. It also gave the NGO sector an opportunity to build its institutional and operational capacity, to manage EU funds, and establish networking platforms with the EU counterparts with a view to accession.

Success story

Training specialists of the CSB through Twinning

In order to upgrade the Central Statistical Bureau of Latvia (CSB) to the level of service provider in compliance with the EU standards, experts from a similar institution in Finland were involved in training specialists of the CSB through a Phare Twinning project.

The project was built around the main objectives for providing a successful development of the CSB: regional reform, enlargement of organisational and financial capacity, promotion of co-operation with other state institutions, non-governmental organisations and the private sector, and introduction of EU legislation in the field of statistics.

Among the outcomes of the project, a strategic plan of the CSB and human resources development was drafted. It is planned to reduce the number of departments, as well as the number of employees by up to 90, with a view to using modern technology more extensively in collecting and distributing statistical data.

Seminars and training courses were organised, and the specialists of the CSB undertook in-service training in Finland. In order to promote co-operation with other state institutions, non-governmental organisations and the private sector, a seminar for users of statistical data was organised. A seminar for media representatives was organised to introduce opportunities of receiving and using statistical information. A seminar for staff working with foreign trade data is to take place (for specialists of the State Revenue Service and others) in order to get acquainted with Finland's practice in summarising foreign trade data after their entry into the EU.

The conclusion drawn after the successful implementation would be that the most important factor in the process of data collecting and summarising is the potential consumer. Not only the state, but also non-governmental organisations and the private sector are to be considered clients.

Tasks ahead

A challenge for Latvia continues to be the implementation of projects in the field of ESC and the need to strengthen human resources, in particular, in view of preparing for participation in the Structural Funds.

In 2003, efforts also need to be concentrated on the acceleration of procedures for setting up EDIS, so as to enable Phare projects to be implemented after accession.

LITHUANIA

The year in review

Political developments

The year 2002 in Lithuania's political life was quiet, only the end of the year was dominated by the presidential and municipal elections (22 December). In the international context, the end of the year was very fruitful for the country - Lithuania received invitations to join the EU and NATO. The second round of the presidential elections was held in January 2003, and produced a surprising result - the defeat of current president Valdas Adamkus to ex-Prime Minister Rolandas Paksas, leader of the newly created Liberal Democrats Party.

The results of the municipal elections were not so surprising, and showed a lead by the Social Democrat's Party of PM Brazauskas, followed by the New Democracy and Peasant's Party, led by Mrs Prunskiene, and the Conservative Party (Mr Landsbergis). The ruling coalition party, the Social Democrats, won the most municipal seats, while another ruling coalition party, the Social Liberals (which led in the previous municipal elections in 2000) is now only in sixth place. After the elections, discussions on merging the political parties, mainly of the right wing, were taken up again and are likely to have a material outcome.

Macroeconomic developments and structural reform

In 2002, Lithuania preserved a macroeconomic stability and recorded a strong growth in the economy for the second year in a row. The gross domestic product increased by 5.9 % y/y, the GDP growth was determined by productive and final consumption services, as well as agriculture. The bulk of value added was generated by transportation, storage and communications, retail and wholesale trade, construction and agricultural activities. The financial discipline remained strict, while inflation was negative, annual deflation in 2002 (December 2002 against December 2001) made up 1.0 %, which was determined by the decline in prices for consumer goods and services.

In February 2002, the Bank of Lithuania successfully implemented the re-pegging of the national currency, Litas, from the anchor currency, US dollar, to the Euro. FDI flows have been stable and the current account deficit remained relatively low. The Lithuanian economy is a highly open economy, and foreign trade volumes continued to grow. In 2002, export increased by 10.6 % and import increased by 11 % y/y. The EU remained the largest trade partner for Lithuania, receiving 48.4 % of Lithuania's total export. The exports to the EU increased by 12 % and the imports from the EU by 13.6 % y/y.

Unemployment is decreasing slightly but still remains high. The unemployment rate was 11.3 % in 2002 based on the Labour Exchange data. The unemployment rate varies greatly from municipality to municipality, making up 27.5 % in Druskininkai, 23.7 % in Mazeikiai and 5.6 % in Vilnius city.

As regards pension reform, finally a political consensus has been reached and the Law on Pension System Reform was adopted by the Parliament in December 2002.

Progress in meeting the *acquis communautaire*

Lithuania has achieved a good degree of alignment with the *acquis* across most fields, and in some areas the level of alignment is now high.

While the initial efforts were unsystematic, in recent years the pace and scope of transposition has improved considerably. Lithuania has set most of the administrative structures which are necessary to implement the *acquis*. However, further sustained efforts to reinforce the administrative capacity are required, notably as regards the training and retaining of qualified staff, and ensuring effective inter-agency co-ordination⁹.

Phare in 2002

Programmes launched

At the end of 2002 the following Financing Memoranda were signed:

- The **2002 Phare National Programme for Lithuania, part 1**, with an allocation of **€ 12.7 million**, aims at contributing towards building up structures, capacity and procedures and at developing IT and data exchange systems that will allow Lithuania, upon its accession, to function fully and effectively within the European Union in the areas of Free Movement of Goods, Taxation, and co-operation in the fields of Justice and Home Affairs and Customs Union. With a view to accelerating support in priority areas, particular emphasis has been placed on further strengthening administrative capacities and reorganising institutions to ensure compatibility with EU working methods and standards.
- The **2002 Phare National Programme for Lithuania, part 2**, with an allocation of **€ 30.694 million**, aims at contributing towards building up the structures, capacity, procedures and systems that will allow Lithuania, upon its accession, to function effectively within the European Union in the areas of agriculture, social affairs, internal market, justice and home affairs, environment and public administration. The programme consists of 14 Institutional Building projects in the above priority areas. In addition, there is an important financial contribution towards Lithuania's participation in the various Community Programmes. For Institution Building purposes, Twinning and Technical Assistance measures are employed and are supplemented by the related investments. The largest amount of funds is allocated to the sectors of agriculture (almost € 8 million), internal market (€ 5.3 million), environment (€ 3.7 million), justice and home affairs (€ 3.3 million). Finally, an unallocated Institutional Building envelope has been reserved to give maximum flexibility over the coming two years for unforeseen short-term capacity building needs; this covers the possibility of Twinning, Twinning Light

⁹ The information in this section is taken from the Commission's latest Regular Report for Lithuania (October 2002). A more detailed analysis of Lithuania's progress in meeting the *acquis* can be found in this Regular Report.

and Technical Assistance. The total Phare allocation for the later facility amounts to € 1.49 million.

- The **2002 Phare National Programme for Lithuania, part 3**, with an allocation of **€ 18.791 million**, has the underlying aim of building up institutions and actors capable of contributing to the economic and social development of Lithuania, of pilot-testing and implementing ESC measures at a practical level (notably through grant schemes), and of creating a pipeline of future projects to be financed under the Structural Funds upon accession. Thus, it covers four pilot projects of a sectoral nature aimed at familiarising selected Lithuanian intermediary bodies and final beneficiaries with procedures similar to those of the Structural Funds. The different sectors chosen for these interventions are business development, training and skills adaptation, tourism infrastructure and innovation (IT). In addition, the Programme includes a project preparation facility intended to help create a pipeline of future structural funds actions. This part of the National Programme also aims at providing support to three additional Institution Building projects which relate to further capacity building in the energy, occupational safety and health and public administration areas.
- **Special action in favour of the Baltic Sea Region 2002**, with a **€ 3 million** allocation, will focus on human resource development projects, in particular, the co-operation of non-governmental organisations within the Baltic Sea Region, thereby contributing to settling common problems in the following areas: environment, transport, economic development, preservation of cultural and historical heritage, the most efficient use of the natural resources, etc. The CBC programme will be implemented through two types of project: small projects (the programme allocates € 1 million for this type of intervention. The project size may vary from € 20,000 to € 50,000), and medium projects (the programme allocates € 2 million for this type of interventions. The eligible project size varies from € 50,000 to € 300,000).

Moreover, the indicated allocations for Lithuania from the National Programme will be supplemented by a number of **multi-beneficiary and horizontal Phare programmes**:

- A **Horizontal Programme for Community Support in the Field of Nuclear Safety for 2002 for Lithuania**, with a **€ 1.9 million** allocation, is intended to contribute to improving nuclear safety in the beneficiary candidate countries. The national component of this programme addresses the specific security needs of a radioactive waste storage facility in Maišiagala through renovation, the construction of additional engineering barriers and the installation of equipment to monitor possible releases of radioactivity into the environment in order to prevent such release. The multi-country support elements of the programme are designed to prepare operators of nuclear installations in the candidate countries for full compliance with the EURATOM Treaty requirements, with regard to nuclear materials accounting obligations (as a final follow-up stage of the 1997, 1999 and 2000 Phare nuclear safety programmes), as well as to provide technical and political advice to the beneficiary countries related to project management cycle.

- **2002 Special Programme to Support the Decommissioning of Nuclear Plants and Consequential Measures in the Energy Sector**, with a € 80 million allocation, which will contribute to the Ignalina International Decommissioning Support Fund. Total contribution from this programme from the year 1999 amounts to almost € **180 million**.
- **2002 Horizontal Programme preparing candidate countries for Extended Decentralisation Implementation System (EDIS)** in the management of pre-accession funds in Lithuania with an allocation of € **0.5 million**. This programme will provide Technical Assistance to develop an adequate administrative capacity within the National Fund, the Implementing Agencies and other bodies involved in the management of pre-accession funds to meet EDIS requirements. The present programme covers, in particular, stages II and III of EDIS implementation in Lithuania.

Overview of Programmes Implemented

Lithuania has been receiving Phare support from 1991. During the period from 1991 to 2002, Lithuania received support through Phare National Programmes amounting to € 490.43 million. The effective transfer of expertise has taken place in a number of important fields such as privatisation, statistics, agriculture, border control, customs, environment, energy, transport, preparation for the structural funds, and so on.

In 2002, a number of projects financed from the 1999 Phare programme were successfully completed. Support was provided to Lithuanian public administration services, thus strengthening the on-going process of public administration modernisation via improved human resource management and personnel development; the implementation of a financial control system throughout the public sector; enforcement of the internal market *acquis* by strengthening enforcement of competition, public procurement, audio-visual policy and priority areas in the justice and home affairs sector. Assistance was also provided in the area of preparation for the Structural Funds, the transposition, implementation and enforcement of the energy *acquis* and other important Institution Building areas. A number of successful investment projects were completed – further development of the Lithuanian border infrastructure, in particular, the Lithuanian border with Belarus, promotion of a balanced regional development, transnational and transregional co-operation.

In 2002, the implementation of the projects under the 1999 Baltic Cross-Border Co-operation programme (Small Projects Fund) proceeded. There were 21 projects supported under this programme, eleven of which were in the field of economic development, 4 environmental projects, 5 cultural projects and one social project.

In 2002 Lithuania participated in ten Community Programmes.

Phare management performance

The Phare management performance in terms of contracting and payments is satisfactory. At the end of the contracting period for the 2000 Phare programme **97.4%** of the funds were successfully contracted, although it has to be mentioned that in some cases the contracting was finalised very late.

For the Phare Programme, the EC funds have been channelled to the beneficiaries through the National Fund, which was established in the Treasury Department in the Ministry of Finance in the beginning of 1999. Since April 2001 the National Fund was reorganised into the separate department in the Ministry of Finance.

The process of preparation for EDIS accreditation for Phare began before summer 2002 and is now in full flow. The Gap Assessment was performed during the autumn, and the final version of the Gap Assessment Report was transmitted to the EC Delegation in January 2003.

Single Programming Document for Objective 1 support

In the beginning of 2002, preparation of the draft National Development Plan for the period 2004 – 2006 (Single Programming Document – **SPD**) started. The SPD will serve as the basis for the distribution of Structural Funds support after Lithuania's accession.

The SPD Working Group and the Supervisory Commission were established according to the decision of the Government, adopted on 7 February 2002. The SPD Working Group is composed of the representatives from relevant ministries and other public administration institutions (20 people), regional (1 person) and local (1 person) authorities and social – economic partners (8 people). The Supervisory Commission is composed of vice ministers and secretaries from relevant ministries. Both institutions are headed by the Ministry of Finance, which also performs the role of secretariat.

The Supervisory Commission has adopted the calendar for the preparation of the SPD. To facilitate the preparation of this document, the Ministry of Finance has prepared and distributed the guidelines on the SPD drafting methodology and development of sectoral inputs to the line ministries, has organised, and is planning to organise in the future, a number of training events for the Supervisory Commission and the SPD Working Group members on the issues of SF management, financial control, eligibility of expenditures, co-ordination with national budget planning. Local and EU experts have been invited to deliver training events.

The working group has been further extended to 11 sector-based subgroups (which all contributed to the draft integrated SPD strategy and measures), led by members of the SPD Working Group.

The preparation of the SPD proceeded throughout 2002 and was being elaborated through discussions and consultations with the relevant authorities of Lithuania. The current draft SPD sets 4 major investment priorities:

- investment in physical infrastructure, seeking to create conditions for making maximum use of the favourable geographical position of the country, which ensures a large potential of transit and trade (exports);
- investment in the human potential to adapt to a rapidly changing economic environment, and in addressing the problem of social exclusion;

- investment in the production sector oriented towards promotion of entrepreneurship, promotion of business competitiveness and the sustainable development of industry and business;
- investment in the adaptation and development of rural areas and agriculture/fisheries, seeking to increase the quality of life of rural inhabitants.

The draft SPD, containing all the elements listed in Article 19 of Regulation 1260/1999, is expected to be submitted to the European Commission by the end of March 2003.

Institution Building highlights

Twinning remained the key Institution Building instrument for Lithuania with 12 Twinning projects started in 2002 from the budget of the 2001 programme. Key areas addressed by these projects include: strengthening the capacity to implement EU *acquis* for agriculture, the enforcement of internal market rules particularly in the fields of competition, audio-visual and public procurement, continued support for the strengthening of security facilities at the EU future external borders (Schengen *acquis* and border posts), re-enforcement of the fight against corruption, alignment with maritime, road, rail and air transport legislation, and support to the liberalisation of the energy market.

Preparations for Structural Funds have received a boost with the implementation of a large Twinning project aimed at providing support in the programming, management and control of Structural Funds upon accession to the EU.

A number of areas have been pinpointed for Twinning assistance under the Phare 2002 programme, including the strengthening of administrative and technical capacities of the National Standards body, modernisation of the State Tax Administration, migration and asylum management system, strengthening TSE Control systems in Lithuania, support to Lithuanian institutions in preparing to implement free movement of workers, modernisation of national statistics and improving and strengthening administrative and technical capacity of personal data protection.

In order to address specific urgent and unforeseen Institution Building needs identified between programming exercises, the new flexible and fast instrument “Unallocated IB Envelope” was introduced in the Phare 2002 instrument, following the positive experience from the implementation of the 2001 “Twinning Light reserve” instrument, and, taking into consideration the very high demand from various beneficiaries to use this reserve. The 2002 instrument is even more flexible and covers not only Twinning Light, but standard Twinning and Technical Assistance facilities as well.

Results and Impact

State of Play for JMC/SMSC development

The JMC/SMSC mechanism was established in early 2000, and has been fully operational ever since. At the JMC held on 18 June 2002, the titles of the SMSC have

been slightly changed and some projects redistributed to ensure optimal cluster of these SMSCs. According to the decision the following Phare SMSC were set:

- (1) Agriculture and Fisheries
- (2) Social affairs, employment, health
- (3) Economic and social cohesion, structural funds preparation and CBC
- (4) Internal market and statistics
- (5) Justice and home affairs
- (6) Environment
- (7) Energy
- (8) Transport
- (9) Public administration reform, public finance and customs

In 2002, each SMSC met twice. Discussions at the meetings were based on the information provided in the Monitoring Reports. The information presented in the Monitoring Reports is compiled by the Ministry/Agency in charge of a particular sector and outlines progress of all projects implemented in that sector. One Monitoring report covering the relevant information about a sector was prepared for each SMSC meeting and the Joint Monitoring Committee meeting. The National Aid Co-ordinator organised several training sessions for the line ministries on the drafting of SMSC Reports. The NAC and EC Delegation have noticed a marked improvement in the quality of these reports. In principle, the SMSC/JMC scheme is functioning smoothly and is equally spread throughout the entire year.

Sectors with Positive Results

Successful Phare assistance for the Lithuanian Institute of **Public Administration** has been provided. A series of civil service horizontal, EU accession and specific training programmes were set-up for different target groups, starting from key officials who are playing the main role in accession preparation and negotiations over all levels of civil service to the newly recruited civil servants.

In 2002, Phare support further contributed to the **energy** market liberalisation through the restructuring of the Lithuanian Electricity and Gas Companies ("Lietuvos Energija" and "Lietuvos Dujos") and support to the National Control Commission for Prises and Energy. In the area of **nuclear safety**, support was further provided to licensing activities related to the decommissioning activities concerning closure of the INPP (support to the State Nuclear Power Inspectorate and TSO's). The implementation of the Diverse Shutdown System has started in the Ignalina Nuclear Power Plant (INPP) Unit 2, in line with longstanding recommendations of international nuclear experts.

In the **Internal Market** sector three Phare projects funded from the 1999 Phare national programme were successfully completed in 2002. Twinning on the

strengthening of Competition Council allowed a transfer of know-how on procedure to deal with anti-trust cases linked to abuse of dominant position, block exemptions, shipping conferences, internet access to providers, etc. Support was also provided on state aid rules, improving information sources and training related to the implementation of the Bankruptcy Law. As regards Public Procurement, Twinning provided assistance in drafting new Public Procurement Law guidelines for the Contracting Authorities/suppliers. Finally, Twinning provided support to the strengthening of the audiovisual *acquis* enforcement through the Radio Television Commission, by improving its licensing rules, sanction power, promoting self-regulation of the Ethics code.

In the sector of **Justice and Home affairs** Phare continued to contribute to the adoption and implementation of the Schengen *acquis*. In October 2002, a two-year Twinning project on the Schengen *acquis*, including the development of national registers and the preparation for the Schengen Information System, was successfully completed. During the project, 156 activities were arranged for the personnel of the Ministry of the Interior, Police, Customs, State Border Guard Service, Migration Department, Law University of Lithuania, Police and Border Guard Schools, Data Protection Ombudsman, Defence Forces and the Port Authority with more than 2600 people trained. The project experts have supported the Ministry of the Interior in developing the National Schengen Action Plan (approved by the Government on 19 July 2002). In addition, border demarcation works (5-metre wide border control strip and 3-metre wide border control path) have been completed on Lithuania's border with Belarus.

