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Annex to the

**2003 REPORT ON PHARE AND THE PRE-ACCESSION INSTRUMENTS FOR
CYPRUS, MALTA AND TURKEY**

COUNTRY SECTIONS & ADDITIONAL INFORMATION

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PART I: COUNTRY SECTION

I.1. BULGARIA

1.1. The year in review

As noted in the Commission's latest Regular Report (November 2003), Bulgaria continued to make progress in meeting the accession criteria in 2003.

Political developments

Bulgaria continued to fulfil the political criteria. Progress was made with the adoption of a programme and an action plan for the implementation of the Strategy for Modernisation of the State Administration, which aims at consolidating the legal framework in this area. Sustained efforts will be necessary to further implement the public administration reform and to fulfil Bulgaria's aim to have a qualified and efficient civil service in place in the medium term, to ensure the effective application and enforcement of the *acquis* when Bulgaria joins the Union.

The overall reform process for the judiciary continued in line with the 2002 Action Plan. In particular, the amendments to the Constitution regarding the status of magistrates represent an important step forward. Other legislative measures aim at reducing the duration of court proceedings and strengthening judicial control of executive decisions. However, further efforts are necessary to re-organise the investigation service as part of the executive, in line with best practice in Member States. Bulgaria also needs to ensure that the judicial budget is adequate for the smooth functioning of the judicial system.

Corruption remains a problem, and Bulgaria should maintain concerted efforts to implement measures in this respect. The fight against corruption remained high on the political agenda and further measures in this context were adopted.

Bulgaria continues to respect human rights and fundamental freedoms. The legal framework for asylum and child protection improved considerably. However, the living conditions of children placed in institutions changed little during the past year. As regards the mentally disabled, the required legal framework is still missing, notably to ban arbitrary detention. Despite some efforts to address the situation, the living conditions in institutions for mentally disabled are difficult and opportunities for rehabilitation and therapy are scarce. Further efforts are necessary to address the situation as regards degrading treatment by the police and trafficking in human beings. In the area of social and economic rights, progress can be reported notably as regards equal opportunities and anti-discrimination.

The new Action Plan for the implementation of the "Framework Programme for Equal Integration of Roma into Bulgarian Society" represents a positive step, as specific budgetary support is provided for measures in the areas of anti-discrimination, education, culture, housing, employment and social protection. Determined and sustained efforts are needed to fight discriminatory attitudes and behaviour and to address the widespread social disadvantage affecting the Roma community.

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 near term, provided that it continues implementing its reform programme to remove remaining difficulties.

The Bulgarian economy has achieved a high degree of macroeconomic stability due to a good policy-mix brought about by the currency board arrangement, a tight fiscal stance and wage moderation. Economic stability and good progress in structural reforms allow market mechanisms to provide a more efficient allocation of resources which, in the absence of the nominal exchange rate as an instrument for adjustment, is setting the basis for a process of sustained growth. This holds in particular for the increasing role of the private sector through privatisation and the reduction of state aid, the positive development of the banking sector and some improvements in the regulatory environment.

However, the flexibility of product and labour markets needs to be further enhanced. In particular, the efficiency of the administrative and judicial system has to be improved, providing economic agents with a more stable and predictable framework and allowing them to enforce their property rights. The privatisation programme needs to be completed. Regulations and administrative procedures affecting enterprises must be further streamlined, also to provide more viable conditions for small and medium-sized enterprises. The restructuring and liberalisation of the network industries needs to further advance in order to reduce subsidies, to enhance quality and allow for a reduction of the prices of their services. The ongoing reduction in unemployment should be further supported by addressing rigidities in the labour market and improving the education system. Implementing these reform measures should contribute to higher levels of private and public investment, thereby contributing to sustained growth and competitiveness within the Union.

Progress in meeting the *acquis communautaire*

Over the past year, **Bulgaria has continued to make good progress in most areas of the *acquis*** and is on track to complete the required legislative transposition before the planned date of accession if the current pace of progress is maintained. Bulgaria needs to continue to make sustained efforts to develop sufficient administrative and judicial capacity to implement and enforce the *acquis*. As well as continuing horizontal reform of the public administration, it needs to focus in particular on developing the capacity to be part of the internal market and to apply the *acquis* in areas such as agriculture, environment and regional policy¹.

1.2. Phare in 2003

Programmes launched

For 2003, Phare allocations for Bulgaria totalled € 188.92 million - National Programme (€ 94.9 million), Cross-border Co-operation Bulgaria-Greece (€20 million), Cross-border Co-operation Bulgaria-Romania (€ 8 million), External Border Initiative (€ 4.12 million) and Nuclear Decommissioning (€ 61.9 million). This figure excludes the benefits to Bulgaria from horizontal and multi-country Phare programmes, including those 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 latest Accession Partnership, approved in May 2003. National Programmes together with the External Border initiative amounted € 99 million. The National Programme reflected the findings of the Commission's 2002 Regular Report and the priorities identified in the

¹ The information in this section is taken from the Commission's latest Regular Report for Bulgaria (November 2003). A more detailed analysis of Bulgaria's progress in meeting the *acquis* can be found in the Regular Report.

Government of Bulgaria's updated National Programme for the Adoption of the *Acquis* and preliminary National Development Plan.

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

- **Strengthen public administration and the judiciary at all levels;** the programme included projects on Public Administration Reform: Improved Service Delivery, Unallocated Institution Building Envelope, Reform of Civil and Penal procedures and Information Technology for Judicial Reform.
- **Improve transparency, financial control and the fight against corruption and fraud:** The programme included projects on Institution Building for Public Internal Financial Control and Strengthening the Administrative Capacity of the National Audit Office.
- **Promote economic growth, competitiveness and social cohesion;** the programme included projects on Alternative Employment, Water Supply for Tourism areas, Regional Development Scheme, Social Sphere Commitments and a Database for Structural Funds Instruments.
- **Integrate minority and vulnerable groups into mainstream society and create a more dynamic and pluralist civil society;** the programme included projects on Institution Building for the Council of Electronic Media, Civil Society Development, Roma Health and Education and Child Welfare and Mental Health.
- **Enhance the administrative and judicial capacity to implement and enforce legislative measures and assume the obligations of EU membership;** the programme included projects on Strengthening the administrative capacity of the State Agency for Metrology and Technical Surveillance, Institution Building for the Tourism Agency, Introduction of a Cluster Approach and the establishment of a Cluster Model, Food Safety, Veterinary Border Control, Rendering Plants, Integrated Administrative and Control System (IACS) Phase 2, Vessel Traffic Management and Information System (VTMIS) Phase 2, Control System for Roadside Inspections and Checks, Strengthening the administrative capacity of the Executive Agency for Maritime Administration, Vocational Qualifications, Oil Stocks, Electricity Market, Institution Building for the State Energy Regulatory Commission, Chemical Substances, Water Basin Management, Air Monitoring, Police Academy, Mobile Border Units, Refugees Agency Accommodation, Customs Laboratory, Customs Computerisation and Participation in EC Programmes and Agencies.
- **Improve the strategic planning and effective utilisation of EU funds and prepare for Structural Funds (including implementation of EDIS);** the programme included projects on Project Preparation Facility and Preparation of the Ministries of Regional Development and Public Works, the Economy and Finance for Structural Funds.

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 projects were supported:

- **Cross-border co-operation projects with Greece:** Railway, road, employment, border safety and water quality projects (€ 20 million);
- **Cross-border co-operation projects with Romania:** Road, river, economic development and environmental protection projects (€ 8 million);
- **External Border Initiative Programme:** infrastructure and economic development ('people to people') projects situated in the border regions of Bulgaria with Serbia & Montenegro, Former Republic of Macedonia and Turkey (€ 4.12 million).

Overview of programmes implemented

The Phare programme allocated some € 1,410 million between 1992 and 2003. In addition to the National Programmes, Bulgaria has benefited from special assistance for the decommissioning of the Kozloduy nuclear power station, from Cross Border Cooperation programmes and from multi-beneficiary programmes.

The end of 2003 saw the successful closure of most of the projects financed from the 2000 programme, covering a range of sectors. The 2001 programmes have been contracted and their implementation is under way. Contracting of 2002 programmes has started; the contracting rate, however, remained relatively low as Bulgarian authorities have focused efforts mainly on the 2001 programmes.

Phare management performance

At the end of November 2003 the contracting period for all the projects under the 2001 programmes expired with the exception of one CBC project worth a total of € 7 million whose contracting deadline was extended by a year (BG0106.01 Rehabilitation and partial reconstruction of Road II-19 Section Simitli – Razlog). The final contracting rate for Phare 2001 reached well over 90 %. This positive result was obtained as a result of intensive efforts by the Bulgarian authorities and the EC Delegation.

Four Phare 2000 projects had their contracting deadline extended by one year; the deadline expired on 31 December 2003. One project, Institution Building and development of the National Statistics System (budget: € 1.30 million), was successfully contracted. However, the Phare funds under the other three projects failed to be contracted in full. The projects concerned are the following:

- BG 0004.01 SME Quality Management Systems – grant scheme, technical assistance (budget: € 5 million);
- BG 0004.02 Business Incubators – works, supplies, management services (budget: € 2.45 million);
- BG 0004.04 Renovating Vocational Training Institutes – supplies (budget: € 1.14 million).

The partial contracting of these projects indicates the need for improvements in procurement planning and project management, especially with a view to the forthcoming transition to EDIS.

NDPs – State of Play

In June 2003, the Bulgarian authorities published a revised and strengthened National Economic Development Plan, incorporating Commission comments. The revised NDP, which includes draft Sectoral and Regional Operational Programmes, will facilitate coherent planning of Phare ESC and other investment support in the 2004-06 period. Furthermore, a methodological framework and guidelines for the preparation **of the NDP for the period 2007-2013 have been elaborated by the relevant authorities.**

Institution Building highlights

Most new Phare Institution Building projects are now delivered through Twinning. For Bulgaria, fourteen 1999 projects, fourteen 2000 projects, ten 2001 projects and ten out of sixteen 2002 projects were running in 2003. In addition, in the course of 2003 three twinning projects were chosen for financing from the 2002 Unallocated Envelope for Institution Building. Twinning will contribute to the results of seventeen projects under the 2003 programme. From 2001 a Twinning Light facility started spanning a broad range of *acquis*-related activities and ten twinning light projects were under implementation in 2003. Additionally, an Unallocated Envelope is available for covering IB need between programming exercises 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 2003 programme took place in October 2003 and the preparation of the covenants started immediately thereafter. Endorsement of most Phare 2003 Twinning projects is expected during the second and third quarters of 2004.

1.3. Results and impact

State of play for JMC/SMSC development

During 2003, Bulgarian authorities displayed considerable efforts in improving their self-monitoring capacities. An updated format for Monitoring reports has been adopted and the nine Sectoral Monitoring Sub-committees, operative since 2001, continued to hold regular sessions twice a year.

The fourth annual meeting of the Joint Monitoring Committee was held on 11 December 2003 in Sofia. It reviewed the findings of the Phare Sectoral Monitoring Sub-committees, the ISPA Monitoring Committee and the SAPARD Monitoring Committee meetings held in 2003. The Bulgarian National Aid Coordinator services also presented reports on the following issues of overall concern to pre-accession assistance management:

- Administrative Capacity within the Bulgarian administration to manage EU programmes;
- Preparation for extended decentralisation (EDIS);
- Lessons learned from previous Phare contracting cycles;
- Development of self-monitoring capacity.

Corrective measures were agreed on a number of sector specific issues of project management. The conclusions and recommendations from Phare 2001 contracting, completed

in November, were highlighted with a view to ensure further improvements in implementation of all ongoing programmes and smoother contracting of Phare 2002 funds. Further efforts need to be devoted to the implementation of the recommendations of the SMSCs.

M&IE Reports in 2003 - Lessons Learned

In 2003 the Interim Evaluator, EMS consortium, carried out evaluations of all sectors producing two reports per sector. Further acceptance by the Bulgarian authorities of the utility of the Interim Evaluation Reports was noted. However, although in most of the cases problems and corrective actions are identified and accepted by all involved parties, more attention should be paid to their implementation.

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

Sectors with positive results

In the **agriculture** sector work continued on improvement of veterinary control, and the strengthening of the fisheries and aquaculture sector through two Institution Building projects involving twinning and supply of equipment: laboratory equipment for the veterinary medical pharmaceuticals control, for the animal tuberculosis control and for the fish health control; IT equipment for the fishing vessel monitoring system and for the fisheries information statistics system, as well as cars and patrol boats for the fishing control activities. Other projects that were implemented are technical assistance and supply of servers for the Sapard Agency. Projects launched include a comprehensive study on border veterinary inspection posts and five classical twinning projects: for veterinary control, for transmissible spongiform control, for strengthening of the Ministry of Agriculture in the field of agri-environment and rural development, for the restructuring of the forestry sector and for the establishment of a paying agency and setting up of IACS. Additionally three twinning light projects were also launched for the definition of less favoured areas in Bulgaria, for the strengthening of the phytosanitary control and for the control of the plant protection products and the organic farming.

In the **Public Finance** sector two twinning projects were successfully completed – BG 0006.02 “Strengthening the Public External Audit Institution” and BG 00.06.01 “Strengthening Public Internal Financial control”. Both projects supported the relevant Bulgarian institutions – National Audit Office (NAO) and Public Internal Financial Control Agency (PIFCA) in improving the overall public financial control and audit system on the basis of further development of the legal framework, strengthening the administrative capacity of NAO and PIFCA, human resources development and implementation of audit standards as per EU requirements. In addition, major restructuring of Ministry of Finance was successfully carried out through BG9909-02-01 “Support for the Implementation of the Medium Term strategy of the Ministry of Finance”. The assistance provided under the project helped the management of the Ministry of Finance to implement its budgetary and expenditure reform, to improve its functional organization and human resources management, to strengthen its key role as National Aid Coordinator and National ISPA Coordinator as well as to start the implementation of the FMIS.

The Phare projects in the **environment** sector assisted in terms of the transposition and implementation of the EU environmental *acquis* and for the preparation of the implementation of EU directives. There are 5 successfully completed Twinning projects in the areas of water,

chemicals, Integrated Pollution Prevention Control (IPPC), trade in species of wild flora and fauna and radiation protection and safety at medical use. The projects have complementary awareness campaigns and supply of equipment components. They contributed to the establishment of the new authorities, adoption of the legislation, administrative capacity, enforcement and training of staff.

In the **social sector**, a major project on Vocational Training (BG 0004.03) came to an end in August 2003. This Grant Scheme provided 103 training organisations and vocational training schools with grants for vocational training in two regions of Bulgaria. In the North West, 40 grants were awarded, amounting to € 2 567 914.39; in the South Central region, 62 grants were awarded, amounting to € 3 323 771.77. A total of 9848 unemployed people received training and 3255 employed people received re-training. By 1 November 2003, some 1883 people who had received training started work; monitoring of the number of people who are no longer unemployed as a result of their participation in the project will continue during 2004. Two major Grant Schemes were also launched in 2003 - Labour Market Initiatives (BG 0102.05) and Social Inclusion (BG 0102.06). Both projects aim to provide employment, education and training opportunities for disadvantaged groups throughout Bulgaria, including numeracy and literacy training for the Roma community and employment opportunities for people with disabilities. A total of 170 grants were awarded to a wide variety of local organisations which will implement their projects during 2004.

In the **home affairs** sector substantial aid was provided to enhance the institutional capacity of the Ministry of Interior through the development of the relevant structures in compliance with EU standards. The structures of the MoI services were further reformed. Substantial investment to strengthen control over Bulgaria's borders was provided to the services of the National Border Police. Under a twinning project the State Agency for Refugees further strengthened its administrative and training capacity in line with the Asylum Law of 2002 and prepared terms of references for two transit centres to be built. Two other twinning projects have started, namely the implementation of the National Anti-Corruption Strategy and the Implementation of a Human Resources system for the MoI. Furthermore, the implementation of the Schengen Action Plan project is leading to positive changes in Bulgaria's policy towards the establishment of high level control of the external borders. Finally, with the completion of a project to create a national anti-drug strategy, a national drug coordination unit was set up.

In the area of **nuclear safety**, six Phare projects worth € 9.71 million are under implementation. Two more worth € 3.25 million have been approved by the Phare Management Committee. The KIDSF (Kozloduy International Decommissioning Fund managed by EBRD) is also available for implementation of decommissioning and energy efficiency projects with a budget, so far, of € 155 million. The Bulgarian Nuclear Regulatory Authority (NRA) is benefiting from five projects (€ 7.7 million) related to the decommissioning of Units 1 and 2, the assessment of modernisation of Kozloduy NPP Units 3 to 6 and the management of sealed radioactive sources. Kozloduy NPP is the beneficiary of a project (€ 2.5 million) for preparation of a manual aimed at assisting KNPP operators in handling severe accident conditions. Two projects (€ 2.76 million), under procurement, will supply equipment, respectively, for characterisation and control of institutional radioactive waste at the national repository of Novi Han and for innovation of the radiation monitoring system at the research reactor IRT of the Institute of Nuclear Research (INRNE) in Sofia.

In the sector of **Regional Development**, support continued on the preparation of Bulgaria for the management of Structural Funds (SF) and on the promotion of cross border co-operation

(CBC). Support for preparation for SF is provided by IB projects for the line ministries which will be involved in the implementation of SF as future managing authorities of the Sectoral and Regional operational Programmes and by investment projects, mainly grant schemes, which are considered as SF-type projects. In the area of **Cross-Border Cooperation**, projects in Transport, Environment, Energy and Joint Small Project Funds are under implementation for both CBC Programmes between Bulgaria – Greece (€ 20 million) and Bulgaria- Romania (€ 8 million). A new CBC Programme entitled External Border Initiative Programme was initiated during 2003, providing funds for infrastructure and economic development (‘people to people’) projects which are situated in the border regions of Bulgaria with Serbia & Montenegro, Former Republic of Macedonia and Turkey (€ 4.12 million).

Two projects in the **Public Administration Reform** sector have started in 2003. They were evaluated as highly relevant to the reform process in the area of public administration. The project on implementation of Civil Service Reform is developing very well. It has contributed substantially to the drafting and implementation of the latest changes to the Law on Civil Service in force since October 2003. Although the project on Strategic Policy Making and Coordination started with some delay, it is expected to have substantial influence for establishment of a comprehensive system for policy design and coordination in the Government. Good level of donor coordination is reached in the sector. Nevertheless more efforts particularly from the side of the beneficiaries are needed for reaching the optimal results with the resources available from different development agencies.

There are several Twinning projects under implementation in the area of **Judicial Reform**. The twinning type of project proves to be the suitable form for transfer of experience and good practices in this highly sensitive area. All of the projects are aimed at implementation of specific priority measures identified in the Government’s Strategy for the Reform of the Judiciary. A project on Streamlining Bankruptcy Procedures is developing very well. However, it is not yet completely clear what part of the MS experts’ recommendations shall be completely translated into organisational and legislative changes. The support to the Public Prosecutors Office continues at good pace. The two subsequent twinning projects are good examples of how the good practices of MS can be introduced in the traditionally very closed and conservative system of the public Prosecution. During the year 2003 several specific projects were started: on Strategy for Training and Recruitment of Magistrates, on Administrative Justice, and on implementation of the particular priorities of the Reform Strategy such as improvement of the System for Free Legal Aid, Execution of Judgements, and full automatisisation of the judiciary.

Success story

Cross Border Cooperation between Bulgaria and Romania BG 0007.04.01 Joint Small Project Fund

In the Regional development sector and within the Cross Border Co-operation Programme between Bulgaria and Romania, the first Joint Small Project Fund (BG 0007.04.01 JSPF) came to an end in November 2003. This Grant Scheme provided 17 projects with a total budget of EUR 530 999 (449 207 EU Grant and EUR 81 792 own contribution from the implemented organizations) with a clear cross border impact. The projects were implemented in 7 Bulgarian municipalities: Vidin, Montana, Shvistov, Pleven, Rousse, Sitovo and Silistra.

The Programme provided financial support to NGOs and local and regional authorities in the following areas:

- Economic development;
- Environment;
- Tourism Development;
- Cultural Exchange;
- Local democracy;
- Planning and development studies.

The supported projects were focused at the following target groups:

- Children and young people (7 projects);
- Musicians and actors (2 projects);
- General public within the region (2 projects);
- SMEs (4 projects);
- NGOs (1 project);
- Local authorities (1 project).

During the implementation of the projects numerous events (total 197) have been organized which can be classified in three groups:

- Working meetings: 41 seminars with 1110 participants, 3 conferences with 108 participants, 80 workshops with 730 participants and 1 round table;
- Cultural events: 2 festivals, 8 exhibitions, 9 concerts, 3 plain airs, 21 puppet theatre performances;
- Public Events: 11 competitions, 3 fairs and 15 excursions.

A total of 45 from these events were organized in the border area on the territory of Romania and the rest on the Bulgarian territory.

Similar JSPF are under implementation for the same border financed under 2001 and 2002 programmes and for the CBC programme between Bulgaria and Greece.

Tasks ahead

The challenges for 2004 and subsequent years are to further improve the programming and implementation of Phare, and to implement 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 further to strengthen the capacity of the Bulgarian authorities, especially the EU funds Directorate in the Ministry of Finance and Implementing Agencies, 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 JMC arrangements and evaluation systems must be further strengthened, 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.

I.2. CYPRUS

2.1. The year in review

Political developments

Overview

During the year 2003 remarkable developments occurred in Cyprus, even though the talks for the Cyprus problem did not reach an agreement.

Important developments included the signing of the Treaty of Accession by the Government; the massive demonstrations by thousands of Turkish Cypriots in the north for a political solution that would lead to EU accession, as well as the partial lifting of restrictions in movement across the green line. By the end of the year hundreds of Turkish and Greek Cypriots had crossed the green line.

Other major developments were the election of a new President and the establishment of a new government in Cyprus as well as the “parliamentary” elections in the northern part of the island.

Internal situation

The year 2003 started with an intensive Presidential election period for the Republic of Cyprus and ended with an 'election' period in the Turkish Cypriot community. During both electoral procedures the main debate issue among the candidates was the solution to the Cyprus problem and EU accession.

The Presidential elections took place on 16 February 2003 and Mr Papadopoulos was elected President of the Republic of Cyprus in the first round.

In the north the opposition against the leadership's negotiation position in the UN talks resulted in the demonstrations of thousands of Turkish Cypriots calling for a political solution that would lead to EU accession. The opposition of the Turkish Cypriots against the leadership's stance was expressed politically with the opposition parties of Mr. Talat, Mr. Akinci and Mr. Erel.

Although these three parties did not agree to enter the "parliamentary” elections in the north in December 2003 under a single list, they declared their will for a solution and EU accession by May 2004. The outcome of the 'parliamentary elections' in the north was as follows: Mr. Talat's party (main opposition) gained 19 seats, Mr Eroglu's party (status quo) 18 seats, and Mr. Denktash's Jr. party 7 seats and Mr. Akinci's party (opposition) 6 seats. This meant that there was a stalemate between the status quo and opposition parties. By the end of the year frantic efforts were being made to form a new administration in the north that would reflect the changes in political sentiment expressed in the elections.

EU accession process

A detailed overview of the progress made by Cyprus in the preparations for EU accession is given in the Commission's Comprehensive Monitoring Report for Cyprus and the monthly pre

accession reports. In the period October – December 2003 no substantial progress was recorded and only six legislative acts of minor importance concerning harmonisation, passed through the Parliament. At the end of the year around 200 legislative measures needed enactment.

The UN process

On 15 January direct talks between President Clerides and Mr Denktash in the presence of UN Secretary General's Special Adviser Mr de Soto resumed in Cyprus. After the Presidential elections of 16 February Mr. Papadopoulos was elected to succeed Mr. Clerides.

On 26 February 2003 the UN Secretary-General presented a third version of his plan. On 10 March both leaders met with UN Secretary-General Annan in Hague in order to inform him whether or not they were prepared to sign a commitment to put the UN plan to separate simultaneous referenda on 30 March, but the talks resulted in failure.

On 1 April, the UN Secretary-General reported to the Security Council on his mission of good offices in Cyprus, underlining *inter alia* that a solution on the basis of his plan could be found only if there is an 'unequivocally stated preparedness on the part of the leaders of both leaders to commit themselves to finalising the plan without reopening its basic principles or exceptional trade-offs by a specific date and to put it to separate simultaneous referenda on a date certain.

However, the Turkish Cypriot regime subsequently eased restrictions on crossings of the UN buffer zone on 23 April. Since then, the crossing has become routine for thousands of Greek and Turkish Cypriots.

The north

The political developments in the north have focused almost exclusively on attempts to solve the Cyprus problem. Various actions were taken by several political parties and civil society groups in the north. The Platforms "This Country is Ours" and "Common Vision", supported by the main opposition parties, staged three demonstrations: on 26 December 2002 with 30,000-40,000 participants; on 14 January 2003 attended by an estimated 45,000 people and on 27 February 2003 with some 60,000. In addition there have been a large number of small-scale events.

On 3 June the Commission adopted a package aiming at promoting economic development of the northern part of Cyprus and bringing it closer to the EU. It responds to the request of the European Council of Copenhagen in December 2002, and consists of financial assistance worth €12 million as well as measures promoting trade and bringing the north closer to the Union. The implementation of the measures of the package is underway.

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. Liberalisation of the telecom, energy, air transport and postal services by 2003 has been implemented in some sectors, but remains to be put into practice in others. Fiscal consolidation went markedly off target and the current account deficit widened. Progress has also been achieved in financial supervision but further improvements remain necessary.

Progress in meeting the "acquis communautaire"

The main conclusions of the Comprehensive Monitoring Report show that the most problematic issue for Cyprus besides the 2 on agriculture similar to other countries (Paying Agency, Trade Mechanism) is maritime safety in the Transport chapter. Regarding the agricultural issues very hectic last minute efforts are under way, particularly as concerns the setting up of the Paying Agency before 1 May. However, the so far 'amber' issue of upgrading agri-food establishments is gradually turning 'red' so far as the government has not, as promised, closed down by 31 December 2003 143 establishments not complying with the acquis. The resistance of the companies seems higher than the government expected.

Other serious concerns remain, including concerns over Flag State policy and resources, as well as Port state control. With Cyprus having the 6th biggest fleet in the world this is an issue that has high political profile for the Member States. Cyprus is still on the black list of the Paris MOU. The main problem is the lack of administrative capacity to carry out a sufficient number of controls.

While in general JHA-issues are managed well by the Cypriots, there are many problems concerning asylum which used to be handled by UNHCR. The Cypriots have not yet a stable asylum service in place and are overwhelmed by a large influx of asylum seekers of more than 3000 persons in November and December which is much for a small island. Cyprus has a strong record in the internal market field (with some exceptions) whereas in the environmental field implementation is slow. Little progress can also be noted in the field of energy leaving doubts if the requirements will be fully met by accession.

Tangible progress has been achieved mainly as concerns "external relations", with Cyprus presenting an overdue list of bilateral agreements to be cancelled and concerning visa policy (JHA) by eliminating (as the last accession country) visa-free entry for Russian citizens as of 1 January 2004. Progress can be noted also in the field of telecommunications.

2.2. Pre-accession assistance in 2003

Programmes launched

In the framework of its pre-accession strategy for Cyprus and following the expiry of the financial protocols at the end of 1999, the Council adopted Regulation 555/2000 of 13 March 2000, whereby an amount of EUR 57 million was allocated to Cyprus in the form of pre-accession assistance over the period 2000-2004. These funds were intended to support priority operations identified in the accession partnership as well as bi-communal activities that would contribute to the reconciliation of the two Cypriot communities.

The Financing Memorandum concerning the 2003 Pre-accession Programme for Cyprus (EUR 11,8 million) was signed in June 2003 and its activities are in line with the Regular Report 2002 of the Commission on Cyprus progress towards accession.

This programme covers in particular the areas of environment, SME's, administrative co-operation, statistics and bi-communal activities.

Moreover, a separate Financing Memorandum concerning a special aid package for the northern part of Cyprus (EUR 12 million) was signed in January 2004. The purpose of this additional assistance to Cyprus, decided by the Commission in 2003, is to finance activities aiming at the economic development of the northern part of Cyprus and at bringing it closer to the European Union.

Overview of programmes implemented

2000 Financing Memorandum

Justice and Home Affairs – Schengen Information System (SIS): The contract (Europeaid/113785/D/S/CY) of the project "Police Computerisation System and National Schengen Information System" was awarded in May 2003 and project implementation is ongoing.

Development of the operational capacity of the Department of Customs and Excise: completed

Reform and modernisation of the VAT Service: completed

Administrative Co-operation and TAIEX activities: completed

Participation in Phase II of Leonardo, Socrates, Youth Programmes: completed

2001 Financing Memorandum

The contracting deadline for the projects "Management of the Akamas Forest", "Customs", "VAT", "Upgrading of State Laboratories", "Trade Union Links" (bi-communal), was extended by six months until 31.3.2004.

The disbursement deadline in respect of "Urban Wastewater Development", "Management of the Akamas Forest", "Customs", "VAT", "Capacity building for Accreditation and the New Approach Directives", "Upgrading of State Laboratories", "Reinforcement of the capacity of Social Partners" and "Trade Union Links (bi-communal)", was extended by twelve months until 30.9.2005 and for the "Monitoring and Assessment" until 31.12.2005.

Urban Wastewater Development:

The service contract (EuropeAid/113561/D/SV/CY) was awarded in February 2003 and the project is being implemented. According to the contract, the consultant will carry out technical studies for sewerage networks and treatment plants for twenty eight (28) communities with population equivalent to or greater than 2000 and will submit detailed studies including detailed design and tender documents.

Management of the Akamas Forest:

The pertinent tender (EuropeAid/114326/D/S/CY) was re-launched in October 2003 and the evaluation report is being examined. This project will cover the design, delivery, installation,

commissioning, training and maintenance during the warranty period of an automatic fire detection system in Akamas forest, a protected area.

Customs: The service contract (EuropeAid/113346/D/SV/CY) has been endorsed by the Commission. The project is a follow-up from the Customs project funded under 2000 and aims at strengthening the administrative and operational capacity of the Department of Customs & Excise in the areas of excise control, control of customs duty suspensions and reliefs, and the application of simplified customs procedures in line with the acquis and EU good practice.

VAT :

The service contract (EuropeAid/113347/D/SV/CY) has been endorsed by the Commission. The overall objective of this Project, which is a follow-up from the 2000 VAT Project, is to strengthen the administrative and operational capacity of the VAT Service in the areas of risk management policy, training for VAT control and investigation staff, intra-community trade and EU "own resources", and promoting voluntary compliance in line with the acquis and EU good practice.

Capacity building for New Approach Directives:

A contract was signed in September 2003. The aim of the technical assistance is to advise on the establishment of the appropriate administrative structure and on the legislative framework for the implementation of the new approach directives and to provide the necessary training.

Capacity building for Accreditation:

A contract was signed in September 2003. The aim is the provision of support through advice, joint assessment, training and a quality manual for the establishment and operation of a National Accreditation System in Cyprus.

Upgrading of State Laboratories:

One framework contract and two supply contracts were signed and implemented. A third supply tender was launched on 9.1.2004.

Participation in Community Programmes and Agencies: completed

Reinforcement of the capacity of Social Partners: The relevant contract was awarded in September 2003 and the project is being implemented. The project focuses on reinforcing the links between trade unions in Cyprus and the development of an in-depth understanding of the acquis in the area of employment and social affairs.

Monitoring and Assessment: An amount of EUR 50.000 was transferred to this Project from the Urban Wastewater Project. The pertinent contract was signed in September 2003 and will expire in July 2005. The main objective is to provide an independent view of the management of Community pre-accession support to Cyprus by means of an external interim evaluation service. The results of the independent interim evaluations together with the information provided through the monitoring reports shall enable the Cypriot administration and the European Commission (through the Joint Monitoring Committee in particular) to judge progress of the pre-accession assistance to Cyprus and take corrective actions. To this end, an

Inception Report was submitted by the contractor in January 2004. From its part, the Planning Bureau has prepared its Action Plan for Monitoring and Evaluation.

2002 Financing Memorandum

Further Upgrading of the State Laboratories: The pertinent Supply Procurement Notice (EuropeAid/114584/D/S/CY) will be published in the OJEC S 26 on 6.2.2004.

Telecommunications and I.T.: An amount of EUR 610.000 has been transferred from this Project to Administrative Co-operation.

(a) The Contract Award Notice (EuropeAid/114937/D/SV/CY) was published in OJEC S 12 on 27.1.2004. This project component provides inter alia for the enhancement of the administrative capacity of the Office of the Commissioner for Telecommunications and Postal Regulation, the drafting of a human resources development plan and for an analysis and redrafting of current laws and regulations on the new acquis in the telecoms area.

(b) A framework contract has already been signed aiming at the reinforcement of the administrative capacity of the Department of Electronic Communications of the Ministry of Communications & Works in various spectrum management matters.

(c) The Request for Services in respect of number portability has been launched.

(d) The Request for Services in respect of Costing Models has been launched.

Extension of DG TAXUD CCN/CSI systems to Cyprus: Completed for the most part. ATOS's Service Quality Plan accepted by the Customs Authorities of Cyprus whilst EQUANT's SQP is about to be submitted for endorsement.

Establishment of IACS

The supply contract (EuropeAid/115209/D/S/CY) for the first component was awarded in November 2003 whilst the framework contract in respect of the second component has not been awarded yet. The aim of this project is to provide hardware and software to the Department of Agriculture in order to improve the administration capability of managing CAP mechanisms including direct payments and other CAP support measures in accordance with the provisions of the Integrated Administration and Control System (IACS). The computerized information management system, IACS, to be supplied, is required to support the registration, verification, authorization and payments of the individual claims from applicants.

Enhancement of the programming capacity and implementation structures for Rural Development and Agri-environment:

The evaluation report in respect of this tender (EuropeAid/115238/D/SV/CY) has been endorsed but a clarification as to whether some components of the project objectives are outdated is still required. The objectives of the project are: a) to assist in the finalization of a coherent and comprehensive rural development programme with emphasis on agri-environmental components and b) to improve the administrative capacity to implement relevant measures and schemes in line with the EU relevant Regulation 1257/99, including the preparation and implementation of a training programme for the enhancement of the

administrative capacity of the relevant services of government institutions and especially of the Department of Agriculture

Strengthening the programming and implementation capacity for Structural Funds:

A negotiation report has been prepared for the installation of a Management Information System (MIS) for structural funds in Cyprus. In addition, a framework contract has been signed for the preparation of a pilot regional development programme that would "test" the institutional structures of Cyprus and advise the Authorities on the implementation of structural funds.

Strengthening the capacity of the Department of Merchant Shipping (DMS):

The supply tender dossier for the Effective Monitoring of Classification Societies has been prepared. The tender dossier for the Inspectors Training Programme has been approved. The framework contract for Flag Register has been endorsed. The contract for a Twinning Light for the implementation of ILO Convention No.147 is underway. The tender dossier for the purchase of Mobile Earth Stations and GMDSS has been revised.

Participation in EUROSTAT's Multi-beneficiary Programme 2000: completed

Participation in Community Programmes and Agencies: completed

Administrative Co-operation: An additional amount of EUR 610.000 was transferred from the Telecoms Project.

2003 Financing Memorandum

Air Pollution Monitoring System:

The Authorities requested that the amount initially allocated to this project be increased by EUR 379.610 through the transfer of funds from the "Participation in Community Programmes and Agencies" Project. The technical specifications for this project (EuropeAid/116452/D/S/CY) are awaiting endorsement before the relevant procurement notice can be published. The objective of this project is the supply of three complete air-quality monitoring stations that should operate in a common network connected via online telecommunication system with a Central Data Control System (CDCS). In addition, online communication of the CDCS should be established with all continuous analyzers operating on-site at different industrial plants for self-monitoring of stack emissions.

Solid Waste Management System (Landfill):

The Terms of Reference in respect of this service contract (EuropeAid/116312/D/SV/CY) are being prepared. The contract purpose is to carry out studies and designs for landfills in Cyprus: technical studies including feasibility and techno-economical studies (ii) environmental impact assessment studies (iii) tender documents.

SME Facility: This project is being managed centrally by DG ELARG and ECFIN.

Administrative Co-operation: General: on-going

Administrative Co-operation: TAIEX: on-going

Statistics: The participation of Cyprus in the 2002 Multi-beneficiary Programme can become possible when EUROSTAT finalises its contracts for the participation of the Phare countries in the Programme.

Community Programmes and Agencies: The Authorities requested that out of the total amount (EUR 2.300.000) of the project, the funds initially allocated to "Leonardo", "Socrates" and "Youth" Programmes (EUR 700.000), together with the amount initially allocated to the European Monitoring Centre for Drugs and Drugs Addiction" (EUR 75.000), be transferred to the "Air Pollution" Project (EUR 379.610) and to the participation of Cyprus to the 6th Framework Programme for Research and Technological Development" (EUR 395.390).

Pre-accession aid management performance

Cyprus has made slow progress in the implementation of pre-accession assistance, especially with regard to the pre-accession programmes of 2001. The implementation of the 2002 programme however shows more positive developments in the tendering and contracting, especially for telecommunications, Structural Funds and Upgrading of State Laboratories projects.

The Government is in the course of providing the additional information requested by the Audit Unit of DG ELARG during its recent follow-up mission to Cyprus, so that an EDIS decision can taken by the Commission as soon as possible.

National Development Plan (2004-2006)

The primary objective of the National Development Plan which was adopted in April 2003 is to achieve a satisfactory rate of sustainable growth and the utilisation of the opportunities offered through the accession of Cyprus to the EU, thus contributing to a greater real convergence with Member States and enhancing Cyprus' role as a regional centre for the provision of high quality services and as a bridge for economic co-operation between the EU and the countries of the Middle East and North Africa.

Other objectives of the Plan are:

- Enhancing the competitiveness and macro-economic stability of the economy;
- Achieving balanced regional development;
- Embedding social cohesion and full employment conditions;
- Protection of the environment and improvement of the quality of life

The main development priorities for the achievement of the above strategic objectives are:

Expansion and upgrading of basic infrastructure: Particular emphasis is attached to expanding the infrastructure in the sectors of transport, energy and telecommunications in order to link Cyprus effectively to Trans-European networks. It is proposed that this expansion is achieved through investment expenditures of the broader public sector and co-financing from the EU Cohesion Fund and other EU sources as well as through the construction and management of infrastructural projects by the private sector.

Enhancing competitiveness: Strengthening of SMEs, encouragement of research and development, promotion of innovation, utilisation of modern technology and improvement of productivity, as well as the specialisation of enterprises in the production of high quality and high value added goods and services.

Development of human capital – promotion of equal opportunities and strengthening social cohesion: The adaptation of the educational and training systems to the current needs of the labour market, measures to increase the participation of women in the labour market and reduce the pay gap differential between sexes, the reconciliation of family and working life, the promotion of measures designed to eliminate the possibility of social exclusion of vulnerable social groups.

Balanced regional and rural development: The reduction of regional disparities with the urban centres and the coastal areas, and the development of disadvantaged rural areas through the restructuring of the agricultural sector and the encouragement of new economic activities as well as the revitalisation of the degraded urban areas.

Protection of the environment and upgrading the quality of life: The effective protection of the environment, which has suffered as a result of rapid tourist development in the coastal areas, and the improvement of the quality of life are increasingly important not only to the prosperity of the population but also to the export activity of the services sector .

The Single Programming Documents (SPDs) in respect of Objectives 2, 3 and Fisheries have been finalised, whilst the Monitoring Committees held in January 2004 approved the programming complements for the three documents.

Institution building highlights

Twinning

Cyprus has primarily taken advantage of the instrument of Twinning Light, since the Twinning Light has proven a flexible tool for ad-hoc interventions to fill gaps with regard to the implementation of the acquis. Twinning Light projects in Cyprus have an average duration of 6 months and rely on short-term experts of Member States. The following Twinning Light projects have been and are being implemented to address targeted institution-building aspects in the pre-accession assistance:

- Enhancement of EU Asylum Policy and Practice (MS Greece)
- Development of the Operational Capacity of Cyprus to apply the Personal Data Protection Principles (MS UK)
- Maritime Transport: Strengthening the capacity of the Dept of Merchant Shipping (Classification Societies/ILO) - to be launched shortly with MS UK
- Social Insurance - Enhancement of admin. capacity - to be launched shortly with MS UK
- Public Procurement - to be launched shortly with MS Italy
- Ministry of Health: Implementation of EU Co-ordination Rules - currently selection procedure ongoing: MS UK and Spain submitted project proposals.

As regards regular Twinning projects (requiring the preparation of a Twinning Covenant and the secondment of a Pre-Accession Adviser), one Twinning project is currently ongoing, addressing the establishment of a National Drugs Monitoring Centre and the development of a National Drugs Strategy (MS Spain, junior partner Greece). The Twinning Covenant was signed in October 2003, project duration is 12 months.

Communication strategy

For 2002, 91% of funds have been planned and 63% committed. All funds must be committed by 31 July 2004. The tender dossier is being prepared for the production of a booklet and its distribution to all residential households for approval by headquarters, under Financing Memorandum 2003.

2.3. Results and Impact

State of play for JMC, M&A reports

An informal JMC meeting took place in November 2003 in Nicosia, during which the procurement and implementation of pre-accession programmes were reviewed. The final version of the Inception Report on the Interim Evaluation of pre-accession programmes for Cyprus was submitted in January 2004. The first official JMC meeting is scheduled to take place in the second half of March 2004.

EDIS

The Audit Unit of DG ELARG carried out in December a follow-up mission to the one that took place in September 2002. The mission covered three main areas: (a) a review of the system that has been established for EDIS, (b) a follow-up on the recommendations of the last report and (c) a follow up on the application of EDIS for Twinning projects.

Following the follow-up audit mission, the Cypriot authorities submitted to the Audit Unit of DG ELARG their training plan for registry officers, the minutes of the informal JMC meeting, a memo on the checks carried out by the Public Procurement Directorate, their Action Plan for Monitoring and Evaluation, and their application for the EDIS Twinning. In addition to the above, the Cypriot authorities will submit an update of job descriptions for people involved in EDIS as soon as the overall changes within the National Aid Co-ordinator's office are finalised, and will embark on a training needs analysis for Pre-accession aid, the Transition Facility and Twinning Projects.

Success story

Restoration of the Omeriye area in Nicosia, including the Omeriye Bath

Since the de-facto division of Cyprus in 1974, the two main communities of the island, the Greek Cypriots and the Turkish Cypriots, have been largely separated, residing south and north of the buffer zone respectively. With a view to this complex situation, the strategy of the European Union as regards the Cyprus issue has been to allocate one-third of the yearly pre-accession funds for Cyprus to so-called bi-communal projects. The objective of these projects is to establish and reinforce the links between the Greek Cypriot and Turkish Cypriot communities and to foster common experiences so as to lend support to reconciliation efforts. Since the political situation calls for a neutral stance towards the two communities, the majority of the EU-funded bi-communal projects are being implemented by UNDP via grants provided through its executing agency UNOPS.

In this context, substantial amounts have been given to UNDP/UNOPS to implement projects with regard to the rehabilitation of the Walled City of Nicosia, the last divided city in Europe. The restoration of the Walled City comprises both sides of the so-called Green Line that divides the city, and includes historically important monuments, infrastructure, the renovation of facades as well as the sensitising of the citizens of Nicosia via information campaigns.

An outstanding renovation sub-project of the 2000 pre-accession funds has been finalised in October 2003, illustrating vividly the dramatic metamorphosis and beautification of one prominent neighbourhood of Nicosia, namely the Omeriye area. Traditionally, this area has held high cultural and civic importance but is at present located close to the buffer zone. The focal points of this area are the Omeriye Turkish Baths and the Omeriye Mosque, formerly St. Marie Church of the medieval Augustinian monastery. The northern wall of the Omeriye Mosque and its gardens have been renovated, the complete overhaul and refurbishment of the Omeriye Bath complex has been achieved and the open spaces surrounding the historical landmarks have been renewed. The comprehensive rehabilitation has had a great impact on the neighbourhood, demonstrating a new vision of this area and attracting locals and tourists alike.

I.3. CZECH REPUBLIC

3.1. The year in review

Political developments

The coalition government of PM Spidla - composed of Social Democrats (CSSD), Christian Democrats (KDU-CSL) and Freedom Union (US-DEU) – continued to be supported by a very narrow parliamentary majority (101 seats out of 200). There continues to be a basic consensus though amongst political parties in favour of European Union membership.

President Havel retired in February 2003 after more than a decade in office. Vaclav Klaus, former Prime Minister and leader of the Civic Democrats (ODS), was elected as his successor by the Parliament.

The referendum on EU accession held in June showed a strong support for EU accession. A 77.33% majority voted in favour of EU membership, with a considerable voter turnout of 55.21%.

In 2003, the government pursued its programme of public finance reform and agreed on a first reform package aimed at reducing the growing deficit of public finances. The reform package was approved by Parliament in December.

Macroeconomic Developments and Structural Reform

The Czech Republic enjoyed a stable macroeconomic environment during 2003. The GDP growth is expected to have reached 3% according to preliminary figures (2% in 2002), boosted by household consumption and fiscal expansion. The general government deficit rose to 5.6% of GDP in 2003 according to preliminary figures, showing a significant deterioration in relation to 2002.

The Czech Republic recorded rather positive results in the area of monetary stability. The Czech National Bank (CNB) broadly succeeded in its goal of ensuring price stability. The year on year inflation rate temporarily slipped into disinflation during 2003. The Czech crown's fluctuations against the euro, the most important currency for Czech external trade, have also been moderate during 2003 compared to 2002.

However, in comparison with some other acceding countries, the Czech Republic was not able to fully exploit growth opportunities offered by the perspective of the EU accession. In addition, Czech GDP growth continued to be accompanied by significant imbalances not only internally (rapidly rising public debt and rising unemployment) but also externally (substantial Current Account deficit). The government proposed steps towards the consolidation of public finances aiming to bring the deficit down to 4% by 2006. A first reform package was approved by Parliament in December, and is expected to be followed by reform proposals in areas such as social benefits, pensions and healthcare.

Progress in meeting the *acquis communautaire*

During 2003, progress in legislative harmonisation has been noted in chapters such as the free movement of goods (public procurement), the free movement of services (insurance),

company law (trademarks) and taxation (VAT). 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 the free movement of capital (measures against money laundering), social policy and employment (measures concerning health and safety at work and anti-discrimination) telecommunications, culture and audio-visual policy (adoption of legislative amendments to the Broadcasting Act) or environment (delays in completing the legal alignment in the area of nature protection).

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, road transport, regional policy and financial control².

3.2. Pre-accession financial assistance in 2003

Programmes launched

A total allocation of over **€ 116 million** was made available to the Czech Republic under the **Phare programme in 2003**. 2 Financing Memoranda for the 2003 Phare National Programme were concluded in May and October. The first, for € 38.5 million, mostly concerned Institution Building measures, and was based on the gaps highlighted in the 2002 Regular Report, Accession Partnership and Action Plan. The second, for € 56.7 million, involved investments in the area of Economic and Social Cohesion and comprised of Structural Fund-like measures based on the preliminary National Development Plan. It should therefore enable the Czech Republic to have significant hands-on experience to prepare for EU funds which will be available after accession.

The whole National Programme therefore amounted to € 95.2 million and focused on the following:

- Improving the opportunities for the Roma in the areas of education, employment and housing (€1 million);
- Strengthening the competitiveness of the Czech Republic's market economy (€ 8.2 million) with a view to its full integration in the internal market, including improving trade inspection, energy efficiency, capital markets, banking, statistics and public procurement;
- Reinforcing the Czech Republic's institutional and administrative capacity to implement the *acquis* (€ 19.6 million), including the spheres of agriculture (e.g. improving food safety), the environment (e.g. implementation of EU environmental standards), justice and home affairs (e.g. training the judiciary, addressing trafficking in human beings), employment and social affairs (e.g. information systems for social protection), and public administration (e.g. improving financial control at the regional level);
- Preparing for the management of Structural Funds (€ 66.4 million), mainly through grant schemes to be managed by future Managing Authorities (e.g. schemes at the Ministry of Labour and Social affairs to help the unemployed or disadvantaged groups

² The information in this section is taken from the Commission's Comprehensive Monitoring Report for the Czech Republic (November 2003). A more detailed analysis of the Czech Republic's progress in meeting the *acquis* can be found in the Comprehensive Monitoring Report.

find work, at the Ministry of Industry and Trade to develop Small and Medium Sized Enterprises, and at the Ministry for Regional Development to fund measures to increase tourism).

In October 2003, three Financing Memoranda were signed for the 2003 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. A further Financing Memorandum on nuclear safety, for € 1.8 million was signed in December.

In 2003, the Czech Republic continued to participate in and benefit from Phare financed multi-beneficiary programmes, such as SIGMA, the Small Projects Programme and the Small and Medium Sized Enterprise Facilities.

Overview of programmes implemented

2003 saw the expiry of € 69.3 million under the following budgets: the 4 1999 Cross-Border Cooperation Programmes (with Austria, € 10.6 million, Germany, € 29.4 million, Poland, € 3 million, and Slovakia, € 2 million), the 1999 Large Scale Infrastructure Facility part 5, € 14.2 million (Brno Municipal Water Project), the 1999 Consensus 3 programme, € 2 million (4 twinning projects in the area of social affairs), and the 2000 Supplementary Investment Facility, € 8.1 million (the development of 4 industrial zones). All the programmes, except for Consensus 3, involved mainly infrastructure projects which were all completed on time. Contracting and disbursement rates for these programmes were very satisfactory (nearly 100% for the former, around 90% for the latter). It should be noted that problems were experienced during the implementation of some of these programmes, so that extensions had to be granted.

Projects are now being implemented under many programmes, including the National Programmes 2000 through 2003, the Cross-Border Cooperation programmes 2000 through 2002, Access 2000, and Nuclear Safety 2001. Overall implementation is satisfactory. Further projects are yet to be contracted and commence under the Cross-Border Cooperation programme for 2003, and the Nuclear Safety programmes for 1999, 2002, and 2003.

Phare management performance

All final payments were made in time under programmes which closed during 2003, while 6 programmes with an allocation of almost € 87 million were successfully contracted during the year, including the 2001 National Programme (€ 65.4 million) and the 2001 Cross-Border Cooperation programmes (€ 19 million). Over 96% of these funds were contracted, which continues previous high standards. As during 2002, the high contracting rate is mostly attributable to the speeding up of the procurement process, which allowed spare funds to be re-allocated to new projects.

Progress in future is looking bright since approximately 70% of the total allocation for the 2002 programme has been tendered, and close to 45% already contracted. Under the 2003 programmes, projects have already been launched, and, in some cases, contracts signed and implementation commenced. Progress with regard to twinning covenants has improved even on 2002.

Altogether, approximately € 75 million were contracted and € 85 million disbursed in 2003 as compared to € 120 million and € 78 million respectively in 2002. The percentage of total

Phare funds contracted and disbursed remained almost as for 2002 (contracted: 80% as compared to 81%; disbursed: 70% as compared to 69%).

National Development Plan (NDP)

The 3rd draft of the NDP 2004-06 was approved by the Government on 16 December 2002 and submitted on 3 March 2003. It was finally accepted by the Commission as the basis for negotiating the Community Support Framework (CSF) for 2004-06 on 7 May after a few conditions had been met in April. The Commission subsequently drew up its negotiating mandate, and negotiations themselves commenced on 3 July in Prague. Following 2 further rounds of formal discussion and a number of technical meetings, negotiations were concluded on 12 September. Agreement on the draft text of the CSF itself was reached at the end of October and the final version was informally approved from the side of the Commission on 18 December. The individual Operational Programmes (OPs) and Single Programming Documents (SPDs) were adopted by the Government in late January 2003, and submitted to the Commission in late February through to April. These were also informally agreed on 18 December. Though formal approval of these documents can only take place as of the date of accession (i.e. 1 May 2004), projects are eligible for reimbursement under the CSF as of 1 January 2004 provided that all relevant EU rules are respected. With regard to implementation of the CSF, the OPs, and SPDs, relevant capacity was increased, in line with the Government's Human Resource Development strategy, approved in mid-2003.

Institution Building Highlights

As in previous years, the main mechanism for strengthening the institutions of the Czech Republic was delivered via twinning. During 2003, 24 projects under the 2001, 2002 and 2003 National Programmes were endorsed and commenced implementation. In the same period 21 projects were completed which were financed from the 2000 and 2001 National Programmes. A total of 33 twinning projects are now under implementation. Projects are active, for example, in the areas of corruption and economic crime, tax and customs, the administration of public health, financial control at the regional level, and preparing for the management of the Common Agricultural Policy and Structural Funds.

The 12 projects under the 2003 National Programme were circulated to the Member States in the 1st quarter of 2003; 10 partners were selected in the 2nd quarter of 2003, and the remaining 2 in the 3rd quarter. Preparation of the covenants started immediately after selection in all cases bar 1, where a new PAA had to be selected. The EC Delegation organised a training seminar for the drafting of covenants in June. Endorsement of most Phare 2003 twinning covenants is expected during the first quarter of 2004.

2003 also saw the first twinning light projects completed successfully in the sectors of the environment, tax administration, and agriculture. A further 5 commenced in the sectors of business environment, data protection, home affairs, public administration and statistics.

One example of successful institution building took place at the Czech Supreme Audit Office. Under this 14 month project, which was completed in July 2003, a German civil servant provided expert advice on external financial control. Results included the creation of the necessary preconditions for the proper control of EU funds, a more effective use of information technology in auditing operations, and a swift application of the relevant international INTOSAI standards and European auditing directives.

3.3. Results and impact

State of play for JMC/SMSC development

2003 saw the most significant changes in the Phare monitoring and evaluation system since the year 2000. In the earlier year, the responsibility for formal monitoring was transferred from the Commission to the national authorities; in 2003 the responsibility for production of interim evaluation reports and ensuring follow-up and action was also handed over. The Commission hired an external evaluator, EMS, and therefore ceased to operate its own monitoring in the Czech Republic in July 2003. While this was fully in line with preparations for Phare to be fully managed by the national authorities after accession, due to the comparatively late dissemination of this information and some tardiness on the part of the national authorities, there emerged a significant gap in interim evaluation capacity of some 8 months (a new contractor to perform these evaluations should be in place by April 2004).

As to the monitoring system, this also underwent changes in 2003. As of September 2003 a new schedule and new templates were introduced by the coordinating Czech body, with 3 Sectoral Monitoring Sub-Committees (SMSCs) to be held annually for each sector (instead of 1 as in 2002). However, this turned out to be extremely time consuming, and the number is likely to be reduced, while the template may be simplified again. Furthermore, it is now apparent that this formal system is too slow and cumbersome to function as an early warning system. It is therefore hoped that the national authorities continue the Delegation's practice of holding monthly meetings with each beneficiary which allows for "real time" monitoring, and has been shown to be much more effective.

The Joint Monitoring Committee (JMC) was held on 20 June. As in 2002 a total of 16 SMCS were held covering all sectors. These also acted as debriefing meetings for the interim evaluation reports produced by EMS (see below).

In general, the Czech Republic is moving in the right direction with regard to monitoring and evaluation of Phare. However, ideally there needs to be more coordination between these bodies and those to be responsible for monitoring and evaluating post-accession funds, particularly the Structural Funds. 2003 did see some positive moves, with the initiative of creating an institution at the Ministry of Finance overseeing evaluation of all national funds (both from Czech and EU sources).

M&A Reports in 2003 (lessons learnt)

EMS only produced 6 sectoral reports, out of a maximum of 12, due to the fact that it ceased operations in July 2003. All reports were rated satisfactory. It also produced a country summary report presented at the JMC (no rating was given). Reports were of a high quality.

Recommendations proved useful and most were taken up and implemented. However, the horizontal recommendations presented at the JMC were even more relevant, including comments on the Phare monitoring system (limited effectiveness), the usefulness of interim evaluation if action is not taken (overall 45% of accepted recommendations agreed in 2002 were actually implemented), and the enforcement of conditionalities. These points have been registered, and should be taken into account in the monitoring and evaluation system once finalised by the national authorities.

A Phare funded contract produced 3 ex-post evaluations for the National Aid Coordinator's office during 2003, with 3 more to follow. The conclusions, as with the ex-post evaluations performed in 2002, were positive compared with normal interim evaluations, since the impacts of projects are easier to discern, and since day-to-day implementation issues, such as late payment, are seen from a more distant perspective. The recommendations from the reports have been taken up by the direct beneficiary and are being used in the programming of the Transition Facility. Where recommendations were for other bodies, they were communicated; however, the beneficiary has no method of enforcing them.

Sectors with positive results

With regard to the **political criterion** in 2003, 71 grants were made to Non-Governmental Organisations in 2003 for a total of over € 2.5 million, while more than 200 projects were implemented under grant schemes for approximately € 10 million. These mostly concerned improving the situation of social disadvantaged groups, such as the Roma or the elderly, and strengthening organisations active in the area of civil society. Technical assistance was also provided to the Ministry of Education (see success story box below).

2003 saw a very innovative and effective project in the **Justice** sector which supported the relatively new Probation and Mediation Service (PMS). This twinning supported the development of mediation proceeding as an alternative to criminal trials, the development of penalties other than imprisonment; such as community service orders and probation, and the strengthening of the system for the release and supervision of offenders on parole. The € 1.1 million twinning project commenced in January 2003 and aims at accelerating criminal proceedings via strengthening the PMS. Results of the project so far include 5 permanent trainers in the field, a set of national training materials, and the introduction of all 244 PMS staff to a range of probation methodologies. 100 staff also had the opportunity to witness at first hand how equivalent systems worked in 3 Member States. In terms of implementation, there has been excellent co-operation between both the Czech and UK partners, with a very solid commitment from the former and a high level expertise provided by the latter. So efficient has been the use of time and money that the project has been extended by 6 months until July 2004 with an expanded and deepened agenda. The project serves as a model for how the twinning mechanism should work.

In the area of the **environment**, the sewerage of the Czech Republic's 2nd city, Brno, was upgraded. The Phare financed project of almost € 14 million was completed on time in July 2003, and involved the improvement or laying of over 2 kilometres of sewers. The quality of the work is rated as excellent. The project is complemented by the parallel upgrading of the municipality's waste water treatment plant (approximately € 50 million) funded by a loan from the EBRD. The city contributed over 390,000 EUR in co-financing. Apart from improving the environment for the city's almost 400,000 inhabitants, the experience gained by the authorities involved has proven very valuable for ISPA and the Cohesion Fund, particularly with regard to coordinating a number of funding sources.

A twinning project completed in 2003 has tested whether the Czech administration is prepared to implement the EU **social security** legislation (Regulations 1408/71 and 574/72) dealing with cross-border payments of social security benefits and medical treatment costs, a huge agenda necessary for free movement of people. Hundreds of people from a number of "first contact" institutions were trained and tested, and necessary data processing systems have been implemented and tested. The practical knowledge of 377 executive officers was tested in processing model requests and applications on pensions, sickness and maternity benefits,

work accidents and occupational diseases, health care payments, family benefits and unemployment benefits. About 500 officials from all concerned institutions on both central and regional level received further training focused on gaps identified during the testing. The project also reviewed relevant administrative capacity of involved institutions and issued 66 detailed recommendations. Testing of the implementation capacity verified that the Czech administration should be ready to implement the EU social security coordination rules from the date of accession.