Extensive support was provided in the field of **anti-corruption**. The main emphasis was focused on the strengthening of the administrative capacity of the Special Investigation Service and other public institutions, as well as law enforcement authorities in corruption prevention, crime investigation and public awareness/education. Among others, the Codes of Conduct for Civil Servants, Judges and Politicians were elaborated and submitted to the Government for consideration. On 28 May 2002, the Seimas adopted the Law on Corruption Prevention.

In **agriculture**, support for the alignment of legislation with the *acquis* has been provided through Technical Assistance, procurement of equipment and a two-year Twinning project being implemented, in particular, in the fields of direct premiums, intervention, establishment of a LPIS and IACS, and in the improvement of the Agricultural Market Information System and Farm Accountancy Data Network.

Food safety (or public health related to food safety) received particular attention during 2002. The Phare project "Ensuring Veterinary and Phytosanitary Border Control Measures" has strengthened veterinary and phytosanitary controls at selected Border Inspection Posts (BIPs) by focusing on the construction of BIPs and the upgrading of the existing capacity of other control facilities. In particular, the investment project up-graded and constructed Phytosanitary Border Inspection Posts (4) and Veterinary Border Inspection Posts (4) at the borders with Belarus and Kaliningrad. The follow-up project also helped Lithuania strengthen and enforce the EU Food Control System through the modernisation of the Klaipeda County Veterinary Laboratory and the Pesticides Quality Testing Laboratory, and a one-year Twinning project focused on control procedures, adoption of the administrative

structures and training of the Lithuanian experts in the correct quarantine inspection procedures.

As regards the **transport** sector, Phare contributed to the adoption and implementation of the Maritime Safety *acquis*, including the establishment of a Lithuanian Maritime Safety Administration and of a Port Information System.

In the **environment** field, besides the continued investment in infrastructure projects in the water and wastewater sectors, a Twinning project has been implemented to strengthen the capacity of the Lithuanian authorities to monitor air and water quality.

Regarding **ESC**, progress was made in 2002 in implementing the Phare 2000 ESC programme, which is modelled on the Structural Funds-type intervention. Despite a number of delays at the initial stage, which were mainly due to the establishment and fine-tuning of a relevant institutional structure, around 300 contracts were concluded. This being the first launch of a SF-type call for proposals, the high number of applications received and the high contracting rate shows a rising absorption capacity at the regional level.

Under the Baltic **Cross Border Co-operation** programme, the **Small Project Fund (SPF)** supports the development of the economic potential of the regions bordering the Baltic Sea, local democracy, cultural exchange, environmental protection and health care. Under the 2000 Phare Programme € 0.93 million was available in grants. At the end of 2002, € 0.925 million was contracted.

In 2002, implementation of the multi-country **ACCESS** programme started. 28 microprojects, 15 macroprojects and 1 networking facility project were successfully contracted in 2002. The projects will contribute to economic and social development of the civil society, improvement of environment protection in Lithuania.

Success story

Energy Restructuring in Lithuania

The Twinning project between Lietuvos Energija and Elkraft System of Denmark was launched in 2001 and carried out its activities through most of 2002. The main objective of the project was to restructure Lietuvos Energija in such a way that the company could fulfil its obligations in accordance with the requirements of EU legislation, as well as the Lithuanian Electricity Law.

The project supported the restructuring process of Lietuvos Energija, in particular by drafting the secondary legislation of the Electricity Law and preparing amendments to the primary and secondary legislation, since the role of Lietuvos Energija as a Transmission System Operator (TSO) and Market Operator (MO) is largely dependent on the legislation. The project helped to develop the role of Lietuvos Energija and other players in the energy sector, including price and market operation issues, electrical transmission network operation, planning and unbundling and the implementation of international standards of internal audit. The activities also addressed human resources and training.

In terms of sustainability, after the end of the Twinning project, "Elkraft System" received funding under the Danish Bi-lateral Assistance Programme for further development of the co-operation between the partners. Moreover, Denmark and Finland have been selected for the follow-up Twinning project, "Strengthening of the Transmission System Operator (TSO) and the Market Operator (MO)" after the restructuring of the JSC Lietuvos Energija, under the 2002 Phare National programme.

Tasks ahead

In 2003, significant Phare support will be allocated to Institution Building and will concentrate on the further enforcement of the acquis. Support for ESC will concentrate on preparing structures and piloting approaches for Structural Funds.

The 2003 Phare National Programme is the last for Lithuania. Implementation of the programmed and supported projects will continue until 2006.

Moving to EDIS

The current implementation rules for Phare programme in Lithuania are governed by the Decentralised Implementation System (DIS), and preparation for Phare EDIS started in the beginning of 2002. The Task Force for the co-ordination of EDIS for Phare implementation has been set up and involves representatives from the National Aid Co-ordinator, National Fund, Central Financing and Contracting Unit, Phare implementing agencies likely to be involved in the future management of Structural Funds. The first stage of the EDIS process – Gap Assessment – was carried out at the end of 2002. Stage 2 (Gap Plugging) should start in April 2003 and continue through the year. The third stage – (Compliance Assessment) – is planned for the end of 2003/beginning of 2004. It is Lithuania's objective to obtain EDIS accreditation for Phare, at the latest, by the time of accession.

MALTA

The year in review

Political developments

The division between the two big parties on the issue of accession to the EU has been central in the political life, the Nationalist Party in government being in favour of accession and the Labour Party being opposed.

It has been confirmed over the past year that Malta continues to fulfil the Copenhagen political criteria.

Malta has taken further measures to improve the quality of the civil service as well as of the judicial system.

Malta continues to respect human rights and freedoms. It has made further progress by improving its legal framework in the area of asylum, the fight against racism and the fight against trafficking in human beings.

Macroeconomic developments and structural reform

Malta is a functioning market economy and it should be able to cope with competitive pressure and market forces within the Union.

Following a poor overall economic performance in 2001, there has been a clear improvement in 2002:

- Real GDP growth in 2002 was 1 %.
- The twelve month average rate of inflation decreased from 2.9 % in 2001 to 2.2 % in 2002.
- The rate of registered unemployed workers has increased from 4.8 % in August 2001 to 5.1 % in November 2002.
- The budget deficit decreased to 6.2 % of GDP in 2002 from 6.8 % of GDP in 2001.
- The current account deficit has substantially decreased from € 355 million in the last quarter of 2000 to € 140 million in the last quarter of 2001, and it continued to decrease in the 3 first terms of 2002.

Reduction of the general government deficit has been limited and will require reforming public expenditure to ensure medium-term fiscal sustainability. A reform of the welfare system was expected, but no agreement was reached in 2002.

Privatisation of public enterprises remained slow in 2002, despite substantial progress in the banking sector and the partial privatisation of the telecommunication and postal services and the airport. The restructuring process of public and private enterprises is on-going, though the process is generally more advanced in the private sector and

more progress can be made to restructure and decrease subsidies to large loss-making public enterprises and public utilities.

Progress in meeting the *acquis communautaire*

Over the past year, Malta has made considerable legislative progress in the areas of freedom to provide services, environment and customs and further progress in other areas, particularly regarding free movement of goods, free movement of persons and statistics. It has continued to improve its administrative capacity, notably in the areas of standardisation and market surveillance, statistics, regional policy, justice and home affairs, customs and financial control. However, progress has been limited in the areas of agriculture, fisheries, transport and social policy.

Overall **Malta has achieved a good degree of alignment with the *acquis* in many areas** and is well advanced towards adequate administrative capacity to implement the *acquis* in many fields, although further efforts remain to be made, in particular as regards agriculture and environment. Detailed plans have been agreed, in particular in the negotiations and the Action Plans, to cover the remaining gaps.

Provided Malta implements its plans to strengthen its administrative capacity, it should be able to ensure a reliable enforcement of the *acquis* and to participate adequately in the Union's policy-making processes. Malta's capacity to ensure sound, efficient and controllable management of EC funds is generally good and should be fully adequate once it has finalised its plans regarding the body in charge of fight against fraud and protection of EC financial interests¹⁰.

Pre-accession funds in 2002

Programmes launched

Following the adoption of the Council Regulation (EC) No 555/2000¹¹ of 13 March 2000 on the implementation of operations in the framework of pre-accession strategy for the Republic of Cyprus and Malta, Malta was attributed € 38 million of pre-accession aid for the period 2000-2004. The selection of priorities for support by the Malta Pre-Accession funds is based on the capacity building needs identified in the Regular Reports, on the NPAs, and on the level of readiness of the projects proposed.

As indicated in the 2001 Regular Report, Malta needed to strengthen its capacity to implement the *acquis* in a number of sectors, in order to meet the priorities of the Accession Partnership. The 2002 National Programme for Malta, amounting to **€ 9.5 million**, was the third programme of financial co-operation with Malta and it was intended to address these priorities. It is dedicated to Institution Building and to other actions aimed at preparing Malta for accession (feasibility study for a transport infrastructure project and participation in Community programmes).

¹⁰ The information in this section is taken from the Commission's latest Regular Report for Malta (October 2002). A more detailed analysis of Malta's progress in meeting the *acquis* can be found in this Regular Report.

¹¹ OJ L 68 of 16/03/2000, p. 3.

All projects retained for pre-accession funding have therefore an impact on the process of adoption and enforcement of the *acquis*.

The 2002 programme covered the following objectives:

- **Establishing institutional capacity in the environment sector (€ 0.7 million):** to strengthen the institutional capacity within the environmental sector in order to allow Malta to implement the environmental *acquis* (in particular waste management, water and air quality and horizontal measures).
- **Veterinary control & animal/public health (€ 0.58 million):** set up efficient monitoring and control programmes in view of implementing the food safety *acquis* in the veterinary field (processing, on-farm, slaughterhouses and laboratory services).
- **Capacity building at the Plant Health Department (€ 0.85 million):** establishment of the necessary mechanisms and conditions for protective measures against the introduction into Malta of organisms harmful to plants or plant products and against their spread within the territory of Malta, ensure food safety through legally recognised Maximum Residue Levels of pesticides and protect the rights of plant breeders.
- **Setting up of an efficient Viticulture Unit (€ 0.5 million)** within the Department of Agriculture, able to implement and monitor the *acquis* with particular emphasis on plantings, the vineyard register, market measures and oenological practices.
- **Strengthening of Fisheries and monitoring control (€ 0.43 million)** to enable the Department of Fisheries to implement the *Common Fisheries Policy* in the field of control and enforcement, to prepare for the implementation of structural programmes in the fisheries sector, establish a continuous Vessel Monitoring System (VMS), and to create the basis for a system of collecting and processing statistical data concerning fisheries.
- **Reinforcement of the maritime safety (€ 1.731 million)** to ensure that the Maltese Maritime Authority has the required technical and administrative capacity to implement EU standards in the fields of maritime safety, including those to be contained in the new maritime transport *acquis* expected to enter into force in the near future.
- **Setting up of the Medicines Authority (€ 0.908 million)** responsible for the implementation and enforcement of the relevant legislation with respect to regulation of medicines and pharmaceutical activities.
- **Technical Assistance and administrative co-operation (€ 1.601 million):** to reinforce the capacity of the Maltese administration through short-term Twinings, administrative co-operation actions, implementation of a Communication plan; to prepare Malta for the implementation of the *acquis* in the following sectors: statistics, intellectual property rights, export of dual-use goods, consumers rights and protection, telecommunications, financial control and fight against fraud, free movement of goods / new and global approach, support to SMEs.

- **Feasibility and Environmental Impact Assessments Studies in the road transport sector (€ 1 million):** studies for a road transport infrastructure (as part of the Malta TEN network) with the aim to start prepare a project pipeline for co-financing under structural/cohesion funding upon accession.
- **Participation in the Community education programmes (€ 1.2 million):** to support Malta's participation in 2003 in the Community programmes Leonardo da Vinci II, Socrates II and Youth.

Overview of programmes implemented

In 2002, the implementation of the 2000 and 2001 Pre-accession National Programmes continued. As it is the first time that Malta is covered by the Phare Annual Report, we therefore present a short description of these programmes:

The **2000 National Pre-accession Programme for Malta**, amounting to € 6 million, was dedicated to Institution Building (€ 4.4 million), to the participation in Community Education programmes (€ 0.9 million) and included a contribution to the TAIEX commitment (€ 0.7 million) in order to support Malta in the transposition of the *acquis* in its legislation.

The Institution Building projects covered three objectives:

- Technical Assistance and administrative co-operation to support Malta in the preparation to the implementation of the *acquis* in some important sectors such as the environment, standardisation and maritime safety;
- to support the integration of Malta in the Internal Market through the customs and taxation adaptations;
- to reinforce institutional and administrative capacity to adopt and apply the *acquis* in the agriculture field (IACS).

The **2001 National Pre-accession Programme for Malta**, amounting to € 7.5 million, was dedicated to Institution Building (€ 6.3 million) and to the participation in Community Education programmes (€ 1.2 million).

The Institution Building projects covered four new objectives:

- to reinforce Malta's administrative capacity to implement occupational health and safety legislation;
- to reinforce Malta's administrative capacity of all Ministries involved in the regional policy: Ministries for Economic Services, for Social Policy, for Agriculture and Fisheries;
- to reinforce Malta's administrative capacity with respect to asylum and border management;
- to support the integration of Malta in the Internal Market through capacity building at the Malta Standards Authority (MSA) and in related departments.

In addition to these four new objectives, it pursued capacity building at the Customs and Taxation Departments (second phase of the 2000 project), as well as the general reinforcement of the administrative capacity of the Maltese administration (with a particular emphasis on the Ministry of Agriculture and the Ministry for Economic Services), through administrative co-operation, short-term Twinning and support to the pre-accession strategy through the implementation of a Communication plan and a monitoring and assessment scheme.

Overall, the impact of pre-accession assistance has been very positive and made an essential contribution to the development of sectoral strategies and the required institutional structures.

Pre-accession funds management performance

Council Regulation EC/555/2000 was adopted in March 2000 and the 2000 Pre-accession Programme for Malta had to be finalised in a very short time. Meanwhile, all the necessary structures and procedures had to be set up for decentralised implementation, since the former financial co-operation with Malta was implemented in a centralised manner.

The actual implementation of the first pre-accession programme could not start before the signature of the Memorandum of Understanding on the National Fund and the Framework Agreement between Malta and the Commission in April 2001. This has caused a delay in the start of the projects and has required the extension of the contracting and disbursement deadline.

Despite that, at the moment the Maltese authorities have been able to ensure a good contracting rate for the programme and to make up with the time lost.

The overall contracting rate of the 2000 and 2001 pre-accession funds was 86.33 % and 75 % respectively in December 2002. The expenditure is progressing well and it is expected that full allocation will be utilised within the planned disbursement deadline.

Meanwhile, Malta has also presented its application for EDIS which, when approved, will allow for the waiving of ex-ante control of the Commission Services on the implementation of the programmes.

NDPs - State of Play

A National Development Plan has been drafted and is still in the process of being approved by the Maltese Government. In the case of Malta and Cyprus, a decision was taken by DG Enlargement and DG Regio to give priority to the Single Programming Document (SDP). The drafting of the Maltese SDP has been carried out in the framework of a Twinning project supported by pre-accession funds. Close co-operation among the Regional Policy Directorate and the relevant Services of DG Enlargement and DG Regio has been established since the initial stages. The document is at a good level of elaboration and it should be ready before the end of March 2003 as planned.

Institution Building highlights

In Institution Building, the use of Twinning is a key instrument that continues to be extended to Malta's pre-accession programmes in 2002. Six Twinning projects were launched in 2002 in the sectors of **environment, veterinary control, plant health, viticulture, fisheries, maritime safety and pharmaceutical control**. Several Twinning Light projects have also been launched in different sectors. The Maltese administrations have welcomed the instrument of Twinning, as they find it extremely useful to share experiences with Member State administrations. So far, they have been able to build excellent relationships with the PAAs and STEs involved in the different activities, with great benefits for the implementation of the projects.

Results and impact

State of play for JMC

In view of the financial resources involved, and of the limited number of projects, it was decided to have a simplified monitoring structure, which does not foresee sub-sectoral committees. The sub-committee meeting, with the Senior Programme Officers and Project Leaders, and the JMC meetings are held at the same time twice a year, so that the JMC, as last point on the agenda, can adopt the requested corrective measures.

Two Joint Monitoring Committees have already taken place to follow the projects. The first one was held in July 2002 and the second in February 2003. A third one is programmed for July 2003.

On the occasion of the JMCs, the spending of the EU pre-accession funds is carefully monitored by the Commission services and the Maltese authorities responsible. Monitoring reports at project level are provided in due time and sent to the relevant Commission services for information and comments.

M&A Reports in 2002

No interim evaluation has been carried out as yet. The 2001 Programme includes an allocation of € 200,000 for monitoring and assessment. It is planned that the responsible services in DG Enlargement will launch a tender to select a company to perform an Interim evaluation of the ongoing projects.

Sectors with positive results

Due to the delay in the start of the first pre-accession programme, at present none of the projects have been completed, but positive effects can be already registered in all sectors. In particular the following have given already positive outputs:

In the sector of **Border Control and Asylum**, Twinning is almost concluded and the project has already reached some important results such as:

- the strengthening of the organisational capacity of the Immigration Branch of the Malta Police Force, the Armed Forces of Malta and the Office of the Commissioner of Refugees;

- the training of all front line Immigration Officers;
- the provision of forgery detection and border surveillance equipment;
- Malta’s AFIS preparation for alignment with EURODAC;
- the development of a national strategy for the integration of Malta’s IT systems with the SIS.

Assistance in the **Statistics** sector has contribute to substantial progress made by the Maltese Office of Statistics in achieving compliance with Eurostat requirements, reinforcing administrative capacity and covering almost all statistical areas.

A comprehensive project in **Customs and Tax sectors** divided into two phases has already reached some important results in supporting the administrative capacity of the Maltese customs administration. The new Customs Code, which is in line with the Community Customs Code, came into force and the legislation is being implemented very professionally. The relevant Implementing Provisions have also been developed and are being applied in some of the areas. These take into account the requirements necessary for the operation of Free Zones and relief for inward processing. Simplified procedures are gradually being introduced. The Customs Department has also successfully established new structures to meet the requirements of accession. New units have been established for CAP, Post Clearance Controls, Training and the management of Tariff Quotas, ceilings and suspensions.