SUCCESS STORY

Support to Roma education/Multi-cultural education reform

€ 1 million (€ 0.6 million Czech co-financing)

2003 saw the implementation of 2 very significant projects at the Ministry of Education whose overall goal was to reduce discrimination of minorities, particularly the Roma, and to further their integration into society.

Since prejudicial attitudes are acquired early in life, and since the public intervention is easier in school rather than the home, the projects addressed primary education. The first targeted improving the environment for the education of Roma pupils, while the second looked at giving non-minority pupils positive images of different cultures and people. Both involved the development and testing of curricula and a system of monitoring and evaluation, extensive training of teachers as well as training of trainers, and the conduct of pupil surveys.

Though the projects started with a significant delay, the contractors made up for it with high quality and dedicated work, while cooperation between them was excellent. Their recommendations to the Ministry for the longer term are well considered and valuable, and there is evidence that their work directly led to a positive change of teacher attitudes towards the Roma.

Much now depends on the use of the project results by the Ministry of Education, and so far the signs are very positive. The outputs should be officially disseminated in the first half of 2004 at a large conference for concerned professionals and press, which should also be used as an opportunity for the beneficiary Ministry to announce a clear vision of the goal in this area and how to get there. Furthermore, a follow-up initiative is planned, which should receive funding from the European Social Fund or EQUAL.

I.4. ESTONIA

4.1. The Year in review

Political developments

The Government coalition entered office on 10 April 2003. The coalition is made up of centre-right newcomer Res Publica (the PM's party), the liberal-right Reform Party and rural-conservative People's Union. It declared increasing the birth rate and economic growth generated by knowledge-based R&D activities as its two main priorities. On 15 September, 67 % of Estonians voted in favour of joining the EU.

The Comprehensive Monitoring Report (CMR) published on 5 November confirmed that overall the functioning of the Estonian administration and judiciary continues to be satisfactory. There have been no major developments in public administration reform and the planned new Civil Service Act remains to be adopted. Further progress has been made in the area of judicial reform. However, a number of further reforms remain to be made. Corruption remains at a relatively low level. Nevertheless, Estonia needs to develop and implement a comprehensive national strategy for fighting corruption in the public sector.

Macroeconomic developments and structural reform

Estonia has continued to perform well with, in particular, strong GDP growth (6% in 2002), decreasing unemployment (9.1%) and decreasing inflation (3.6%). The implementation of Estonia's oil shale restructuring programme is continuing. However, there has been no progress as regards liberalisation of the electricity market (for which Estonia secured a transition period in the accession negotiations). Finally, in the light of the widening current account deficit (12.3% of GDP in 2002), it is noted that the expansionary fiscal policy, notably during 2002 and 2003, could pose a risk to macroeconomic stability.

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 been successfully implemented. Land reform has advanced steadily. An overhaul of the hospital system is ongoing.

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 and the fulfilment of the accession negotiation commitments is, overall, well on track. However, the CMR highlighted certain areas as requiring urgent efforts if Estonia is to be ready by the date of accession: labour law, equal treatment of men and women, and mutual recognition of professional qualifications in the healthcare sector. In these areas outstanding legislation must be adopted and effectively implemented.

A wide range of other areas were highlighted as requiring enhanced efforts, including adoption of legislation in fields such as fisheries, environment, free movement of goods, freedom to provide services and veterinary issues. Administrative capacity also needs to be reinforced in a number of key agencies and bodies, such as the Public Procurement Office and Financial Intelligence Unit.

4.2. Phare in 2003

Programmes launched (including National Programme objectives, CBC, multi- country & Community programmes)

A total of € 42.525.800 was allocated to Estonia under the 2003 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 2003 presented in three parts (2003/004-582, 2003/005-026 and 2003/005-850), and the Cross-Border Co-operation programme (Co-operation in the Baltic Sea Region 2003 – EE 2003/005-875).

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 2003 National Programme for Estonia was presented in three parts, allowing for an early implementation of the most urgent institution building projects. The Phare Management Committee approved the first part of the Phare 2003 National Programme in March 2003 and the Financing Memorandum was signed by the Estonian government and the European Commission on 9 June 2003, for an amount of € 12.5 million.

The second part of the 2003 National programme was submitted to the Phare Management Committee in July 2003, and the Financing Memorandum was signed by the Estonian government and the European Commission on 9 September 2003, accounting for € 23.5 million.

The third part of the 2003 National programme was submitted to the Phare Management Committee in October 2003 together with the 2003 CBC programme. Both Financing Memoranda were signed by the Estonian government and the European Commission on 16 December 2003, accounting respectively for € 3.5 million and € 3 million.

Phare funds are used to support institution building through twinning, 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 economic and social cohesion.

The Phare 2003 National Programme provides € 39.52 million for:

- Administrative capacity : € 7.57 million
 - Establishment of a customs laboratory - € 0.42 million (First Part)
 - Accession Facility - € 2.56 million (First Part)
 - Development of Structural Funds electronic information system - € 1.11 million (Second Part)

- Project preparation facility for EU assistance - € 2.33 million (Second Part)
- Twinning Light Facility - € 1.15 million (Third Part)
- Public sector - Financial management: € 1.84 million
 - Assistance to the Ministry of Finances in preparing the administration of the European Communities' Own Resources and participation in the EU budgetary process - € 0.54 million (First Part)
 - Strengthening Financial Management and Control System – Phase II - € 0.57 million (First Part)
 - Assistance to the Public Service Academy to develop taxation training curriculum - € 0.73 million (Second Part)
- Trade - Internal Market: € 0.65 million
 - Development of testing facilities for implementation of market surveillance - € 0.65 million (Second Part)
- Transport : € 1.1 million
 - Further alignment with the railways acquis and strengthening administrative capacity to manage its implementation - € 1.1 million (Second Part)
- Justice and Home Affairs : € 7.29 million
 - Enhancing border control and development of border surveillance at Estonian eastern Border - € 3.32 million (Second Part)
 - Extension of the Estonian Automated Fingerprint Identification System - € 2.18 million (Second Part)
 - Reducing corruption in Estonia - € 0.47 million (Third Part)
 - Support to the creation of a witness protection system - € 0.3 million (Third Part)
 - Improving investigation involving digital evidence - € 0.37 million (Third Part)
 - Building competence in European law in the Estonian judiciary - € 0.65 million (Third Part)
- Agriculture and Fisheries : € 3.28 million
 - Development of an IT system for the administration of EAGGF Guarantee section of the Rural development measures - € 0.4 million (Second Part)
 - Development of an IT system for the administration of market regulation measures - € 0.92 million (Second Part)
 - Development of plant protection products analyses in the Estonian Control Centre of Plant Protection - € 0.69 million (Second Part)
 - Upgrade of clinical veterinary medicine in Estonia - € 1.27 million (Second Part)
- Forestry: € 0.76 million
 - Strengthening of forest management in Estonia - € 0.76 million (Second Part)
- Environment : € 3.66 million
 - Development of the national hydrometric network according to EU standards - € 0.54 million (Second Part)
 - Development of the Estonian fuel quality management system - € 2.6 million (Second Part)
 - Programme for strengthening the civil society and preparing for Accession by supporting NGOs in implementing the environmental acquis - € 0.52 million (Second Part)

- Social Services : € 1.08 million
 - Implementation and further development of the national drug strategy - € 0.53 million (Second Part)
 - Development of administrative capacity of national authorities in the field of gender mainstreaming - € 0.55 million (Third Part)
- Economic and Social Cohesion : € 12.29 million
 - Support for Tourism Development - € 2.7 million (First Part)
 - Support for industrial infrastructure development - € 1.4 million (First Part)
 - Testing and notification of oil shale chemicals produced from oil shale - € 1 million (First Part)
 - Estonian Language Training and Teaching in Estonian for Non-Estonian Speakers - € 3.3 million (First Part)
 - Development of the Tartu Science Park - € 1 million (Second Part)
 - Development of the Tallinn Technology Park - € 0.24 million (Second Part)
 - Support to energy efficiency investments in municipalities - € 1.5 million (Second Part)
 - External Border Initiative for Estonia - € 1.15 million (Second Part)
- Community Programmes and Agencies: In 2002 sufficient funds were allotted to cover participation costs in 2003 (front-loading). Therefore, in 2003, Phare funds were not allotted within the national programmes to front-load participation in Community programmes and agencies for those countries, like Estonia, joining the Union in 2004.

In addition, € 3 million is allocated to the Co-operation in the Baltic Sea Region in 2003.

Short-term assistance was also provided by TAIEX on various issues, through visits of experts (on agriculture and veterinary legislation, VAT taxation of intra-community trade, etc.), conferences and seminars (on customs tariff classification for laboratory analysis, on adequate and sustainable pensions, presentation of the pre-notification database, etc.), study visits to Member States or the Commission (10). TAIEX also conducted 14 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 around € 500 million available to Estonia for the period 1992 – 2003. The national Phare programmes allocated around € 325 million 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 € 48 million under SAPARD from 2000 – 2003 for agriculture and rural development as well as around of € 120 million from ISPA for environment and transport infrastructure projects in the same period. The currently active Phare national programmes 2001-2003 add up to around € 100 million and are managed by the EC Delegation in accordance with the Deconcentration Instructions.

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. On 31 December 2003, 94.5% of the 2001 allocation were contracted and 94% of the 2000 envelope disbursed. 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 provided coaching to the Estonian authorities in this area and developed specific joint monitoring mechanisms such as procurement plans and reviews.

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 on 18 March 2003. Following negotiations with Estonia a final version of the SPD was favourably assessed by the Commission services in December 2003, and will serve as support for expenses incurred as of the eligibility date of 1st January 2004.

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. Furthermore an additional € 1.96 million was made available to support the establishment of a project pipeline for structural funds, and € 1.11 million for finalisation of the Structural funds electronic information system.

Institution Building Highlights

Implementation of Phare in Estonia is judged as particularly successful in the areas of Environment, Public Finance and Education, where Phare funds and projects provide real value added to scarce public funds. With a view to the start of Structural and Cohesion Funds support for Estonia in 2004, Phare has provided support through a number of Phare grant schemes in areas such as tourism, industrial infrastructure, cross-border cooperation, NGO support and for building of project pipelines. These have contributed to support government institutions in streamlining their administration and in supporting regional development. Similarly, the Twinning instrument continues to be used successfully in many priority areas and helped Estonia to prepare for the implementation of EU policies and laws.

4.3. 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 and in combination with the eight Sectoral Monitoring Sub-Committees (SMSC) for Agriculture, Economic Affairs, Environment, Justice and Home Affairs, Cross-Border Cooperation, Social Affairs, Education and Finance is a well functioning tool to review the progress and bottlenecks in Phare implementation based on monitoring reports. The monitoring system was reformed on the occasion of the third JMC on 12 March 2003

with further responsibility, including the co-chairmanship of the JMC and chairmanship of SMSCs, being handed over to the Estonian authorities.

M&A Reports in 2003

During 2003, interim evaluations were finalised on Internal Market (unsatisfactory), Environment (satisfactory), Economic and Social Cohesion (unsatisfactory), CBC and Environment (satisfactory), Aid-Co-ordinator sector (satisfactory) and Agriculture (unsatisfactory). Furthermore a country review was submitted in view of the JMC in February 2003. The interim evaluation contractor was phased out in the second half of 2003 and will be replaced by a new contractor in 2004. The reports generally stressed the need for the Estonian side 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. Estonian authorities were partly criticised for excessive delays in launching procurements and a lack of horizontal co-ordination between Government agencies.

Sectors with positive results

Besides the Education and Finance sectors, which continue to show positive results, the **Environment sector** is one of the most successful ones in terms of the management and implementation of projects. Projects in this area are generally well managed and implemented. Investments in waste water treatment and fresh water provision for local municipalities, as well as a number of institution building projects, have made a good impact and contributed significantly to Estonia's effort in implementing the EU's acquis in the field of environment.

Success Story

Estonian Master Tariff System: Phare support has been used to develop the new Estonian Master Tariff System, which is one of the key elements of the EU's Customs Policy that must be implemented by new Member States. The project succeeded in solving the compatibility problem between the declaration system ASYCUDA and the new TARIC system in an integrated solution. The Phare contribution consisted of € 2.1 million and the project was completed by the end of 2003 with a successful combination of Twinning with Sweden and private sector technical assistance. The system is designed for the needs of Estonia. It is obvious that Estonia will have one of the best TARIC systems in Europe at the time of accession on 1 May 2004.

I.5. Hungary

5.1. The year in review

Political developments

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

Accession to the European Union has continued to be a key priority for the Socialist-Liberal Government put in place after the April 2002 elections, and all political parties in Parliament.

The reform of the public administration at central level has been pursued. In line with the government's plan to streamline the sector, the number of civil servants decreased by 8% in 2003. As the final stage of the public administration reform, the government initiated the strengthening of regional and local levels of government.

The judicial reform implementation has continued and the efficiency of Courts has further improved. The backlog of cases has been reduced: 86% are terminated in less than one year at first instance. The salary of judges was increased by 50% in 2003. In line with the anti-corruption strategy a number of new measures have been taken in order to fight against corruption which continues to be a problem in Hungary. The so-called "glass pocket program" now allows the State Audit Office to follow the path of public funds in private firms as well. There is still a need to address police behaviour concerning the reported cases of ill treatment. In the public service media, although the government and the opposition are equally represented in the Presidium of the Boards of Trustees, the lack of representation of the bigger opposition party in the public service TV provides a basis for criticism.

With regards to the Roma minority, the institutional framework has been further strengthened. The adoption of the Anti-discrimination Bill in 2003 is a significant step forward. However, Roma policy is still not well integrated into general social development strategies. To tackle the problem of widespread discrimination of the Roma community in education, a new 'integration normative' was introduced for primary and secondary schools, and the number of scholarships available was increased. There were no significant achievement in the fields of employment, access to public services and health care.

Macro-economic developments and structural reforms

Hungary is a functioning market economy which has achieved a great degree of structural and nominal convergence with the EU. While the Hungarian economy continued to grow at a more moderate rate (close to 3%) in 2003, the macro-economic balances deteriorated over the year. The problem of twin deficits has become exacerbated by a policy mix of loose fiscal policy and tight monetary policy.

The previously credible and consistent monetary policy of the central bank was damaged by the devaluation of the central parity of the Forint in June 2003, bringing confusion in the financial markets. The credibility and transparency of the monetary policy has not been fully restored ever since resulting in an extremely high base rate (12.5%) and volatility of the domestic currency.

The combination of lax fiscal policies and high real interest rates, excessive real wage growth, and a weak external environment, have resulted in an overvalued currency and a sharp deterioration in Hungary's overall external position. By November 2003, the 12-month current account deficit had increased to 6.7% of GDP. Due to the low level of FDI and growing trade deficit, the current account has been financed through increase in net external debt.

The disinflation trend of the previous years came to a halt by mid-2003 and has been reversed. The consumer price index is expected to considerably increase in mid-2004 and remain above 6% for most of the year. The hike is due to the one-off increase of indirect taxes and deregulation of administrated prices.

The unemployment rate remains low by international comparison, although it saw a slight temporary increase in the first half of 2003. The three-month average rate of unemployment based on ILO standards was 5.5% in October-December 2003 and thus 0.4 percentage points lower than a year earlier. The average number of employed was 3.952mn in December, 63,000 higher than a year earlier.

Despite the economic problems, the Hungarian economy seems now on the course to recover primarily due to the pick up in export demand. On an annual basis, exports increased by 8% as compared to 2002, while imports grew by 10%. Following the stagnation of exports in the first half of the year the growth rate exceeded that of the imports during the last three months.

At present the fiscal performance is of main concern. The initial general budget deficit figure for 2003 was overshoot and ballooned to 5.8% by the end of the year. The ratio of public debt also started to increase and came close to the 60% threshold. A "mini-austerity package" was introduced by the government still last December aiming at reducing deficit by HUF 38bn, but more decisive fiscal correction has become necessary.

A new austerity package worth HUF 155bn was announced by the new Finance Minister designate at the beginning of January 2004, amounting to 0.8% of GDP. The Ministry of Finance submitted a plan to keep the 2004 deficit figure at 4.6% of GDP which is to be achieved primarily by expenditure cuts of public administration. The expenditure cuts will not affect the large infrastructural investments nor EU co-financing. To make public finances sustainable, however, it would require more strategic approach to restructure public expenditures and reform public administration.

The implementation of necessary structural reforms suffered further delay last year. The regional disparities in terms of the GDP/capita and unemployment rate were reduced only marginally during 2003. On the positive note, the liberalisation of network industries such as energy and telecom started in 2003. Another area where political commitments were made and preparatory work started is health care reform.

Progress in meeting the *acquis communautaire*

Hungary continued to make progress in aligning and implementing the *acquis* in most of the areas. At the end of the reporting period, i.e. less than 6 months before accession, Hungary had reached a very high level of alignment in the large majority of areas of the *acquis*.

The remaining gaps identified in the Commission comprehensive monitoring report (CMR) of November 2003 mostly concern the agricultural preparations, and, in particular, the

absorption of EU financial assistance and public health standards in agri-food establishments. These gaps are subject to short term actions plans developed by the Hungarian Authorities, and will continue to receive close attention until accession. Legislative alignment in the other areas identified in the CMR has been completed for the most part by the end of 2003.

5.2. Pre-accession financial assistance in 2003

Programmes Launched

The Financing Memorandum for the Phare 2003 National Programme for Hungary was signed in April 2003. It involves Phare funding of just over 101 million euro, of which 18 million euro is devoted to institution-building and 83 million euro to investment, including economic & social cohesion. The National Programme including the External Border initiative amounted together **107** million euro. The proportion of institution-building assistance was lower in 2003 than in previous years, because in many sectors Hungary has already completed the necessary institution-building to be ready for accession.

Additional Financing Memoranda confirmed Phare funding for the Cross-Border Co-operation Programmes with Austria, Romania, Slovakia and Slovenia, while the External Borders Initiative supports cross-border co-operation activities on the borders with Ukraine and Croatia.

The **2003 Phare National Programme** concentrates on several priorities. It finances efforts in the fields of:

- **Agriculture**, including a major software development project to complete Hungary's Integrated Administration and Control System (IACS), a system that is essential in order to manage payments from the EAGGF Guarantee Section. Two smaller projects cover the establishment of a National Phytosanitary Diagnostic Control System, and a programme for the prevention of rabies in Hungary.
- **Social Policy and Employment**, including a twinning project to share member state experience on how to integrate people with disabilities in the education system, and a grant scheme to allow public buildings to be made accessible to people with disabilities. In addition, as in previous years, grants will be made available to a wide range of civil society NGOs via the Access programme.
- **Justice & Home Affairs and Customs**, with five institution-building programmes to cover development of training programmes for judges, development of the National Operational Control IT System for the Border Guards, twinning assistance to the police units that deal with organised crime, financial crime and corruption, modernisation of police detention centres to improve health and living conditions, and support for the IT systems and product-testing laboratories of the Customs and Finance Guard.
- **Establish Capacity to utilise Structural Funds**, largely by three major grant schemes in the areas of education, human resource development, and regional development. These grant schemes were already defined in the Phare 2002 National Programme, and from the start it was intended to provide supplementary funding in 2003. The total funding for these grant schemes in 2002 and 2003, including national co-financing, is about € 150 million. They will be implemented across the seven NUT-2 regions of Hungary, giving regional actors valuable experience for their future involvement in management of EU Structural Funds. In addition, there are institution-building projects helping Hungary prepare for participation in the Community Initiatives EQUAL and INTERREG.

- **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.

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. The External Borders Initiative, covering activities in the border regions neighbouring Ukraine and Croatia, comprised € 5.3 million of Phare funding. 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.

In most sectors, Hungary has already completed the institution-building work required to be ready for EU accession. Therefore there were only five full-scale **Phare twinning projects** programmed in 2003. These are supplemented by a large number of **Twinning Light** and/or Technical Assistance projects, which are mostly funded out of Unallocated Institution-Building Envelopes from the 2002 and 2003 programmes.

Phare programme management

Hungarian performance in 2003 maintained the improved performance that was already evident the previous year. The contracting deadline for the 2001 programme fell at the end of November. 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 has always been 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 being cancelled, 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. However, there are encouraging signs that the contracting of the 2002 and 2003 programmes will be achieved much further in advance of the relevant deadlines.

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 applied in September 2003 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. This was followed by a gap-filling exercise in the first quarter of 2003 and a compliance assessment audit by independent consultants in mid-2003. Commission Services conducted a verification audit in late 2003, so that a decision can be taken early in 2004 on whether to grant EDIS accreditation to Hungary.

NATIONAL DEVELOPMENT PROGRAMMES – STATE OF PLAY

The Hungarian administration began preparation of its **National Development Plan (NDP)** towards the end of 2000. The NDP provides a strategy, based on a socio-economic analysis, for the implementation of the Structural Funds, and formed 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 NDP and OPs were completed and submitted to the Commission in the first quarter of 2003. Phare resources were used by Hungary to execute the *ex-ante evaluation* of the NDP and each of its Operational Programmes. These ex-ante evaluations started in January 2003 and continued for much of the year. On the basis of the NDP and the ex-ante evaluations, the Commission was able to prepare the Community Support Framework for Hungary, the draft of which was agreed by exchange of letters between the Commission and Hungarian government at the end of 2003.

Hungary prepared the following five OPs in parallel with the preparation of 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 provided resources to finance the ex-ante evaluations of the five Hungarian Operational Programmes. Those projects started in the first quarter of 2003 and were completed by the end of the year.

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

These Managing Authorities are now, at the beginning of 2004, fully staffed and operational.

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 Economic and Social Cohesion.

The **HU0008-01 *Regional Preparatory Programme for the Implementation of Structural Funds Regulations (RPP)*** started on 14/08/02 and had a life span of 18 months. With a € 4 million budget, the project involved four pre-accession advisors - three of whom were 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 institution-building project that contributed most directly to the development of the NDP and OPs, and to the establishment of the Managing Authorities, is **HU0105-01 *Completing preparations for Management of EU Structural and Cohesion Funds***. This project consists of three twinings:

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 in 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 was 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 in December 2002 and involves two PAAs - from the UK and Greece – who assist in the definition and strengthening of the structures for the Cohesion Fund, as well as helping 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 in July 2002 and involves one Pre-accession advisor 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.

Phare 2002 financed 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 assisted the Managing Authority for the Operational Programme for Agriculture, Rural Development and Fisheries and the unit

responsible for the management of rural development 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 Generation Facility, which became operational at the end of 2003, 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 programmes for 2002 and 2003 provided funding for **three large Grant Schemes** for Economic and Social Cohesion. These Grant schemes are as follows:

1. **2002/000-315.01.04** Combating Exclusion from the world of work (Phare funding from 2002 & 2003: € 16 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
2. **2002/000-315.01.05** IT in Primary School (Phare funding from 2002 & 2003: € 12 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)
3. **2002/000-315.01.06** Promotion of Integrated Local Development (Phare funding from 2002 & 2003: € 56 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

These grant programmes have been designed in a way to simulate Structural Funds practice within the limitations set by the Phare regulations. Measures financed under these Grant Schemes are intended to be continued under the Structural Funds-financed Operational Programmes.

5.3. Results and Impact

State of play for JMC / SMSC development

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 engaged 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.

M&A Reports in 2003

In 2003 the Hungarian National Phare Coordination took over greater responsibility for the interim evaluation process. Until mid-2003, the interim evaluation team was contracted and paid for by Commission Services. Starting at the beginning of 2004, the Evaluation Unit of the Hungarian National Coordination will contract its own interim evaluation report, but the reports produced will serve both as a management tool for the Hungarian administration and as an information tool for the Commission.

Sectors with positive results

While the 2003 programme is still in the contracting phase, a wide range of **successful results** have been achieved in earlier Phare programmes. In the **environment sector**, twinning advisors helped the national and regional Environmental Inspectorates with implementation of the IPPC (Integrated Pollution Prevention & Control) Directive. This project covered practical issues such as procedures for issuing permits in the fields of chemical, food-processing and metallurgical industry. It also helped Hungary to set up an IPPC database in order to fulfil its EU reporting obligations, and to set up a pollutant release and transfer register.

In the **Justice & Home Affairs sector**, Phare support was used to modernise offices of the Border Guards on or near the borders with Ukraine, Romania and Serbia, and to reconstruct the Central Aliens Policing Detention Centre in Nyírbátor. The same project also funded reconstruction of accommodation facilities for asylum seekers and refugees; this covered reception centres in Békéscsaba, Debrecen and Bicske, and open community shelters in Nyírbátor, Nagykanizsa and Balassagyarmat.

In the field of **Social Affairs**, Phare funding was used to create an IT system for epidemiological surveillance. This permits the rapid detection of the spread of infectious diseases so that preventive measures can be taken both in Hungary and in neighbouring countries. In the case of new diseases, rapid detection can be vital for the timely development and distribution of vaccines. In addition to the IT system, professional training was provided in epidemiology and microbiology for health inspectors.

Success Story

HU0002-01 Roma Social Integration Phare programme

The Roma Social Integration Phare programme started in September 2000 and finished in September 2003. Phare support amounted to 2.9 MEURO. The programme aimed at harmonising the social integration of the Roma with the mainstream of Hungarian society. It sought to ensure justice and equality of social opportunities for the Roma, while improving their social and economic situation in some disadvantaged regions. Enhancing co-operation and communication between the Roma and the institutions providing public services was also

one of the key objectives. Finally, the programme aimed at establishing an information database and network.

The programme consisted of 3 projects:

- Innovative Welfare Development Project with two schemes: infrastructural development scheme and community building in four micro-regions
- Anti-discrimination Actions Project with two components: institution building of Roma rights protection offices and implementation of anti-discrimination training courses in order to reduce and prevent discriminatory practices in employment, social care, housing, education, public administration and public safety
- Information Service Development Project: consisted of establishing a central database (the RomaWeb.hu), and creating a nationwide network built upon Roma Community Centers

The results of the program are visible in many small villages of the four selected micro-regions. The tangible outcomes of the programme are many and varied: roads, kindergartens, and pavements were built. During the community-building activities of the Grant scheme, summer schools and swimming courses were organized for Roma and non-Roma children, and Community houses and bio-gardening programmes were organised for disadvantaged adults. During the anti-discrimination actions four new Roma rights protection offices were established and eleven already operating offices were supported with IT, office-supplies and professional training. In the second project, 420 professionals from seven regions of the country participated in anti-discrimination training courses. Finally, the central database entitled RomaWeb.hu was launched in May 2003. It provides news and information about events and culture relating to the Roma communities.

The Commission continues its support for the Roma community under the 2001 and 2002 Phare programmes. Building on the experience of the 2000 programme, the ambitious 2002 programme (2,3 MEUR) has recently been launched with a view to reducing discrimination against the Roma minority. Among other activities, the programme will include a nation-wide media anti-discrimination campaign.

Tasks Ahead

Although the Phare National Programme and CBC Programmes of 2003 will be the last annual programmes of their type, the Comprehensive Monitoring Report published by the Commission in November 2003 still identified areas of the acquis where more work remains to be done. Therefore, a Transition Facility has been established making available € 36.7 euro over the years 2004-06 to allow Hungary to tackle these issues via the institution-building instruments of twinning, twinning light and technical assistance. As soon as possible after accession a full programming document for the 2004 Transition Facility, together with an indicative document for 2005 and 2006, will be presented for the approval of the Phare Management Committee. The Transition Facility will clearly be focused on areas that were highlighted in the Comprehensive Monitoring Report, such as agriculture.

The EDIS process should be completed in the first part of 2004. If the result of the Commission's Verification Audit is positive, then an EDIS decision should be in place by the date of accession. This will give the Hungarian authorities complete responsibility for the proper and efficient management of the Phare programme, without the ex-ante control and

supervision provided up to now by the Delegation of the European Commission. Provided that EDIS is granted, from 1 May 2004 Hungary will start to use its own national rules for Phare procurement. A new set of national procurement rules, compliant with EU public procurement directives, entered into force in Hungary on 1 January 2004. It is now important to develop the related set of manuals and guidelines for users, so that Phare Implementing Agencies can easily switch to these rules after accession.

I.6. LATVIA

6.1. The year in review

Political Developments

The coalition government established after national elections in 2002 remained in power, despite significant internal differences. On 20 September, Latvian citizens convincingly voted in favour of accession to the EU. In the aftermath of the accession referendum, controversies related to the government's anti-corruption policy and PM Repse's managerial style resulted in a governmental crisis, however the parties were temporarily able to overcome it and keep the coalition working until the end of the year.

Latvia continued to implement the reform of public administration. Introduction of the unified pay system was however postponed until early 2004.

The reform of the Latvian judicial system has continued. Some progress in legislative and administrative provisions could be observed. The backlog of court cases diminished somewhat in 2003, but significant efforts were still required to ensure an independent and efficient functioning of judiciary.

In the field of societal integration, naturalisation has continued, but the rate needs to be further increased. Amendments to the education law were proposed with regard to the transition of public minority secondary schools to the Latvian language of instruction, scheduled to start on 1 September 2004. The adopted standard of secondary education provides that 40% of instruction will still be provided in a minority language (the so-called 40/60 principle).

MACROECONOMIC DEVELOPMENTS AND STRUCTURAL REFORM

GDP growth remained strong at 6.1% in 2002 and accelerated further to 8.8% in the first quarter of 2003 year-on-year. Private consumption and gross fixed capital formation were particularly robust and became the driving factors for growth, while export growth was relatively high and outpaced import growth.

Despite high private consumption growth, inflation decreased to 2% in 2002 and picked up to 2.5% in April 2003. High growth contributed to lower unemployment, which decreased from 12.8% in December 2001 to 11.6% in December 2002.

The privatisation process continued, albeit with some controversies, with the sale of the shipping company (LASCO) and the remaining government stakes in Latvijas Gaze and Krajbanka. The government expects to complete the sale of remaining shares in Ventpils Nafta and Lattelekom, though several problems have caused delays. Restructuring plans are being put in place for public enterprises which are not expected to be privatised such as Latvenergo and the railway company.

The tariff system for public utilities services is being overhauled to reflect more cost-recovery mechanisms and open the markets to higher competition, although competition is still low. The pension reform is being implemented as foreseen, setting the grounds for a more sustainable pension system. The land market reform is well advanced. Significant problems

remain in the agricultural sector, which continues to be dominated by small farms where productivity remains very low. A number of active labour market initiatives have been put in place and are producing satisfactory results, but further efforts are necessary to decrease structural unemployment and regional disparities in terms of income and unemployment. Despite increased efforts, more focus is needed on developing entrepreneurship and innovation activities and decreasing corruption.

PROGRESS IN MEETING THE “ACQUIS COMMUNAUTAIRE”

Latvia has reached a high level of alignment in most policy areas. In certain areas Latvia only partially meets the commitments and requirements and needs to make enhanced efforts in order to complete its preparations for accession.

According to the Comprehensive Monitoring Report of November 2003, Latvia must take immediate and decisive action to address 4 so-called “red” issues of serious concern. The list of these issues and the progress in these areas are given below:

| | | |
|------------|--|---|
| Chapter 2 | Mutual recognition of professional qualifications: transpose and implement directives | Overall relatively little progress, some in veterinary practice |
| Chapter 7 | Veterinary issues: ensure TSE transposition and alignment; establish incineration plants (animal by-products) and collection systems | Limited progress has been achieved |
| Chapter 10 | Administrative co-operation and mutual assistance: implement information technology systems (interconnectivity of VIES) | Almost full compliance |
| Chapter 25 | Operational and administrative capacity: implement computerization and interconnectivity systems | Significant progress |

6.2. PHARE IN 2003

Programmes launched

A total of 49.07 MEUR was allocated to Latvia under the 2003 Phare budget to support Latvia’s accession to the EU. Phare support to Latvia was channelled through the following programmes:

- Phare National Programme (45.65MEUR)
- Cooperation Programme in the Baltic Sea Region (3 MEUR)
- Horizontal Programme for Community Support in the field of Nuclear Safety (0.42 MEUR)

On 19 September 2003, the Latvian authorities and the Commission signed the Financing Memorandum for the **2003 Phare National Programme**, which focused on the following priorities:

- *Political Criteria* (5.309MEUR), including promotion of the integration of society in Latvia and strengthening of civil society, strengthening the Corruption Prevention and Combating Bureau;
- *Internal Market* (3.442MEUR), including market surveillance in the food sector, market surveillance medicinal products and medical devices, protection of intellectual and industrial property rights;
- *Agriculture* (2.904MEUR), regarding strengthening the market administration system and operation of the Land Parcel System.
- *Social Policy, Employment and Public Health* (4.160MEUR), including co-ordination of social security systems, employment strategy (infrastructure), strengthening the Public Health Agency, eradication of rabies amongst wild animals;
- *Energy* (0.390MEUR), for setting up an Oil Stock Reserve System;
- *Regional Policy and Co-ordination of Structural Instruments* (17.220MEUR), including external borders initiative, capacity building in the regions and economic and social cohesion;
- *Co-operation in the Field of Justice and Home Affairs* (5.950MEUR) including development of state border control system, police training, strengthening the capacity of the judiciary;
- *Customs, Public Finance and Overall Administrative Capacity* (6.274MEUR), including Integrated Tariff Management System (ITMS) and risk assessment, tax control improvement, public funds external audit, Institution Building Facility.

On 28 January 2004, the Financing Memoranda for Cross-Border Co-operation Programme in the Baltic Sea Region for Latvia 2003 and Horizontal Programme for Community Support in the field of Nuclear Safety were signed by the Latvian authorities and the Commission.

In 2003, Latvia also participated in Phare-funded multi-country and horizontal programmes, such as horizontal EDIS programme, 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, Enterprise & SMEs, Combating Social Exclusion, Incentive measures in the field of employment, Civil Protection Mechanism, Environmental Protection, The 6th EC Framework Programme on Research, The 6th Euratom Framework programme on Research, eContent, IDA II, Fiscalis 2003-2007, Customs 2007, Media Plus/Media-Training, Community action in the field of public health. It is also affiliated to the European Environment Agency.

Overview of programmes implemented

In the **Public Finance** sector, the project on Public Expenditure Management, consisting of twinning and technical assistance, was completed successfully in 2003. Another twinning project on Public Finance was launched in 2003. It aims at helping the Latvian administration prepare for Structural Funds in terms of implementation structure and the setting-up of a system for monitoring and control of EU funds.

In the **Internal Market** sector, a project for improving Quality Assurance System in Latvia, including both technical assistance and supply parts, was successfully finalized in 2003. The three main institutions implementing the quality assurance system, Latvian Standards Ltd., Latvian National Metrology Centre and Latvian National Accreditation Office have worked out their development strategies. The preparation of implementation plans, based on these approved strategies, is the next task to ensure sustainability of the results of the project. Two Projects regarding the Market Surveillance System in Non-food Area and Food Chain surveillance have started implementation.

Concerning the **Statistics** sector, a project on development and upgrade of Data Management System was finalized in 2003. Regional restructuring of the Central Statistical Bureau (CSB) has started. Projects on Survey Expansion and CSB Personal Knowledge Enhancement have been successfully completed during 2003; however, it is unclear if the CSB will be able to continue its current survey activities without external financial support. A twinning project with Danish partners on implementation of Intrastat in Latvia commenced before the end of 2003.

In the **Social** sector a twinning project between Latvia and Spain on Legislation Approximation in the Field of Occupational Safety And Health was completed. A twinning project with German partners regarding Promotion of Bi-Partite Social Dialogue continued in 2003 and was extended into 2004.

Significant assistance was provided to the **Tax and Customs** sector. The State Revenue Service benefited from a twinning project between Latvia and Denmark on developing taxpayers and customs clients support system, which was finalized in 2003. Another twinning project with a partner from Denmark started in 2003, with the aim to improve the administrative and operational capacity of tax collection and control. Specific IT and tax and customs equipment have been provided to the State Revenue Service and Customs Board in 2003. Significant progress has been made on Customs Interconnectivity (interoperability of systems). Construction of Border Inspection Points on railways and sea-ports has finally been started.

Concerning **Regional Development**, under the Phare 2000 Economic and Social Cohesion (ESC) grant scheme nine projects (seven for Latgale, two for Zemgale) were successfully implemented during the year 2003. The Phare 2001 Economic and Social Cohesion (ESC) programme focused on national milestone projects in the forestry and knowledge economy sector. One major project, the Jekabpils Forest Industry Business Park was accepted for funding under the ESC 2001 programme. The project combines investments in business related infrastructure with human resources development activities in three different locations in Latvia (Jekabpils, Jelgava, Ventspils).

The ESC investment projects continued to be accompanied by technical assistance projects to improve the management and monitoring of ESC projects and to prepare for Structural Funds implementation. 2003 also saw the completion of a Twinning project aiming at the development of institutional and administrative capacity for regional development.

In the **Agriculture** sector, a twinning project for Developing Management Mechanisms of the Latvian agriculture in line with the Common Agriculture Policy was ongoing throughout 2003. Contracts to purchase IT software and hardware to be used for the Integrated Administration and Control System (IACS) at the Rural Support Service were signed and deliveries are ongoing. A twinning project for strengthening the capacity of the Latvian Food

Chain Surveillance institutions in accordance with the EU food safety legislation commenced in 2003. A twinning light project aimed at aligning the Latvian TSE/BSE Control system with the EU veterinary *acquis* in this field started in November 2003.

A twinning project in the **Fisheries** sector was completed in 2003. This project supported the Latvian administration in Development of a Strategy for aligning its fisheries sector with the *acquis* requirements and especially the Common Fisheries Policy (CFP).

In the area of **Society Integration**, a pilot grant scheme was implemented under the Society Integration programme 2000, including projects focusing on the situation of the Roma in Latvia, civil education for integration of local communities and NGO involvement in decision making.

Technical assistance was provided by the Non-Estonian Integration Foundation for the set-up of the Society Integration Foundation (SIF) for the strengthening of long-term sustainability and efficiency of the SIF. A call for proposals for grant projects under the society integration program 2001 was published in June 2003 and 121 project applications were received. Grant contracts were concluded regarding 24 activity projects and 7 scientific research projects. Direct award of a standard grant contract was concluded with the Latvian Language Programme Unit (LLPU). In 2003 Phare continued to support the **Latvian Language Training Programme** through the Latvian Language Programme Unit (Ministry of Education and Science). Focus was put on developing teaching materials and training teachers in view of the bilingual education reform, and promotion of society integration initiatives among schools.

Regarding **Cross Border Cooperation (CBC)**, Small and Medium-sized project funds, the process of concluding the CBC 2001 contracts finished in 2003. Thirty-five such grant contracts have been signed with the beneficiaries. The projects promote economic and social activities in areas such as small-scale regional development, tourism, environment or cultural exchanges and are spread all over Latvia. Implementation of CBC 2000 projects was finished in 2003.

Under **Cross Border Cooperation (CBC)** investments, an environment project upgrading the existing sewerage systems was undertaken, involving construction of a new waste water treatment plant in Aizpute and a pressure pipeline from Grobina to Liepaja waste water treatment plant was ongoing in 2003.

In the area of **Home Affairs**, 2003 saw the completion of a twinning project on the Development of a Latvian Drugs Strategy and a Survey on Drug Abuse in Latvia. However, the results of the projects were mixed. While results were achieved for supply reduction and the survey was carried out successfully, the project did not result in the establishment of the National Focal Point. Five border posts/border guard stations in Olaine, Krivanda, Lavosnieki, Terehova and Skilbene on the border with Russia, were co-financed by Phare in 2003. Implementation of the twinning project on Asylum and Migration Management System continued. A large number of projects started. Among these - a twinning project on Combating Organized Crime (Phare 2001) and on Improving the Capacity of the Analytical Unit in the State Police (Phare 2002). Several supply and technical assistance projects are ongoing in support of these programmes. In the area of **Justice**, only a project to raise Public Awareness for the Latvian Witness Protection Programme started.

Concerning **Civil Society**, the implementation of the 2000 ACCESS programme was significantly delayed due to discussions on implementation mechanisms. Finally 100 project proposals were received. 25 grant contracts (3 macro-projects, 21 micro-projects and 1 networking facility project) were signed at the end of 2002 and their implementation was finalized in 2003. Implementation of the 2001 Civil Society Development project (grant scheme) has started. A call for proposals for the grant scheme was published in June 2003, receiving 115 project applications (99 micro and 16 macro) and eventually contracted (15 micro projects and 3 macro projects) in November 2003. A technical assistance contract for the development of a national strategy for civil society is under implementation. The call for proposals for the 2002 Civil Society Development grant scheme is scheduled for beginning of 2004.

In the **Transport** sector, implementation of a twinning project on Maritime Safety continued throughout 2003. An extension of the implementation period was however necessary in order to achieve all objectives.

Regarding the **Energy** sector, a project on Energy Sector Restructuring was completed in 2003. The project performed well in producing the requested analysis of the existing situation and in drafting legal amendments necessary to reform the framework of Latvian legislation.

In the area of **Nuclear Safety**, a twinning project aimed at assisting the Latvian authorities in establishing the legal framework, and training human resources for implementation the EU requirements on Health Protection of Individuals against the Dangers of Ionising Radiation in relation to Medical Exposure commenced in 2003. Supply contracts, which among other aspects will also provide for the upgrade of a reference standard laboratory, were signed and deliveries are ongoing. A technical assistance project was concluded which will specify a conceptual design of additional disposal vault and integral storage facility for long-lived radioactive waste in Baldone.

Phare Management Performance

The overall contracting figure for the 2001 Programme by the end of 2003 landed at 84% and disbursement rate at 22% of the National Programme allocations. The contracting rate for 1998 programmes was 99% and the disbursement rate 93%. For 1999 programmes 99% was contracted and 96% disbursed; accordingly for 2000 programmes 95% contracted and 91% disbursed. For 2002 programmes, which have just started, the corresponding rates for contracting and disbursement are 28% and 11% respectively. There is an unusually high backlog of 16.72% and extension of the contracting deadline was granted for several Phare 2001 projects. Delays in tendering and contracting could be explained i. a. by introduction of PRAG in 2001 and the new Financial Regulation and subsequent new Implementing Rules and New PRAG in 2003, and lack of market responsiveness. 22 requests for derogations from standard procedures were notified by the Latvian authorities in 2003. There are no cases of alleged fraud in Phare-financed projects.

NDPs – State of Play:

During the year 2003 the Single Programming Document (SPD) was finalized and negotiations between the Latvian authorities and the Commission services were concluded in December. The drafting of the SPD was supported by short-term expertise in the framework of the regional development Twinning project and by a Technical Assistance project for the ex-ante evaluation of the Development Plan. In parallel the drafting of the Programme

Complement, which provides further details on the measures and the implementation system, has been on-going.

Institution Building Highlights

In 2003, most of the Institution Building projects were implemented through the twinning mechanism. A total of 6 projects for an overall amount of 6.26 MEUR were finalised:

- Strengthening Latvia's Fisheries Administration to meet the requirements of the Common Fisheries Policy;
- Upgrade of the Latvian Statistical System in accordance with EU requirements;
- Development of institutional and administrative capacity for regional development;
- Public expenditure management project;
- Development and implementation of Latvian drug control and drug abuse prevention master plan in accordance with EU recommendations;
- Development of Integrated Latvian Border Management.

Twinning projects assisting 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 were on-going.

A further nine projects started in 2003 – sea border surveillance, customs business strategy, customs data systems, market surveillance in non-food sector, food chain surveillance, employment strategy, public finance management, state police and intra-community trade statistics.

Twinning partners active in 2003 were Finland, Sweden, United Kingdom, Austria, Italy, Spain, France, Germany, the Netherlands, Greece and Denmark. Selection rounds for 2003 twinning projects were on-going and Twinning partners have been selected, except for two projects *Integrated Tariff Management System and Risk Assessment* and *State Border Control* where projects will be re-circulated.

For Twinning Light a simplified procedure was introduced in order to increase its speed and flexibility, instead of a full project fiche only Terms of Reference of the project are required for the formal approval.

During 2003 contracts have been concluded for 3 Twinning Light projects: *Support for the Preparation of the Community Initiative INTERREG III, Administrative Capacity Building of Governmental Bodies and Social Partners in Gender Mainstreaming Development and Implementation*, and *Competition council*. All three projects are financed from Phare 2001 Twinning Light facility. Under Phare 2002 Twinning Light Facility projects started in rights and obligations of asylum seekers, preparation of ratification of EUROPOL convention and its protocols, strengthening the infrastructure of Statistical Service for monitoring effectiveness of National Social Policy and EU Integration, and TSE/BSE control.

For the Twinning Light projects in national energy inspection; improvement of accounting legislation, standard setting and administration; strengthening tax policy department, and improvement of performance of public sector institutions Terms of Reference were circulated to Member States and a selection process was on-going.

As of 1 December 2003 the responsibilities of NCP for twinning were taken over by the European Integration Department of the Ministry of Finance. The former NCP, European Integration Bureau was reorganised.

6.3. Results and Impact

State of Play for JMC/SMSC development

The last Joint Monitoring Commission (JMC) before Accession was held on 21 January 2004 to supervise progress of EU-funded assistance in 2003 and to provide recommendations on the management of Phare programmes. This was preceded by two sets of Sectoral Monitoring Sub-Committees (SMSCs), both reviewing all programmes. Two Monitoring Reports (on Public Finance and Justice) for the second SMSCs that took place on 16-17 October 2003 were sent back for revision to the various ministries as the quality was considered too poor.

The SMSCs were held on the basis of 16 Monitoring reports (Justice, Social, Twinning Light, Civil Society, Society Integration, Home Affairs, Regional Development, CBC, Transport, Environment, Nuclear Safety, Public Finance, Agriculture, Quality Assurance/Market Surveillance, Energy and Statistics). 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 EC Delegation and the National Coordinator's Services were discussed and agreed upon, and follow-up action from previous SMSCs was examined.

M&A Reports in 2003

As of July 2003, the NAC Office (Monitoring division of EU funds Department) has taken over the whole responsibility for organising Interim Evaluation in Latvia. Upon the initiative of Delegations, funds for Interim Evaluation were included in the Phare National Programme for 2003.

The EMS local contractor carried out interim evaluation of Phare projects for Agriculture, Home affairs, Statistics, Public finance and Justice (Integration society) sectors. The Ministry of Finance carried out interim evaluation for the Social sector.

Sectors with positive results

In the area of Public Finance, the project on Public Expenditure Management with UK and Irish partners has helped strengthen internal and external auditing, public procurement and budget procedures. The project has also been particularly helpful for carrying out public administration reform. A method for reviewing non-profit organisations to be transformed into Agencies was developed and assistance was provided to the newly set-up Agency Teams.

With the assistance of the Dutch partners, the Rural Support Service will be ready to manage mechanisms of the EU Common Agricultural Policy as of the day of accession.

Success Story

A project for Preparing Qualified Auto Mechanics for the Labour Market in Latgale Region for Transit Service Industries was finalised under the Phare 2000 Economic and Social Cohesion programme. The project was located in a small municipality in the Latgale region, only 12 kilometres from the Russian Border. Transit traffic from and to Russia has substantially gained importance in the last years without adequate services being established in the region. The project therefore aimed at benefiting from the growth potential in the transit service sector and intended to improve the level of knowledge in light and heavy vehicle service companies and in related educational institution through a number of integrated activities such as creation of the auto transport information centre, actualisation of curricula, equipment for the training laboratories, training of trainers (teachers and technical instructors) and organisation of training courses for light and heavy vehicle service companies managers' and technical staff of the Latgale region.

Based on a thorough analysis of the regional strengths (transit traffic services) this project has turned into a success story due to enthusiasm of the project promoters and the excellent co-operation between all stakeholders (municipality, school, SMEs). Furthermore, the beneficiary has been active in documenting and informing about the progress of the project.

I.7. LITHUANIA

7.1 The year in review

Political developments

In contrast to the relatively stable scene in Lithuania over recent years, 2003 has seen a number of major political events occur.

The second round of the Presidential elections at the beginning of the year saw the election of Rolandas Paksas, leader of the relatively small Liberal Democrat party. Paksas was running against the favourite candidate and incumbent President, Valdas Adamkus. Paksas offered a broad continuity in foreign affairs (NATO and EU membership remaining the top priorities) and “cohabitation” with the Social Democrat PM Brazauskas.

In October, the State Security Department published evidence linking presidential advisers to criminal organisations, some with links to Russia. In parallel an investigation was carried out into the role of the President in the awarding Lithuanian citizenship to his biggest campaign supporter, the Russian Jurij Borisov. The constitutional court found that in using illegal expedited procedures President Paksas had broken the constitution. An impeachment process has since been initiated by the Seimas (Parliament) against the President.

2003 has also been the “European year”, firstly with the referendum on EU accession in May, which led to a 91% positive vote in the two-day poll. This followed the signature of the Accession Treaty in Athens on 16 April, paving the way for Lithuania’s EU membership as from 1 May 2004.

Macro-economic developments and structural reforms

Lithuania has made sustained progress on all economic indicators during 2003, continuing trends from 2002, with one of the highest growth rates in Europe (estimated at +8,9 % of GDP). The main sources of GDP growth were in domestic consumption: retail, construction, and industrial sectors, and from the government's investment program, especially in the third quarter. Consumer prices declined 1.3 percent in Lithuania in 2003.

The privatisation process came to a halt during the first three quarters of the year, which substantially reduced private domestic investment activity.

By December, Lithuania had implemented around 70 percent of the total government investment programme. Lithuania’s expectations for 2004 are also high: the investment programme of the country is 40 percent above the previous year's level. Lithuania's official international reserves grew by 19.3 percent in 2003 and totalled EUR 2.762 billion at the end of December 2003.

Lithuania's current account deficit reached EUR 0.676 billion in the first nine months of 2003, accounting for 5.8 percent of the country's GDP. The Central Bank of Lithuania has announced that the nine-month current account deficit has grown by 57.3 percent compared with the same period in 2002.

Unemployment continues to be the main economic and social concern in Lithuania. Although unemployment fell by 1.3% between first and fourth quarters, from 10.9% to 9.6%, the figures are still high. This trend may also be partly due to a change in statistical methodology rather than an actual reduction.

The aggregate nine-month profit of all domestic companies, excluding the financial sector, reached EUR 866.66m, a rise of 53.6 percent compared to the January-to-September period of 2002. Lithuanian industrial sales rose by 16.2 percent in the first 11 months of 2003, compared with the same period in 2002. Companies operating on domestic markets, construction companies and retailers in particular, made higher profits in 2003. Mazeikiu Nafta (Mazeikiai Oil), the oil refinery managed by Russia's YUKOS, accounted for the largest share of aggregate profit of domestic companies.

Progress in meeting the “Acquis Communautaire”

2003 continued the positive trend of previous years. Lithuania has made notable progress in *acquis* transposition and implementation. Administrative capacity has increased in the NAC, the NAO, the CPMA (the sole Phare implementing agency) and beneficiaries. The institutional structure to manage Structural and Cohesion Funds was completed and legally approved last September.

Lithuania has reached alignment with the *acquis* in most areas. Phare projects, especially using Twinning, have played a key role in providing the Lithuanian administration with the assistance necessary to continue with reform and preparations for membership of the EU. In the Comprehensive Monitoring Report of November 2003, two areas of specific concern were identified where immediate action needed to be taken to ensure readiness by the state of Accession. These were **free movement of persons**, relating to Lithuania's preparations for mutual recognition of qualifications and also **fisheries**, as regards inspection and control in relation to resource and fleet management.

7.2. Phare in 2003

Programmes launched

By the end of 2003 the following Financing Memoranda had been signed, with a total value of over €102million:

- The 2003 Phare National Programme for Lithuania with an allocation of €67 million, including the horizontal programme for nuclear safety and the Kaliningrad Transit Programme. The programme comprises 22 Institutional Building and Economic and Social Cohesion projects. The largest amounts of Phare funds are allocated to the sectors of agriculture (€12.63 million), justice and home affairs (€11.57 million), economic and social cohesion (€8.8 million), public administration and public finance (€8.16 million). Finally, an unallocated institution building envelope of €2.5 million 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 light and technical assistance as well as small procurement.
- The economic and social cohesion part of the 2003 Phare National Programme involves 4 projects, including the project preparation facility for Objective 1 support. These will contribute to further development of tourism, information society and prepare the ground

for the establishment of greenfield investments. The project preparation facility will contribute to technical preparation for implementation of the planned large investment projects that might be supported by ERDF financing from accession.

- The Special Action on Kaliningrad Transit, with a Phare allocation of €12 million aims to guarantee proper control of transit of passengers between the Kaliningrad region and other parts of the Russian Federation through the territory of the Republic of Lithuania resulting from the use of the FRTD/FTD (Facilitated Rail Transit Documents/Facilitated Transit Documents) scheme and to make the FRTD/FTD system operational by the 1 July, 2003.
- Phare External Border Initiative 2003 with a Phare allocation of €2.9 million includes two projects. The first project aims to support cross border co-operation at the future EU external borders as well as the efficient implementation of INTERREG IIIA programmes, and will do so through local capacity-building efforts. The second and larger project covers the development of the Nemunas river on the Lithuania – Kaliningrad border region as a basis for improved tourism and economic activities.
- Cross Border Co-operation Programme in the Baltic Sea Region in 2003 with a Phare allocation of €3 million. This programme places a special emphasis on supporting human resource development projects and the development of and co-operation between NGOs in the Baltic Sea Region. It will be implemented through two schemes, one for small projects (€1 million) and one grant scheme for medium projects (€2 million). Projects can only be supported if they have a strong and demonstrable CBC content.
- Programme for Community Support in the Field of Nuclear Safety for 2003 for Lithuania with a Phare allocation of €2.7million. This programme consists of 3 projects. Two projects are to provide regulatory assistance to the Lithuanian Nuclear Safety Authority (VATESI) to ensure that appropriate levels of safety are maintained at Ignalina Nuclear Power Plant (INPP), and improve their capability to assess safety related issues. The aim of the third project is to design, construct and equip a facility for radioactive waste processing and storage at Maisiagala. An unallocated contingency fund is also foreseen in the programme.
- Special PHARE programme to Support the Decommissioning of Nuclear Power Plants and Consequential Measures in the Energy Sector for Lithuania in 2003, with a Phare allocation of €30 million this project aims to assist Lithuania's preparation for membership of the EU in relation to the nuclear and energy sectors, above all by facilitating the preparation and implementation of Lithuania's early closure commitment. This will be achieved through further support to the first phase of decommissioning of the Ignalina NPP and measures required for the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors, and improving energy efficiency. This support will be delivered to the operator, via the Ignalina International Decommissioning Support Fund managed by the European Bank for Reconstruction and Development (EBRD), as well as directly to the Lithuanian Nuclear Safety Authority (VATESI). Total contribution from this programme since 1999 amounts to €210 million.

Overview of Programmes Implemented

Lithuania has been receiving Phare support since 1991. During the period from 1991 to 2003 Lithuania has received support through Phare national programmes amounting to €550 million. Effective transfer of know-how 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 etc.

In 2003 the projects financed from 2000 Phare programme were successfully completed. Support was provided in economic criteria, internal market, agriculture and fisheries, transport - especially in the Maritime Safety sector, employment, social affairs and health, justice and home affairs, institutional and administrative capacity.

Assistance was provided to strengthen different actors to effectively and efficiently enforce bankruptcy procedures and enterprise restructuring; to finalise the transposition of EC acquis in the area of free movement of goods, in particular with relevance to market surveillance; strengthen the operation of the Lithuanian Customs department, with a particular focus on its regional administration; to strengthen the operational functioning of the independent Communications Regulatory Authority; further harmonisation with Eurostat requirements, in particular support was focused on the improvement of regional, business, agriculture and price statistics and social indicators, essential for participation in the EC's agricultural and regional policies.

Support was also provided for the strengthening and enforcement of the food control system; strengthening the capacities of relevant institutions to manage and administer the EC acquis for agriculture (CAP) and rural development; strengthening the capacities to manage and administer the Common Fishery policy; strengthening capability to combat illicit drugs; budget management and financial control.

At the end of 2003 the first Phare Economic and Social Cohesion programme was completed. Phare Economic and Social Cohesion, as a pilot pre-Structural Funds instrument, was first launched in Lithuania in 2000 and focused on business and human resource development in the three target regions of Lithuania: Klaipeda-Taurage, Marijampole and Utena. In spite of the difficulties encountered during the preparation for the implementation period of the programme, which mainly resulted from lack of experience of all sides in managing such type of programme, the aims of the programme were successfully achieved.

Phare management performance

Phare management performance in terms of contracting and payments is satisfactory. At the end of the contracting period for the 2001 Phare programme **97,22%** of the funds were successfully contracted. The number of cases in which contracting was finalised very near the contracting deadline diminished compared to the previous year, although still remains relatively high.

NDPs – state of play

Preparation of the draft National Development Plan for the period 2004 – 2006 (Single Programming Document – SPD) started in early 2002. The Single Programming Document will serve as the basis for distribution of the Structural Funds support after Lithuania's accession. The draft SPD was finished and submitted to the Commission at the end of March 2003. Negotiations started at the beginning of September and were successfully completed at the end of the year.

The current draft SPD sets 4 major investment priorities (the 5th is technical assistance):

- investment in the 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 information society and human capacities 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 adaptation and development of rural areas, agriculture and fisheries seeking to increase the quality of life of rural inhabitants.

A Monitoring Committee was set up, according to Government Resolution N.1476 dated November 27, 2003. The Committee consists of representatives of the ministries, regional and local authorities, and social and economic partners. The first meeting of the Committee will take place on the 5th of February 2004, and should take decisions on the draft Programme Complement, project selection and monitoring criteria.

Institution Building Highlights

Twinning remained the key institution-building instrument for Lithuania. In the 2003 programme, 11 Twinning projects worth a total of €9.5 million were prepared. Selection meetings for twinning projects under the 2003 National Phare Programme were organised in June 2003, and were followed by the normal selection procedure. Twinning assistance is planned in the areas of tax revenue collection, capacity and establishment of taxpayer call centres, customs, public external audit, infectious animal diseases, food safety control, plant protection and plant variety identification, measurements in chemistry, mass, length and temperature. Twinning assistance is also envisaged in the field of prosecution, the establishment of a national SIRENE bureau with a concomitant infrastructure, enhancing the administrative capacity of the National Consumer Rights Protection Council and promoting the activities of public consumer organisations.

In order to address specific urgent and unforeseen institution building needs, the flexible and fast instrument “Unallocated IB Envelope” was again included in the Phare 2003 programme, with a higher amount allocated (€2.5 million). That instrument was included following the positive experience from the Phare 2002 implementation and great demand from the beneficiaries. In 2003 the “Unallocated IB Envelope” will have a special objective: The main stream of assistance will be concentrated on the major issues highlighted in the Comprehensive Monitoring Report.