In the sector of **Regional Policy**, a Twinning project is supporting the establishment of the Regional Policy Directorate, a completely new structure within the Prime Minister’s Office, which will be responsible for the management of Structural Funds. The assistance and training being made available by the Twinning has made a fundamental contribution in setting up and fine-tuning the necessary administrative structures and in getting the Maltese administration and socio-economic stakeholders prepared.

In the sector of **Occupational Health and Safety** the project was very well received, and there has also been increasing participation in the seminars and workshops organised within the Twinning project, which proved that the Occupational Health Safety Authority has raised awareness of health and safety among a sector that had been difficult to reach in the past.

Success story

Support on Occupational Health and Safety

The Occupational Health and Safety Authority's Twinning project was implemented between 15 January 2002 and the end of January 2003. During the course of this project, more than 18 activities were completed. All tasks had the main objective of reaching as many people as possible and raising awareness on health and safety issues.

All the planned activities within the Twinning covenant have been delivered in time and within budget. There has also been a marked increase in participation for seminars / workshops organised within the project.

The project has also generated an increased awareness within several sectors of society that had been difficult to reach before. People who have attended seminars or workshops have also continued to attend subsequent activities delivered both within and outside the project, showing a marked interest and actively participating. The Pre-Accession Advisor held several meetings with unions and constituted bodies, and some of these organisations have asked him to be a speaker within their conferences, thus giving scope to emphasise the importance of occupational health and safety.

In particular, within the project a seminar for amateur fireworks manufacturers was organised. In Malta, this is a particularly sensitive area given the large use of fireworks in the summer season to celebrate all cultural and religious traditional events. Although initially, it was quite difficult to get people to co-operate, there was participation from the Police, the Civil Protection Department, the Armed Forces and the Malta Pyrotechnic Association. Participation from over 70 amateur manufacturers surpassed expectations. Feedback from well after the seminar shows that the seminar and the guidance that we issued are having beneficial and lasting effects.

Another task involved the organisation of four one-day training workshops for workers' representatives. Over one hundred people attended. These workshops enabled the Occupational Health and Safety Authority to establish contacts with various employees within the public and private sector who play key roles within their workplaces. By attending these workshops, the workers' representatives gained a better understanding of the Authority's role and their role within the workplace, thus enabling them to carry out their position as a reference point better, by being able to give out improved information to their fellow workers.

A conference was held to mark the end of project. Many distinguished speakers were invited to speak at the conference, including a representative from the Catholic Church, which is very influential in Malta, and the Minister for Social Policy. The guests invited to this conference were mainly employers, as the conference was targeted towards policy and decision-makers. The conference had also good coverage in the local media.

Tasks ahead

Pre-accession funds: ensuring the successful implementation of the projects and the smooth launch of the 2003 programme, in order to meet the challenge of being prepared for accession on 1 May 2004.

Transition facility: ensuring the programming of the funds that will be allocated to Malta.

EDIS: getting the waiving of ex-ante control by the Commission services on the implementation of the programmes granted, following the application presented by Malta.

POLAND

The year in review

Political developments

Poland continues to fulfil the Copenhagen political criteria. As reported in the Phare Programme Annual Report 2001, the current government is formed by the electoral grouping led by the Social Democratic Alliance in coalition with the Polish Peasants Party (PSL). Poland's political institutions have continued to function properly and in a stable manner. The government continues to support EU membership as a top political priority and a broad consensus on this issue exists among a majority in the parliament.

In the area of **public administration**, progress in the implementation of the 1999 civil service law has been limited by the temporary suspension of the system of recruitment by open competition. Poland has made further progress in reforming the **judiciary** and in creating conditions to allow for a reduction in the most pressing bottlenecks. Corruption remains a cause for serious concern. While there has been a steady implementation of previous measures in this field, there have been no developments in terms of adopted legislation.

As for **human rights** and **the protection of minorities**, the good intentions of the pilot programme for the Roma community in Polish society have not fully survived the transition into practice. The pilot project has been launched; however, budgetary difficulties have placed severe limitations on the elements which have been undertaken to date.

The 2002 Regular Report underlined that the pace of implementation should be accelerated with regard to the civil service law, improved efficacy of the judiciary, the fight against corruption and the reinforcement of administrative capacity.

Macroeconomic developments and structural reform

Poland is a functioning market economy. The continuation of its current reform path should enable Poland to cope with competitive pressure and market forces within the Union.

The Polish macroeconomic situation in 2002 was difficult. GDP growth increased from 1.1 % in 2001 to 1.3 %. Speaking of a recovery, however, would be premature. The rate of unemployment continued to rise, reaching 18.7 % at the end of 2002. The most surprising economic phenomenon was the continuing fall in inflation. End-2002 inflation was estimated at 0.8 %, as against 3.6 % in December 2001, which is a major achievement for a country which experienced inflation rates of thousands of percent in the early 1990s.

The current account deficit decreased from 4 % to 3.5 % of GDP, mainly due to a rise in exports (by 9 % in real terms), while imports increased by 6 %. The inflow of foreign direct investment dropped considerably. The public sector deficit increased to 5.8 % of GDP and was slowed down by further budgetary saving measures of the

government. Privatisation slowed down considerably in 2002, both in terms of privatisation transactions and the budgetary revenues.

Progress in meeting the *acquis communautaire*

Overall, **Poland has achieved a high degree of alignment with the *acquis* in many areas.** Further efforts, however, remain to be made across the board with respect to administrative capacity. Over the past year, Poland has further advanced its alignment of primary legislation, notably in the areas of transport and free movement of persons. The performance in adopting implementing legislation has varied considerably between sectors. The development of administrative capacity has mirrored the progress of implementing legislation¹².

Phare in 2002

Programmes launched

A total of € **451.7 million** was allocated to Poland under the 2002 Phare budget to support Poland's accession to the EU, in line with the priorities highlighted in the Accession Partnership. Phare support for Poland's accession preparations was channelled through four programmes: *the Phare National Programme* (7 objectives – with a budget of € 394 million), *the Cross Border Co-operation Programme* (€ 56 million), *the Horizontal Programme for Community support in the field of Nuclear Safety* (€ 0.7 million) and *the Horizontal Programme preparing candidate countries for extended decentralisation (EDIS) in the management of pre-accession funds in Poland* (€ 1 million). Moreover, Poland participated in Phare multi-beneficiary programmes in 2002. *The Poland National Programme* was split into three Financing Memoranda, signed by the Polish Government and the European Commission, respectively, on 17 May 2002, 11 October 2002 and 9 December 2002.

In line with accession priorities, the 2002 Poland National Programme focuses on seven objectives:

- Strengthening institutional and administrative capacity (€ 52,435,196)
- Internal market (€ 26,791,500)
- Justice and Home Affairs (€ 63,300,000)
- Agriculture (€ 34,730,000)
- Environment (€ 14,999,000)
- Economic and Social Cohesion (€ 171,410,050)
- Community Programmes (€ 30,334,254).

¹² The information in this section is taken from the Commission's latest Regular Report for Poland (October 2002). A more detailed analysis of Poland's progress in meeting the *acquis* can be found in this Regular Report.

The Economic and Social Cohesion component, amounting to € 171.41 million, combines (a) the Sectoral Operational Programme, focused on Human Resource Development (HRD) measures and the promotion of SME development and Technical Assistance, covering the entire country, and (b) the Integrated Regional Operational Programme, focused on regional HRD, SME and business-related measures, addressed to 13 regions selected at the NUTS II level.

The 2002 *Cross Border Co-operation Programme* (CBC) consists of the following components:

- CBC Programme Poland–Germany (€ 44 million), comprising investment projects with a cross-border impact in transport and environment, as well as a small projects fund,
- CBC Programme Poland–Czech Republic (€ 5 million), comprising two transport projects and a small projects fund,
- Co-operation Programme in the Baltic Sea Region (€ 3 million), comprising a small and medium-sized project fund,
- CBC Programme Poland–Slovak Republic (€ 4 million), comprising two transport projects and a small projects fund.

Overview of programmes implemented

2002 saw the successful conclusion of several 1999 programmes/projects that had received sizeable funding, particularly in the area of investment. A large number of infrastructure-related measures were completed in the CBC programme, including transport, environment and utilities (€ 31 million); the **Regional Development** programme (€ 12.15 million) representing one of the first pilot schemes similar in some respects to future Structural Fund measures; and the **Environment** programme (€ 10.5 million), with a focus on measures to alleviate air pollution. In a number of sectors, investments were linked to smaller allocations for the strengthening of institutional capacities, such as in **Justice and Home Affairs** (€ 17.5 million), where equipment for border management was linked to training and capacity-building measures, and in the **Transport** sector (€ 6 million), which included, apart from infrastructure investments, support to the setting up of the road inspectorate.

Also, successfully completed were key *acquis communautaire*-related programmes for the strengthening of the customs, tax, telecommunications regulatory and health and safety administrations, the development of certification and standards, the support to anti-fraud measures (€ 19.7 million) and Institution Building projects in the agriculture sector (€ 5.9 million). For some 1999 projects the disbursement period was extended into 2003.

Finally, substantial allocations for participation in Community programmes were spent under TEMPUS (€ 5 million for 1999), the 5th RTD Framework programme (€ 10 million) and other Community programmes (€ 37.5 million), such as Leonardo da Vinci II, Socrates II, Youth, Culture 2000, Media Plus, Save II, Altener II, the European Environment Agency, IDA, SME, Health, Gender Equality, Combating Discrimination, Incentive Measures in Employment, eContent, Customs 2002,

EMCDDA and the 6th Framework Programme for research, technological development and demonstration activity.

Phare management performance

Phare continues to be implemented in Poland through DIS. The in-country administrative structure continues to work well. However, the management system has faced constraints, as the workload has increased significantly as a result of the increase of assistance funds, in particular for investment programmes, and the introduction of new implementation arrangements for regional development programmes. The increase of assistance funds and the preparation for the implementation of Structural Funds led to the merger of two key implementing agencies, further proposals for the reorganisation and rationalisation of implementing institutions and the need for further human resources to be implemented in 2003. The NAC, the CFCU and the National Fund at the Ministry of Finance continued to consolidate their reinforced standing vis-à-vis the Polish ministries and the contractors.

The performance of the Phare Programme in 2002 was highly satisfactory in terms of contracting. The 2000 National programme (€ 183.5 million) and the first phase of the ESC programme (€ 130 million) were contracted at a rate of 97 % and 99 % respectively by the contracting deadlines in 2002. Contracting for the 2001 programme began slowly in the second half of 2002. However, results for the cumulative amount disbursed under the 1999 programme and the 2000 programme, by the end of 2002 were respectively good and moderate, at 74 % and 29 % of the contracted amount.

NDPs – State of Play

The elaboration of the National Development Plan (NDP) was finalised in 2002 and the document was approved by the Polish Government and submitted to the Commission in January 2003. The NDP was the subject of a wide consultation process with regional, economic and social actors and represents a comprehensive document containing the outlines of the regional development strategy and policy, priorities and measures foreseen for Structural Funds, and proposals for budget allocations for individual measures. The ex-ante evaluation suggests improvements that could be made in the NDP in relation to its objectives, approach and financing. Furthermore, the Ministry of Economy, Labour and Social Policy prepared draft versions of the seven operational programmes (OPs) and consulted the elaboration of these OPs in wide-ranging meetings with relevant ministries, the regions, and representatives of the economic and social partners.

Institution Building Highlights

Institution Building activities in the Polish administration continued to be implemented mainly by Twinning. At the end of 2002, a total of 88 Twinning projects (€ 133 million) were being implemented, and a further 38 projects (€ 39 million) were still in preparation. The total value of these 126 projects amounted to € 172 million. The areas with the largest number of Twinning projects included: Agriculture, preparation for Structural Funds, Internal Market, Public Finance, Justice and Home Affairs and Environment.

2002 saw the implementation of three generations of Twinning projects:

- Phare 1999: 18 covenants with a total value of some € 35 million were being implemented, of which 17 were completed by the end of the year,
- Phare 2000: 44 covenants with a total value of € 54 million were being implemented,
- Phare 2001: out of 32 covenants planned, 26 (€ 44 million) had started by the end of 2002, while the remaining six covenants (€ 7 million) will commence in 2003.

Activities also started on the preparation of 32 Twinning projects worth some € 32 million under Phare 2002. Twinning partners were selected in April, October and December 2002 (corresponding to the three parts of the Phare 2002 programme). All projects received at least one satisfactory offer from a Member State. Work started on drafting some of these covenants, which will be signed in 2003.

Phare 2001 was the first FM containing Twinning Light (TL) projects. The key features of this IB instrument, the simplified contracting procedure and the budget ceiling of € 150,000 per project, are intended to facilitate quick reactions to immediate and concrete needs. In 2002, requests for offers for all six Phare 2001 TL projects (some € 820,000) were circulated to the Member States, and the contracts will be concluded in 2003. Four additional TL projects were identified in the Phare 2002 FM with a total value of € 600,000.

By the end of 2002, 25 twinning projects in Poland had been completed. They included eight Phare 1998 projects and 17 Phare 1999 covenants totalling some € 50 million. In an informal assessment of the impact of 17 of these projects, the EC Delegation concluded that the outcome of 11 projects could be considered satisfactory or good and in the case of 5 projects, very good or excellent.

The Court of Auditors assessed the impact of the Twinning projects in Poland following its audit mission in the spring of 2002 as positive, recognising that Twinning played a useful role in the preparations for accession and acknowledging that it contributed to changing attitudes in the Polish administration.

Results and impact

State of play for JMC/SMSC development

The monitoring and assessment system took on a new quality in the course of 2002. With the SMSC meetings now an established tool for judging the progress and performance of Phare programmes, discussions have become more focused and effective, and follow-up measures more effectively serve as corrective actions to improve implementation. NAC services have taken over the bulk of responsibilities, while they continue to co-operate closely with the Commission for the smooth organisation and follow-up of SMSC and JMC meetings on a bi-annual basis.

The JMC has developed as the main forum for the review of strategic issues related to the implementation of Phare programmes, Phare proceedings and Phare-related institutional issues. In 2002 the meetings focused mainly on a number of themes, such as co-financing, EDIS and IAs and their staffing, as well as preparation and implementation of tendering, which are relevant for the preparation of Structural Funds implementation. Moreover, the JMC continued to facilitate solutions for contentious and delicate issues of particular programmes, such as delays in fulfilling conditionalities related to adaptation and implementation of legislation.

M&A Reports in 2002

A new external contractor conducted M&A in 2002, focusing on the analysis of sectors and priority programmes, instead of individual programmes, as previously. In 2002, nine Interim Evaluation (IE) reports were completed covering the whole Phare programme, sub-divided into the following sectors: Public Administration Development, Environment, Regional Policy, Transport, Justice and Home Affairs, Internal Market, Cross Border Co-operation, and Agriculture. The reports focused on a wide range of technical areas, including social, regional, Institution Building, SME, transport, JHA, cross-border, and agricultural projects. The overall assessment of the progress in each of these sectors was “satisfactory” with the exception of regional policy and agriculture, which were assessed as “unsatisfactory”. Considerable and positive progress was noted in several programmes, in particular the development of a Supplementary Investment Facility for Poland, support to the National Bank of Poland, and CBC projects relating both to the Polish-German Border and to the Poland-Baltic Sea Region. The long-term emphasis on Institution Building displays positive results in almost of the sectors that were reviewed.

The Polish authorities continued to prepare monitoring reports for all programmes discussed in the context of the SMSC meetings. The quality of reports remained at a standard level throughout 2002. On the basis of experience in 2001 the Commission, in co-operation with UKIE, further supported training on the preparation of monitoring reports for 2002 delivered by the external M&A contractor. Moreover, the Commission and UKIE organised meetings on indicators of achievement.

Sectors with positive results

As in previous years, the programmes in **Justice and Home Affairs** focusing on the strengthening of the eastern border, visa and migration issues, fight against organised crime, and the improvement of judicial and law enforcement capacities achieved

notable positive results. The upgrading of means of communication for the Border Guard network at regional level was completed successfully and access to the relevant database was further extended at the border crossing points through the supply of IT equipment. Moreover, the patrolling capacities of the Border Guard were enhanced with the delivery of equipment facilitating patrolling of the border in difficult weather conditions. Related Twinning activities continued to focus on border management and the Schengen system. As accompanying measures, a small projects fund scheme (€ 1 million) was launched, and a number of projects were co-financed in the 4 Euroregions at the eastern border to support cross-border co-operation activities between NGOs and local authorities on both sides.

Other effective results in this sector strengthened the police's capacity to fight organised crime and terrorism: the second stage of setting up AFIS (Automated Fingerprint Identification System) was successfully completed in 2002; again Phare support was used for the ongoing modernisation of the police telecommunication system and contributed to the change from an analogue to a digital communication system, and key IT equipment for criminal analysis was purchased. Twinning activities complemented investments supporting the fight against organised crime and terrorism with the training of around 700 Polish police officers, more than 1,000 judges and prosecutors as well as over 100 people from the prison service. Also noteworthy was the successfully completed Judiciary Twinning project, which includes training of 3,400 judges and prosecutors in EU law and judicial co-operation.

The Cross-Border Co-operation Programme in the Baltic Sea Region and on the Polish-German, Polish-Czech and Polish-Slovak borders continues to generate important results that contribute to progress in the areas of transport, environment and economic and social development. Outstanding large-scale infrastructure projects completed in 2002 focused on the modernisation of national roads, mainly those situated close to the German border, construction of by-passes in the border regions, construction or modernisation of waste-water treatment plants in the Baltic Sea region and at the Polish-Czech/Polish-German border. Important cross-border effects are expected from the environment projects in Lagów, where a sewage treatment plant contributes to the protection of water in a landscape park and from the construction of the Waste Neutralisation Plant serving more than 130,000 people along the Polish-German border. About 500 projects from the CBC grant schemes contribute to cross-border co-operation on a 'people to people' level with support to cultural and entrepreneurial activities, such as the 'Euroregional Forum of Entrepreneurs' for Polish and German border regions.

In the **transport** sector, positive results were achieved in investment projects aimed at increasing traffic capacity and safety around conurbations (tri-city by-pass around Gdansk) and at key border points (Dorohusk border road at the Polish-Ukrainian border; Miedzylesie cross-border railway station at the Polish-Czech border). Moreover, the completion of the Twinning project greatly contributed to the setting up of the Road Transport Inspection Service, through training of Polish inspectors.