7.3. Results and Impacts

State of Play for JMC/SMSC development

The JMC/SMSC mechanism was established and has been fully operational since early 2000. Monitoring meetings of the committees were held in accordance with the schedule approved by the last JMC meetings, which were held on 18 June 2002 (approved the schedule for the 1st half of 2003) and 27 June 2003 (approved the schedule for the 2nd half of 2003). The latter Joint Monitoring Committee was co-chaired by the Commission and the Ministry of Finance, and established this procedure for the remaining pre-EDIS meeting in 2004. It also established an amended list of SMSCs:

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. Nuclear Safety
8. Transport and energy
9. Public administration reform, public finance and customs

In 2003 each SMSC met twice. Discussions at the meetings were based on the information provided in the Monitoring Reports. The information presented in 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 institutions preparing the monitoring reports can draw on the methodological assistance provided by the staff of the National Aid Coordinator (Ministry of Finance), which is also responsible for ensuring the quality of the monitoring reports.

In principle the SMSC/JMC scheme is functioning smoothly and is equally spread throughout the entire year, although greater ownership needs to be taken by the Lithuanian authorities.

M&A Reports in 2003

As of mid 2001 the responsibility for monitoring and assessment, now called interim evaluation, was split between the country and the EC. The monitoring reports prepared by the beneficiary institution are submitted to the Monitoring Sub-Committee meetings via the National Aid Coordinator and form also the basis for the interim evaluation. The external consortium of independent evaluators (EMS) hired by the EC has produced interim evaluation reports annually on the various monitoring sectors covering all Phare assistance provided to Lithuania until July 2003.

In mid 2003 the responsibility for the Interim Evaluation (IE) function was transferred to the National Aid Coordinator (Ministry of Finance).

On 27 October 2003 the Ministry of Finance signed a contract with the Public Policy and Management Institute (Lithuania). This contract covers provision of evaluation on Phare pre-accession aid, and provision of TA to Lithuania in establishing the evaluation function and development of a National evaluation Strategy. Under this contract 4 sectors will be evaluated: Agriculture and Fisheries, Environment, Justice and Home Affairs, Employment, Labour and Social Affairs and Health.

Furthermore, following the local EMS Transfer of Know-How plan, the NAC and the EMS local evaluator arranged a series of workshops where monitoring and evaluation issues were discussed.

1.1.1. Sectors with Positive Results

While the 2000, 2001 and 2002 Phare ESC Programmes mainly concentrated on the implementation of grant schemes as a means for pilot-testing of the capacities to absorb the future structural assistance, the **2003 Phare Economic and Social Cohesion programme**

mainly supports larger investment projects which will pilot capacities of Lithuanian institutions and organisations to design, implement and manage projects of the Structural Funds type.

In the sector of **Public Administration, Public Finance and Customs**, a successful Phare assistance for the Lithuanian National Audit Office has been provided. The Twinning Project “Strengthening administrative capacities of the Lithuanian National Audit Office aimed at practical implementation of *acquis*” lasted from April 2002 till October 2003. The main partners of the Lithuanian National Audit Office were the National Audit Offices of the United Kingdom (leading partner), Denmark and Sweden.

The Project offered great support to the Development of the Lithuanian National Audit Office: pilot audits performed by the mixed teams of auditors led to major improvements of Financial Audit and Performance Audit Manuals, discussions with foreign experts and application of their proposals to the local context contributed to approval of the Regulations of the Lithuanian National Audit Office Council, Personnel Development Strategy, Implementation Plan of the Information Technology Strategy of the Lithuanian National Audit Office and other major strategic documents.

Under the **Cross-Border Co-operation Programme in the Baltic Sea Region 2001 (CBC)**, €3 million were allocated for the Small Project Fund (€1 million) and Grant Scheme (€2 million). The CBC programme supports the development of relations and local, regional and NGO co-operation in the Baltic Sea Region. The contracted projects (total amount for projects – €4,227 million, of which €2,989 million are from Phare funds) assist in developing the socio-economic co-operation of cross-border regions, tourism information system, integration of mentally disabled people into the free labour market, developing a technology park/business incubator concept in Lithuanian cities, construction of sewerage collection system in Silute, and development of social care services in Alytus city.

In the **Nuclear safety** area the Phare programme further contributed to the improvement of the safe operation of the Ignalina NPP. Assistance was provided for the implementation of a Diverse Shutdown System (DSS) in the Unit 2 of the Ignalina NPP and to the Lithuanian Nuclear Safety Authority (VATESI) for the review and licensing of the DSS.

In the Justice and Home Affairs sector, EC assistance has further contributed to the strengthening of security facilities at the EU future external borders and enhancing the capacities of relevant authorities in the field of migration, asylum as well as fight against organised crime and corruption.

In the **Social Sector**, preparations are now fully under way to prepare Lithuania for the Free Movement of Workers, with advice being provided to assist the adoption of the EU law on mutual recognition of qualifications, as well as the social security system co-ordination that is required by the Directive 1408/72. Support has continued to SoDra (the social insurance fund) in assisting, through IT development, the development of a fully modern administration to handle social security claims and payments. 2003 also saw the end of the Access NGO support programme. This programme, and its predecessors, have helped strengthen the third sector in Lithuania over the last decade including building up project management capacity. Over 40 projects were financed under the last programme, in the Environmental and Social spheres.

Success Story

2003/004-315 “Kaliningrad Transit Programme”

On 28 February 2003 the Financial Memorandum of the Phare Special Action on Kaliningrad Transit was signed. Under the Phare project 2003/004-315 "Kaliningrad Transit Programme", assistance is provided for the Ministry of Foreign Affairs, the State Border Guard Service under the Ministry of Interior and the Police Department under the Ministry of Interior.

The objective is to enable the Lithuanian authorities to prepare for and operate the new acquis as of July 1, 2003. The Lithuanian authorities should be able to meet the additional costs of adequately operating the new acquis agreed at the political level, during the pre-accession period, and put in place a structure which will provide the basis for its continued effective operation in the years after accession.

The project was designed and delivered within a short timeframe, with the programming phase taking only about 3 weeks, and over 80% of the contracting being carried out successfully by the 1st of July 2003.

This project benefited from an exception to normal tender rules granted by the Commission, and saw impressive co-operation between all concerned.

I.8. MALTA

8.1. The year in review

Political developments

The accession negotiations with Malta were successfully concluded on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003.

The division between the two big parties on the issue of accession to the EU had been central to Maltese political life in recent years, the Nationalist Party in government being in favour of accession and the Labour Party being opposed to it. The Maltese people have definitively opted for membership at an accession referendum on 8 March 2003, where 53.65% of the Maltese people voted in favour of accession and 46.35% voted against. This was confirmed at the general elections held on 12 April, which were won by the pro-EU accession governing party with 51.8% against 47.5% for the Labour Party.

Both results (referendum and general elections) can be considered as a big victory for the pro-EU accession camp. The Malta Labour Party is entering in a process of re-electing its leadership and reconsidering its position towards EU accession.

Malta has proposed its current foreign minister, Mr Joe Borg, to be the future Maltese Commissioner when it joins the EU on 1 May 2004. The former Chief Negotiator and Prime-Minister's closest adviser, Richard Cachia Caruana, will very likely be appointed Permanent Representative for his country to the EU.

The Comprehensive Monitoring Report (CMR) published on 5 November 2003 confirmed that Malta continues to fulfil the Copenhagen political criteria. As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Maltese public administration and judiciary, but there is room for further improvements.

In 2003 Malta has taken further measures to improve the quality of the civil service as well as the judicial system and 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.

In the field of public administration, the current efforts to bring about more efficiency and accountability across the public service need to be continued. The reform of the judiciary needs to be pursued in order to further decrease the backlog of pending judiciary cases and improve the functioning of the small claims tribunal. As regards the fight against corruption, Malta should adopt a comprehensive anti-corruption strategy, taking into account the recommendations of the Council of Europe's Group of States against Corruption.

Macroeconomic developments and structural reform

Economic activity remained weak, affected by low external demand and the downturn in the tourism sector. Although GDP growth resumed in 2002, it remained below potential at 1.2%.

The twelve-month average rate of inflation decreased to 2.2% in 2002. Although the Maltese lira depreciated against the euro, the impact on import prices was moderate, influenced by modest domestic demand.

The unemployment rate increased to 7.4% in December 2002. The employment rate is relatively low at 55.2 % in 2002. Developments in the private sector largely explain the increase in unemployment, as low activity in tourism and industrial restructuring in manufacturing accounted for significant job losses.

The current account deficit is estimated to decrease slightly to 3.9% of GDP in 2002. An improvement in the visible trade deficit, to which lower imports of capital goods largely compensated for a deterioration of the services surplus caused by a fall in tourist arrivals.

The general government deficit decreased to 6.2% of GDP in 2002 from 6.8% in 2001, remaining well above the levels previously estimated by the government. Interest rates were cut in December 2002 and May and June 2003, mirroring lower interest rates in Malta's major trading partners. Growth below potential, lower inflation and the lack of pressures on foreign reserves were decisive for the interest rate cuts. Very substantial efforts are necessary to guarantee the sustainability of public finances in the medium term.

Progress with structural reforms has been mixed. The privatisation process resumed in 2002 with a sale of shares of Maltapost and Malta International Airport. On the other hand, a number of technical and economic reasons have delayed the privatisation of the Freeport and Air Malta. The plan for dismantling import levies on manufactured goods proceeded as expected, with the final stage accomplished in January 2003. A new programme for dismantling remaining levies on agricultural and food products has been established. Early retirement schemes have been introduced as a major step in the restructuring process of the shipyards and Maltacom. The liberalisation of the telecommunications sector has proceeded as planned, reaching its final phase with the liberalisation of international calls and fixed telephone services in January 2003. A plan for reforming the energy sector has been drawn up and should form the basis for introducing competition in the market. Although restructuring of public enterprises is under way, more far-reaching measures need to be implemented, leading to higher productive efficiency and supporting fiscal consolidation.

Progress in meeting the *acquis communautaire*

Malta has reached a high level of alignment with the *acquis* in most policy areas.

However, the CMR highlighted certain areas as requiring urgent efforts if Malta is to be ready by the date of accession. This concerns the field of state aid in the **competition policy** chapter, where Malta must enhance its efforts to implement its commitments regarding the restructuring of its shipyards; the field of **agriculture**, as regards the setting up of a Paying Agency, the implementation of the Integrated Administration and Control System, external trade mechanisms, and transmissible spongiform encephalopathies (TSEs) and animal waste treatment; and the **transport** field, as regards maritime safety.

A wide range of other areas were highlighted as requiring enhanced efforts, in fields such as public procurement and the non-harmonised area on the **free movement of goods**; requirements for mutual recognition of professional qualifications in terms of the **free movement of persons**; the right of establishment and the freedom to provide non-financial services in the area of **free movement of services**; and, within the area of **company law**, the

protection of intellectual and industrial property rights; in the **agriculture** area, it concerns organic farming and the farm accountancy data network; the common market organisations for wine and alcohol, beef, fruit and vegetables and olive oil; rural development; in the veterinary field, as regards veterinary control systems, public health in agri-food establishments, common measures, animal nutrition, phytosanitary issues; and as regards structural actions in the **fisheries** policy; direct **taxation**; health and safety at work, public health, the European Social Fund, and anti-discrimination in the area of **social policy and employment**; **telecommunications and information technologies** including postal services; the legislative framework and financial management and control for **regional policy and co-ordination of structural instruments**; legislative alignment and implementation in waste management and nature protection as concerns **environment** policy; market surveillance and non-safety measures in the area of **consumer and health protection**; the Schengen Action Plan, and asylum in the area of **justice and home affairs**; **external relations**, as regards bilateral agreements with third countries.

8.2. Pre-accession financial assistance in 2003

Programmes launched

Following the adoption of the Council Regulation (EC) No 555/2000³ 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 Accession Partnership, Regular Reports, on the NPAs, and on the level of readiness of the projects proposed.

The 2003 National Programme for Malta, amounting to € **12.68 million**, was the fourth pre-accession 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; all projects retained for pre-accession funding will have an impact on the process of adoption and enforcement of the *acquis*.

The Phare Management Committee approved the 2003 Pre-accession programme on 7 February 2003, and the Maltese government and the European Commission on 24 April 2003 signed the Financing Memorandum, accounting for €12.68 million.

Following limited internal reallocations, the 2003 programme covered the following objectives:

- Environment
- **Construction of an Urban Waste Water Treatment Plant in Gozo (€ 3.7 million):** preserve, protect and improve the quality of the marine environment by meeting the requirements set out in the Urban Waste Water Directive 91/271/EEC.
- **Technical Assistance in the Environment Sector (€ 0.35 million):** provide specific services in environmental audits, environmental monitoring and information systems required to facilitate and promote compliance with obligations arising from Chapter 22 - "Environment".

³ OJ L 68 of 16/03/2000, p. 3.

- Agriculture
 - **Institutional Capacity Building at the Ministry of Agriculture and Fisheries (MAF)-(€ 1.35 million):** create an efficient and effective agricultural administration, in Malta and Gozo, which is capable of programming and managing the various EC rural development instruments necessary for the successful implementation of the 2004-2006 Rural Development Plan (RDP).
 - **Pilot Rural Development Support Schemes (€ 0.91 million):** initiate the process of restructuring of the Maltese agriculture and to start and develop a project pipeline that will ensure rapid and efficient take up of EU finance available under the RDP in 2004; to gain knowledge in the development of proposals in the rural community and to experience application of RDP measures by MAF.
 - **Capacity building - Oenology Unit (€ 0.45 million):** strengthen the capacity of the Ministry of Agriculture and Fisheries in Oenology, setting up an efficient Oenology Unit within the Department of Agriculture to be able to implement and monitor the *Acquis* on wine in particular emphasis on Council Regulation (EC) 1493/99.
- Transport
 - **Maritime Safety through Implementation of the Maritime Transport *Acquis* (€ 0.825 million):** ensure that the Malta Maritime Authority has the required technical capacity, equipment and human resources to implement European Union standards in improving maritime safety through the monitoring of maritime traffic.
 - **Feasibility and Environmental Impact Studies for Transport Infrastructural Projects (€ 0.82 million):** prepare a project pipeline, complete with Environmental Impact Assessments and appropriate Feasibility Studies, for co-financing under Structural / Cohesion funding upon accession.
- Internal market
 - **Implementation of the Data Protection *Acquis* (€ 0.5 million):** implement the data protection obligations under the *Acquis* supporting the capacity building of the Office of the Commissioner for Data Protection so as to be fully operational to be able to implement the Data Protection Act.
- Justice and home affairs
 - **Strengthening of Malta's capacity in Border Control (Phase II) (€ 0.567 million):** strengthen Malta's administrative and operational capacity to implement the Schengen *Acquis* related to border control.
- Administrative capacity
 - **Modernisation and Upgrading of the Operational Capacity of the Customs and Tax Departments (Phase III) (€ 0.6 million):** continue with the implementation of the Business Change Management Plan under the EU reform and Modernisation Programme for Customs and Taxation in order to upgrade the operational capacity of the tax departments (Customs, VAT and Inland Revenue) according to Customs and Taxation Blueprints.

- **Technical Assistance and Administrative Co-operation (€ 2.208 million):** strengthen the institutions and administrative capacity for the full application of the *acquis communautaire*.
- **Administrative co-operation TAIEX (€ 0.4 million):** continue with the support Malta participation to TAIEX activities through the existing PHARE multi-beneficiary Programme. Activities include seminars, training, workshops, expert and study visits, provision of tools and information products for among others, translation and interpretation activities, as well as the necessary co-ordination and monitoring, in close co-operation with Member States and Commission services.

In addition, Malta is participating in some MEDA programmes, such as EUMEDIS (Networked Journeys, Information Society Focal Point), Euromed Heritage II (IKONOS, Navigation du Savoir) and Regional Maritime Transport Projects.

The Delegation also manages the ATA facility to assist various civil society groups to familiarise themselves with EU institutions and procedures.

Overview of programmes implemented

Since 1978, a total of €168.5 Million have been allocated to Malta, of which €130.5 under 4 “old generation” protocols prior to the accession process and a further €38 million have been allocated under the pre-accession programs for the 5 year period 2000-2004 (Council Regulation 555/2000). In 2004, there will be additional funds available under the Transition Facility. In addition, Malta is eligible to participate in MEDA programs.

In 2003, the implementation of the 2000, 2001 and 2002 Pre-accession National Programmes continued. The 2002 National Pre-accession Programme for Malta, amounting to € 9.5 million, was dedicated to Institution Building (€ 8.3 million), and to the participation in Community Education programmes (€ 1.2 million).

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

Till the end of 2003 a total of € 35.68 million has been allocated under the National Programs for Malta for 2000, 2001, 2002 and 2003 of which 50% have been contracted and 34% have been disbursed.

At the end of December 2003, the contracting and disbursement rates for each national programme is as follows.

| National Programme | Allocation (Million) | Contracting | Disbursement |
|---------------------------|-----------------------------|--------------------|---------------------|
| 2000* | 5.3 | 98% | 81% |
| 2001 | 7.5 | 85% | 60% |
| 2002 | 9.5 | 58% | 40% |
| 2003 | 12.68 | 2% | 1% |

* inclusive of allocation for Malta's participation in Education Programmes, separate FM MT00/02 900.000 Euro.

Extensions were granted for the disbursement of the 2000 programme until 31 March 2004, and for contracting of three projects under the 2001 programme until 1st April 2004.

Financial and technical co-operation with Malta suffered slight delays in 2003 due to many factors, in particular the very high workload at Maltese ministries' level. To assist the Maltese authorities in implement the necessary tendering and contractual procedures, a dedicated Task Manager has been appointed by the Delegation since 2001.

NDPs - State of Play

Malta submitted the draft Single Programming Document (SPD) for Structural Funds for informal Commission comments in May 2003. A final draft SPD was submitted to the Commission on December 5th 2003. Following negotiations with Malta a final version of the SPD was favourably assessed by the Commission services on December 19th 2003. The formal approval procedure of the agreed programming document can take place once Malta has become a Member State of the European Union. The SPD will serve as support for expenses incurred as of the eligibility date of 1st January 2004.

The preparations for Structural Funds were supported by a Twinning project financed under the 2001 pre-accession programme. A close co-operation between the Regional Policy Directorate and concerned Services of DG Enlargement and DG Regio has been established since the very early stage allowing for the timely submission of a good document.

Institution Building highlights

The Twinning Projects of the NP 2000 (IACS) as well as NP 2001 (on Regional Policy, Justice and Home Affairs, Occupational Health and Safety) have all been finalised during the course of 2003. All Twinning Projects of 2002 have started in 2003 and are actually in the full implementing phase. They cover diverse sectors such as Maritime Transport, Environment and Agriculture. The three Twinning projects of the NP 2003 (on Rural Development with the Netherlands, Oenology Unit with Italy, Data Protection *acquis* with the UK) are due to start in early 2004. The main Twinning partners for twinning and twinning light remain the UK and Italy.

The Maltese authorities have identified the Twinning Light procedure to be the best viable mechanism for the local needs and circumstances. The faster and less complex proceedings and the scope of Twinning Light is often sufficient for the very aim to be achieved, particularly in small-size Malta.

In addition to that, short-term assistance to institutional and capacity building was sometimes provided by way of framework contracts (AMS 451). The most important tender during proceedings of the year 2003 was the “Feasibility and Environmental Impact Studies for Transport Infrastructure Projects Malta”, which could be awarded in early 2004.

8.3. 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 in Malta, which does not foresee sub-sectoral committees as such. In practice, the sub-committee meetings, with participation of 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. In line with the current and revised JMC Mandate, it was suggested to Maltese NAC to have one SMSC session covering all sectors before the relevant JMC meetings.

Two Joint Monitoring Committees have already taken place in 2003 to follow the projects, on 3-4 February and on 9-14 July 2003. The next JMC is programmed for 29/30 March 2004.

On the occasion of the JMCs, the spending of the EU pre-accession funds is carefully monitored by the Commission services and the Maltese responsible authorities. 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 2003

The Interim Evaluation contract for pre-accession programmes in Malta has been awarded to the company Particip GmbH. The contract started its operation on 1 October and will run until 31 December 2004. The kick-off meeting of the contract as provided by the Terms of Reference has been successfully held in Malta on 15 December 2003. Due to the active co-operation with the NAC all line ministries are on board. The scope and timetable of the two interim evaluation reports and one Country Summary Report covering the entire ongoing programme has been agreed. The first draft of the first Interim Evaluation Report will be submitted in February 2004 and the first draft of the second Interim Evaluation Report will be submitted in November 2004.

EDIS related Action Plan on decentralisation of Monitoring and Evaluation

Regarding the EDIS related Action Plan on decentralisation of Monitoring and Evaluation, the NAC will submit its Action Plan in February 2004.

Sectors with positive results

The Agricultural sector was identified to be one of the biggest and most ambitious challenges for Malta’s Accession. With a view to having the CAP infrastructure ready upon accession (IACS, Paying Agency, CAP co-ordination) considerable improvements could be made from September 2003 onwards.

Since September 2003, the Agricultural Ministry has greatly improved in the implementation of IACS and the Paying Agency. In these four months, the Manuals and Farmer application

process have been prepared and a unique database to manage the assistance schemes to the farmers has been elaborated. Thanks to the possibility to crosscheck the various measures, such databases allow the implementation of an ex-ante control.

At this stage, presuming that the Ministry will continue in the implementation of the IACS Paying agency system with its present speed, such software and the related preparation of all the Farmer Application service should be ready by March 2004.

Success story

Special Preparatory Programme to the Structural Funds (0.54 M Euros)

This project, implemented under a twinning project carried out by the Balearic Island (Spain), was revealed to be a great success. It allowed the transfer of know-how to the Maltese authorities and enabled them to specify the tasks and responsibilities of the future Management Authority and Intermediary Bodies under Structural Funds, thereby greatly strengthening their administrative capacity. It gave the basis for a future efficient use and management of the Structural and Cohesion Funds. One of its major achievements resulted in the elaboration of a high-quality Single Programming Document from the side of the Maltese Regional Policy Directorate. At this occasion, the Commission (DG Regio) could express its satisfaction to the Regional Policy Twinning team for the quality of assistance provided to the government.

I.9. POLAND

9.1. The year in review

Political developments

Poland continues to fulfil the Copenhagen political criteria.

Since March 2003, the electoral grouping of the Social Democratic Alliance (SLD) and the Union of Labour (UP) form a minority government. Poland's political institutions have continued to function properly and in a stable manner. Following the signature of the Accession Treaty and a successful referendum on accession, 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, the legislation and structures necessary for the proper functioning of the civil service are in place. The 1999 civil service law is generally in accordance with EU standards, however, implementation of the law has proved difficult. Poland has made further progress in reforming the judiciary and in creating conditions to allow for a reduction in the most pressing bottlenecks. Efforts are still needed to improve the efficiency and transparency of the judicial system, while access of the public to legal aid remains limited.

Corruption remains a cause for serious concern. While progress in implementing the government's anti-corruption strategy has been made in terms of legislation adopted, the actual impact has been rather limited.

The 2003 Comprehensive Monitoring 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.

Macro-economic developments and structural reforms

Poland has maintained a stable macroeconomic situation and is experiencing a gradual recovery, mainly driven by external demand. GDP growth increased from 1.4% in 2002 to 3.7%. The improved trade deficit has been the main reason why the current-account deficit decreased from 3.6% of GDP in 2002 to 1.7% in December 2003. The consumer price inflation stayed at a very low level and stood at 1.7% in December 2003, which is a major achievement for a country which experienced inflation rates of thousands of percent in the early 1990s.

The gravest and still unresolved economic problem is unemployment. Recorded unemployment fell to 18.0% or 3.175 million people at the end of 2003 (which is 20.0% under the new calculation method, using internationally comparable measures). The inflow of foreign direct investment continued to fall. The budget deficit planned for 2003 was not exceeded, however, the public debt level increased to close to 50% of GDP. The pace of privatisation has stalled since last year, both in terms of privatisation transactions and the budgetary revenues.

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.

Progress in meeting the “Acquis communautaire”

Poland has reached a high level of alignment with the *acquis communautaire* in most policy areas. Six months before the date of accession, it has become clear that Poland is expected to be in a position to implement the *acquis* as required in a large number of areas. However, nine issues of serious concern have been identified, relating to the fields of agriculture, fisheries and free movement of persons. The administrative capacity in specific areas of the *acquis* shows that for most of them administrative structures are in place, but only in a few cases has the capacity reached an optimal level.

9.2. Phare in 2003

Programmes launched

A total of €459.523 million was allocated to Poland under the 2003 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 three programmes: the *Phare National Programme* (8 objectives - with a budget of €402.8 million), the *Cross Border Cooperation Programme* (€56 million), and the *Horizontal Programme for Community support in the field of Nuclear Safety* (€0.723 million). Moreover, Poland participated in Phare multi-beneficiary programmes in 2003.

The Poland *National Programme* was split into two Financing Memoranda, signed by the Polish Government and the European Commission, respectively, on 16 July 2003 and 5 December 2003.

In line with accession priorities, the 2003 Poland National Programme focuses on eight objectives:

- Strengthening institutional and administrative capacity (€78,850,079)
- Internal market (€13,460,000)
- Justice and Home Affairs (€57,462,500)
- Agriculture (€42,505,000)
- Environment (€5,000,000)
- Economic and Social Cohesion (€169,522,421)
- Future External Borders (€8,000,000)
- Community Programmes (€28,000,000).

The *Economic and Social Cohesion* component, amounting to €169.52 million, combines (a) the Sectoral Operational Programme, focused on Human Resource Development measures and the promotion of SME development, covering the entire country, and (b) the Integrated Regional Operational Programme, focused on regional HRD, SME and business-related measures, addressed to all 16 regions at the NUTS II level.

The 2003 *Cross Border Cooperation 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, and a small projects fund,

- CBC Programme Poland - Czech Republic (€5 million), comprising two investment projects and a small projects fund,
- CBC Programme Poland - Slovak Republic (€4 million), comprising a business related infrastructure grant scheme and a small projects fund,
- Cooperation Programme in the Baltic Sea Region (€3 million), comprising a small and medium-sized project fund.

Overview of programmes implemented

2003 saw the successful conclusion of 2000 programmes/projects, which 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 (€56 million); the Economic and Social Cohesion programme (€130 million) targeted at selected five regions at the NUTS II level; and the Special Infrastructure Facility (€40.7 million) with a focus on measures to improve environment for business in target regions and strengthen the future external frontier of the Union. In the Justice and Home Affairs sector (€46.63 million), purchase of equipment for border management was linked to training and capacity-building measures.

Also, successfully completed were key *acquis communautaire*-related programmes for the strengthening of the customs, tax, telecommunications, fisheries, vocational training, transport, and competition and consumer protection administrations, the development of certification and standards, and the support to parliamentary legislative measures (€92.568 million), and institution-building projects in the agriculture (€37 million) and environment (€6.74 million) sectors. In addition, a €5.85million worth grant scheme for the strengthening of the Civil Society was successfully implemented. For a number of 2000 projects the disbursement period was extended into 2004.

Finally, an allocation of €59,591,972 was spent in 2003 under the National Programmes 2001, 2002 and 2003, for the participation in the following Community Programmes and Agencies:

| | |
|---|-------------|
| • Altener | €917,847 |
| • Combating Discrimination | €20,000 |
| • Combating Social Exclusion | €51,000 |
| • Culture 2000 | €1,137,352 |
| • Customs 2007 | €70,406 |
| • e-content | €467,851 |
| • EMCDDA | €75,000 |
| • e-safe | €114,000 |
| • European Environment Agency | €2,556,800 |
| • Fiscalis 2007 | €34,000 |
| • Gender Equality | €20,000 |
| • Health Programme | €1,021,348 |
| • IDA | €390,058 |
| • Incentive Measures In Employment | €20,000 |
| • Judicial Cooperation in Civil Matters | €108,348 |
| • Leonardo Da Vinci II | €3,670,000 |
| • Mechanism On Civil Protection | €106,290 |
| • Media Plus | €2,480,000 |
| • Save II | €830,239 |
| • Sixth Framework Programme | €34,000,000 |

- SME €2,443,433
- Socrates II €7,048,000
- Youth €2,010,000.

Phare management performance

Phare continued to be implemented in Poland through the Decentralised Implementation System. The in-country administrative structure continued to work well and administrative changes introduced in 2002 were consolidated in 2003. Institutional structures adapted to the increased workload in 2003 connected with the significant increase of assistance funds in 2002 in particular for investment programmes, and the introduction of new implementation arrangements for regional development programmes. Implementing Agencies were further strengthened in terms of institutions and human resources. 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. In view of the EDIS accreditation, the Commission started to transfer responsibilities for monitoring and evaluation to the Polish authorities. Strategy preparations have well advanced in 2003 and organisational changes started to be introduced.

Against the background of the introduction of the new PRAG the Commission granted a two month extension for the contracting period of all 2001 programmes until February 2004. It is expected that the highly satisfactory results of previous years will be repeated for the 2001 programme even though contracting for the 2001 programme proceeded relatively slowly during 2003. Results for the cumulative amount disbursed under the 1999, the 2000 and the 2001 programme, by the end of 2003 were respectively good and moderate, at 97%, 77% and 50% of the contracted amount.

NDP/CSFs – state of play

The National Development Plan (NDP) was submitted to the Commission in January 2003 following a wide consultation process with regional, economic and social actors. It 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. In February 2003 the NDP was approved on condition that additional information was provided on a number of issues, which was submitted in March 2003.

The Integrated Regional Operational Programme, as well as six sectoral programmes were submitted to the European Commission in February and March 2003. In April 2003 programme complements were submitted to the Commission for information, as elements to facilitate the understanding of the operational programmes.

The negotiation process of the National Development Plan/Community Support Framework started in Warsaw on 27 June 2003 and was concluded at the end of July with a common agreement on the principles of the Community Support Framework (CSF) and the allocation of resources among operational programmes and priorities. The CSF was drafted during autumn 2003 in close cooperation with the Commission services and the Polish authorities and finally approved by the Commission on 18 December 2003.

Institution Building Highlights

Institution-building activities in the Polish administration continued to be implemented mainly through Twinning. In the Phare programmes for 1998-2003 there were a total of 152 twinning projects (€212.5 million). During the course of 2003, a total of 123 projects (€178 million) were being implemented, of which 64 were completed (€ 96 million) and 59 projects were still ongoing at the end of the year (€ 82 million). A further 29 projects (€ 34.5 million) were still in preparation. The areas with the largest number of twinning projects included: agriculture, justice and home affairs, preparation for structural funds, internal market, public finance and environment.

The year 2003 saw the implementation of five generations of twinning projects:

- Phare 1998: 8 projects with a total value of € 16 million were completed by the end of the year,
- Phare 1999: 18 projects with a total value of some €35 million were completed by the end of the year,
- Phare 2000: 44 covenants with a total value of some €54 million were being implemented, of which 37 (some € 44 million) were completed by the end of the year,
- Phare 2001: 32 projects with a value of €51 million were planned, of which 30 covenants (€ 48 million) were running at the end of 2003. One covenant "IACS" (€ 2 million) was due to commence in January 2004 after problems between the twinning partners were resolved and 1 project (€ 0.8 million) was completed by the end of the year,
- Phare 2002: out of 31 twinning projects with a total value of some €32 million, 22 had started (€24 million), while the remaining 9 projects (€ 8 million) were to commence in 2004.

Activities also started on the preparation of 19 twinning projects worth some €24.5 million under Phare 2003. Twinning presentations were held in June and December 2003, corresponding to the two parts of the Phare 2003 programme, and the Member States for the first part were selected in August 2003. All projects received at least one offer from a Member State. Work started on drafting some of these covenants.

In the year 2003, three of the six foreseen twinning light (TL) projects (€ 0.9 million) were contracted and implemented successfully. A further two TL had to be cancelled, and one was transformed into a technical assistance project because of a lack of offers or delays in drafting terms of references by the beneficiary. However, four additional TL (€ 0.6 million) were prepared ad hoc under the flexible reserve, of which three were signed in the last quarter of 2003 and one cancelled because of the late submission of ToR. A further four TL (€ 0.6 million) were proposed by the Polish counterparts to be financed from the flexible reserve for 2001, but ToR were not ready to be circulated in due time. The ECD suggested that these TL projects be resubmitted with fully fledged ToR under the Phare 2002 flexible reserve.

Within the framework of the Phare 2002 Financing Memorandum, four additional TL projects were identified with a total value of €600,000, for which, however, terms of reference were still awaited at the end of the year.

The Phare 2003 Financing Memorandum includes only two TL, partly covered from the flexible reserve.

In an informal assessment of the impact of some of the 1999 and 2000 projects that had been completed, the EC Delegation concluded that the outcome of 30 projects could be considered satisfactory or good and 14 projects, very good or excellent. Three projects were evaluated fully or partly unsatisfactory.

9.3. Results and impact

State of play for JMC/SMSC development

The monitoring and assessment system was consolidated in 2003 and adapted to the increased workload. The SMSC meetings remained an established tool for judging progress and performance of Phare programmes although the commitment of beneficiaries to the monitoring process remains weak. In order to support the increased workload and to render discussions more focused and effective UKIE and the Commission started to introduce preparatory meetings and detailed agendas. NAC services continued to take over the bulk of responsibilities and 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 remained the main forum for the review of strategic issues related to the implementation of Phare programmes, Phare proceedings and Phare-related institutional issues. In 2003 the meetings focused mainly on a number of themes, such as financing, management, EDIS, institutional issues related mainly to Implementing Agencies as well as preparation and implementation of tendering. 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 2003

The external contractor finalised M&A activities in July 2003, finalising analysis of sectors and priority programmes. External support continued until the end of November 2003 with the purpose to develop local capacity for M&A. In 2003, eleven Interim Evaluation (IE) reports were completed covering the following sectors: Public Administration Development, 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, and agricultural projects. The overall assessment of the progress in each of these sectors was “satisfactory” with the exception of agriculture, which was assessed as “unsatisfactory”. Considerable and positive progress was noted in several programmes, in particular where Beneficiaries and the political environment are supportive, where Beneficiaries and Twinning Partners (or Contractors) have worked jointly to overcome design and other problems and where speedy implementation and synergies with other donor funding have been achieved. 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 of a standard level throughout 2003. In the context of the gradual transfer of M&E responsibilities to the Polish authorities, UKIE and external contractors carried out training on all aspects of monitoring and evaluation including reporting. Moreover, the Commission, the external contractor and UKIE continued to organise 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, fight against drugs and 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, including mobile computers with passport readers enabling quick and efficient controlling on trains and on busses as well as Tempest-class computers for specific border units. The installation of power supply systems at border surveillance units along the future external borders was completed. Contracts were concluded for large supply of surveillance vehicles for the Eastern border, of hand-held surveillance cameras and the equipment of patrolling helicopters with surveillance cameras. Entirely upgraded crossing points at the eastern border were inaugurated, such as Kuznica Bialostocka (BY border), a new crossing point was also opened on the southernmost section of the border with Ukraine, in Kroscienko, while other crossing points were partially upgraded: Kukuryki/Koroszczyn and Terespol both (both at BY border). The upgrading of the access road to Dorohusk (UA) as well as the upgrading of the crossing point itself were underway and the access road to Bobrowniki (BY) was completed. Related Twinning activities continued to focus on border management, adjustments in the field of visa, migration, asylum policy and Schengen as well as the preparation of Masterplans for the implementation of the Eurodac and Vision systems. As accompanying measures, a small projects funds scheme (2 Meuro, i.e. twice as large as in the previous programme) was contracted and implemented, 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 setting up of a DNA database was supported on central and regional level; as in previous years, the tele-transmission network was established in three voivodships that are much affected with organised and drug-related crime and in three other voivodships the communication network was modernised. Additional computer equipment was purchased to strengthen the economic crime prevention service and to strengthen the Police units dealing with EU-cooperation.

Twinning activities complemented investments supporting the fight against organised crime and terrorism with the training of over 1250 Polish police officers. Also noteworthy was the completed Twinning related to the strengthening of Judiciary in Poland to combat organised crime and carry out international legal co-operation., which included training of 1450 judges, prosecutors and penitentiary staff. The first twinning in Poland in the area of fight against drugs managed to contribute to strengthen the structure of the National Focal Point and training for over 170 people was organised.

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 was 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.

The Cross-Border Co-operation Programme in the Baltic Sea Region and on the Polish-German, Polish-Czech and Polish-Slovak borders continued 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 2003 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 (A4 Motorway Krakow by-pass; A4 Motorway section Nogowczyce - Kleszczów on the western approaches to Gliwice; A2 Motorway by-pass Poznan) and at key border points (Dorohusk border road at the Polish-Ukrainian border) as well as improving railway connections. Moreover, the completion of the Twinning for Transport administration contributed to the adoption of EU standards and legislation mainly in the field of maritime safety and environmental standards and practices in road and rail transport.

In view of the preparation for Structural Funds, the first results of 2000 Economic and Social Cohesion programmes are noteworthy. In particular, support to the SMEs sector, and the development of human resources but also selected infrastructure projects triggered positive results and provided an initial experience with future Structural Fund-type measures.

Finally, the environment sector produced significant results for supporting the Polish administration to improve its capacity to implement and execute the environmental acquis related to numerous environmental areas (e.g. Environmental Impact Assessment, Pollution Prevention and Control at Regional Level, strengthening Environmental Inspectorates), the improvement of the natural environment with projects aimed at improving water and wastewater management (e.g. Bytom) and delivering the equipment for measuring air pollution at selected regions in Poland.

Success Story

The conclusion of the PL0008.01.04 'Road access to bridge over Elblag river' in the north-eastern region of Warminsko-Mazurskie is an example for a potentially successful future Structural Fund type project generating local and regional effects. The project was implemented in the context of the Phare 2000 Economic and Social Cohesion programme for a total budget of 6,284,699 Euro (EU contribution 2,480,935 million Euro). The works carried out under the Phare project complemented and completed different activities realized with Polish sources. The Phare project supported the construction of an access road to a previously constructed bridge over the Elblag river. The road and bridge facilitate access to investment areas and redirect traffic out of the town. Hence, the project contributes to the development of regional level infrastructure, facilitates investments around the location and is expected to reach the objectives of job creation, increased safety of travel and increased growth targets. The road was named 'European Union route'.

Tasks ahead

EDIS

One of the important challenges remains the extended decentralisation of the implementation of the Phare and ISPA programmes (EDIS), 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. The second stage, gap plugging was completed for Phare and is being finalised for ISPA. The third stage, assessment study, is being finalised for Phare and has been completed for some institutions. However, it is expected that EDIS will not be granted before accession. A key concern in this area remains the ability of the Polish administration to carry out adequately the financial control and internal audit functions.

Preparation for implementation of Structural Funds

Although good progress has been achieved in 2003, important preparations for Structural Funds remained outstanding regarding programming, legislation and administrative structures. The Operational Programmes (OP) still needed to be approved. Moreover, the 'Law on NDP', remained under discussion in Parliament. It was expected for it to enter into force by 1st May 2004. Furthermore, the IT monitoring system was not yet ready. The main functions were expected to be operational in May 2004.

Considerable and sustained efforts were expected to finalise internal procedures for Structural Fund management at central and regional level and to establish a pipeline of projects for the effective absorption of Community assistance.

Eligibility started in principle on 1st January 2004 where all the conditions laid down in the structural funds and cohesion fund regulations are fulfilled. However, as long as the state aid notification remained an outstanding issue the disbursement of funds is held up.

I.10. ROMANIA

10.1 The year in review

Political developments

In 2003, Romanian politics was marked by a swift shift in focus from foreign to domestic policy issues, as the local, general and presidential elections of 2004 were drawing nearer. However, EU accession in 2007 remained the single most important policy issue, with Romania obtaining a confirmation of its real chances for accession in 2007 as a result of the Brussels Summit.

The domestic political scene was characterised by stability, with the power asymmetry between the ruling PSD and the opposition diminishing due to a pre-electoral alliance formed by the PNL and the PD. The PSD continued its collaboration with the Hungarian party – the UDMR – providing it with a comfortable majority in Parliament. A Government reshuffle took place in June, with the number of ministers being reduced to 15 (from 23), to which six Delegate Ministers was added. A new anti-corruption Law was passed in May. While far from perfect, the new Law represents a positive step ahead. The Minister for European Integration, Hildegard Puwak, the Secretary General of the Government, Serban Mihailescu and the Minister for Health, Mircea Beuran, resigned in October following accusations of misuse of EU funds, corruption and plagiarism.

Macroeconomic developments and structural reforms

2003 was the fourth consecutive year of growth for the Romanian economy, though the pace of GDP growth slowed down as against 2002. This positive evolution occurred against the background of a sustained disinflation trend, which saw average inflation declining to 15.3%, down from 22.5% in 2002, largely supported by a restrictive fiscal stance (public budget deficit at the end of the first 11 months was contained at only 0.8% of GDP). Nonetheless, some signs of concern emerged in the last part of the year, further to a widening current account deficit which threatens to exceed 6% of GDP for the year as a whole.

This calls into question the limited progress made with respect to a number of structural issues. The imposition of hard budget constraints in the economy at large continued to be an elusive goal, as large arrears toward both the public budget and – even more preoccupying – towards the suppliers of utilities were allowed to continue their build-up. Touted as one of the Government's top priorities, privatisation in the energy sector made little tangible progress during the year, as the sale of several companies put on the block since 2002 became marred by technical problems which had not been given proper attention. One silver-lining, though: the honourable privatisation performance mustered by APAPS, which made 2003 the best year for privatisation since the current government took office in late 2000. Several chronic loss-making companies were formally divested, at the price of extensive debt relief and of generous state-financed layoffs. In addition, transparency was not the strong point of the privatisation process, as several deals were carried out at the end of procedures lacking genuine competitive elements.

In the financial sector, banking was particularly dynamic, on account of an extremely rapid expansion of credit to non-government entities. So far, this does not seem to pose risks for the soundness of the banking sector at large, which is well capitalised and sufficiently strictly

abiding by prudential rules. It has nonetheless taken its toll in terms of a tighter monetary policy stance which, *inter alia*, rendered unavoidable the postponement of the liberalisation of some capital account transactions (opening of ROL-denominated accounts by non-residents), which would have made possible substantial – and potentially destabilising - speculative inflows of capital, attracted by the very high interest rate differential so generated.

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**, Romania has continued to make progress with the transposition of sector specific legislation on the **free movement of goods**. Particular attention must be paid to developing the ability to administer the public procurement, the foodstuffs and food safety *acquis*. Progress on the **free movement of persons** has been limited and additional efforts should now be focused on preparations for implementing the *acquis* on mutual recognition of professional qualifications. Work to identify barriers to the **free movement of services** has continued - although only a few restrictions have been removed. While alignment with the *acquis* on **free movement of capital** is steadily improving greater efforts are needed to improve payments systems and the fight against money laundering. Romania has made progress in the field of **company law** but implementation of new accountancy and auditing rules should be prioritised. Greater efforts to protect industrial and intellectual property rights are needed. As regards **competition policy**, while the Romanian competition legislation is broadly in line with EC anti-trust rules, in the area of state aid there is not yet sufficient control. With regard to taxation, Romania has made some progress in aligning with the *acquis* (in particular in the area of indirect taxation) and has continued to modernise its tax administration and to improve the revenue collection system. The pace of alignment must be maintained on all areas of the *acquis* and particular attention should be given to the reform of the administration. Legislative alignment on **consumer and health protection** has continued and Romania has made some progress as regards market surveillance activities and the co-ordination of control activities between competent ministries and authorities. Romania has made significant progress in the area of **telecommunications** with the establishment of a regulatory body, the liberalisation of the telecommunications market and the transposition of the new telecommunication *acquis*.

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 with the most significant development being the adoption of the new Labour Code. Future efforts still need to focus on finalisation of the legal transposition in the areas of equal opportunities and health and safety at work and on actual implementation and enforcement. Progress with **regional policy** has been limited. While some progress can be noted in the preparation of the the National Development Plan 2004-2006 and the partnership principle,

the institutional framework still needs to be clearly defined. Work has continued on developing administrative capacity, but important efforts are needed in particular in programming, monitoring and evaluation and financial management and control. Romania has continued to make progress in the **transport** sector but should focus further attention on developing institutions able to enforce the new legislation. Romania has achieved some progress in the **energy** sector. Romania should focus on the full and timely implementation of legislation; the full and rapid implementation of the structural reforms and the strengthening of administrative capacity. Despite having transposed a considerable amount of **environmental** legislation, Romania has neither the administrative nor the financial resources to implement it.

While Romania has continued to make legislative progress in the area of **justice and home affairs**, overall legal alignment remains variable. Transposition has been quite good in many areas but there are still a number of important areas, most significantly the Schengen *acquis*, where additional efforts are required. Implementation capacity remains weak in almost all areas, particularly border management, visa policy, anti-corruption, fight against money laundering, protection of the Euro against counterfeiting, and fighting various types of organised crime and judicial co-operation. In addition to continued legislative alignment, Romania should increase its efforts to develop administrative capacity and inter-agency co-operation. Romania has made progress in the area of Customs, but efforts should continue in the alignment with the *acquis*, in the preparation for the application of Community-compatible computerised systems and in achieving inter-operability. Measures are moreover necessary to combat corruption in 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 in the area of **financial control**, in particular with regard to public internal financial control and external audit. Implementation remains the main priority.

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 programme⁴.

10.2. Phare in 2003

Programmes launched

The Phare programmes launched in 2003 amount to a total of 283 M€ and reflect the priorities identified in the revised Accession Partnership (March 2003) with a view to supporting Romania's further efforts towards accession. The National Programme and the External Border Initiative together amounted **272 M€**. In this framework, four Financing Memoranda were signed in 2003, as outlined below:

- I. ***The Phare National Programme (265.50 M€)***, which covers both investment and institution building projects and is divided into 6 sub-programmes spanning all accession criteria as follows:

⁴ 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.

Sub-Programme 1 – **POLITICAL CRITERIA (Total: 34.90 M€)** – supports child protection, anti-discrimination, persons with disabilities and civil society projects.

Sub-Programme 2 – **ECONOMIC CRITERIA (Total: 11.40 M€)** – covers cadastre and real property rights; the strengthening of the National Bank of Romania in Acquis related areas; and strengthening the capacity for analysis, macroeconomic forecast and elaboration of economic policies in the National Commission of Prognosis.

Sub-Programme 3 – **Strengthening the administrative capacity (Total: 27.395 M€)** - aims to support the Public Administration reform process in Romania, strengthen the administrative capacity of the Romanian Parliament, develop a professional human resources capacity within the Romanian administration to manage and monitor EU pre-accession funds, and support the Ministry of Finance in the implementation of the IT strategy.

Sub-Programme 4 – **Meeting the obligations of the acquis (Total: 56.40 M€)** – provides support in the areas of agriculture, transport, statistics, energy, environment, healthcare, border management, police co-operation, and corruption.

Sub-Programme 5 – **Economic and Social Cohesion (Total: 112.005 M€)** – covers preparation for structural funds and investment as per the National Development Plan.

Sub-Programme 6 – **Community Programmes (Total: 23.40 M€)** – covers participation in Community Programmes and agencies, end-user support, support for improving the participation of Romania in the Sixth Framework Programme and in the European Research Area .

- II. ***The Cross-Border Co-operation Programmes with Hungary and Bulgaria (13 M€)*** 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.
- III. ***The External Border Initiative 2003 (6.56 M€)*** was launched to develop cross border co-operation at the borders with Serbia & Montenegro, Ukraine and Moldova.
- IV. EU support for Romania was also granted through the ***multi-beneficiary and horizontal programmes*** launched for the candidate countries last year addressing the areas of information and communication, environment and enlargement, visibility in EU issues (Small Projects Programme), and the reform of the financial sector.

Overview of programmes implemented

Internal Market: According to the short and medium-term priorities set up in the NPAR to the EU, the National Bank of Romania launched a complex Institution Building Programme (4 M€) in 2003, aiming at improving the Early Warning System, setting up a computerised system for cash operations, fully implementing the new Balance of Payments system and the infrastructure in place, upgrading the computerisation of banking operations and providing extensive training to the NBR staff. In addition, the NBR updated and completed its Strategy, indicating the main priorities -in both legislative and administrative areas – that are to be achieved prior to the Accession date.

Agriculture: New IB projects started in 2003 targeting important accession topics such as identification and registration of animals, animal nutrition, strengthening the SAPARD structure. On-going 2002 projects advanced satisfactorily and some of the older projects closed with good results (policy advice, phytosanitary and veterinary acquis). The pace of acquis transposition increased and the process is close to an end in several fields (wine, pesticide residues, etc). The Administrative structures still do not keep pace with the transposition process but good progress was achieved in modernising the laboratory infrastructure for animal and plant health, food and wine quality control.

Transport: Investment support continued both for roads, where major rehabilitation works on DN1 and DN 2 were completed and for railways, where complex interlocking systems were installed in Bucharest, Brasov, Arad and Timisoara. A new site was opened in Faurei, where a railway-testing centre is to be rehabilitated and upgraded. Preparatory studies were launched as well for further investments, focused on the improvement of the safety and traffic conditions for the transport on roads, sea and the Danube. Substantial assistance for institution building was also given both through twinning and technical assistance projects in wide areas covering the enforcement of the acquis in the field of road, maritime and inland water transport, as well as improvement in the performance of the public authorities governing the sector.

Environment: The programmes developed during 2003 focused mainly on Institution Building and legislative harmonisation. Important aspects could be noticed in the field of cost assessment and preparation of a financial strategy for the so-called “heavy investment” directives. The projects focused on developing an environmental administration capable of coping with relevant EU requirements including the strengthening of local agencies and supporting the development of regional ones, and developing the air quality monitoring system for the municipality of Bucharest. Support was provided for compliance with the environmental impact assessment legal framework having as a case study the mining project in Rosia Montana. In addition to this, contracts were concluded for ensuring compliance with industrial pollution and Water Framework directives, as well as for continuing the cost assessment and financial strategy, as a key element of the negotiation process.

Public Finance: In 2003, the on-going Phare projects covered both IB and Investment. Positive and tangible developments were noticed in the improvement of the capacity of the Ministry of Finance to collect revenue as well as to consolidate and complete the legal framework and reinforce the institutional capacity to collect taxes and duties. Also, encouraging outputs and positive impact were identified in the public procurement area concerning improved management of public funds by strengthening the capacity of Romanian public procurement officers to effectively implement and monitor the Public Procurement legislation.

Under the investment component, IT equipment was delivered, installed and made operational, which ensured the necessary logistical support at the territorial level (both for sending information and for accessing the public procurement database), strengthened the public internal audit and financial control functions and improved the flow of information within the Ministry of Finance and between the Ministry of Finance and its regional offices.

In the external audit area, the Romanian Court of Audit was strengthened as an independent, external audit institution. More precisely, the audit-related legal framework was improved and developed, international external audit standards were adopted, adapted to the Romanian context and implemented. The audit quality regarding the legality (regularity and conformity)

of revenues and expenditures of the public budgets, public debt, investment projects, administration of the public and private state patrimony, privatisation and EU-pre-accession funds was also enhanced. IT investment in this area focused mainly on the modernisation of the territorial training centres and supporting the auditors' activity.

Home Affairs: Following the Government reshuffle in mid-2003, the Ministry of Interior, which is the lead institution in the implementation of home affairs projects, merged with the Ministry of Public Administration. A new twinning with Spain started in the fall of 2003, aiming to reform the vast training structure of the Ministry. IT equipment was delivered for the completion of the Visa-on-Line pilot system and a first test was run in December. A new agency for Migration was created in 2003 - the Aliens Authority. This resulted in due part from the inputs made in the on-going Phare 2001 twinning on Migration. The National Refugee Office started a new twinning with Germany in the fall, i.a. aiming to set up EURODAC. Observers are still positive about performance in the asylum field. The Border Police increased its capacity and worked hard towards reform, with focus on professionalisation. In the realm of training the Border Police was helped by the Phare 1999 twinning with Spain, which ended mid-2003, and the Phare 2000 Technical Assistance project with Euromed, which ended in November with 14 trainers being examined by the Wolverhampton Business School. The Phare 2001 twinning with Germany on Integrated Border Management ended in December 2003 reporting success in some parts but difficulties as regards bi-lateral co-operation with Hungary. Significant quantities of the Phare material tendered in the 1999 and 2000 programmes seem to be deficient (cars, computers etc), but the Border Police are now clarifying how they are following up on the issue. The National Anti Drug Agency (NADA) was set up through GD 149/2003. The National Anti Drug Strategy was approved by GD 154/2003. Both of these were the results of the Phare 2000 twinning with Spain. An agreement between Romania and the EMCDDA was prepared. The Romanian Police started a new twinning with the UK, at the end of 2003, aiming to de-militarise and de-centralise the force.

Justice: In 2003 the assistance for this sector continued to focus on institutional building and investment. Positive and tangible developments were noticed in strengthening the anti-corruption institutional network (mainly the National Anti-corruption Prosecution Office) and in the elaboration of a National Strategy for Reforming the Judicial System. Investment was made for the automation of the judicial sector (courts and prosecution offices) and the reform of the penitentiary system, but the automation of the judiciary at large is still to be completed.

Public administration: As with the Justice sector, assistance for public administration continued to focus on institution building and on improving the administrative capacity of the central local administration. Positive developments could be noticed in the activities of the Central Unit for Public Administration Reform and in terms of inter-institutional co-operation among the main three actors in this area (CUPAR, National Institute of Administration and National Agency of Civil Servants). Another positive development was the creation towards the end of 2003 of the Public Policies Unit within the General Secretariat of the Government. In terms of strategic thinking only the beginning of drafting a credible Strategy in the area of PA can be mentioned.

Roma: 36 local projects for the improvement of the Roma situation continued implementation in 2003. One of the key features of these projects was the active involvement of the Roma representatives and the partnerships between Roma communities and local authorities. EU funding followed the priorities of the national strategy for the improvement of the Roma situation. The projects that focused on solving the problems of lack of Identity

Documents, on developing vocational training programmes or income-generating activities can be considered best practices, multiplied and used for elaborating national policies. At the same time, 2003 was the year when 10 pilot counties were selected for the implementation of the project Access to education for disadvantaged groups with special focus on Roma. School inspectors, principals and teachers from the 73 schools involved in the project attended extensive training programmes on inclusive education. Also, 55 young Roma started a 4-year open distance-learning programme to become qualified primary school and Romani language teachers.

Children: In 2003 the Commission continued to be one of Romania's traditional partners in the child protection sector supporting the structural reform of the sector, leading to the closure of large residential institutions and their replacement with alternative, family type services. Since the beginning of the programme a number of 29 large old style children's institutions have been closed and replaced by 141 alternative services, such as foster care, day care centres, maternal centres or family type homes.

Social security for migrant workers: A twinning project between Romania and France launched in 2003 registered already significant developments. One of the most important outcomes was the elaboration of the Romanian proposals for the Annexes to the EU Regulations 1408/71 and 574/72 which ensure that when a EU citizen goes to work or take up residence or simply stay temporarily in another Member State he does not lose his social security entitlements and continues to benefit from them. This was an important step for negotiations in this sector.

Phare management performance

Romania continued its progress in implementing pre-accession assistance programmes in 2003. The overall procurement activity increased (+25%) on a year-to-year basis, amounting to 294.7 M€ contracted in 2003, versus 236.3 M€ in 2002. The bulk of contracts, however, were signed in the last quarter of the year (following again the same trend from previous years). Disbursement figures reached 235.1 M€ in 2003 compared to 145.1 M€ in 2002 showing a more even distribution over 2003.

The Phare 2001 National Programme (288.09⁵ M€) reached a level of contracting of 96.5 % at the end of 2003, or a value of 278.01 M€. The balance of funds is expected to be contracted by the end of November 2004, where an extension was granted for one project⁶. Total contracting is expected to reach an amount of about 278.5 M, the balance unspent representing savings on budgets after open tenders.

Some progress was registered in the implementation of the Phare 2002 National Programme (279⁷ M€), with a level of contracting of 41.9 M€, or 15 % of programme funds, mainly in the field of Acquis and Twinning projects.

⁵ Including the two Cross-Border Co-operation Programmes between Romania and Hungary/Bulgaria (13 M€), the Supplementary Investment Facility (Part 2) Programme (24.8 M€) and the Horizontal Programme for Community Support in the field of Nuclear Safety (1,4 M€)

⁶ RO01.10.02 Support to CNCAN in the licensing review of Fire Protection (0,4 M€)

⁷ Including the two Cross-Border Co-operation Programmes between Romania and Hungary/Bulgaria (13 M€) and the Horizontal Programme for Community Support in the field of Nuclear Safety (0,5 M€)

The significant increase of funds, decided in the Agenda 2000, continued to be felt in 2003. Clearly the Romanian administration was still unprepared at the beginning of 2003 to cope with the challenge of increased funding, raising initial doubts as to its capacity to absorb such volume of funding. Corrective measures were taken by the Romanian Authorities to remedy the situation in the second part of 2003. However, better results are further expected for 2004.

NDPs – State of Play

The preparation of a new NDP for the period 2004-2006 progressed in two stages during 2003 where the Commission provided comments in June and October. The NDP was finalised and adopted in December 2003 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. Even if the quality of the NDP still needs to be enhanced, the preparation process can be considered a milestone, as the NDP exerted for the first time leverage on the national budget and awareness at political level. The NDP will serve two purposes: (1) the framework for Phare multi-annual programming for years 2004 – 2006 in the field of economic and social cohesion and (2) the initial basis for preparing a NDP required in the future by the Structural Funds regulations.

Institution Building highlights

The implementation of twinning projects finished by the end of 2003 for most of Phare 2000 and 2001 projects. Out of 34 twinning projects under Phare 2002, a number of 20 were finalised, approved and endorsed. There are 32 projects currently under implementation and nine will start the implementation soon. Even if the quality of the offers has improved and some proposals could be considered a preliminary draft covenant, the covenanting process encountered delays due to long negotiations between partners, especially in case of consortia, or due to inexperienced partners (misunderstanding of twinning rules), which even led to transforming the project on insurance supervision into a Technical Assistance project.

Due to several reasons (short period of implementation, small budget, instrument being used only since 2002), Twinning Light has not been considered a success until middle 2003 when an increased interest from both the beneficiaries and the MS was noticed. Six projects have been closed and there are five projects under implementation. We expect a higher degree of absorption and speedier contracting for Phare 2003 twinning light projects (seven projects have been included in the sectoral Project fiches). Most projects reached all objectives proposed and delivered the guaranteed results. In the field of financial control progress has been made by the Romanian authorities with the support of the partners. The results of the first round of Regional Development projects ranged from satisfactory to very good (regional development plans 2004-2006 and regional partnership structures have been created). All these results will be used as basis for further development of second round Regional Development projects under Phare 2003.

10.3. Results and Impact

State of play for JMC/SMSC development

The Joint Monitoring Committee convened for its annual meeting on 24 November 2003. In order to improve the monitoring of recommendations, the JMC proposed that final minutes be circulated to JMC members and relevant institutions within one month of the meeting at the

latest, and that a regular follow-up mechanism (e.g. monthly reporting on the state-of-play in the implementation of recommendations) should be established.