In view of the preparation for Structural Funds, the results of pilot regional development programmes, such as the Phare 1999 programmes in Warminko-Mazurskie, Podkarpackie and Silesia, are noteworthy. The support to local infrastructure development not only triggered positive effects for infrastructure, the

SMEs sector and the development of human resources but also provided an initial experience with future Structural Fund-type measures.

Finally, the **environment** sector produced significant results for the development of selected regions and the improvement of the natural environment with projects aimed at the reduction of air pollution (e.g. Sochaczew) and at improving water and wastewater management (e.g. Bielsko Biala).

Success Story

Modernisation of the A1 Tri-City by-pass (€ 18.9 million)

The modernisation of the Tri-City by-pass is an example of a successfully implemented road project generating regional and international effects. The Tri City by-pass is 36.7 km in length and carries both national and interregional traffic around the coastal communities of Gdynia, Sopot and Gdansk. Both Gdansk and Gdynia are important Baltic Sea ports engaged in commercial and leisure shipping activities. The Tri City by-pass is a part of the A1 motorway. Since the A1 motorway will form the principal north-south road transport corridor through Poland from the Baltic coast to the industrial south and beyond to the Slovakian border, the Tri City by-pass is a strategically important route and as such has a high priority in the transport development programme.

The works have been carried out under two separate construction contracts, concluded in 2000. The first part of the by-pass - a 13.1 km section - was financed from the Phare programme with national co-financing, while the second section was co-financed by the EIB. Works comprised widening of the single carriageway section (4 km) to a dual, two-lane standard motorway and the modernisation of existing routes, including junctions, bridges and roundabouts. The route currently carries on average approximately 38 000 vehicles per day.

Tasks ahead

Decentralisation

One of the important challenges remains the extended decentralisation of the implementation of the Phare and ISPA programmes, which is foreseen for 2004. The first stage of the preparations for the introduction of EDIS, i.e. the gap assessment, was completed for the Phare and ISPA programmes. A key concern in this area remains the ability of the Polish administration to properly carry out the financial control and internal audit functions.

Preparation for implementation of Structural Funds

The biggest task ahead is the preparation for the future approach and implementation of Structural Funds. Administrative capacities currently implied in the implementation of the Economic and Social Cohesion programme need to be developed a great deal in order to be in a position to manage Structural Funds. Also, the project pipeline remains to be developed and financing commitments have yet to be rigorously followed.

ROMANIA

The year in review

Political developments

The year 2002 was marked by the predominance of the foreign policy agenda in Romanian politics, partly overshadowing much needed administrative and economic reforms at home. Romania obtained its much-desired invitation for NATO membership during the Prague NATO Summit in November as well as a realistic perspective to join the EU in 2007 as a result of the Copenhagen Summit.

Domestically, the political scene was characterised by stability as well as an increased power asymmetry between the ruling party and the opposition, both at national and local level. The PSD continued its collaboration with the Hungarian party - the UDMR - in Parliament, consolidating its majority in Parliament. Corruption has become one of the most important issues in Romania's political life, with, however, little remarkable progress being registered yet in this direction. No cabinet reshuffle occurred. While local elections are to be held in early summer 2004 and presidential elections in late 2004, it increasingly appears that the general elections could be postponed until March 2005.

Macroeconomic developments and structural reform

According to most economic analysts, **the Romanian economy in 2002 was at its best since the beginning of the transition period.** Economic growth continued at a fast pace (annual GDP increase is preliminarily set at 4.7 %), while all underlying macroeconomic "fundamentals" have similarly improved. Year-on-year inflation has declined by a further 10 percentage points, to 17.8 %, and interest rates have accompanied this declining trend. Particularly positive was the fact that, in spite of the strong absorption of imports (which have increased by a respectable 14.5 %), the current account deficit actually went down (to 4.2 % of GDP) thanks to an extraordinary performance of exports (+20.3 %), which have reached their all-time high. The macroeconomic stance remained prudent, however. The deficit of the general government was further trimmed down to below 3 % of GDP and the external debt increase (by € 2.3 billion) was largely offset by a corresponding consolidation of the official international reserves (which have gone up by € 1.5 billion).

In terms of structural reforms, the progress recorded remained more timid. Albeit not spectacular, the privatisation performance in 2002 compares favourably with that recorded one year before. The one important exception to this trend is the energy sector. Contrary to previous years, utility pricing has, however, almost met the criterion of full cost recovery. Insufficient discipline in the collection of taxes and social contributions, affecting the competitive climate on the domestic market, could still be observed. Moreover, the tax collection problems have required, for the purpose of sticking to the targeted fiscal balance, drastic administrative expense cutting measures.

This overall favourable climate should be better exploited by pushing forward more decisively with long-awaited structural reforms, notably in the energy sector.

*Progress in meeting the *acquis communautaire**

Over the last year, Romania has accelerated the process of legislative transposition and has continued work on developing the administrative structures required by the *acquis*. Overall, and in view of Romania's target date for accession, **Romania's progress has been reasonably satisfactory and national legislation has been aligned with the *acquis* in many areas**. Administrative capacity building will, however, require a further comprehensive, structural reform of both the public administration and the judicial system.

In the area of the **internal market**, framework legislation on the New and Global Approach has allowed accelerated alignment with the sector-specific *acquis* on **free movement of goods**. Considerable progress has also been made in the establishment of bodies to administer the *acquis*. The foundations for future progress with the **free movement of people** have been laid, although further transposition is necessary to address shortcomings in the area of mutual recognition and administrative capacity should be strengthened in all areas. Considerable efforts have been made to facilitate the **free movement of services**, although the newly developed institutional framework for supervising financial services still needs to be supported. Liberalisation has continued in the area of **free movement of capital** and Romania is committed to a timetable for dismantling exchange controls and other restrictions on capital movements. The level of piracy and counterfeiting remains a serious problem in the area of **company law** and enforcement should be improved. In the area of **competition policy**, Romania's enforcement record in respect of both state aid and anti-trust needs to be improved. Steady progress was made towards alignment with the **taxation *acquis***, although further adjustments are needed and the ability to implement and enforce tax legislation remains limited. Alignment with the **consumer protection *acquis*** has continued and implementation structures are in place. Steady progress has been made with aligning with the **telecoms *acquis*** and progress has been made with preparing for the liberalisation of the communications and postal markets.

Alignment with the *acquis* on **agricultural policy** has accelerated, although legislative developments have not yet been matched by the development of administrative structures able to effectively implement the *acquis*. Structural reforms have only been slowly introduced. Inspection arrangements should be improved in the phytosanitary sector and, even more urgently, in the veterinary sector. In the area of **fisheries**, Romania has adopted the necessary framework legislation, although there have been delays in the establishment of the required administrative structures. On **social policy and employment**, some progress has been made but considerable further work remains on legal transposition in the areas of labour law, equal opportunities, and health and safety at work. Progress with **regional policy** has been slower and Romania does not yet have a clear and consolidated cohesion policy. Work has begun on developing administrative capacity, but continued efforts are needed to design management and implementation systems. Romania's progress in the **transport** sector has been mixed: good with regard to road and railway transport, reasonable in the area of aviation, but only limited in the case of maritime safety. The key issues facing Romania are developing institutions able to enforce recently adopted legislation and securing the funding to make the heavy investments required by the *acquis*. Despite progress in terms of legislative alignment, many structural issues still have to be addressed in the **energy** sector and new operating structures

need to be consolidated. Despite having transposed a considerable amount of **environmental** legislation, Romania has neither the administrative nor the financial resources to implement it.

Romania has started to make structural reforms in the area of **justice and home affairs**, although a considerable amount of work remains to be done on legal approximation and above all on strengthening administrative and judicial capacity. Despite a high level of harmonisation with the **customs acquis**, further legislative alignment is needed, as are efforts to reduce levels of corruption within the customs administration. In the area of **external relations**, trade barriers have been progressively eliminated, and Romania has achieved a generally high level of alignment with the *acquis*. Progress has been made with regard to **financial control** and modern systems of financial management and control are being introduced.

The overall capacity of the **public administration** to implement the *acquis* remains limited and represents a major constraint on Romania's accession preparations. These concerns extend beyond adoption of the *acquis* and also apply to the management of EC financial assistance. This issue is beginning to be addressed by the government which has announced a major reform programme¹³.

Phare in 2002

Programmes launched

The Phare programmes launched in 2002 amount to a total of € **278.5 million** and reflect the priorities identified by the revised Accession Partnership (January 2002) with a view to further support Romania towards accession.

The **Phare National Programme** (€ 265.5 million) covers both Investment and Institution Building (IB) projects and is divided into 6 sub-programmes, spanning on activities related to all accession criteria:

- The **Political criteria sub-programme** (€ 19 million) continues the support in two main areas: children - diversification of child protection activities - and minorities - assistance for the implementation of the National Strategy for Improving the condition of Romas.
- The **Economic criteria sub-programme** (€ 2.5 million) includes the support for the implementation of the restructuring plan of the Savings Bank (CEC).
- The **Strengthening of the administrative capacity of Romania's public administration** (€ 33.55 million) provides support for: reinforcing the capacity to manage the EU financed programmes, decentralisation and development of the local public administration, further development of the Court of Accounts, implementation of the Strategic Plan of the Ministry of Public Finance, extension of the SAPARD programme implementing system.

¹³ The information in this section is taken from the Commission's latest Regular Report for Romania (October 2002). A more detailed analysis of Romania's progress in meeting the *acquis* can be found in this Regular Report.

- The **capacity to adopt and apply the EU *acquis*** (€ 83.737 million) provides support in the areas of internal market, agriculture, energy, transport, social affairs, employment and public health, environment, justice and home affairs.
- **Economic and Social Cohesion sub-programme** (€ 106.564 million) is dedicated to three main objectives: *Institution Building* (to adopt an inter-ministerial vision of Economic and Social Cohesion programmes), *Investment* (two relevant measures, rehabilitation of the Technical and Vocational Education training (TVET) system, and human resource development) and *regional infrastructure* (to identify, prioritise, develop and implement infrastructure projects corresponding to regional development priorities).
- **Community Programmes** (€ 20.149 million) covers a part of the financial contribution to be paid by Romania to participate in the Community Programmes and Agencies in 2003 and the support for the participants to the mobility schemes Erasmus and Comenius from the Socrates II Programme.
- **The Cross-Border Co-operation Programmes with Hungary and Bulgaria** (€ 13 million) continue to promote good neighbour relations and stability in the border regions, by developing joint projects in the field of infrastructure, border crossing, environmental protection, and socio-economic development.

In addition, Romania was allocated € **0.9 million** to develop an adequate administrative capacity for **extended decentralisation (EDIS)** in the management of the pre-accession funds, and € **0.5 million** to improve **nuclear safety**.

EU support for Romania was also granted through the **multi-beneficiary and horizontal programmes** launched for the candidate countries last year (information and communication programme, anti-fraud programme for the protection of the financial interests of the Community, environment and enlargement programme, statistical co-operation programme, small projects programme, etc).

Overview of programmes implemented

Justice: In 2002 the assistance for this sector focussed both on IB and Investment. Positive and tangible developments have been noticed in the institutional strengthening of penitentiaries and probation and with regards to NIM (National Institute for Magistrates) and TCC (Training Centre for Clerks). Investment was made for the automation of the judicial sector (courts and prosecution offices) and the reform of the penitentiary system.

Civil Society Programmes aim at supporting citizens to participate actively in the community life. In this context, 115 projects have been selected, covering areas such as citizens advice and information services, national public information / education campaigns, volunteering, community needs, training Roma public servants, access of Roma to vocational training, income generation, education and health. Besides, the **Access programme** financed 223 projects proposed by NGOs in the field of environment protection, socio-economic development and social re-integration of marginalised groups.

Enhanced Pre-Accession Strategy: This project financed Pre-accession Impact Studies, the general objective of which was to strengthen Romania's capacity to adopt the *acquis*, by providing detailed impact analysis on the adoption of European legislation in various fields and by elaborating specific recommendations regarding the feasibility of administrative reform measures. 20 studies were completed at international quality standards. Valuable policy recommendations were submitted to the target beneficiaries, from Government to negotiation teams, as basis for their medium and long-term accession strategy and action planning.

Agriculture: An important number of IB projects in priority fields (phytosanitary, veterinary, fisheries, wine, agricultural statistics) started in 2002 while on-going projects advance satisfactorily. As a consequence there has been progress towards alignment with the agricultural *acquis*, but this has not always been followed by appropriate developments of administrative structures in order to apply the *acquis*. The Institution Building effort for setting up the SAPARD Structure in Romania was successfully completed and conferral of management for SAPARD programme was granted by mid 2002.

Home Affairs: Demilitarisation at the Ministry was underway during 2002. Both the Border Police and the National Refugee Office have continued positive developments from earlier years, aiming towards higher professional standards, efficiency, self-sufficiency in strategic planning and execution, as well as establishing of necessary inter-agency collaboration. The Border Police have received a substantial operational boost during the year with a major infusion of land and naval vehicles, as well as other equipment. In autumn of 2002, the first national Phare collaboration on migration started. The Directorate of Aliens and Migration Issues is the beneficiary of a twinning with Sweden and Denmark. The Twinning project between Romania and the UK, France and Spain on Police Co-operation ended in spring 2002. Twinning has introduced the Romanian Police to a vast number of policing issues, and will be a platform for future capacity building in this area.

Transport: The ongoing Phare projects covered both the IB and the Investment support in 2002. Major progress was noted in the rehabilitation of national roads DN1 and DN2, main works on DN2 being handed over at the end of November. Institutional building projects addressed mainly the maritime, air and rail sectors.

Environment: The programmes developed during 2002 focused mainly on Institutional Building and legislative harmonisation such as assisting in the preparation of a financial strategy for the so-called "heavy investment" directives. Three technical assistance projects aim to develop an environmental administration capable to cope with the EU requirements, by strengthening the local inspectorates, supporting the creation of the regional ones and developing an air quality monitoring system for Bucharest municipality, dealing as well with legal aspects by setting a compliant legal system for environmental impact assessment.

Statistics: Two important Twinning projects were started in the fields of agricultural statistics and the environment, government and quality statistics. An important number of Technical Assistance projects have been contracted on regional and agricultural statistics. A data shop, library and a training centre inside the National Institute of Statistics became operational.

Internal Market: A major project for the establishment of a national payment system has been launched, in partnership with the National Bank and the banking sector. Energy liberalisation has not fully started yet, due to late decisions on a strategy for the energy sector and its required restructuring. However, support to the energy regulators is progressing satisfactorily.

Health: In this sector, one project helped the Romanian Health Insurance System to develop its administrative capacity, to maximise the operational efficiency of the National Health Insurance House (NHIH) and District Health Insurance Houses (DHIHs), through clarifying roles and harmonising the relationship of the institutions, and to establish a Co-ordination Unit for Continuing Training (CUCT) in this area.

Economic and Social Cohesion: The assistance granted to this sector covered both IB and Investment. Under the *Institution Building component*, assistance was given to line ministries and regional institutions mainly for strengthening their capacity for managing pre-accession funds and preparation for the future structural funds (such as technical assistance for the implementation and programming of the CBC projects; transition to Interreg etc). Under the *Investment component*, assistance consisted of grants and credits to SMEs, grants for human resources development and large investments in infrastructure (business, transport, energy, tourism and environment infrastructure). By the end of the year, 877 grant contracts had been awarded, 9 credits were given to SMEs and 30 large investment projects had started.

The **RICOP** programme, providing support to people affected by industrial restructuring, provided 82 grants to SMEs, 106 grants for Active Employment Measures, 64 grants for Social Response Measures and 123 works contracts. Some € 12.5 million was contributed to severance payments to around 40,000 workers made redundant further to industry privatisation and restructuring.

Phare management performance

Romania achieved remarkable progress in implementing pre-accession assistance programmes in 2002, amid tremendous pressure to catch up with past delays. The overall procurement activity nearly doubled on a year-to-year basis, with an amount of € 262.1 million contracted in 2002, versus € 132.7 million in 2001. The bulk of contracts, however, were signed in the last quarter of the year, as reflected in a less than proportional increase in disbursement figures, i.e. € 146.6 million in 2002 compared to € 106.9 million in 2001.

During this year, Romania completed the main component of the 1999 Phare National Programme, RICOP, a € 100 million programme designed to mitigate the social consequences of industrial restructuring and privatisation. Based on an assessment of the conditionality of the programme (reduction of losses, privatisation and restructuring of 69 state-owned enterprises), the Commission estimated that there was substantial progress, though not complete, allowing for the release of up to 85 % of programme funds.

The Phare 2000 National Programme (€ 232.33 million) reached a level of contracting of 83 % at the end of 2002, or a value of € 192.8 million. The balance of funds is expected to be contracted by the end of March 2003, where an extension was granted for large complex projects, mainly in the field of environmental protection and

restructuring of the energy sector. Total contracting is expected to reach an amount of about € 223 million, the balance unspent representing savings on budgets after open tenders.

Some progress was registered in the implementation of the Phare 2001 National Programme (€ 266.65 million)¹⁴, with a level of contracting of € 42.9 million, or 16.1 % of programme funds, mainly in the field of regional infrastructure and Twinning projects.

The significant increase of funds decided in the Agenda 2000 was felt for the first time in 2002. Clearly the Romanian administration was unprepared at the beginning of the year to cope with the challenge of increased funding, raising initial doubts as to its capacity to absorb such volume of funding. Appropriate measures were taken by the Romanian Authorities to remedy the situation in the second part of the year. While IB or *acquis* related projects performed within deadlines, projects associated with Structural Reforms encountered delays due to late implementation of conditionalities (such as launching the privatisation of energy distribution).

NDPs – State of Play

Based on the comments of the European Commission received at the beginning of 2002, a new NDP for the period 2004-2006 is under discussion. It has been drafted based on a wide inter-ministerial partnership including active participation and inputs from the Regional Development Agencies, regional Twinning projects and local and regional working groups set-up by the government for the preparation of the NDP in partnership. This new version will serve two purposes: (1) the Phare multi-annual programming for years 2004 – 2006 in the field of regional development and (2) the gradual fulfilment of the Structural Funds regulations.

Institution Building highlights

49 Twinning projects were either prepared or implemented during 2002 and three Twinning Light ones were contracted for the first time. The proposals presented were of higher quality and more focused on IB specificity. Drafting of covenants was speeded up considerably, so that, with one exception (project cancelled for the Ombudsman), all 2001 Twinning covenants were ready and approved within maximum four months and their implementation started soon after. The results of the 99 and 2000 Twinning projects ranged from satisfactory to highly satisfactory. Most projects reached all objectives proposed and delivered the guaranteed results.

Progress was registered in the field of Labour Inspection (seven EU directives integrated in the legislation and 50 labour inspection trained with support from Sweden and France). In the field of competition and state aid, visible progress was made by the authorities with the support of the German and Italian partners. A National Anti-Corruption Prosecution Office was established and three international conferences were organised in the framework of the Twinning covenant with the

¹⁴ For comparison purposes, this figure does not take into account the financing of the participation of Romania to the Community programmes which is now included in the National Programme 2001 (€ 21.44 million) unlike Phare 2000.

Spanish correspondent Prosecution Office. An Anti-Drug Agency was created and the staff from the National Focal Point trained in performing their tasks.

Results and Impact

State of play for JMC/SMSC development

The annual meeting of the Joint Monitoring Committee, which represents the review of all on-going programmes under the EU assistance, took place on 29 October 2002. The follow-up mechanism on the implementation of the recommendation allowed the JMC to assess the progress made since the previous JMC meeting.

The Ministry of European Integration (MEI) took full responsibility of the monitoring exercise by organising all SMSC meetings in 2002, and checking of the monitoring reports. The structure of the SMSCs in 2002 slightly changed. A new SMSC has been created (Cross Border Co-operation), at the request of the Ministry of Development and Prognosis, the Implementing Agency for these programmes. The SMSCs for Environment and Transport were merged into one single committee as the major part of the transport and environment projects (for works) are, and will be financed under ISPA.

Monitoring and Interim Evaluation Reports in 2002

Following the recommendation of the last JMC meeting, the MEI took an active role in ensuring the participation in the SMSCs and the debriefing meetings of the decision makers in the line ministries benefiting from the EU assistance. The Implementing Agencies should also play a more active role both in the elaboration of the monitoring reports and participation in the SMSCs and debriefing meetings.

The quality of the monitoring reports has gradually improved. The IE Cell provided support in May 2002 to the line ministries benefiting from the EU assistance by organising training seminars on how to produce monitoring reports of good quality.

Of the seven evaluated sectors, six were rated “Satisfactory”: Public Function (from the Strengthen Administrative Capacity sector), Financial Services and Internal Market (Financial Services was also evaluated separately for a second time), Environment, Justice (from the Justice, Home Affairs & Border Management sector), Social (from the Social, Education, Culture & Minorities sector) and Agriculture & Rural Development. One sector, ESC, was rated “Unsatisfactory”.

Successes was noted, particularly where a flexible approach was adopted to programme implementation, ensuring that measures were taken to adapt to new opportunities or threats. Despite implementation problems requiring extended programme periods, the great majority of programmes have met some of, or made a contribution towards, their immediate objectives.

Sectors with positive results

Employment: Romania successfully managed to draft its first National Action Plan for Employment, as a direct result of a Twinning project between the Ministry of Labour and Social Solidarity (MLSS) and similar institutions from Germany and the Netherlands. During 2002, Romania and the Commission also signed the Joint

Assessment Paper of Employment Priorities. These documents provide essential guidelines for future Phare assistance.

Cross Border Co-operation: Both CBC 99 (RO-HU and RO-BG) programmes were successfully completed in 2002. Some of the more notable results are: road Timisoara - Cenad; construction of a Cargo Terminal near the Arad airport (still ongoing), modernisation of the gas metering stations on the RO-BG border in Negru Voda-Kardam to ease gas transit from Ukraine through Romania, Bulgaria; modernisation of the Giurgiu Ruse bridge railway (still on-going).

Maritime safety: In May 2002, the first Maritime Safety Twinning was finalised leading to a complete Maritime Administration restructuring and legislation enhancement. The Flag and State Port Control will be performed under enhanced conditions, in line with the EU directives, resulting in a decrease of the Romanian vessels detention rate, a still important issue of negotiation. Two supply contracts were awarded for providing equipment for Search and Rescue and Oil Pollution Response and Combating.

Children: The Commission has been one of Romania's traditional partners in the child protection sector. Over the last three years, the EU has focused on supporting the structural reform of the sector, leading to the closure of large residential institutions and their replacement with alternative, family type services. A multi-annual programme, exceeding € 50 million, has been designed on the basis of the government strategy of helping Romania achieve, by 2007, a child care sector in line with the UN Convention on the Rights of the Child and the European Human Rights Convention. During the first phase of this programme, a number of 23 large old style children's institutions are being closed and replaced by alternative services, such as foster care, day care centres, maternal centres or family type homes. Over 8000 children directly benefited from the 111 projects financed under the "Children First" grant-scheme (€ 19 million). The programme has also included the largest ever social and public awareness campaign financed in Romania, called "A Children's Home Is Not a Real Home".

Penitentiary and probation: The Twinning project for the reform of the Romanian penitentiary system and the improvement of the probation department has achieved all its objectives within a limited period of implementation (15 months) and a relatively small budget (€ 0.75 million): drafting a law on the demilitarisation of the penitentiaries' personnel, drafting and approval by the General Directorate of Penitentiaries (GDP) and Probation Service (PS) of a credible and feasible strategy for reform in these two sectors, training and development of the probation service's staff and institutional strengthening of the PS, so as to assist it to function as a key penal justice agency, training of the personnel in GDP, and tangible improvements in life conditions in the Romanian penitentiaries.

Money laundering: Within the framework of a project focused on both Institution Building and Investment (€ 0.5 million), the National Office for the Prevention and Control of Money Laundering (NOPCML) strengthened its institutional capacity as a Financial Intelligence Unit. The project assisted the NOPCML to harmonise primary and secondary legislation with EU legislation in this area; to improve reporting obligations through training staff in such legal obligations and in the elaboration and dissemination of Suspicious Transactions Guidelines; to increase institutional

awareness on money laundering and predicate offences; to improve co-operation and information flows at domestic level and to conclude the Memoranda of Understanding with similar institutions in Member States.

Success story

MARR fund (RO9809.2)

With a budget of € 10 million, this programme was designed to mitigate social hardship and economic decline in two predominantly mining areas (the Gorj and Hunedoara counties) by reducing unemployment, fostering regional development, increasing competence of local authorities.

The programme had two main components: a) improving the access of SMEs to loans and grant finance (€ 3.7 million) and b) a Grant Scheme (with a 25 % beneficiary co-financing) to finance projects in 2 areas: economic restructuring and active labour market measures (€ 6 million). The programme yielded some 35 credit and grant agreements under the first component, which will roll for a period of 5 years, and 66 local infrastructure, social (unemployment alleviation) and other economic development projects under the second component, for the modernisation of roads, schools, hospitals, river bank reinforcement in small towns, gas, water and heat networks, social housing, food and agro markets, job clubs, day care centres, professional reorientation training, etc.

Concrete examples:

- Rehabilitation of the heat transport network in the thermal station servicing the town of Vulcan, Jiu Valley, Hunedoara: this € 0.3 million project resulted in the increase of heat transport efficiency from 45 % to 95 % for around 20 % of the population of Vulcan;
- Construction of an agro-food market in Petrila town, Jiu Valley Hunedoara (€ 0.4 million): the first such market was built in this town ensuring sanitary, aesthetic and modern conditions for agro-food commerce in the town centre.
- Extension and modernisation of village school in Tantareni, Gorj (€ 0.15 million): the capacity of the only elementary school in the village was doubled to match demand, and proper sanitary and educational conditions were created through the project.
- Reconstruction of the hygienic facilities of the Dobrita TBC Sanatorium (€ 0.25 million);
- Increase in the drinking water capacity of the Rovinari, Gorj, network and modernisation of the water treatment station (€ 0.33 million): an increase in the availability of properly treated drinking water from 6 hours a day to 18 hours a day, and the elimination of untreated water consumption diseases among the population of Rovinari.

Tasks ahead

Despite the positive results of 2002, the National Fund and the Phare Implementing Agencies (the Central Financial and Contracting Unit, and the Ministry of Development and Prognosis) should further strengthen their capacity to administer the increased volume of pre-accession assistance funding. The Commission will pay particular attention to the review of the Phare 2000 and 2001 special condition, whereby the Romanian Government undertook to prepare and implement an Action Plan for strengthening the administrative capacity to manage EU Funds.

The most pressing issues identified are management related:

- adequate staff levels and expertise in European Integration Units in line ministries or beneficiary agencies,
- increased staff and measures to assure stability of staff at the Central Financial and Contracting Unit (CFCU),
- strengthening the capacity of Regional Development Agencies to administer grant schemes (project identification and selection),
- establishment of appropriate consolidated accounting and management information systems in implementing agencies.

The focus in 2003 will be to remedy these deficiencies, as well as assuring proper planning of project implementation in 2003, with a view to further reducing the contracting backlog.

In parallel, the Commission will continue its assistance to Romania for the preparation of EDIS, with a view to conferring full management responsibility of Phare (and ISPA) programmes to Romania, and removing the ex-ante control of the Commission. Technical Assistance will be provided in 2003 for “gap plugging” i.e. to correct the weaknesses in the organisation and to improve the capacities of the agencies managing pre-accession funds, prior to a final decision on EDIS in 2004.

Following the political commitment taken at the European Council of Copenhagen (target date of accession of Romania to the Union in 2007, increased financial support), the Commission, together with Romania, will develop a multi-annual approach of Phare programming for the years 2004-2007, based on medium term strategies.

SLOVAKIA

The year in review

Political developments

Slovakia continues to fulfil the Copenhagen criteria. Progress was achieved with regard to the structure and functioning of the administration, notably by setting up a Civil Service Office and building up decentralised, regional administrations. Delays have occurred however in implementing Civil Service Law.

Further important steps were taken to strengthen the **independence of the judiciary**. In particular, further key legislation was adopted and a Judicial Council was set up.

Some progress can be noticed in **the fight against corruption**, which remains a cause for serious concern, notably by further implementing the relevant Action Plans and drawing up codes of ethics for the public sector.

Legislation and administration were reinforced to fight **trafficking in human beings**. A new Asylum Act was adopted, providing, *inter alia*, for the establishment of an independent body to act as the second instance in the asylum procedure.

Considerable efforts were made in further developing and putting into practice approaches to protect **minority rights**. In particular, the Office of the Government Plenipotentiary for Roma affairs was strengthened, the relevant strategy enhanced and financial means increased.

EU accession remained high on the political agenda. Parliamentary elections took place in September 2002. The elections were conducted in a free and fair manner. The voter turnout was 70 %, compared to 84 % in the last parliamentary elections in 1998. Seven parties (ten in 1998) passed the 5 % electoral threshold.

Macroeconomic developments and structural reform

The Slovak Republic continues to be a functioning market economy. The continuation of its current reform path should enable the Slovak Republic to cope with competitive pressure and market forces within the Union.

A relatively broad-based coalition government largely maintained political consensus on macroeconomic stabilisation and structural reforms throughout its four years in office. The government steered a steady reform course, although political considerations occasionally caused some reform deceleration. The government managed to bolster its economic policy efforts by agreements with international financial institutions, in particular a Staff Monitored Programme with the International Monetary Fund and an Enterprise and Financial Sector Adjustment Loan with the World Bank. Important commitments have also been made in the Pre-Accession Economic Programme (PEP) submitted to the Commission in 2001 and updated in 2002.

Real **GDP growth** has steadily been accelerating after the government's stabilisation policy had caused a temporary slowdown. GDP growth has been accelerating and reached 3.3 % in 2001. The external contribution to growth became negative and was replaced by a broad-based revival of domestic demand. Real fixed investment grew by 9.6 %, spurred on by increased profitability and a reduced corporate income tax rate. Private consumption expanded by 4 % and was stimulated by an incipient employment increase, higher real wages, a personal income tax cut, and the redemption of privatisation bonds. Public consumption grew by 5.1 %. In the first quarter of 2002, growth further accelerated to 3.9 %, and was predominantly driven by household and government consumption, which grew by more than 5 %, whereas fixed investment had a slightly negative and external demand a small positive impact.

Starting from levels close to 10 % of GDP, **the current account deficit** more than halved in 1999-2000, but doubled again in 2001. In 2001, the current account deficit surged back up to 8.6 % of GDP as a result of a strong revival of domestic demand and the concurrent slowdown in Slovakia's major export markets. Nevertheless, Slovakia can still easily finance its current account deficit and, in addition, has recently considerably increased its foreign currency reserves as a consequence of very high privatisation revenues from foreign direct investors.

Unemployment has risen sharply over the reference period. Enterprise restructuring and the temporary economic slowdown caused unemployment to mount to 19.4 % in the first quarter of 2002 (labour force survey data).

Inflation has been reduced to the single-digit range again, with its hikes over the reference period being mainly caused by administered price adjustments. In July 2002 it fell to a record low of 2.0 % year-on-year. The low 2002 figures are due to a virtual halt in administered price adjustments.

*Progress in meeting the *acquis communautaire**

Slovakia has achieved a high degree of alignment with the *acquis* in many areas and is reasonably well advanced towards reaching adequate administrative capacity to implement the *acquis* in a considerable number of fields, although further efforts still need to be made.

Concerning the **internal market**, Slovakia has achieved a good degree of alignment and is relatively well advanced in having appropriate administrative capacities in place. As regards **free movement of goods**, alignment is largely complete and administrative capacity broadly in place. Slovakia's standardisation and accreditation bodies function well. Concerning **freedom to provide services**, good progress has been achieved in the field of financial services over the past year. Alignment in the area of **free movement of capital** is well advanced.

As regards **company law**, Slovakia has reached a good level of alignment and is relatively well advanced in terms of administrative preparations. Over the past year, legislative progress can be particularly noted in the field of trademarks, design and patents. Concerning **competition policy**, a good level of alignment has been achieved, and operational administrative structures put in place. Over the past year, a considerable track record of enforcement in the State aid area has been built up.

As regards **agriculture**, Slovakia is advanced in transposition and implementation of the *acquis*. Over the past year, in particular, good legislative alignment has been achieved in the phytosanitary and veterinary area.

Legislative alignment and administrative preparation in the area of **energy** are advanced. Overall administrative capacities need to be further strengthened. As regards nuclear energy, Slovakia has committed itself to close the two Bohunice V1 reactors by 2006 and 2008 respectively. Slovakia should refine its project pipeline to ensure satisfactory projects for the decommissioning of the two reactors. In **transport policy**, Slovakia has aligned with the *acquis* to a considerable extent and significant steps have been undertaken to strengthen the administrative capacities. Alignment, in particular in the area of rail transport and inland waterways, needs to be completed. Co-ordination between the different ministries and bodies involved in this sector has to be improved.

With respect to **taxation**, Slovakia has reached a good level of alignment and the reform of its tax administration is ongoing. As regards **customs union**, the country has completed its legislative alignment and has, in principle, developed and reinforced the necessary administrative capacity. Attention should continue to be paid to the enforcement of the transposed legislation. Considerable efforts on IT systems to allow for the exchange of electronic data with the European Community and its Member States have been made in the taxation and customs areas, but these still require further work.

Alignment in the area of **telecommunications and information technologies** has reached a high level and administrative structures are being put in place.

In the field of **social policy and employment**, Slovakia is advanced in terms of legislative alignment. Administrative structures are mostly in place, but require further strengthening.

Slovakia has aligned with the *acquis* in the area of **regional policy** and in the **co-ordination of structural instruments**, but effective administrative structures are only in place to a limited extent. Over the past year, the management structures and paying authority for the implementation of the Structural Funds and Cohesion Fund have been designated.

Concerning the **environment**, Slovakia is advanced in alignment with the *acquis* and in having the necessary administrative capacity to implement it. Slovakia has recently increased its environmental investment significantly. As regards **consumer protection**, legislative alignment and administrative strengthening is advanced but not yet completed.

With respect to co-operation in the fields of **justice and home affairs**, Slovakia is to a considerable extent aligned with the *acquis*, and administrative structures are generally in place. Implementation of the Schengen Action Plan is progressing well.

As regards **financial control**, Slovakia is advanced with regard to legislative alignment and the necessary institutional structures are being put in place¹⁵.

Phare in 2002

Programmes launched

On 13th January 2003, the Slovak Government and the European Commission signed the Financing Memoranda for both the Phare National Programme for the Slovak Republic (allocation of € **57.1 million**) and Cross Border Co-operation with Austria, Hungary and Poland (€ **12 million**). The Financial Memorandum for supporting the decommissioning of Bohunice V1 NPP (€ **10 million**) was signed on 31st January. Slovakia will also participate to Multi-beneficiary programmes such as the Anti-Fraud Programme for the Protection of the Financial interests of the EC.

The National Phare Programme 2002 addressed 9 priority areas:

- **Strengthening the institutional and administrative capacity** (€ 3.7 million): Support to the Civil Service Office ; Institution Building (IB) Facility
- **Protection of minorities** (€ 1.0 million) : Further Integration of the Roma children in the educational field and improved living conditions
- **Internal Market** (€ 2.0 million) : Strengthening Financial Sector Supervision
- **Agriculture** (€ 6.55 million): Control TSE (Transmissible Spongiform Encephalopathy) - food safety ; Development of Structures for the implementation of IACS (Integrated Administrative and Control System ; Enhancement of phytosanitary controls of Plants and Plant Products
- **Statistics** 2.5 Implementation of the INTRASTAT-SK system; Strengthening Regional Statistics (REGSTAT)
- **Economic and Social Cohesion (ESC)** (€ 16.5 million): Consolidating the Institutional Framework and Enhancing Administrative Capacity for Programming, Implementation and Monitoring of Structural Funds Industry ; Development Grant Scheme for Local and Regional Development, Tourism, Industry and Human Resources
- **Environment** (€ 3.75 million) : Implementation and Enforcement of the Council Directive on discharges of dangerous substances into the aquatic environment ; Implementation of the Integrated Prevention and Pollution Control Directive (IPPC) ; Implementation and Enforcement of Council Directive on the conservation of natural habitats and of wild fauna and flora and Council Directive on the conservation of wild birds

¹⁵ The information in this section is taken from the Commission's latest Regular Report for Slovakia (October 2002). A more detailed analysis of Slovakia's progress in meeting the *acquis* can be found in this Regular Report.

- **Justice and Home Affairs** (€ 13.1 million): Implementation of the Schengen Action Plan and a continuation of the upgrade of infrastructure at the EU future external borders; Information System for the administrative units promoting the law enforcement in the Slovak Customs Administration; Support for the implementation of the Dublin Convention; Strengthening the effectiveness of investigative and prosecution procedures
- Slovakia's participation in some **Community Programmes/Agencies**

Overview of programmes implemented

In the field of **projects for minorities**, Phare disbursed grants within a small grant scheme Minority Development Programme for total 186 NGO projects (worth € 1.86 million) and focused on supporting officially recognised ethnic minorities in Slovakia, with special emphasis on the Roma voter representation in parliamentary elections. Furthermore, the Minority Tolerance Programme brought positive results in the sphere of education to multicultural tolerance between the majority and minorities on the national level, municipal level and at schools.