In 2003, the Ministry for European Integration continued to take full responsibility for the monitoring exercise. As a result of its involvement in the checking of monitoring reports, the quality of these documents improved. However, in view of increases in funding and transition to EDIS, proposals were put forward to reshape the SMSC structure so as to take account of the Multi-Annual Programming approach, introduce new templates and improve the reporting capacity by making full use of the existing MIS.

Monitoring and Interim Evaluation Reports in 2003

In 2003, when significant efforts were required to manage an increased volume of assistance and prepare for EDIS accreditation, the monitoring exercise had to be further developed in order to adapt to these new challenges. As emphasised at the JMC annual meeting, there is a need to gradually shift from project monitoring reports to sector monitoring reports in order to adequately support the sectoral interim evaluation exercise with accurate consolidated information relevant for a specific sector.

Of the eleven (11) Interim Evaluation reports within the 9 approved sectors, ten were rated “Satisfactory” - Economic and Social Cohesion (Regional Development), Public Function and Public Finance, Internal Market, Justice and Home Affairs, (Justice and Home Affairs & Border Management), Social (two reports covering Social, Education, Culture & Minorities), Cross Border Co-operation and Agriculture & Rural Development. One report, Economic & Social Cohesion (RICOP), was rated “Unsatisfactory”.

Recommendations focused *inter alia* on: better training for all stakeholders involved in the implementation of Phare projects (Project Cycle Management), with particular regard to multi-annual programming; the effective implementation of the Government’s Action Plan to secure sustainable administrative capacity within its Ministries; reviewing the Phare decision-making process to increase the rate of essential programme/project approvals; better preparing the beneficiaries in planning and implementing Twinning to ensure higher quality results; and most critically, transparent tracking and auditing of co-financing by those responsible for managing such funds, including clearer advice from the National Fund and improved procedures at CFCU.

Sectors with positive results

Animal diagnosis: The national reference laboratory for diagnosis and animal health commissioned the newly inaugurated bio-safety containment unit (level three of protection). The new laboratory finalised a very important phase of the modernisation programme co-financed by community and national resources. Accreditation by the national accreditation authority is under way.

Maritime safety: Building on the recommendations of the 2002 twinning with the Swedish Maritime Administration and with the further assistance of the same partner in a new twinning project, the new-born Romanian Naval Authority successfully started to exert its wide responsibilities for the safety of navigation, resulting in a sharp decrease in the number of substandard vessels under the Romanian flag and in the number of detentions of Romanian vessels in European ports.

Environment: The Setting up of an adequate environmental administration is essential for the implementation of the acquis.

ESC: Grant support scheme for business start-ups, young enterprises and micro-enterprises: 411 grant contracts were concluded to foster investment for establishing new businesses, developing those small enterprises already established and supporting the development of regional and local businesses in those sectors where the region has a competitive advantage. As a result, more than 400 micro or small enterprises started or developed a business, more than 400 companies were equipped with new technologies and specific equipment and more than 3000 jobs were created.

Disabled persons: A twinning light project with the Netherlands resulted in the adoption of the National Strategy for the Protection of the Disabled at the beginning of 2003. The action plan for the strategy's implementation sets out the background against which the reform of the sector will take place, including the restructuring or even closing-down of the residential institutions, through a continuous evaluation of the institutionalised persons, the development of the existing alternative care services and the creation of new ones according to local needs. With this, a big step was made in Romania, even if it is only the first one, towards inclusiveness that requires equal rights for all members of society.

Migration: Several months prior to its conclusion, the Phare 2001 twinning between Romania and Sweden/Denmark contributed greatly to future planning and networking capacity for the Aliens Authority. Among the concrete results could be noted the adoption of a new Aliens Law, in line with Phare Horizontal recommendations, and secondary legislation setting up the body proposed as the short term solution in the expert studies in the twinning.

Success story: Moreni Town – the RICOP example of synergy

RICOP – a Phare programme designed as a pragmatic support for the people affected by industrial restructuring - was based on a Restructuring Plan that included 69 enterprises. Support was planned to range from simple counselling, via training & re-conversion, to job placement. This unprecedented alleviation challenge required concerted efforts by the European and Romanian institutions involved, but close to the end of the programme results were manifest. And Moreni, a small town of 22,600 inhabitants, represents the most significant example.

Once a prosperous town, Moreni became a RICOP target in 1999 due to the inclusion of the local unit of defence industry within the RICOP Restructuring Plan. More than 20 percent of the town's workforce, meaning 1,343 people, were laid-off in 2000-2001. Another 3000 family members were left with little hope for the future. Even worse, over the last ten years the quality of life gradually decreased due to river floods and an outdated water infrastructure that also burdened the town's inhabitants with bearing the costs of financial losses from the water system.

Moreni, however, turned from a typical case of a small town affected by restructuring and poverty into the RICOP example: the local authorities in partnership with local NGOs and local private companies did their best and attracted three out of the five RICOP components meaning nine projects and almost 600,000 Euro.

RICOP assistance reached over 90% of the RICOP lay-offs in Moreni. More importantly, the synergy was achieved while the redundant persons were reassigned from a RICOP measure to another: from Outplacement Services to Active Employment Measures and further on to Public Works. Whether beneficiaries of vocational training, career guidance, work placement, apprentices in public works projects or business start-ups, for all these people RICOP meant a new opportunity in life, a new beginning.

Tasks ahead

The major task ahead is the improvement of the overall administrative capacity of the relevant Romanian structures throughout the entire project management cycle. To this end, in 2004, the Commission will pay particular attention to developments relating to absorption capacities, which are to be reported in a dedicated paper on the implementation of the Action Plan for strengthening the administrative capacity to manage EU Funds. The paper is expected to be submitted by the Romanian authorities at the end of January 2004 as part of an overall conditionality for the release of Phare 2003 funds. One of the most important issues still to be tackled over the short-term is staff levels and qualifications. It is expected that a solution to this problem, coupled with better planning of existing resources, will lead to a substantial decrease in the contracting backlog.

Closely related to the need for improving the administrative capacity are two other important tasks in the year ahead, namely: preparations for EDIS and the successful completion of the multi-annual programming exercise. As regards EDIS, efforts will focus on the implementation of technical assistance projects aimed at finalising stages I and II of the EDIS process (Gap Assessment and Gap Plugging), as well as on launching an audit project to cover stage III (Compliance Assessment). In terms of multi-annual programming, work will be steered so that Commission deadlines will be met and a satisfactory level of quality attained in all the 8 sectors concerned, with the largest part of the funds available being channelled to sectors where the administrative capacity is sound and effective and projects are mature.

I.11 SLOVAKIA

11.1 The year in review

Political developments

Since the September 2002 elections, a Center right four-party coalition is in charge of governing the country. Despite the ideological cohesiveness of the four parties, in summer 2003 the relations between them started to sour. At the end of 2003, the government lost its majority in Parliament.

Further progress was achieved with regard to the structure and functioning of the **public administration**, notably by enacting secondary legislation to the Civil Service Law and introducing a new salary scheme. However, there is a continuous need to structure and intensify training activities in the public sector.

Reform of the **judiciary** is continuing, with an operational Judicial Council now in place. The Court management system started to be implemented through pilot projects.

As regards the **fight against corruption** further progress has been made with the adoption of the law establishing a Special Prosecutor and a Special Court on Corruption. However, corruption remains a cause for concern.

In the field of **human rights** and **protection of minorities**, a third, long-term Roma strategy was approved. As for the Office of the Plenipotentiary for Roma communities, its powers and competencies remain limited. Considerable efforts need to be continued to remedy the situation.

Macroeconomic developments and structural reform

Slovakia's macroeconomic performance has been improving considerably, although some imbalances remain significant.

Real GDP growth accelerated further to 4.4% in 2002. In the first half of 2003, it slowed down to 3.9% as a drop in the growth contribution of domestic demand was not fully compensated by a strengthening of the external growth contribution.

Unemployment is falling from its level of 18.6% in 2002 but remained high at 17.7% in the first half of 2003. Employment is growing from an employment rate of roughly 57% in 2002.

The **current account deficit** again reached more than 8% of GDP in 2002. However, it was more than fully covered by FDI inflows which reached almost 17% of GDP in 2002. It has dropped very significantly in the first half of this year (slightly below 5%).

After reaching a record low of 3.3% in 2002, average annual consumer price **inflation** has re-surged to around 8% this year as a consequence of adjustments to administered prices and higher indirect taxes, while core inflation remains low.

Slovakia's progress on the reform path, also in the public finance area, has received strong new impetus. Various measures have been decided on and some have already become effective. The government has been reversing the expansionary fiscal policy stance. The

restrictive fiscal policy stance supports a narrowing of Slovakia's high current account deficit. The preparation of additional public expenditure reforms, which are necessary to underpin the envisaged fiscal consolidation, has gained very strong momentum. However, most of the necessary measures still need to be further specified, appropriately sequenced and implemented. The Slovak government has been moving more decisively to tackle the deep-seated structural unemployment problem. Progress has been made as regards financial sector supervision but the authorities need to continue to safeguard the expanding financial sector against stability risks. Further measures to improve the legal framework for a market economy have been instituted. Its effective implementation is also being enhanced. Nevertheless, additional vigorous efforts in the area need to be pursued.

Progress in meeting the *acquis communautaire*

Slovakia has reached a **high level of alignment with the *acquis*** in most policy areas.

In certain areas, however, Slovakia needs to make enhanced efforts in order to complete its preparations for accession.

This includes the old approach legislation and the non-harmonised area in the field of *free movement of goods*; mutual recognition of professional qualifications in the *free movement of persons* chapter; in the area of *free movement of services*, insurance, information society services, protection of personal data, right of establishment and the freedom to provide non-financial services; protection of intellectual and industrial property rights in the field of *company law*. In the *agricultural* area, it concerns trade mechanisms, the common market organisations for sugar, wine, and beef meat, in the veterinary field the veterinary control system, transmissible spongiform encephalopathies (TSEs) and animal by-products, and common measures, and in the phytosanitary field controls on maximum residue limits for pesticides.

This also includes the fields of: road *transport*; VAT and excise duties in the field of *taxation*; public health, the European Social Fund, and anti-discrimination in the area of *social policy and employment*; *telecommunications and information technologies* including postal services; legislative framework, institutional structures and financial management and control as regards *regional policy and co-ordination of structural instruments*; industrial pollution in the area of *environment*; market surveillance and non-safety-related measures in the field of *consumer and health protection*; in the field of *justice and home affairs* with respect to the Schengen Action Plan, data protection, visa policy, external borders, asylum and the fight against fraud and corruption; *external relations*, as regards bilateral agreements with third countries; control over structural action expenditure and protection of the EC financial interests in the area of *financial control*.

Four issues give rise to serious concerns. Here, Slovakia must take immediate and decisive action.

This concerns the *competition policy* field as regards the fulfillment of the conditions specified in the Accession Treaty for the transitional arrangement granted in the steel sector. It also concerns the field of *agriculture*, as regards Slovakia's preparations for setting up the Paying Agency, for implementing the Integrated Administration and Control System and for upgrading the agri-food establishments in the area of public health protection.

11.2 Phare in 2003

Programmes launched

The Cross Border Co-operation Programme with Hungary (allocation € 2 million) was signed on 29 September 2003. On 3 November 2003, the Slovak Government and the European Commission signed the Financing Memorandum of the Phare National Programme for the Slovak Republic (allocation € 57.1 million). The Cross Border Co-operation Programmes with Austria (€ 6 million) and Poland (€ 4 million) were signed on 8 January 2004. Slovakia will also participate in Multi-beneficiary Programmes such as the Statistical Co-operation Programme.

The National Phare Programme 2003 addressed 10 priority areas:

Political criteria (€ 8.95 million): Modernisation of the Slovak Civil Service and Public Service; Support to the Public Administration Reform; Fight against Corruption; Institution Building Facility; Support to further integration of Roma in the educational field; Improve access of Roma to Health care

Economic criteria (€ 3.1 million): Land administration and Cadastre Infrastructure

Free movement of services (€ 1.25 million): Support to the Implementation of the Risk-Based Supervision

Agriculture (€ 2.8 million): Support of agricultural food chain in comprehensive food safety policy; Veterinary and Phytosanitary Border Inspection Posts – II. Phare; Animal Protection during Transport

Statistics (€ 2.9 million): Enforcement of the new acquis in the field of statistics; Strengthening of statistical health information system and its harmonisation with EU requirements

Regional policy and co-ordination of structural instruments (€ 20.7 million): Support to Local and Regional Project Development Grant Scheme; Support to Innovative SMEs; Tourism Development Grant Scheme; Grant Scheme on Equal Opportunities and Social Inclusion Support; External Border Initiative; Create the Administrative Capacity for Implementing the Equal Initiative in the Slovak Republic; Preparing for ESF Project Management; Strengthening regional and local capacities for managing and implementing Structural Funds

Environment (€ 2.6 million): Institutional and Capacity Building in the Environmental Sector; Bio Safety Monitoring System; Implementation of Council Directives on Electric and Electronic Scrap

Social policy and employment (€ 1.55 million): Strengthening the Surveillance and Control of Communicable Diseases in the Slovak Republic

Co-operation in the fields of justice and home affairs (€ 8.7 million): Strengthening the reception capacities for asylum seekers in the Slovak Republic; Establishment of EURODAC in the Slovak Republic; Modernisation of technical equipment at the Slovak international airports; Strengthening the efficiency of the judiciary; Compliance with EU criteria on police co-operation and the fight against crime; Combating Money Laundering

Customs union (€ 4.55 million): Equipment supply to the Slovak Customs Laboratory; X-ray inspection systems for the protection of the future EU external border

Overview of programmes implemented

In the field of projects for **Minorities**, Phare achieved its educational projects. The schools received supply of the teaching devices. Total 74 job position for unemployed Roma young people for period 6 months to 2 years were created in 24 business companies - incubators. 30 Roma assistants were employed at district labour offices and the project co-ordinators have proposed to include this position in to the Ministry of Labour's Catalogue of Job Descriptions in the Civil service which is recently being updated. 10 community centers were reconstructed and furnished in the locations with high concentration of Roma population. Sets of training were financed for local population according to their specific needs. Majority of the centers stay sustainable thank to the dedication of the municipalities to further fund the running costs of the centers and one community worker in each. The main concern of minority related projects is their further sustainability, further verification, usage of the results in the national scale and upgrading of the relevant legislation.

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

The Implementation of FM 2002 progressed positively in the **agricultural sector**. The successfully implemented Farm Structure Census project provided data on this sector for Eurostat and created baseline for drawing of future EU funds. In 2003 Phare assisted also in Border Inspections Posts strengthening on veterinary and phytosanitary area.

The **public financial sector** in Slovakia benefited during the year 2003 from two large Phare projects. The new system for the State Treasury undergoing an extensive process of reform received a strategic support in the field of expenditures management practices including cash/liquidity and debt management. A large number of civil servants were trained to use the new instruments for financial planning, accounting and reporting. In order to obtain convergence and cohesion objectives an efficient public finance system is a prerequisite, this project combined the best EU practice enabling to obtain the necessary fiscal policy effect on public deficit reduction, debt levels and revenue collection levels.

The restructuring of the Slovak financial market has achieved a second additional success after the privatization of the commercial banks. This second project, concluded at the end of the year 2003, was dealing with the selling of a huge amount of bad loans and credits collected by the Slovak banks and transferred to the Slovak Consolidation Agency, state owned company. The broader objective of the Phare project was achieved with a substantial reduction of the volume of bad debts through return of transferred bank assets into private sector for ultimate solving as well as the improvement of legislative and legal framework. From the strategic point of view the project succeeded to maximize the value of the portfolio

and to guarantee a transparent competition for the portfolio owned by the Consolidation Company.

As regards the **Economic and Social Cohesion** programmes the projects of the Supplementary Investment Facility Programme 2000, focused on the development of the tourism zones “Snina ponds” and “Green Water complex in Rimavská Sobota” have been successfully completed. The successful geothermal drill providing thermal water in Rimavská Sobota creates favourable conditions for the further development of tourism the tourism zone, creation of new jobs and reduction of existing high unemployment rate in the area.

As far as the Development of the Institutional Framework and Administrative Capacity for Programming and implementation of Structural Funds is concerned, the twinning covenants 2001 (France) and 2002 (Germany) represent the core projects ensuring that the administrative capacities necessary for implementation of Structural Funds (Ministry of Construction and Regional Development and further ministries) are properly established, strengthened and the staff trained. Additional training facilities are provided to all administrative structures and regional actors under a significant training project “Capacity building for relevant partners involved in the SF programming and implementation”.

Establishment of an IT Monitoring system for Structural funds is one of the pre-conditions of using the Structural funds. An important project (financed out from 2001 and 2002 FMs) focused on the establishment of such a system project has been started by the end of the year 2003. A number of smaller technical assistance’s has been mobilised in course of the year 2003 to support the ministries in the programming exercise of Structural Funds, preparation of operational programmes, ex-ante evaluations of these programmes and preparation of programme complements. Significant funds have been additionally allocated to the SF Publicity and Information issues (establishment of an Information portal, training of First Information Contact Points, preparation of TV-spots, DVDs, printing of brochures and manuals). And finally two projects supporting Ministry of Construction and Regional Development and Ministry of Environment in the establishment of fast track project pipelines have been contracted as well.

In 2003, the National SME Agency (NADSME) successfully finalised two programmes under Economic and Social Cohesion component of FM 2000 focused on enhancing the SME-related business infrastructure and improving access of SMEs to affordable finance in less developed regions of Central and Eastern Slovakia. Nine First Contact Point Centres were established in Veľký Krtíš, Brezno, Poltár, Levoča, Sabinov, Bardejov, Medzilaborce, Snina and Michalovce. Their role is to provide basic information and counselling services for the SMEs in the target region. Four business incubators were built in Prešov and Košice (high-tech incubators), in Spišská Nová Ves and Rožňava (traditional incubators). All 4 started their operation by end of 2003.

A programme resulted in a) the establishment of the Regional Seed Capital Fund Window under the Seed Capital Company providing equity investments and loans to SMEs from the target region, b) replenishment of the successful Micro-Loan Scheme and extension of its providers in the target region.

In 2003, NADSME has also launched two grant schemes, Industry Development Grant Scheme and Tourism Development Grant Scheme (Phare contribution of Eur 7 million to technical assistance projects plus actual grants). Both grant schemes have attracted large number of applications; successful applicants will implement the grant-aided activities in 2003- 2005.

These grant schemes have also had a positive effect in terms of pilot-testing the structural funds **delivery mechanisms**.

The implementation of the Human Resource Development programme were successful, as well as the Guarantee fund project.

The major Phare Cross Border Co-operation investment projects (with one exception) and the Joint Small Projects Fund (about 60 projects) from the programme 2000 were successfully completed in December 2003. However the monitoring of the implementation phase of projects by the Implementing Agency was not appropriate.

Concerning programme 2001, the amount contracted on November 2003, deadline for contracting, was about only 70% of the total CBC budget due to weakness on programming, on tender preparation and to late contracting (80% of the budget contracted in the last week of November 2003)

Phare management performance

Over 71% of the 2001 Phare National Programme were contracted and of those funds, 11% were disbursed by the end of 2003. However, those are not the final figures, since an extension by one year was granted to a Roma project representing 17% of the overall allocation. The contracting rate for the 2002 National Programme was approximately 46% at the end of 2003.

Programming, co-ordination and management capabilities require further improvements in order to reap the full benefit of not only Phare assistance, which is in its final stage, but also future post-accession funds. This applies both to the Department of Foreign Assistance within the Office of the Government and to line ministries, as well as to other beneficiary institutions.

In the area of the preparation of EDIS accreditation for Phare, a significant effort has been delivered both by the Beneficiary and Commission Services. The horizontal programme designated for Slovakia 0.7 meuro for the performance of the Stage 2 (Gap Plugging) and Stage 3 (Compliance Assessment). Slovak authorities proceeded, with a significant delay towards their own Work Programme/Action Plan, to the performance of the Stage 2 projects, with mixed results. Also, due to the accumulated delays, the Stage 3 could not be performed under this FM financing. Slovak authorities performed the Stage 3 using their own financing and as result submitted the EDIS Phare application to DG Enlargement on December 16, 2003 instead of October 30, as requested by DG Enlargement guidance. The quality and acceptability of the Slovak EDIS Phare application shall be subject of the Verification Audit to be performed by Commission services during 2004.

Following the third High Level Working Group on 26 November 2003, Slovakia submitted its EDIS (Extended Decentralised Implementation System) application on 15 December 2003. The submission was preceded by the adoption of several action plans by the Slovak Government aimed at eliminating remaining gaps.

NDPs – State of Play

The National Development Plan of Slovakia (NDP) constitutes the overall application for Structural funding for Objective 1 regions. Although the economic growths in Slovakia in

recent years has been above the average for the EU15, GDP per capita is at only 50% of the level of the EU15. This qualifies most of the regions for Objective 1 status. Only the Bratislava region does not have Objective 1 status. Single programming documents for Objective 2 and 3 to be managed separately will cover structural operations for this region. The NDP is the base of the Objective 1 Community Support Framework (CSF) which will cover a total population of 4.779.909 inhabitants.

The NDP is accompanied by 4 following Operational programmes (OPs) to be managed within the CSF

- OP Basic Infrastructure (ERDF)
- OP Industry and Services (ERDF)
- OP Human Resources (ESF)
- OP Agriculture and Rural Development (EAGGF)

The CSF has one overarching strategic objective, which is to increase competitiveness, Growth in GDP, and job creation, while paying attention to the considerable regional imbalances that exist within Slovakia. This objective is consistent with the strengths of the Slovak economy, such as the recent achievement of a good year-on-year GDP growths, the successful restructuring and privatization of certain industries, buoyant domestic and foreign demand, low labor costs and a relatively stable currency. Weakness of the Slovak economy are also addressed such as a high rate of unemployment, modernization needs in the private sector and a substantial trade deficit.

Concerning the economic growths between 2004 and 2006, Slovakia will aim to achieve a level exceeding of the 54% of the GDP per capita average of the EU15 by 2006. The NDP has 3 specific objectives, which are:

- Encouraging economic growth and competitiveness – support to businesses which, in addition to making use of own primary resources, would focus particularly on the more sophisticated production and services with higher added value
- Promoting employment creation – to cope with the high unemployment, especially among elderly and youth. The aim in the long and medium term is to increase the educational standard of the population, to support an active employment policy, employability, lifelong learning.
- Encouraging well-balanced regional development – to focus on economic centers, which have the potential to become self-sustaining, allowing spillover effects into the economy of surrounding areas. A first step is to eliminate the bottlenecks of adequate basic infrastructure, such as transport, environmental and social infrastructure.

Institution Building highlights

Twinning and twinning light projects primarily targeted the main priority sectors identified in the Accession's partnership, notably agriculture, environment, public Finance, justice and home affairs (JHA), and preparation for the management of structural funds. Other sectors of the acquis have also been addressed through twinning such as social policy, the fight against drugs, transport and energy market regulation. Twinning operations under the JHA sector and some parts of Internal market sector (INT) have performed sometimes very satisfactory. In some other cases (customs, environment or energy), TA were probably more appropriate for meeting the needs.

A number of key issues still hamper the smooth preparation and realisation of Phare interventions in Slovakia, namely; shortcomings in programme design, low absorption capacity, delays in preparation of the tender documentation, consequently leading to apparent "last minute" commitments. The latest example is the 2000 Phare Assistance to the State Treasury. Here a very ambitious TA intervention was taking place behind the scenario of a clearly inexperienced and understaffed beneficiary institution and leaving less than one year to deliver and absorb the support package in an effective way.

11.3 Results and Impact

State of play for JMC/ SMSC development

By the beginning of 2003, the Aid Co-ordination Unit (ACU) has introduced a new template for monitoring reports, which in the main has been well received. Despite some improvements in the past, there is still a need for ACU to ensure more professional co-ordination and delivery of the respective monitoring responsibilities. However, SMSC meetings are still too much focusing on quality aspects of monitoring reports than on the discussion and resolution of implementation matters.

Due to the fact, that the EMS team has ceased its activities in July 2003, the ACU is to overtake the whole monitoring responsibility. Among all four SMSC sectors (Internal Market development, Economic and social cohesion, civil society and minorities, justice and home affairs), the Civil Society sector has been chosen as the study case for the transfer of knowledge.

Throughout the whole year 2003 in total eight SMSC meetings (two per each sector) and one JMC meeting took place as follows:

| SMSC | Spring 2003 | Autumn 2003 |
|--------------------------|-------------|-------------|
| Civil Society | 25.03.2003 | 09.10.2003 |
| Justice and Home Affairs | 29.04.2003 | 30.10.2003 |
| ECOSOC | 24.04.2003 | 02.12.2003 |
| Internal Market | 20.05.2003 | 23.10.2003 |
| JMC | 19.06.2003 | |

M&A Reports in 2003 (lessons learned)

Out of all four sectors evaluated by the EMS team, three have been rated as "Satisfactory" (Justice and Home Affairs, Civil Society and Internal Market Development) and one as "Unsatisfactory" (Economic and Social Cohesion).

In 2003, the main recommendations addressed by the IE reports were:

- Improved operational effectiveness of the SMSCs, with a more leading role attributed to the most relevant line ministries in the SMSC organisation;

- Strengthened overall co-ordination by the Ministry of Construction and Regional development for individual Phare support towards preparation for structural funds: There is a substantial risk of duplication of activities at inter-institutional and intra-institutional levels
- Improved programming work of the Ministry of Construction and regional development;
- Strengthened local administrative capacities, particularly by means of creating permanent training and education facilities.

Seven lessons learned from the experience of Phare during the last period could help for good practice in the future:

- Results still follow expenditure: Phare has probably too much followed the traditional “spending culture” and maximising the contracting rates, with sometimes efficiency problems;
- Phare programming should be based on multi-annual approaches;
- Good programming remains the essential basis for successful projects;
- Reinforce decentralised monitoring and strengthen evaluation function
- Maintain and develop Twinning instrument;
- Insist on obligatory co-financing notably by joint-financing of projects;
- Invest continuously into the development of local administrative capacities.

Sectors with positive results

Some valuable outputs were delivered in crucial areas such as agriculture, environment, statistics, standards, EU single market resulting in increased knowledge, developed administrative procedures and guidelines needed to implement and manage acquis.

Success story

Project SR0016.02 – Recreation complex Green Water, Rimavská Sobota

The objective of the project was the development of the „Green Water“ area into a modern recreation complex establishing favourable conditions for small and medium size enterprises. The Green Water recreation complex is situated in the Banská Bystrica region, county of Rimavská Sobota. The county is facing a difficult socio-economic situation with a high unemployment rate exceeding 30%.

The project allowed to complete the tourism related infrastructure of the recreation zone and prepared the conditions for further investment activities. Construction of water supply, waste water management and WWTP, gas and reconstruction of electricity supply, telecommunication connection, connection of the area to public and private transport, opening of the surrounding forests to the visitors, improvement of the quality of the water in the water reservoir Green water, geothermal drilling and delivery of the thermal water to the zone have been financed under the project.

The total costs of the completed project represent approximately 3.630.000 EUR – Phare SIF0016 programme contributed 2.000.000 EUR, Slovak State budget 1.030.000 EUR and the final beneficiary –municipality of Rimavská Sobota 600.000 EUR.

The constructed infrastructure and the successful geothermal drill of the depth of 1022 m providing 15 litres/second of thermal water of the 33°C temperature are opening new opportunities for investment, job creation and development of the tourism the area enabling to recreate 3000-3700 visitors per day.

I.12. SLOVENIA

12.1. The year in review

Political developments

In 2003 the government saw no reshuffling under new Prime Minister Rop, who also heads the leading coalition Liberal Democrats (LDS). The LDS continued to have a strong majority in Parliament and a dominant position in terms of political power. Slovenia launched talks in the framework of the so-called "Convention for Slovenia's future", initiated by the opposition parties and chaired by President Drnovšek.

The government's work in 2003 focused on economic measures, health reform, public administration reform, tax reform, regional development and foreign policy. As concerns the latter, Slovenia essentially followed EU positions. The international situation regarding Iraq led Slovenia to support the Vilnius 10 Declaration, which was met with strong criticism at home and even endangered the Foreign Minister's position. Tense relations with Croatia also dominated the political scene, following Croatia's measures towards the establishment of an ecological and fishery zone.

Slovenian voters overwhelmingly backed the country's EU and NATO memberships in referenda on 23 March. According to the official results of 1 April, 89,64% backed Slovenia's EU accession while only 10,36% were against. The support for Slovenia's NATO accession stood at 66,08%, while 33,92% of the votes cast were against. The turnout of both referenda was 60,4%. The excellent outcome of both referenda may partially be attributed to the government's intensified concluding phase of public debates on Slovenia's EU and NATO integration entitled "Home in Europe, Safe in NATO", launched by the government in March.

Preparations for the European Parliament elections were launched. Five Slovenian parties are currently well profiled in the European context (EPP- ED: opposition Democratic Party SDS, New Slovenia NSi and the coalition People's Party SLS, ELDR: coalition Liberal Democrats LDS, PSE - the coalition United List of Social Democrats ZLSD, observer in EFGP-opposition Youth Party SMS). Slovenia was also very active in the preparations for a draft EU Constitution, as MP Peterle was nominated as a representative of candidate countries in the Convention Presidium.

Macroeconomic developments and structural reforms

Despite the difficult international environment, in 2003 the macroeconomic situation in Slovenia remained relatively stable. In the second half of the year the decline in the growth of economic activity registered in the previous three quarters ceased, as real growth stood at 2,3%, compared to slightly lower growth rates registered in the first part of the year (final data for 2003 not yet available). The situation also remained fairly positive in terms of trade growth, although exports grew less than imports.