In the **Justice and Home Affairs** sector, Phare successfully completed the projects aimed at the development of more effective management of border control, and at the co-operation between justice and police focused on the fight against organised crime, fraud, money laundering and corruption and at the strengthening of judiciary. Phare assistance also started to pay increased attention to the limitation of potential corruption, strengthening of Law Enforcement Agencies via the establishment of necessary structures for fighting corruption and making the public administration activities more transparent (€ 5.5 million). A total amount of € 1.0 million was allocated to projects intending to implement an effective national anti-drug policy, through strengthening the administrative and operational capacities in the country to combat drugs effectively.

The Implementation of FM 2000 progressed positively in **the agricultural sector**. The successfully implemented Farm Structure Census project provided data on this sector for Eurostat, and created a baseline for drawing up future EU funds. In 2002, Phare also assisted towards Border Inspections Posts, whose purpose is strengthening developments in the veterinary and phytosanitary area. A late availability of funds for the Rural Development Fund necessitated an extension of the disbursement period until 30 June 2002. In spite of the implementation delay, the project significantly contributed to improvements in the Rural Development Plan, as well as building the SAPARD Agency. The Statistical Office launched the Farm Structure Census, which was finalised in October 2002.

As regards **regional development policy**, the Supplementary Investment Facility Programme 2000, focused on the development of the Snina ponds and Green Water complex in Rimavská Sobota, which have been prepared tendered and contracted. As far as the Development of the Institutional Framework and Administrative Capacity for Programming and implementation of Structural Funds is concerned, the Twinning covenant has been prepared and submitted to the Steering Committee for approval. Parallel to this, Technical Assistance has been mobilised to support the ministries involved in the programming of Structural Funds in ex-ante evaluations of programming documents, and in the preparation of programme complements.

In 2002, the National SME Agency successfully finalised a concerted SME development programme funded under FM 99. In addition, two programmes were launched under the ESC component of FM 2000, which focused on improving the access of SMEs to affordable finance and on enhancing the SME-related business infrastructure. During 2002, € 15.3 million was at stake for the SME sector from Phare sources.

The implementation of the Human Resource Development programme was launched in the second half of 2002, as well as the Guarantee Fund project.

The major Phare Cross Border Co-operation Investment projects from the 1999 programme, selected according to the respective bilateral Joint Programming Document developed for each border, were successfully completed in December 2002. The majority of the projects were in the field of environment (€ 5 million out of the CBC budget of € 8 million). The fact that more than fifty beneficiaries were selected for the Joint Small Projects Fund confirmed the success of these “people to people” projects.

In the field of **Internal Market services**, a project focused on the analysis of the Slovak legislation and its comparison with the relevant *acquis communautaire*, the organisation of the Office and training of its staff to guarantee an independent supervision over public contracts. In the framework of the export development programme and FDI attraction, Phare supported the set up of a new state owned agency, SARIO, which serves as a one-stop-shop agency for investors, and would also assure the transfer of marketing expertise to Slovak exporters. The work on a new grant support scheme - including FDI aspects - also started in 2002.

Phare management performance

Over 95 % of the 2000 Phare National Programme was contracted and of those funds, 18 % were disbursed by the end of 2002. The contracting rate for the 2001 National Programme was approximately 10 % at the end of 2002.

Programming, co-ordination and management capabilities require further improvements in order to reap the full benefit of not only Phare assistance, which is in the final stage, but also future post-accession funds. This applies to both the Department of Foreign Assistance within the Office of Government, and to line ministries, especially the Ministry of Finance (financial control) and the Ministry of Construction and Regional Development (management of structural funds), and other beneficiary institutions.

A new established High Level Working Group had its first meeting on 18 June 2002. The role of this new monitoring group is focussed on 1) the analysis of progress towards EDIS and bridging to structural funds; 2) the implementation of prior and present Phare programmes; 3) the implementation of the 5th priority “Control of pre-accession funds” related to chapter 28; and 4) the follow-up of recommendations made by the European Parliament, the European Court of Auditors and OLAF.

NDPs- State of Play

The Slovak Republic successfully completed the pre-accession negotiations concerning the Chapter 21 “Regional Policy and Co-ordination of Structural Instruments” in July 2002. Slovakia decided to apply the Community Support Framework for the programming of Structural Funds. The territory of Slovakia was divided into 4 NUTS II regions. Regions Slovakia East, Centre and West represent Objective 1 regions; the region of Bratislava represents the Objective 2 and 3 region. Preparation of a new NDP, 4 operational programmes (3 sectoral and one regional programme) and 2 Single Programming Documents for Bratislava region Objective 2 and 3 started before summer 2002. By the end of 2002, drafts of these plans had been submitted for inter-ministerial consultations. The strategic objective of the NDP is to ensure a sustainable growth of the GDP to reach the level of 54-57 % of the EU15 GDP per capita by the end of 2006.

Institution Building highlights

Slovakia continues to strengthen its administrative capacity to implement and enforce the *acquis*. In 2002, the most important part of IB support was provided to Slovakia through Twinning. In addition to the six 2001 projects, which started in the second quarter of 2002 or at the beginning of 2003, the Office of Government has submitted eight Twinning Light project fiches for assessment, covering various areas such as Agriculture or Public Finance. Concrete results increased the appreciation of the Slovak institutions of the IB elements of Phare assistance.

A Twinning project on the Improvement of the Situation of the Roma in the Slovak Republic has a challenging task to assist the relevant government partners in the creation of effective strategy for the solution of Roma issues.

A Twinning Project on Public Administration was devised to support the further development of the Decentralisation and Modernisation of Public Administration Programme. Assistance has been provided in various areas, such as drafting the Law on Decentralisation of Competencies, or the Amendment to the Law on Budgetary Rules.

Results and Impact

State of play for JMC/SMSC and HLWG development

The Slovak-European Commission Joint Monitoring Committee (JMC) held its third meeting on 12 July 2002, and provided recommendations for the overall management of the Phare programme and on specific sectoral issues. The five Sectoral Monitoring Sub-Committees (SMSC) reviewed on two occasions (in the spring and in autumn respectively) programmes and projects in all sectors covered by Phare assistance: 1) Justice & Home Affairs and Political issues; 2) Economic Reforms and Internal Market; 3) Infrastructure; 4) ESC and 5) Agriculture and statistics.

The operational roles and competencies for the various Sectoral Monitoring Sub-Committees remain unclear. The provision of local co-financing suffers from low transparency and insufficient accountability. The future prospects for the Central Finance and Contracting Unit, after the termination of its current Phare support,

remain unclear. The Slovak authorities have been slow to recognise the need to take over monitoring and evaluation functions.

M&A Reports in 2002

Of the five evaluated sectors, four have been rated as 'Satisfactory' (Justice and Home Affairs, Minorities and Public Administration; Agriculture; Social Sector and Civil Society; Internal Market and Private Sector), whilst one has been rated as 'Unsatisfactory' (ESC).

The success of Phare intervention has been noted in certain parts of the Monitoring Sectors for Justice and Home Affairs (fight against corruption and drugs, border control) and for Internal Market (state aids, public procurement, standardisation), as well as in some parts of the Agriculture sector. Also staffing at the Aid Co-ordination Unit and at some local implementing units has stabilised to some extent.

However, a number of key issues still hamper the smooth preparation and realisation of Phare intervention in Slovakia, namely long-lasting delays in preparing and approving project documentation, consequently leading to apparent 'last minute' commitments. Moreover, a number of shortcomings in programme / project design have been identified, mainly resulting from a lack of sufficient local administrative capacity being in the position to thoroughly prepare and rapidly implement projects.

Sectors with positive results

The impact of Phare assistance continued in 2002 to be positively rated in several key sectors.

Within its project implementation, the State Aid Authority made tremendous progress in managing a transparent and efficient monitoring system.

With regards to minority issues, Phare brought an important input to the field of teacher training from schools with a high proportion of minority pupils. The methodological manual created within the project was distributed to all primary schools in Slovakia upon the decision of the Ministry of Education. A Methodological Centre for teachers teaching Roma children was established in Presov, and the sustainable funding was secured from the State Budget. Training on mutual tolerance between majority and minorities at the municipal level was held in 52 municipalities leading to improved communication between key opinion leaders.

Phare has provided significant support in the area of Justice and Home Affairs, namely in the fields of judicial co-operation, visa policy, control on the external borders, migration, asylum, Schengen Information System, combating organised crime, police co-operation. Twinning assistance showed tangible effects during the preparation of the new Aliens Act and it has considerably contributed to the preparation of new Asylum legislation adopted in 2002.

Achievements were realised in the SME sector through Phare assistance. SME development strategy 2002-2005 and an up-grade of services offered by RAICs and BICs were formulated. A number of SME counselling / training institutions and SME representative organisations benefited from grant funding and enhanced experience

with project design and management. The Second International Conference of SMEs held in Bratislava in 2002 was a good forum to discuss the SME issues on the eve of EU accession. Phare has paid increased attention to developing enhanced business support infrastructures for SMEs through opening two business incubators and nine First Contact Point centres. The three revolving financial support schemes (support loan programme, micro-loan programme and seed capital fund) continued to facilitate access to affordable finance for Slovak SMEs. The new Regional Seed Capital Fund Window opened in late 2002 and will specifically target investments in the least developed regions.

Success story

A Twinning project successfully supported the closure of Chapter 6 (Competition)

In the last two years, Slovakia has made substantial progress in the area of competition. Under the 1999 Financial Memorandum, a Twinning project *Support to the State Aid Office* was designed to assist Slovakia in successfully negotiating on the closure of Chapter 6. In order to fulfil this objective, the State Aid Office had to accomplish a number of tasks to which the Twinning project considerably contributed. The assignments mainly embraced the following areas:

- Creation of a transparent and efficient State Aid Monitoring System
- Production of Annual State Aid Reports
- Production of State Aid Inventories
- Preparation of a “De Minimis” Monitoring System
- Drafting of a Regional Aid Map for Slovakia
- Production of a State Aid Guidance Manual for governmental institutions and other bodies

All these activities were accompanied by an intensive training component, as well as various internships. As a result, fundamental changes in the State Aid Office’s administrative culture were achieved and hence the administrative capacity of the office strengthened.

In the accession negotiations with the EU, concerning in particular state aid to *Volkswagen* and *US Steel*, the Twinning project could therefore provide substantial advice and guidance to the State Aid Office. As a consequence, the Slovak Republic could preliminarily close Chapter 6 on Competition in the accession negotiations in October 2002.

Tasks ahead

A modern and effective public administration, which should be able to implement European legislation and ensures adequate use of EU funds, needs to be established, at the latest, by the date of accession.

Slovakia needs to focus notably on reinforcing the implementation of the transposed *acquis* and to further strengthening the administrative capacities, *inter alia*, in the areas of **Justice and Home Affairs** (the fight against corruption, border control, the fight against illegal immigration and crime, etc.), financial control and environment.

In the **agriculture** sector, serious efforts are needed to ensure that a fully functional Integrated Administration and Control System is put in place. The Slovak government will have to make continued efforts as a matter of priority to effectively combat discrimination and to improve the living conditions of the Roma community.

In the field of **structural policy**, there is a major need to further develop the administrative and training capacity in the relevant ministries designated as future Managing Authorities and Paying authority for Structural Funds.

SLOVENIA

The year in review

Political developments

Slovenia continued to fulfil the Copenhagen political criteria.

While the Government witnessed no major problems in the first three quarters of 2002, the decision of PM Janez Drnovšek to run for President of the State in the middle of his Prime Minister's term made it necessary to reshuffle the government. PM Drnovšek won the presidential race on 2 December 2002 in the second round (with 56.51 %) against Barbara Brezigar, a public prosecutor and independent candidate backed by two opposition centre-right parties, the Social Democrats (SDS) and the "New Slovenia" (NSi). Drnovšek took over the presidential position on 23 December, succeeding Kučan, the most popular politician for more than a decade. The Prime Minister's post was taken over by his Liberal Democrat (LDS) party colleague and Finance Minister Anton Rop. The coalition composition remained unchanged with a strong majority in Parliament. Only three new names were included into the list of 16 Ministers, one of them being a completely new ministerial position for Regional Development. The result of the presidential election and the government reshuffle increased the predominance of the Liberal Democrats who now occupy all of the most important positions in Slovenia. This has created concerns on the side of the opposition for its lack of democratic control possibility.

The government and parliament speeded up the adoption of the *acquis*, but slower progress was noted in the adoption of implementation acts. Discussions have continued on the necessary constitutional changes on EU related articles, referendum, local self-government, regions and Government appointment procedures. Besides intensive preparations for EU accession, Slovenia also speeded up its NATO accession campaign after the official invitation from the Prague Summit in autumn. There will be a referendum on both issues which will take place on the same date.

Only limited progress was made regarding the **judicial reform**, especially as far as the reduction of court backlogs is concerned. Good progress was made in **public administration reform**, where the remaining framework legislation was adopted. Slovenia was satisfied with the conclusions of negotiations, including the agreed financial package.

Macroeconomic developments and structural reform

In terms of the Copenhagen economic criteria, **Slovenia is a functioning market economy**. The continuation of its current reform path should enable Slovenia to cope with competitive pressure and market forces in the Union.

The macroeconomic situation in Slovenia remained relatively stable in 2002, with GDP growth reaching approximately the same level as in the previous year (just over 3 % - final data not available yet). The situation remained fairly positive in terms of trade growth, despite the difficult international situation, since Slovenia retained its share of exports on the EU market and increased trade in particular with the countries

of south east Europe. Inflation remained the principal macroeconomic problem (7.5 % annual average), which the government and the Bank of Slovenia need to tackle urgently prior to Slovenia's EU accession. Wage pressures (particularly in the public sector) remained strong.

Progress on **structural reforms** continued, with the implementation of the steel restructuring programme and the partial implementation of the bank privatisation programme. 34 % of Slovenia's largest bank, NLB, was sold to the Belgian bank KBC, whereas the sale of the other state-owned bank, Nova Kreditna Banka Maribor, was halted. No progress was achieved in relation to privatisation / restructuring of the insurance sector, as the implementation of the relevant law was frozen and is undergoing constitutional assessment. Foreign Direct Investment surged for the second consecutive year (increasing by more than five times compared to the previous year), reaching record levels. This was due, in particular, to takeovers in the banking sector, and the acquisition of the Lek pharmaceutical company by Swiss multinational Novartis, the biggest takeover in Slovenia to date.

The government continued the implementation of the programme for **the removal of administrative barriers**. The state's role in the economy decreased only marginally and state-owned funds continue to play a key role in the ownership of major Slovenian companies. Liberalisation continued in the energy and telecommunications sectors.

Progress in meeting the *acquis communautaire*

Slovenia made further progress in particular in the areas of free movement of people, fisheries, Economic and Monetary Union, employment and social policy, regional policy, environment and financial control. On the other hand, limited progress was achieved in the area of consumers and health protection.

According to the Slovenian Government, by the end of 2002, 76 % of *acquis* related laws were adopted. In the course of 2002 the realisation of the adoption of laws was 71 % (out of 100 envisaged), of regulations 48 % (37 out of the envisaged 77), of ministerial regulations only 37 % (85 out of 230). In 2002 a total of 193 regulations were adopted and in 2003 further 441 regulations need to be adopted (70 laws) if Slovenia wants to achieve full harmonisation with the *acquis*.

In 2002, Slovenia's administrative capacity for the implementation of the *acquis* was further enhanced. Most of the necessary institutions are in place, however further attention should be focused on providing them with sufficient resources to carry out their work. Special attention should be given to the structures necessary to implement the *acquis*, which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds¹⁶.

¹⁶ The information in this section is taken from the Commission's latest Regular Report for Slovenia (October 2002). A more detailed analysis of Slovenia's progress in meeting the *acquis* can be found in this Regular Report.

Phare in 2002

Programmes launched

On 9 July 2002, the Slovene Government and the European Commission signed the Financing Memorandum for the **Phare National Programme Part I for an amount of € 30,475,198** (Investment in the *Acquis*, Internal Market, Mobility Schemes, Complementary Fund, Justice and Home Affairs, Economic and Social Cohesion, Twinning and Community programmes). On 25 October 2002, the Financing Memorandum for the **Phare National Programme Part II was signed for an amount of € 4.4 million** (Support to ESC, Unallocated Institution Building Facility and Community Programmes). The final allocation from Phare in the year 2002 was € 41,875,198 million (including € 7.0 million for Cross-Border Co-operation – also signed on 25 October and € 3,379,198 for participation in Community programmes (front-loading 2003).

Phare support for Slovenia's accession preparations in line with the priorities highlighted in the Accession Partnership was channelled through three main programmes: the Phare National Programme (with a budget of **€ 34,875,198 million**) and the Cross-Border Co-operation Programmes with Italy (**€ 2.5 million**), Hungary (**€ 2 million**) and Austria (**€ 2.5 million**). Contributions to Community programmes were approved for the following programmes: Socrates, Leonardo da Vinci, Youth, 6th Framework Programme, Customs 2002, Culture 2000, Enterprise and Entrepreneurship, the European Environment Agency, Media Plus and Media Training, Enterprise, Public Health Programme, European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) in an amount of **€ 3,379,198 million**.

Following a Commission decision on 4 December 2001, the Nuclear Safety programme for 1999 SL/R/03, "Transfer of Western regulatory methodology and practice to the Nuclear Safety Authority of Slovenia (3rd year), including technical assistance in reviews of seismic and PSA studies of the NPP Krsko", and PH6.02/99/si "Installation of the RODOS system in Slovenia" was, in early 2002, decentralised to the Delegation. Signature of the Financing Memorandum for a total of € 1.4 million took place on 12 June 2002.

A Financing Memorandum, (2002/000-585) "Horizontal Programme preparing candidate countries for EDIS in the management of pre-accession funds in Slovenia" was signed in an amount of € 0.4 million, to provide TA to develop an adequate administrative capacity within the National Fund, the Implementing Agencies, and other involved bodies to manage pre-accession funds to meet EDIS requirements. The programme has two components – Part I Gap Plugging (stage II of the Road map for EDIS) and Part II Compliance Assessment (stage III of EDIS).

Slovenia also benefited from its participation in Phare Multi-beneficiary and Horizontal Programmes in 2002 for support in the field of Nuclear Safety (€ 2.35 million), Environment and Enlargement 2002 (€ 2 million), Phare Statistical Co-operation (€ 9 million) and Participation of the CEECs in Community Agencies in 2002 and 2003 (€ 6 million). The Financing Memorandum for the Horizontal programme 2002/000/632.10 for Community support in the field of Nuclear Safety for Slovenia in 2002 in an amount of € 1.2563 million was signed on the 24 January 2003.

In line with accession priorities, the 2002 Phare National Programme focused on:

- reinforcement of Administrative capacity further integration of Slovenia into the Internal Market
- ESC
- Justice and Home Affairs.

A Twinning Light “pot” was set aside for an amount of € 0.5 million, as well as an unallocated Institution Building envelope for an amount of € 2,045,000 million.

The 2002 Cross-Border Co-operation Programme consisted of the following main components:

- Cross-Border Co-operation with Italy (€ 2.5 million): Prime-e (Primorska Enterprise) improvement of SME Competitiveness in the Primorska Region; Joint Small Projects Fund.
- Cross-Border Co-operation with Hungary (€ 2 million): Joint sewage management of the valley of Kka/Kerka River; Joint Small Projects Grant Scheme.
- Cross-Border Co-operation with Austria (€ 2.5 million): Cross-border goes digital; Small Projects Grant Scheme.

Overview of programmes implemented

Implementation of the Phare Programme in Slovenia continued to improve in 2002. Under the Decentralised Implementation System and with the support of the CFCU, the National Fund (set up in 1998) supervised financial management and eased the transfer of funds to the final beneficiaries in Slovenia. Co-ordination between the Slovene authorities and the Delegation improved as well. Staff at the FO Section were reinforced with the hiring of one local staff member in the beginning of 2002.

Within the Ministry of Economy, the National Agency for Regional Development (NARD) is co-ordinating the implementation of Cross-Border Co-operation programmes (including the Small Project Fund), National Economic and Social Cohesion, and Project Preparation Facility programme (PPF). The implementation capacity of the NARD has continued to improve in 2002.

In December 2002 (publication in the Official Journal of the Republic of Slovenia on 27 December 2002), the government decided to establish a Government Office for Structural Policies and Regional Development (GOSPRD). The Office will be responsible for the co-ordination of the activities, ensuring harmonious regional development and the co-ordination of activities involved in the implementation of the EU Structural and Cohesion Policies. GOSPRD is headed by Ms. Kovac, Minister without portfolio, assisted by two Deputy Directors.

In 2002, the Delegation was responsible for the implementation of one programme for civil society: Phare Small Projects Programme (SPP). Whereas in 2001 the Phare Access 1999 Programme was under the responsibility of the Delegation, the

implementation of Access 2000 was carried out by the Slovene authorities, the Government Office for European Affairs being the Contracting Authority.

The Small Projects Programme (SPP) aims at involving citizens in candidate countries more closely in European Union developments, by supporting projects of modest costs which will increase awareness and goodwill among the general population and specialist civil society groups. The programme complements the national Phare programme by helping a variety of different actors to be better prepared for accession. The activities supported by the programme will be small-scale by nature, but will nevertheless be justified, as their knock-on effect will be greater than the resources committed. The sector priorities were raising awareness on European integration and EU accession issues, contributing directly to closer European integration and increasing the visibility of the European Union in the candidate countries.

The SPP deals with non-governmental and non-profit sector within the accession framework. A total of € 5 million was allocated under the Financial Proposal for SPP budget line 2001. The Phare budget for the financing of the Multi-Beneficiary Small Projects Programme for Slovenia was € 200,000. A public call for proposals was published on 18 April 2002, with a deadline of 14 June 2002 for the submission of proposals. 56 applications were received and opened on 27 June 2002, and an administrative compliance evaluation carried out. An evaluation team of three experts carried out the evaluation between 27 and 3 July. On the basis of the expert opinion, six projects were recommended for funding to a total value of € 170,206,84 million.

A Financial Proposal for the SPP programme budget line 2002 for a total of € 6.5 million (Slovene allocation - € 250,000) was received by the Delegation during December 2002, and was agreed by the Slovene authorities on 23 January 2003. This programme will finance “*A traineeship scheme for officials of Phare candidate countries*” (and will finance the costs of placing officials from the Phare candidate countries on traineeships within the European Commission for periods of up to three months), and “*A small projects facility*” (which should comprise a wide variety of actions within the objectives of the Enlargement and the priority areas set forth in the Accession Partnership).

The Financing Memorandum for the Phare Access programme 2000 was signed on 28 December 2000. In accordance with the conditions set out therein, the programme was decentralised to the Slovene authorities. The budget allocation for Slovenia was € 350,000 with a deadline of 30 November 2002 for contracting, and 30 November 2003 for end disbursement. This programme was divided into two components, TA to select an implementing “body”, and a Grant Scheme:

The TA component - the tender evaluation opening session was held on 20 June 2001 and the technical evaluation on 28 June. Three offers were received and the Regional Environmental Centre for Central and Eastern Europe selected, and a service contract for € 32,950 signed on 22 August 2002.

The Grant Scheme component - following a call for proposals published on 20 July with the deadline for receipt of offers of 27 September 2002, 60 applications were received and 7 projects approved for funding.

Phare management performance

The performance of the Phare Programme in terms of contracting and payments has improved considerably for the National Programme 2002, and the two 2002 CBC programmes Slo/A and Slo/H, which were completely contracted. However, the bulk of contracting was done in the second year of the contracting period with the majority of contracts endorsed in the second half of 2002, hence at the end of the expiry of the contracting period. In line with this tendency, only 5 % of the Phare 2001 programmes were contracted up until the end of 2002 (the bulk of work will therefore be coming up in the year 2003), and no amounts were contracted under the Phare 2002 programmes.

For the Phare 2000 programmes, € 25,653,450 was contracted and payments of € 8,234,207 made, while for the Phare 2001 programmes, € 1,368,904 was contracted with payments of € 698,107 made. Programming for Phare 2003 commenced in the summer of 2002, with the objective of signing the respective Financing Memoranda by the summer of 2003.

The average value of contracts increased, while the number of effective contracts decreased between 2001 and 2002. The percentage of Slovene contractors towards non-Slovene contractors has continued to decrease, due to the increased number of Twinning projects (both standard Twinning and Twinning Light).

On 4 July 2002 the first High Level Working Group between the Commission and the Government of Slovenia was called for the purpose of discussing the management of Phare after accession (EDIS must be in place before accession i.e. 1 May 2004), current Phare management issues, control of pre-accession funds (progress made in relation to the commitments taken under Chapter 28 negotiations and in the Implementation of the Action Plan), specific issues brought up by the European Parliament and the Court of Auditors, as well as other issues. The second HLWG meeting was scheduled for March 2003.

2002 was a crucial year in preparing the launch of the EDIS process for Phare. A Twinning Light project for Phare EDIS Stage I was set up, aiming at preparing a list of recommendations for stage II of EDIS (gap plugging) and preparing ToRs for Stages II and III (compliance assessment). Germany was selected as Partner and the contract was signed in January 2003.

NDPs - State of Play

The National Development Plan 2001-2006 was officially adopted by the government and transmitted to the European Commission in December 2001. The negotiations on Chapter 21 resulted in Slovenia being one NUTS II region, eligible for Objective 1 assistance. Considering the overall allocation for Structural Funds, the programming document will be a Single Programming Document (not a NDP, then Community Support Framework).

A first draft of the Single Programming Document (SPD) was informally transmitted to the Commission's relevant services in November 2002. The Commission provided detailed comments on this draft on 31 January 2003 to the Slovene Authorities. The next draft is expected to be submitted to the Commission by the end of March 2003.

From the implementation point of view, the new GOSPRD will become the Managing Authority of the SPD.

The other institutional arrangements remain unchanged. The Ministry of Finance will be the Paying Authority for all the Structural Funds. The Ministry of Economy with the support of National Agency for Regional Development will be responsible for the overall co-ordination of the European Regional Development Fund (ERDF). The Ministry of Labour, Family and Social Affairs will be in charge of the European Social Fund (ESF) as well as the Community initiative EQUAL. The Agency for Agricultural Markets and Rural Development within the Ministry of Agriculture, Food and Forestry will be responsible for the co-ordination of the European Agriculture Guidance and Guarantee Fund, the Financial Instrument for Fisheries' Guidance. The Ministry of Transport and the Ministry of Environment and Spatial Planning will be implementing bodies for the Cohesion Fund.

Institution Building highlights

During 2002, Institution Building support has been provided to Slovenia mainly through the Twinning instrument. Five classical Twinning covenants under the Financing Memorandum 2000 and 2001 for Agriculture (1), Economic and Social Cohesion (1), Internal Market (2), Justice & Home Affairs (1) were notified during 2002.

Under Phare 2001, a total of € 400,000 was allocated to Twinning Light under the unallocated envelope facility (Twinning Light pot) with 3 projects in the field of Transport, Agriculture and Public Finance, which were contracted and completed during the year 2002.

Under Phare 2002, 11 classical Twinning projects amounting to € 6.51 million were foreseen for Transport (1), Agriculture (1), ESC (6), Internal Market (2) and Justice & Home Affairs (1): the covenant preparation started for most of these classical Twinning projects in mid 2002. Twenty five Twinning Light projects amounting to € 3.38 million have also been programmed under Phare 2002 to cover the following sectors: Agriculture (9), Internal Market (6), Environment (3), Justice & Home Affairs (2) and Finance (4). Out of these 25 Twinning Light projects, 6 of them were contracted by end of 2002.

An unallocated IB facility was set aside under the Financing Memorandum 2002 for an amount of € 1.610 million. Within this envelope (which contains in addition TA projects), two Twinning Light projects in the field of agriculture and customs and taxation, as well as two classical Twinning projects in the field of employment and social affairs will be co-financed by Phare. Programming of this envelope is in its final stage.

Results and impact

State of play for JMC/SMSC development

During 2002, for each of the following six areas, two Sectoral Monitoring Sub-Committees meetings (SMSC) were held: Transport and Environment, Justice and Home Affairs, Agriculture, Economic and Financial Issues, Internal Market and ESC.

The line Ministries chair these meetings. Separate Monitoring Committees were held for ISPA and SAPARD. The exercise was concluded with the Joint Monitoring Committee in December 2002 to present and discuss the results of the SMSCs for the six sectors mentioned above as well as to provide an overview of ISPA and SAPARD programmes.

During the JMC the revised IE Scheme and Monitoring Report was presented and finally approved as well as the Work Plan of the Interim Evaluators for 2003. In future, the SMSCs kick-off and debriefing meetings will be organised and chaired by the Slovene beneficiaries.

M&A Reports in 2002

The Interim Evaluators, EMS (the ECOTEC consortium), continued their work in 2002. Following approval by the Commission Services and the Slovene Authorities of the Work Plan 2002, a total of 12 reports were prepared - 3 in-depth reports (Agriculture, Internal Market, and Regional Development) and 9 standard reports, as well as one ad-hoc report for Cross-Border Co-operation. The overall rating of the achievements of the programme objectives for eight of the programmes was assessed as "Satisfactory" with Justice and Home Affairs being assessed as "Highly Satisfactory". Most of the recommendations put forward in the reports already been implemented by the Slovene authorities.

The Work Plan 2003, which was approved by the JMC in December 2002 will, however, only cover the period till mid-2003, given that the contract of EMS will be terminated in autumn 2003.

The lessons learned are:

- With eight reports (out of thirteen) judged "satisfactory" the general assessment of the Phare programme in Slovenia is overall positive.
- The IAs continued to consider their role as a provider of information. They are taking now a more active part in the monitoring part of the exercise.
- The issue of understaffing within departments responsible for the implementation of Phare programme in some ministries remains valid.
- In some cases the internal co-ordination within some line ministries is still problematic.
- Slovenia is undertaking efforts to develop the necessary capacity for the implementation of the Structural Funds after accession; some progress has been made.
- Even if the quality of the monitoring reports, prepared by the line ministries has improved considerably, there is still a lack of knowledge about the preparation of logical framework matrices. Training on the preparation of monitoring reports and logical framework matrices for the staff at the line ministries was initiated and was carried out by the EMS in early 2002.

- Following the new IE scheme, monitoring reports must include in the future a table providing data on national co-financing.
- It should be noted that in general the majority of the recommendations proposed by the EMS have been or will be taken on board by the Slovene authorities.

Sectors with positive results

Phare also achieved positive results in a number of key sectors during 2002.

In the **Agriculture sector**, during 2002, two main areas have seen an important improvement due to the support channelled through Phare projects: the Phytosanitary sector and the Veterinary sector.

The first improvement is related to a Twinning project aiming at the “Implementation of the *Acquis* in the Phytosanitary sector” (this project being a follow-up of the 1999 Twinning “Improvement of Phytosanitary Control”). The 2001 Twinning project began in January 2002 and finished in January 2003 with the Netherlands Plant Protection Service as lead partner, assisted by Greece, Austria and Denmark. It covered areas such as the Commodity Directives for propagative material and seeds, the enforcement of the EU harmonised legislation in the field of authorisation of plant protection products and the plant passporting system. The good co-operation that existed between all partners led to the successful achievement of all results of the Twinning.

The partners decided to organise a two-day international seminar in Slovenia at the end of the project, where the achievements would be presented and where everyone associated with plant protection and plant propagative material could exchange ideas on the future. This Forum Seminar, attended by some hundred staff of European institutions, ministries, scientific institutions, inspection services and plant protection services from Slovenia and by the Netherlands, Austria, Greece and Denmark’s experts, was a successful end of the Twinning project.

The second improvement is related to a Twinning project in Veterinary Medicine, namely “Strengthening of Veterinary Control”. This project started in September 2000 and ended in September 2002, with Italy and Germany as Member State partners. It was aimed at providing support regarding alignment with the EU veterinary *acquis*, and at reinforcing the Slovene Veterinary Services with the purpose of facilitating Slovenia’s accession to the EU.

The specific objectives of this two-year project were the alignment on public health issues, such as hazard analysis and control of critical points system, self control policy and compliance of the food producing plants with the EU standards and the compliance with animal health *acquis* covering poultry and aquaculture sectors. The project also covered the integration into the ANIMO programme and animal identification and movement control system, the compliance with *acquis* on animal welfare, the alignment of accreditation procedures in laboratories, the legislation, and the organisation of the administration and implementation in practice and education and training.

In the **Environmental sector**, very positive results were achieved with the investments in the wastewater collection and treatment infrastructure (Maribor, Bovec, Kobarid, Most na Soči, Ilirska Bistrica, Ajdovščina, Sežana) as well as biomass district heating systems (Gornji grad, Preddvor, Solčava and Nazarje).

The year 2002 saw the completion of the majority of the projects under the 1999 "**Project Preparation Facility**" (PPF) programme. A number of projects were completed aimed at preparing strategic guidelines for segments of entrepreneurship development. In accordance with the PPF guidelines, these projects were used as a basis for programming of the 2003 Phare Programme for Economic and Social Cohesion. It was satisfactory that the Slovenian side managed to use the results from the PPF project and to propose relevant projects under the ESC.

In the **Public Finance** sector, the systems of external financial control in Slovenia have been enhanced by the strengthening of the institutional capacity of the Court of Auditors with a Twinning project. This project started in 2000 and was successfully completed in 2002. It assisted the Slovene Court of Auditors in strengthening its role in enhancing the system of financial control and accountability for public expenditure.

The systems of Internal Financial Control have furthermore been strengthened by a successful Twinning Light project which started on June 2002 and ended in December 2002. This project provided the Budgetary Supervisory Services at the Ministry of Finance with robust guidelines on financial control and on the internal audit of budget spending centres and contributed to enhancing public internal financial control methods and techniques.

In the **Justice and Home Affairs** sector, 2002 saw positive developments through Institution Building, as well as through Investment. Achievements have been made in the area of Modernisation of the Judicial System, as well as in the area of drugs (Strengthening of the REITOX Focal Point, strengthening the drug supply reduction and drug demand reduction programmes in Slovenia). Furthermore Investment projects in the area of Border Control keep supporting the Slovene administration in realising the Schengen *acquis*.

Success story

Chemical Safety (Internal Market)

This 1999 Twinning project assisted the Ministry of Health in its efforts to harmonise the Slovene system with EU standards in the field of chemicals and health protection. The Member State partner was Austria and the beneficiary on the Slovene side was the National Chemical Bureau, within the Ministry of Health. The project was launched in July 2001 and ended in September 2002 (15 months). The Phare contribution amounted to € 575,263.

The project covered 3 chapters of the *acquis*: Chapter 1 - Free Movement of Goods, Chapter 22 - Environment and Chapter 23 - Health and Consumer Protection.

The activities included two conferences, on-the-job-training, seminars, workshops, lectures, on-site training, consultations / advice and legislative support to the Slovene Institutions involved.

During the Twinning implementation, 42 Short-term Experts from 10 Member States (A, B, DK, D, E, F, IR, IT, NL, UK) worked on 71 different activities and contributed to the project by 105 missions to Slovenia. 16 study visits of 37 Slovene experts took also place in 20 Member State institutions.

An inter-sectoral approach was used for this project that involved many other Slovene administrations, such as the Ministry of Agriculture, Ministry of the Interior, Ministry of the Economy, the Office for Safety and Health at Work, Health Inspectorate, Inspectorate for the Environment, National Institute of Public Health, and the National Building and Civil Engineering Institute.

Although the legal duration of the covenant was 15 months, all the activities were carried out during an operational period of 10 months. The project reached all the objectives foreseen. Thanks to joint efforts, the project contributed to building a sustainable knowledge and understanding of the accession process and its requirements within the staff of the Slovene Institutions involved. This means in concrete terms eleven regulations and legal texts were drafted, thirty recommendations for Institution Building were made, and the Slovene administrative personnel were trained.

Additional activities were also generated by this Twinning: the first EC working group (ISPRA) meeting in a candidate country on classification and labelling of dangerous substances; an international conference on chemical safety in Portorož with 150 participants from Europe (MS, CC, SEE) and International Organisations (UNITAR, WHO, JRC of EC).

Co-operation between the Twinning partners was very close and smooth. The proactive management skills of the Twin Partners and the devotion of the PAA and Project Leaders played a key role.

It is expected that this successfully implemented project will generate positive practical changes in the field of chemical safety in Slovenia as well as strengthen further the co-operation of the Slovene institutions involved. A follow-up project (Twinning & supply of equipment) was proposed under Phare 2003.

Tasks ahead

In view of the advanced stage of preparation for accession, the focus of the efforts in the field of Institution Building is no longer on the adoption of the *acquis* but on its enforcement. Phare provides support to several key sectors through the transfer of know-how or with investment, and the monitoring mechanisms in place will show whether the maximum advantage is obtained by the implementation of the projects. Special attention will continue to be devoted to increasing the quality of project fiches and supporting documents in order to ensure the timely starting of their implementation and the full achievements of its objectives.

2003 will be the key year as regards the preparation for EDIS and progress in the implementation of the projects aiming at assisting Slovenia to achieve EDIS, at the latest, by the date of accession. In March 2003, the second HLWG is due to take place, which will, among other things, discuss progress in achieving EDIS made so far.

At the same time, the preparation for the management of structural funds will have to be accelerated in 2003. Three Twinning projects (Managing Authority, Paying Authority and ESF) will start, aimed at building up the administrative capacity needed for the management of Structural Funds upon accession.

The year 2003 will be a particularly difficult year for the Delegation. It can be expected that the authorities will try to contract as much as possible under DIS, i.e. under ex-ante control of the Delegation, hence a further increase in workload can be expected. On the other hand, as the date of accession for Slovenia draws nearer, due to the uncertainty for their future, staff are considering leaving their present employment for more secure posts elsewhere. This migration of staff, which affected the Delegation end 2002 / beginning 2003 may cause problems in 2003, as well as at a later stage in the monitoring of programmes. The impact on the work will be even more serious as the Phare/ISPA and FO Section at the Delegation in Slovenia are small compared to the considerable number of files to be processed and the complexity of questions which may arise.

TURKEY

The year in review

Political developments

The decision on the candidate status of Turkey in Helsinki in 1999 has encouraged Turkey to introduce a series of fundamental reforms. Following major constitutional reforms in 2001, aimed at strengthening guarantees in the field of human rights and fundamental freedoms and restricting the grounds for capital punishment, three sets of reform packages were adopted in February, March and August 2002. The death penalty has been lifted in peacetime. The state of emergency has also been lifted in the South East.

Overall, **Turkey has made noticeable progress towards meeting the Copenhagen political criteria** since the Commission issued its first Regular Report in 1998, and in particular in the course of 2002. The reforms adopted in August 2002 are particularly far-reaching. Taken together, these reforms provide much of the ground work for strengthening democracy and the protection of human rights in Turkey. They open the way for further changes which should enable Turkish citizens progressively to enjoy rights and freedoms commensurate with those prevailing in the European Union.

Nonetheless, **Turkey does not fully meet the political criteria for accession**. First, the reforms contain a number of significant limitations, which are set out in the 2002 Regular Report, on the full enjoyment of fundamental rights and freedoms. Important restrictions remain, notably, to freedom of expression, including in particular the written press and broadcasting, freedom of peaceful assembly, freedom of association, freedom of religion and the right to legal redress.

Secondly, many of the reforms require the adoption of regulations or other administrative measures, which should be in line with European standards. Some of these measures have already been introduced and others are being drawn up. To be effective, the reforms will need to be implemented in practice by executive and judicial bodies at different levels throughout the country.

Thirdly, a number of important issues arising under the political criteria have yet to be adequately addressed. These include the fight against torture and ill-treatment, civilian control of the military, the situation of people imprisoned for expressing non-violent opinions, and compliance with the decisions of the European Court of Human Rights.

Macroeconomic developments and structural reform

Turkey has made progress on the functioning of its market economy, which should improve its capacity to cope with competitive pressure and market forces within the Union, but is still undergoing the consequences of the two deeply destabilising financial crises.

After several attempts to stabilise the economy, the current reform programme is producing positive results and growth has resumed. Fiscal discipline has improved and the transparency of public sector accounts has increased markedly, while

inflationary pressures are declining. Political interference, a main source for Turkey's economic instability, has been reduced and structural weaknesses, such as a fragile and distorted banking sector, are being addressed. Financial market regulation and supervision have been strengthened. Important steps have been taken to liberalise key markets, such as agriculture and energy.

Progress in meeting the *acquis communautaire*

Since the 1998 Regular Report, Turkey has made progress in aligning legislation in the areas covered by the Customs Union. Progress has also been achieved in areas such as the banking sector, telecommunications, energy and agriculture. The financial sector has been restructured and administrative capacity in this field has been streamlined. However, little progress has been achieved in other areas. In 2002, Turkey made further progress in the areas of the internal market, as well as in the areas of energy and justice and home affairs. Progress in strengthening administrative capacity to implement the *acquis* has been limited.

Overall, Turkey has achieved a certain degree of legislative alignment in the areas covered by the Customs Union, while in other areas this alignment is less advanced. Major discrepancies between the *acquis* and Turkish legislation remain¹⁷.

Pre-accession financial assistance in 2002

Programmes launched

The new regulation on pre-accession financial assistance to Turkey¹⁸ entered into force on 30 December 2001, and for the first time in 2002 governed the annual programming exercise. The purpose of this legal framework is to simplify procedures and to ensure an accession-driven approach to financial assistance to Turkey. As required by the regulation, the Commission adopted programming and implementation guidelines¹⁹, which are based closely on similar guidelines already adopted for the Phare candidate countries. The procedures for programming and implementing the pre-accession financial assistance programme to Turkey now mirror those of Phare.

During the current financial perspective the pre-accession financial assistance regulation for Turkey reiterates the Commission's objective to maintain assistance at a level double that enjoyed by the country in the period 1994-99. This corresponds to an annual target for grant finance of € 177 million. In fact, in 2002 the total national allocation for Turkey was € 146 million since the assistance programme had been front-loaded in 2000 and 2001. Resources in 2002 were committed²⁰ to the following priority areas:

¹⁷ The information in this section is taken from the Commission's latest Regular Report for Turkey (October 2002). A more detailed analysis of Turkey's progress in meeting the *acquis* can be found in this Regular Report.

¹⁸ Regulation 2500/2001; OJ L/342/1 of 27.12.01

¹⁹ C(2002)5146 of 20 December 2002

²⁰ By Commission Decision C(2002)5138 of 20 December 2002

- Strengthening democracy, the rule of law and respect for human rights (**the political criteria**). Twinning, Technical Assistance and Investment are being provided in the following areas: the fight against organised crime, drugs and fraud.
- **Economic criteria.** Following the economic crisis in Turkey, support is being provided in particular for SMEs notably through the extension of an SME loan facility to Turkey. (The € 20 million committed to the SME loan facility in 2002 was the final bilateral commitment to Turkey under the MEDA programme²¹.)
- **Meeting the obligations of the *acquis*.** Twinning, Technical Assistance and Investment are being provided in the following areas: justice and home affairs, internal market, agriculture, energy, telecommunications, employment and active labour market policy, health and safety at work, environment, competition and state aid, and maritime safety.
- **Economic and Social Cohesion.** This has been addressed extensively by on-going pre-2002 programmes. Nevertheless, developing active employment initiatives is a key aspect of one of the 2002 programmes.
- **Participation in Community programmes.**

The Representation, together with DG Enlargement, played an active role during the programming process, offering support and assistance to the Turkish authorities in their first ever pre-accession programming exercise. The final result respected a number of the standard features of a pre-accession programme, namely a 30:70 split between Institution Building and Investment; inclusion of 25 % Turkish government co-financing for all investment components; use of Twinning projects as the main instrument for IB (see below), and the co-financing of participation in Community programmes.

Significant efforts have also already been invested in the preparation of the 2003 programme. The programme, as in 2002, will continue to be focused on priorities set out in the current Accession Partnership and NPAA, taking into account the findings of the Regular Report 2002. The continued impact of the frontloading mentioned above means that € 144 million is available for programming in 2003.

Five overarching priorities for the 2003 programming exercise have been identified:

- Helping Turkey meet the Copenhagen political criteria
- Economic criteria and support to private sector development, particularly in view of Turkey's economic situation
- Investment in the *acquis*, in particular in a number of regulatory functions linked with the successful implementation of the on-going economic reform programme supported by the IMF and World Bank

²¹ C(2002)1080 of 21 March 2002

- Building on the multi-annual approach to pre-accession financial assistance which began in 2002, whilst preparing for the increase in funds for the period 2004-6
- Accelerating the programming timetable as part of the on-going effort to improve performance.

Overview of programmes implemented

Until this year, Turkey had received support under the MEDA programme and more recently through the two “European Strategy” regulations to support the customs union and economic and social development. For the period to 1999, the key aim of assistance to Turkey under the MEDA programme had been to accompany the process of structural reform, as for other Mediterranean partners. To this end, it focused on four main types of activity: structural reform programmes consisting of conditional direct budgetary support; economic transition and private sector development including support for privatisation, financial sector reform, business centres and risk capital; strengthening the socio-economic balance through health, education, rural development and environmental programmes; and regional initiatives in all three fields of the Euro-Mediterranean Partnership - political, economic and social.

Following the adoption of a “European Strategy” for Turkey with accompanying financial support, and the subsequent conclusions of the Helsinki European Council, a pre-accession orientation was introduced to the financial assistance programmes with Turkey. Assistance continued to be available for structural adjustment, in co-ordination with the international financial institutions, but assistance also began to focus on Institution Building, investment, and supporting the participation of Turkey in Community programmes and agencies.

Between 1995 and 1999, € 405 million was committed to various programmes in Turkey. In 2000 and 2001 this was matched by a similar sum - € 403 million. Support was provided to a number of important areas, such as basic education, training, environmental infrastructure, reproductive health, and macroeconomic adjustment. Implementation of these programmes had, however, barely begun leaving the European Commission’s Representation in Ankara to face a significant challenge in 2002 with a strong need to reduce the backlog of previous years.

Following a number of years of relatively poor performance in terms of programme implementation, therefore, the deconcentration of the management of the on-going co-operation programme with Turkey to the Commission’s Representation has coincided with a sharp upturn in the rate of tendering and contracting. By the end of 2002, a total of € 217 million had been contracted, a significant increase upon the figures for the previous years, and around € 150 million disbursed. This exceeded the volume of new commitments made for Turkey in 2002, thus leading to a significant decrease in the ‘backlog’.

Following the decision in 2001 to establish DIS in Turkey by the end of 2002, the Turkish government has begun to put in place the necessary structures which form an integral part of the system (National Aid Co-ordinator, Central Finance and Contract Unit, National Fund). In February 2002, Commissioner Verheugen signed the Memoranda of Understanding with the National Aid Co-ordinator and the National Authorising Officer, which formalised the creation of the CFCU and National Fund

and outlined their respective roles and responsibilities. Capacity building and training programmes for these new bodies have been implemented throughout 2002.

Despite a failure of the Turkish government to meet the initial target set for the entry into force of the DIS system, it is hoped that an acceleration of the DIS preparation process may lead to the Turkish government being in a position to submit their request for accreditation to the EC in March 2003 and for the system to be operational in summer 2003.

The Representation continues to play a very active role in this process encouraging the actors to work together and maintaining close links with the respective units who will carry out the accreditation process in DG Enlargement.

NDPs – State of Play

Turkey has not yet been invited to prepare a NDP. It is expected that a NDP will be prepared in 2003 for the period 2004-6.

Institution Building highlights

One of the most important developments for Turkey in the 2002 programming exercise was the exclusive focus on projects targeted at meeting the accession criteria, in particular those aiming at the implementation of the *acquis*. This has been seen both in the project identification work under the national programmes for 2002 and 2003, as well as in the importance given to Twinning as the delivery mechanism of choice for Institution Building projects.

Following Turkey's acceptance that Twinning between Turkey and Member State administrations would become the predominant instrument for implementing projects in this area, 13 Twinning projects were identified in the 2002 programming exercise, for which 37 applications from Member State institutions had been received at the Representation by the autumn and selections made at the time of writing. In order to support the introduction of the Twinning instrument, the Representation mobilised significant training efforts throughout 2002.

The other candidate countries have been offered the possibility of drawing on Member States' expertise through "Twinning Light" (Twinning projects of less than six months), to address well-defined objectives of limited scope, which emerge during the negotiation process. Despite the initial link with accession negotiations, it has also been considered appropriate to extend Twinning Light operations to Turkey where similar well-defined needs are identified through other fora. Some unallocated IB funds were therefore set aside in the 2002 programme.

Results and impact

Overall

While overall the impact of Community assistance to Turkey still remains limited due to the previous delays in implementation, the progress outlined above has, for the first time, allowed the EC to demonstrate the support which its assistance can offer. In some cases, e.g., the Sanliurfa drinking water system or the basic education programme, the assistance is already generating significant visibility.

It is to be hoped that following the entry into force of deconcentration and the envisaged decentralisation of aid management to the Turkish authorities in 2003, that the acceleration already witnessed in 2002 will be maintained and that support in 2003 can begin to have a significant impact.

State of play for JMC/SMSC development

A mandate for the JMC and proposals for SMSC meetings were only set out at the end of 2002, and the first meetings of the SMSC will take place in early 2003 with the JMC scheduled for December 2003. In 2002, a contract was signed to extend the interim evaluation service to Turkey, on a par with that provided in the Phare countries. This will provide considerable support for the JMC/SMSC structures in 2003.

M&A reports in 2002

No reports have been prepared.

Sectors with positive results

Despite the limited impact of the programme to date, due to delays in its implementation, positive results can be seen in a couple of key sectors.

In December the Commission approved the second payment of € 75 million under its Structural Adjustment Facility for Turkey. This followed completion of its assessment of Turkey's progress in meeting a series of conditions related to macroeconomic stability, deregulation, and reforms in the social security and agriculture sectors. The Structural Adjustment Facility is a € 150 million grant to Turkey, agreed in February 2001, the disbursement of which was linked to the fulfilment of certain conditions relating to the IMF Stand-By Agreement with Turkey and the World Bank's Economic Reform Loan. It also required progress in adopting legislation in line with the EU *acquis* in areas such as agriculture, the electricity and gas markets, telecommunications, environment and social security. The first payment of € 75 million was made at the end of 2000. This second payment successfully closed the operation.

Turkey also began its active participation in a number of Community programmes in 2002 (assisted from the MEDA 2001 programme), for example, joining the European Environment Agency, Enterprise and Entrepreneurship (SME), *e-Content*, and beginning the preparatory steps for participation in the Leonardo, Socrates and Youth programmes.

The terms and conditions for the specific programmes, and in particular the financial conditions, continue to be negotiated between the Commission and Turkey and are reflected in the signature of MOUs, a number of which could already be signed between the EC and the Turkish authorities in 2002 (see below, dates of signature in brackets)

- European Environment Agency. The Turkish Parliament ratified the membership agreement.

- Community Programme in the field of Enterprise and Entrepreneurship, in particular for small-medium enterprises (October 2002).
- 6th Framework Programme on Research and Technology Development (October 2002).
- Gender Equality (November 2002).
- Combating Discrimination (November 2002).
- Combating Social Exclusion (November 2002).
- Incentive Measures in the field of Employment (December 2002).

At the end of the year, discussions were continuing on Turkish participation in eContent, Fiscalis 2007, Customs 2007, Community action in the field of health, and membership of the European Monitoring Centre for Drugs and Drug Addiction.

The National Agency covering the Leonardo, Socrates and Youth programmes has started its operations. Preparatory measures, funded by MEDA, for full participation in the programmes began in 2002.

Success story

The Rehabilitation of Fener and Balat Districts (Istanbul) Programme

The objectives of the programme are to improve the living conditions of the inhabitants of the Balat and Fener districts of the Municipality of Fatih, Istanbul, primarily through the restoration of dwellings in these two areas, which form part of the Historic Districts of Istanbul World Heritage Site. The two areas have hitherto demonstrated severe problems of decay and dereliction, compounded by the poor economic status of the inhabitants. To remedy this situation, around 200 historic houses will be rehabilitated, selected on the basis of various social and architectural considerations. It is anticipated that the programme will be able to transform the condition of as many as one in seven of the dwellings in the two districts.

In addition, a multi purpose community centre to be operated by NGOs will be established to provide a range of social services to target groups in the local community. The primary aim of this centre is to provide much needed educational and health services to local residents and in particular to young people and women. In this respect, the Centre will include facilities for women living in the district, to provide a focal meeting place outside the home where they have access to literacy courses and/or vocational training. Mothers are to be provided with advice on nutrition and general childcare as well as on reproductive health. To improve the overall health of children, a vaccination programme and clinic for minor ailments is to be included in the centre. It is envisaged that the centre will also incorporate a small day nursery, especially useful for women attending courses. The programme will not only provide the physical infrastructure of the Centre, but will in parallel carry out a community outreach campaign, to provide increased awareness of reproductive health and childcare. Local students will also use its classrooms for after-school study. The centre may also offer adult literacy courses.

Tasks ahead

The challenges for 2003 and subsequent years are to continue to improve the programming and implementation of pre-accession financial assistance and in particular to begin operations through the Decentralised Implementation System in Turkey as soon as possible.

At the time of writing, the Commission has also communicated its intentions with regards to the level of financial assistance to be provided to Turkey in 2004-2006. During this period, pre-accession financial assistance will focus on supporting Turkey's efforts to meet the Copenhagen criteria, with special attention to the political criteria and to strengthening institutional capacity and investment related to the adoption of the *acquis*. Assistance will also be available for improving the functioning of Turkey's economy and its capacity to cope with competitive pressure within the internal market. Cross-border co-operation with EU Member States and candidate countries will also be promoted.

The revised Accession Partnership to be agreed in 2003 will provide the basis for programming pre-accession assistance; priorities for assistance will also be drawn from the Regular Reports and Turkey's national programme for the adoption of the *acquis*. In the Regular Reports, special attention will be drawn to the political criteria. A number of priority areas can already be identified, such as justice and home affairs including migration, maritime safety, the environment, health, agriculture and rural development. A significant increase in funding will also allow the EU to support socio-economic development in Turkey, as it relates to the goals of the accession strategy.

The provision of indicative levels of funding for the next three years should facilitate multiannual planning in areas where it will take more than one year to address objectives. In addition Turkey should:

- More closely integrate programming with normal ministerial policy making structures
- Ensure the effectiveness of the new Joint Monitoring Committee and sub-committee structure, with lessons of monitoring and evaluation fed back into the design of new programmes
- Spread financial management and implementation capacity both within and beyond national government, in the latter case for the improved implementation of ESC activities in particular.