At the end of 2003 inflation reached its lowest point since Slovenia's independence, with the year-on-year inflation rate standing at 4,6%. The average annual inflation rate in 2003 was 5,6%. The decrease was also due to greater co-ordination between the government (which controlled the increase of administered prices) and the Bank of Slovenia. Decreasing inflation prompted the government to adopt in November a programme for entry into the Exchange

Rate Mechanism II (ERM II) and the Economic Monetary Union (EMU), which aims to enable Slovenia to adopt the euro in 2007.

Structural reforms continued, although at a relatively slow pace. The privatisation of key companies of the Slovenian Steelworks was temporarily shelved and the privatisation of Telekom Slovenia and electricity distributors was also postponed. Progress was achieved in particular in relation to privatisation/restructuring of the dominant company in the insurance sector, as the implementation of the law on the ownership transformation of insurance companies was given the go-ahead by the Constitutional Court.

The surge in Foreign Direct Investment registered in 2001 and 2002 did not continue in 2003, as no major takeovers took place. In the first ten months of the year Slovenia was a net investor abroad, both in FDI and portfolio investments. If final data confirms this trend, 2003 could be the first year in which Slovenia registered a net outflow of investments. The level of greenfield investments remains low.

PROGRESS IN MEETING THE “ACQUIS COMMUNAUTAIRE”

The Commission’s interim monitoring report of 23 May established no major delays in Slovenia’s preparations for EU membership, while the final monitoring report of 5 November identified only one serious warning, demanding immediate and decisive action in the field of mutual recognition of professional qualifications.

The situation in November showed that while 38 laws were scheduled to be adopted in the first nine months of the year, the government adopted only 29 laws. As to the implementing acts, 33 were adopted out of the 37 envisaged. On the other hand five implementing acts whose adoption was foreseen for the fourth quarter and one for 2004 were already adopted. In the second half of the year the adoption of legislation on the government level slowed down, however the number of adopted implementing acts increased.

12.2. Phare in 2003

Programmes launched

On 19 September 2003 the Slovene Government and the European Commission signed the Financing Memorandum for the Phare National Programme 2003 for an amount of € 37.900 million (Investment in the Acquis/ Internal Market, Justice and Home Affairs, Support to Economic and Social Cohesion, Mobility Schemes Complementary Fund, Prepare Cross-border Cooperation with Croatia-External Border Facility). Moreover three Financing Memoranda for the 2003 Phare Cross-border cooperation Programmes were signed: between Slovenia and Austria for an amount of € 2.5 million, between Slovenia and Hungary for an amount of € 2 million and finally between Slovenia and Italy for an amount of € 2.5 million.

Following the Commission Decision of 2002 the Financing Memorandum for the Horizontal programme for Community support in the field of Nuclear Safety for Slovenia in 2002 was signed on 24 January 2003 in Ljubljana for a total of € 1.263 million. The projects financed were “Support to SNSA in Upgrading and Modernisation of the National Early Warning System” “Hot cells facility renovation and modernisation” and “Characterisation of institutional low and intermediate level radioactive waste currently stored in a central facility”.

A Financing Memorandum for the Phare Nuclear Safety programme 2003 providing an amount of € 400.000 was signed on 22 January 2004 by the Slovene authorities and 26 January by the Delegation on behalf of the Commission. The project will enable the transfer of BAT in the field of LILW management and disposal from EU countries to Slovenia. It will also enable the transfer of problem specific expertise and know-how in the field of waste re-conditioning technologies aimed at waste conditioning with respect to the WAC of a given optimum LILW disposal type to Slovenia.

Slovenia also benefits from a number of Phare Multi-beneficiary programmes, to which it has agreed in 2003. Support in the field of Statistics (€ 12 million), Phare Multi-country Information and Communication Programme (€ 12.3 million out of which provisional allocation for Slovenia: € 348.000), Multi-beneficiary Programme on environment and enlargement (€ 5 million). In addition to this there is the Phare Municipal Finance Facility with EBRD, CEB/KfW & EIB (€ 35 million), Phare SME Finance Facility with EBRD, CEB/KfW & EIB Programme(s) (€ 50 million). Finally Slovenia has agreed to the Special EIB Programme 2003 for Border Regions (€ 15 million).

In line with the accession priorities, the 2003 Phare National Programme focused on

- reinforcement of administrative capacity
- further integration of Slovenia into the internal market
- economic and social cohesion
- justice and home affairs
- preparation for CBC with Croatia – external border initiative.

Two projects were programmed to enhance CBC with Croatia for a total amount of € 3 million, namely the construction of a sewage system and waste water treatment plant in Obrežje as well as a Project Preparation Facility for the cross-border area at the Slovenia-Croatia border (grant scheme).

The 2003 Cross-Border Co-operation Programme consisted of the following main components

- Cross-Border Co-operation with Austria (€ 2.5 million): Cross-border biodiversity conservation and sustainable development; Small Projects Grant Scheme.
- Cross-Border Co-operation with Hungary (€ 2 million): Maximisation of human resources potentials in the border region; Small Projects Grant Scheme.
- Cross-Border Co-operation with Italy (€ 2.5 million): Primorska Technological Poles; Small Projects Grant Scheme.

Overview of programmes implemented

Implementation of the Phare Programme in Slovenia continued to improve in 2003. 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.

The Small Project Programme aims at involving citizens in the Phare 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 is complementary to the national PHARE programme by helping a variety of different actors to be better prepared for accession. The activities

supported by the programme are small-scale by nature, but are nevertheless justified as their knock-on effect is greater than the resources committed.

The SPP's beneficiaries are non-profit organisations. A total of € 6,5 million was allocated under the Financing Proposal for SPP budget line 2002. The amount allocated for the Small Projects Facility in Slovenia was € 250.000. A local Call for Proposals was published on 18 July 2003, with a deadline for submission of proposals of 30 September. The four priority issues chosen by the Delegation for the year 2003 were the following: to raise awareness and advocate the rights of vulnerable groups; to enable municipalities, rural communities, NGOs and the civil society at large to make full use of the EU support programmes as well as to participate in European platforms and networks, to promote cultural diversity and inter-cultural dialogue; to stimulate public debates on the future of Slovenia as a new member of the EU.

89 applications were received and opened on 2 October 2003. The evaluation was carried out by a committee of three experts from 2 until 10 October 2003. On the basis of the experts' assessment, the following eight projects were selected for funding, for a total value of € 249.993,820.

A Financing Proposal for the Phare SPP budget line 2003 was received by the Delegation on 18 July 2002 and agreed by the Slovene authorities on 6 August 2003. The total budget of the programme is € 7,7 million. The amount allocated for the Small Projects Facility in Slovenia is € 250.000.

The Financing Memorandum for the Phare Access programme 2000 'Special Programme for strengthening the Civil Society and preparing for accession of the ten candidate countries in Central and Eastern Europe' was signed 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 the deadline for contracting 30 November 2002 and end disbursement 30 November 2003. This programme was divided into two components - TA to select an implementing "body" and a Grant Scheme. The programme was successfully implemented and concluded by the Government Office for European Affairs in November 2003, when all the final payments were executed. Under the Grant Scheme, there were seven projects successfully completed in September 2003. The projects were financed in the field of environment protection, socio-economic development and in the social sector to contribute to social reintegration. The final presentation of all completed projects took place on 17 November 2003.

Phare management performance

As at the cut off date of 5 December 2003 the situation with regard to contracting and payments for the Phare programmes 2000, 2001 and 2002 is set out below:

| STATUS OF PROGRAMMES EXECUTION | | | | | |
|--|-----------------------|------------------|--------------|-----------------|--------------|
| 1.2. Commitments, concluded contracts and payments | | | | | |
| 05-Dec-03 | 2. COMMITMENTS | Contracts | | Payments | |
| Country Slovenia | MEUR | MEUR | Share | MEUR | Share |
| PHARE 2000 covering programmes SI0001-0010 | 33.351.989 | 33.331.074 | 99,93% | 27.359.201 | 82,08% |
| PHARE 2001 covering programmes SI0101-0110 | 28.450.000 | 26.552.866 | 93,33% | 7.380.155 | 27,79% |
| PHARE 2002 covering programmes: (2002/000/306; 2002/000/600; 2002/000/308; 2002/000/312; 2002/000/316; 2002/000/585 and 2002/000/632) | 43.538.198 | 10.289.276 | 23,63% | 4.605.802 | 44,76% |

A number of contracts under the Phare programme 2001 were signed before the end of the contracting period 15 December 2003, the contracting rate for the Phare 2002 programme was still relatively low at the end of 2003 and the bulk of contracting will be done in the second year of the contracting period. Following signature of the Financing Memorandum for the Phare 2003 programme on 19 September 2003 project implementation has commenced.

2003 has been a crucial year for the preparations for EDIS for Phare. A Twinning Light project for EDIS Stage I was prepared, 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.

Following a first High Level Working Group between the Commission and the Government of Slovenia on 4 July 2002, a second HLWG meeting was held on 21 May 2003. The main conclusions of the meeting were that the ownership of the introduction of EDIS was clearly with the NAO and made a number of recommendations as well as creating a timetable for EDIS accreditation. On 29 October a third High Level Working Group was held in Ljubljana. The agenda covered among other things the presentation by the NAO of the overall management and control system of Phare, discussions on the organisation and methodology of

the verification audit (stage IV); clarification/reminder of standard “issues that should not be forgotten” when submitting the application for EDIS accreditation, monitoring and evaluation.

The application for EDIS accreditation for Phare was submitted to DG ELARG on 1 November 2003. In order to verify the compliance of management and control systems for pre-accession aid with the provisions of article 12.2 of Regulation 1266/999 as regards the CFCU, NF, NAC and the Budget Supervisory Service, a first mission of the stage IV audit took place from 15-19 December 2003. The second part of the stage IV audit, which will cover certain line Ministries, took place from 19-23 January 2004.

Programming of Structural Funds - state of play

The draft of the Single Programming Document (SPD) was agreed with the Commission in December 2003. It includes three priorities: Promotion of the productive sector (mono-fund ERDF); Knowledge, human resource development and employment (mono-fund ESF); and Restructuring of agriculture, forestry and fisheries (EAGGF and FIFG).

From the implementation point of view, the Government Office for Structural Policy and Regional Development (GOSPRD) will be the Managing Authority of the SPD as well as for the Cohesion Fund, and the Ministry of Finance will be the Paying Authority for all the Structural Funds and of the Cohesion Fund.

The Ministry of Economy is the Intermediate Body for the European Regional Development Fund (ERDF). The Ministry of Labour, Family and Social Affairs is in charge, as implementing body 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.

Since the NARD has been transformed into a public agency, no longer part of the Ministry of Economy, its role, if any, in the implementation of the mainstream Structural Funds will be extremely limited. However, in the future NARD will be responsible for Interreg III operations – and in this context the Managing Authority of the tri-lateral Interreg III/CARDS programme Croatia-Hungary-Slovenia.

In 2003 preparations for a full integration to the Interreg III Community Initiative have well advanced. Under the Unallocated Institution Building Envelope 2002 the project “Preparation for a full integration to the Interreg III Community Initiative” consisted of two Framework Contracts, as a support for the preparation for Interreg III Community Initiative Programme for the NARD:

- Revision of the JPD, preparation of a new Community Initiative Programme and Programme Compliment for Italy/Slovenia and Austria/Slovenia (€160,000). The project is well underway and is successful, following a number of consultations, Joint Task Forces and Joint Steering and Monitoring Committees, the amended Community Initiative Programmes for Italy and Austria were submitted to DG REGIO in early November 2003.

- Preparation of a new Neighbourhood Programme for Slovenia/Hungary/Croatia (€150,000). The project is well underway and successful, following a number of consultations and Joint Task Forces, the new Neighbourhood Programme was submitted to DG REGIO in October 2003.

Institution Building highlights:

Institution building support during 2003 was provided mainly through the Twinning instrument. Nine classical twinning covenants under the Financing Memorandum 2002 for Agriculture (1) Transport (1) Economic and Social Cohesion (5) and Internal Market (2) were notified.

A total of € 500,000 was allocated to Twinning light under the Phare 2002 twinning light pot with three projects in the field of Public Finance and one for Agriculture, which were contracted and completed during the year 2003. One of the projects was of importance in preparing the Slovene authorities for the waiving of ex-ante approval requirements.

For the Phare National Programme 2002, seventeen twinning light project fiches were concluded with a total value of € 2.550.000 covering the fields of Agriculture (7), Environment (3), Internal Market (5) and Justice and Home Affairs (2) were circulated to the Member States.

Under Phare 2002 a total of € 2.045.000 was allocated under the Unallocated Institution Building Envelope with eight projects, of which three were technical assistance, two classical twinning and three twinning light. The twinning projects covered the field of Agriculture (2), Public Finance (1) and Economic and Social Cohesion (2). The majority of these projects contracted during 2003 are still running with the exception of one project where the covenant is still under preparation.

For the Phare National Programme 2003 a total of € 2.180.000 was allocated under Institution Building covering four classical twinning projects in the field of Transport (1), Public Finance (1) and Internal Market (2) in a total value of € 1.580.000, as well as three twinning light project fiches (out of four) in the field of Agriculture (2), and Economic and Social Cohesion (1). One Twinning Light project fiche in the sector of Internal Market is under review as most of the activities and objectives set out in the project fiche are outdated.

12.3. Results and impact

State of Play for JMC/SMSC development

During 2003 there were two Sectoral Monitoring Sub-Committee meetings (SMSCs) for each of the six sectors covered (Transport/Environment; Justice and Home Affairs; Agriculture; Economic and Financial Issues; Internal Market; Economic and Social Cohesion), which were chaired by the line ministries. Separate Monitoring Committee meetings were held for SAPARD and ISPA. This monitoring exercise concluded with the Joint Monitoring Committee meeting which took place on 2 December 2003. During the JMC the findings of two "horizontal" reports on the National Aid Co-ordination and a country evaluation report covering the period 1999-2002 were presented and their recommendations discussed. The schedule for the Phare SMSC, ISPA and SAPARD monitoring committee meetings was agreed upon as well as the Interim Evaluation (IE) Work Programme for 2004. Following consultation with Commission Headquarters the new Monitoring Template and Guide, the amended Rules of Procedure of the JMC and the Phare SMSCs as well as the new Evaluation

Template and Guide were adopted. According to the Action Plan the first SMSC is scheduled to take place on 7 April 2004.

M&A reports in 2003

The contract of the Interim Evaluators EMS came to a conclusion on 31 July 2003, however they continued with their tasks, as one local staff moved to the Government Office for European Affairs to assist with the on the spot drafting of an improved monitoring and evaluation template and finalise the outstanding report(s). The Team Leader and his assistant continued to work on a horizontal report. The EMS office closed down end December 2003. In future the IE tasks will be carried out by the Government Office for European Affairs.

Even though following approval by the Commission Services and the Slovene Authorities of the Work Plan 2003 a total of 8 reports were foreseen, due to time constraints 5 were prepared - 4 standard reports (Economic & Social Cohesion (CBC/Regional Development); Agriculture; Public Finance & Statistics;) and 1 in-depth report (Internal Market). The overall rating of achievement of the programme objectives was "Satisfactory", with the only one report for Agriculture rated as "Unsatisfactory". An "early warning" was issued for one project "Support to Slovenian laboratories involved in conformity assessment procedures" within Internal Market, where delays in producing tender documentation put € 1.6 million at risk only two months before the contracting deadline. There was a serious risk that the funds would be lost. The Slovene authorities have already implemented the majority of the recommendations put forward in the reports.

Two horizontal reports on the National Aid Co-ordination (NAC) and a Country Evaluation Report were also prepared. The key achievements and findings of the Country Evaluation report was that overall, Slovenia performed well in the implementation of Phare assistance, which successfully supported the accession process. Out of 19 reports prepared between August 2001 and July 2003, 17 were rated "Satisfactory". The use of twinning as the "agent of change" was also successful. Some minor shortcomings such as delays in obtaining building permits by the beneficiary and not properly justified procurement of equipment were highlighted.

The NAC report rated the overall capacity of Slovene aid co-ordination structures as "Highly Satisfactory". Slovene aid co-ordination institutions were generally strong in terms of structures, systems and resources put in place to address responsibilities. The key bodies were institutionally robust with experienced and dedicated staff. However given the range of responsibilities and the workload staffing was considered limited. In all, the implementation & monitoring structures function effectively, and therefore only a few minor recommendations were proposed.

Sectors with positive results

Phare also achieved positive results in a number of key sectors during 2003.

In the **Agriculture sector** the efforts in the key areas of Phytosanitary and the Veterinary safety were intensified during 2003 and significant progress was made.

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, started in January

2002 and finished in January 2003 with the Netherlands Plant Protection Service as leader partner, assisted by Greece, Austria and Denmark. Additionally, the Twinning Light project “Placing Plant Protection Products on the market” was conducted with the UK Pesticides Safety Directorate and contributed further to the strengthening of the Administration of the Republic of Slovenia for Plant Protection and Seeds (ARSPPS) and smooth implementation of the acquis in this sector.

As far as the veterinary sector is concerned, the Twinning project “Health Rules for Animal By-products “ started in January 2003 and has proved exceptionally successful in bringing the separation, safe disposal, processing and trade of animal by-products in accordance with the EU legislative provisions. Furthermore, the project has crucially improved the communication and co-operation between different stakeholders in the field from the Veterinary Administration and the Ministry of Health to producer and consumer organisations. The dialogue that has developed from the round table twinning meetings has proved helpful in overcoming reservations on all sides.

The year 2003 also saw the final signature of the largest part of the supply contracts for project “Veterinary control of contagious diseases”, which was delayed significantly due to problems with the building permit for the new extension at the National Veterinary Institute (NVI). The project provides the new buildings with important laboratory equipment and will enable the NVI laboratories to fulfil their duties in the framework of the Common Market.

In the **Environmental sector** very positive results were achieved in the area of institution building through three very successful Twinning Light projects, in the fields of Air Quality, Water quality and Information and Reporting system.

In the area of the **Social sector**, the project supporting the establishment of Labour Market Indicators System for following up the National Employment Strategy and the National Action Plan has been successfully concluded. Slovenia will be now in their best position to both benefit and contribute to the European Employment Strategy. The project 'Enhancement and Development of Social Dialogue' aimed at ensuring an efficient implementation of social dialogue in Slovenia as wider objective and to link the work of Slovene social partners more closely to the implementation of EU policies.

In the **Public Finance** sector the systems of external financial control in Slovenia have been enhanced by strengthening the institutional capacity of the Court of Audit with a second twinning project. This project started on 21 February 2003 and is in the process of being successfully completed. It assisted the Slovene Court of Audit to strengthen its role in auditing as an independent, professional organisation producing relevant and timely reports for Parliament on the way that public money has been used.

In area of **Internal Financial Control** a twinning light project started in March 2003 and was successfully completed in June 2003. It aimed at preparing the GAP Assessment for EDIS and the terms of references for EDIS Stage II (Gap Plugging) and EDIS stage III (Compliance assessment). From June to September 2003 two additional technical assistance projects supported Slovenia in addressing stages II and III of the EDIS roadmap. Due to time constraints and the need to meet the deadline for sending the application for EDIS accreditation to Brussels by 1 November 2003, both TA projects were carried out in parallel and were finally successfully concluded.

In the **Justice and Home Affairs sector**, the year 2003 has seen positive developments through Institution Building as well as through investment projects. Achievements have been made in the area of Modernisation of the Judicial System, as well as in the area of combating criminal activities and police co-operation. Furthermore investment projects in the area of Border Control continued to support the Slovene administration in realising the Schengen Acquis.

As regards the **SME – Sector** the year 2003 has seen the completion of a majority of the projects under Phare NP 2000 as well as Phare CBC Slovenia-Austria 2000, supporting the business development through the construction or reconstruction of appropriate facilities and through the provision of training and consultation to SMEs and individual consultants.

Under Phare 2000 NP the complex project "*Business Incubator Network (BIN)*", composed of three components (twinning, works and Co-operation facility fund) was concluded. The aim of this project was to stimulate the development of small and medium sized enterprises in the Pomurje region. The total Phare allocation was € 2 million divided into three parts works (€ 1 million), Co-operation fund (€ 0,3 million) and twinning (€ 0,7 million). The twinning as well as works, were successfully completed in autumn 2003 while a Co-operation fund as a instrument of revolving funds has duration of 10 years. The results of the project are the following: a construction of a new building in Murska Sobota and two renovated buildings in Ljutomer and Odranci. Under the twinning component several activities were carried out and outputs delivered to support the efficient start-up of the newly established business incubator network, and raise capacity for future operations.

Within Phare 2000 CBC Slovenia- Austria two projects aiming at supporting SMEs were concluded in 2003. The first project "*Emerging of EU*" foresaw three contracts (reconstruction of the Human Resource Development Centre in Maribor, construction of a new infrastructure for a one-stop-shop in Kranj and technical assistance to support SME development). The construction works in Kranj were concluded in summer 2003 and the main regional development institutions (the Small Business Centre, the Chamber of Crafts, the Institute for Education) have been installed in the new building since June 2003. In Maribor the works were completed in autumn 2003. In spring 2004 the Regional Development Agency Maribor, the Human Resource Development Centre as well as the department of the National Agency for Regional Development are going to work in these new premises.

Under the TA service contract seven training sessions for 26 SME consultants were carried out as well as an assessment on adjustments of products or production processes in accordance with the EU technical regulation were carried out in 20 SME.

The second project "*Jesenice Business Zone*" aimed at converting derelict land and buildings into a business zone of 25 hectares, to construct new road and rail access to the planned business zone and to provide the necessary supporting infrastructure. All these results were achieved. Formally the project was completed in July 2003.

Success story

Business Incubator Network (SME sector)

This 2000 classical twinning project was aimed at accelerating business development in the Pomurje region by using the knowledge and experience of both the Slovenian and Spanish partner organisations. The Member State partner was Spain and the beneficiary on the Slovene side was the Regional Development Agency Mura. The project was launched in May 2002 and completed in September 2003. The Phare contribution amounted to € 700.000.

The project provided further alignment with the *acquis communautaire* in the area of economic and social cohesion by extending administrative co-operation, support and technical management capacities for the regional adaptation to the internal market.

The Twinning project was structured and developed through the following phases: preliminary actions, design of the incubator model, marketing strategy and selection process, training of human resources, implementation of the business incubator network and dissemination activities.

During the twinning implementation, 13 short-term experts together with the Pre-Accession Adviser worked on different activities and contributed to the project outputs.

The project reached all the objectives foreseen: thanks to joint efforts, and contributed to enhancing the sustainable knowledge and understanding of the functioning of the business incubators by the involved staff of the Regional Development Agency Mura. The project can be considered a success not only in relation to operational results (new buildings as physical outcomes, firms created) but also regarding the area of capacity building and the transfer of knowledge to the regional and local partners in the Pomurje region. The project was crucial in attempting to catalyse local actors into action in the climate of downsizing the big traditional companies. It was also designed to assist stop the "brain drain", the emigration and relocation of young dynamic and creative individuals to other, more prosperous areas by means of generating opportunities locally.

Due to the classical characteristics of the rural areas as the Pomurje region, it is expected that this successfully implemented project will generate a positive practical entrepreneurial spirit in this non-propitious environment.

Tasks ahead

In view of the approaching date of accession on 1 May 2004 the focus of the efforts in the field of institution building is no longer on the adoption of the *acquis* but on its enforcement. The Phare NP 2003, which will start to be effectively implemented in the course of 2004, 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.

Programming of the Transition facility started in the last quarter of 2003 and will enter into an intensive phase beginning of 2004 with the objective to consult the Phare Management Committee (PMC) in June 2004. At the PMC a planning document by the Slovene authorities containing an indication of which projects are scheduled for 2005 and 2006 will be presented.

The first months of 2004 will be also decisive as regards the final stages of the EDIS process. Following the second systems based audit mission end of January 2004, a draft report from the auditors will be submitted within 6 weeks time for consultation, and a final report incorporating the recommendations will be presented two weeks later. Following the auditors report the procedure for a Commission decision to grant EDIS accreditation needs to be launched by the country team.

At the same time, the preparation for the management of structural funds enters into a final phase in 2004. Three twinning projects (Managing Authority; Paying Authority and ESF) aiming at building up the administrative capacity needed for the management of structural funds upon accession, are under implementation.

I.13. TURKEY

13.1. The year in review

Political developments

Over 2003 the Turkish government has shown great determination in accelerating the pace of reforms, which have brought far-reaching changes to the political and legal system. It has also taken important steps to ensure their effective implementation, in order to allow Turkish citizens to enjoy fundamental freedoms and human rights in line with European standards. Four major packages of political reform were adopted, introducing changes to different areas of legislation. Some of the reforms carry great political significance as they impinge upon sensitive issues in the Turkish context, such as freedom of expression, freedom of demonstration, cultural rights and civilian control of the military. Many priorities under the political criteria in the revised Accession Partnership have been addressed.

More efforts are still needed to enhance the efficiency and the independence of the judiciary. Already, the judicial system has been strengthened with the establishment of a new system of family courts. The competence of military courts to try civilians has been reduced. Positive changes have been made to the system of State Security Courts, in particular the abolition of incommunicado detention. However, the functioning of these courts still needs to be brought fully in line with European standards in particular with the rights of the defence and the principle of a fair trial.⁸

On the ground, implementation of the reforms is uneven. In some cases, executive and judicial bodies entrusted with the implementation of the political reforms relating to fundamental freedoms adopted by Parliament have narrowed the scope of these reforms by establishing restrictive conditions, hindering the objectives initially pursued. The government has recognised that the reforms are not being put into practice systematically and has set up a Reform Monitoring Group in order to ensure their implementation.

Overall, in 2003 Turkey made further impressive legislative efforts which constitute significant progress towards achieving compliance with the Copenhagen political criteria.

Macroeconomic developments and structural reforms

Turkey has significantly improved the functioning of its market economy, while macroeconomic imbalances remain. During 2002 and early 2003 the economy has started to recover from the sharp recession in 2001. Real GDP grew by 7.8% in 2002 and reached pre-crisis levels at the end of the year. In the first half of 2003, output growth was 5.8%. However, employment growth could not absorb the increase in the labour force, leading to a continued rise in unemployment reaching 10.0% in the second quarter of 2003 compared to 9.3% a year before. Youth unemployment rose from 16.9% in the second quarter 2002 to 19.6% in the second quarter 2003. The number of working children in the 12-17 age bracket declined significantly, from about 1 million in mid-2002 to 770 000 in mid-2003.

⁸ In 2004, however, the State Security Courts were abolished.

Inflationary pressures have reached a historic low. During the first eight months of 2003, average inflation was 28%, compared to 53% the year before. The government debt ratio has declined but is a serious burden to the functioning of the public sector and to the economy as a whole. After the 2001 banking crisis had led to a sharp rise in the public sector debt ratio by nearly 50 percentage points, the debt ratio has started to decline (from 105.4% in 2001 to 95% in 2002). The financing costs of this debt burden account for nearly 20% of GDP.

GDP per capita in purchasing power standards has slightly improved from 22% of EU average in 2001 to 23% in 2002. However, income disparities are still very pronounced. As a result of the export driven recovery, regional growth differentials have increased, favouring export oriented regions.

Overall, economic stability and predictability have increased with a continued decline in inflationary pressures and the modernisation of Turkey's market regulations and institutions. The positive effects of adopted and gradually implemented structural reforms have helped Turkey withstand the effects of the Iraq crisis without a major economic setback. The independent regulatory and supervisory agencies played a crucial role in this respect. Financial sector surveillance has been strengthened and the base for modern foreign direct investment legislation has been laid. Transparency and efficiency of public finance management has been improved.

Progress in meeting the “acquis communautaire”

Turkey's alignment has progressed in most areas but remains at an early stage for many chapters. It is most advanced in chapters related to the EC-Turkey Customs Union but even in this respect Turkey is not fully meeting its obligations. Alignment is also more advanced in areas where other international obligations exist which are similar to the *acquis*.

Concerning “the four freedoms”, Turkey has made progress on the free movement of goods, particularly on sector-specific legislation. More progress has been made in the area of free movement of services where reforms have been undertaken in the banking sector, and to investment services and securities markets. On free movement of capital the alignment with the *acquis* is progressing, notably as regards the liberalisation of capital movements. On free movement of persons, there was some progress in 2003, mainly in the area of free movement of workers. A negative step, however, has been amendments to the public procurement law which have reduced its degree of compliance with the *acquis*.

On social policy and employment, Turkey has made some progress. Administrative capacity has been strengthened and measures have been adopted to promote gender equality in the field of labour law and on employment policy. Some legislative progress has been seen on culture and audio-visual policy, in particular through authorising broadcasts in languages other than Turkish. In adopting initial strategies for alignment in the area of justice and home affairs, Turkey has made important progress. Co-operation has improved in many fields, such as the fight against illegal migration and organised crime.

As regards energy, significant progress has been achieved via the adoption of various provisions implementing the framework laws on electricity and gas markets. Alignment in the areas of energy efficiency and renewables has also progressed. Despite limited progress in the environment field, overall the level of alignment with the *acquis* remains low. As regards agriculture, some progress has been made in the veterinary and phytosanitary fields

particularly as regards animal disease control, identification and registration of bovine animals and harmful organisms.

In many fields implementation is weak. Administrative capacity in different areas needs to be strengthened to ensure that the *acquis* is implemented and enforced effectively. In some cases, administrative reform should entail the establishment of new structures, for example in the field of state aid and regional development.

13.2. Pre-accession financial assistance in 2003

Programmes launched

There is a dedicated pre-accession instrument to assist Turkey: the pre-accession financial assistance programme for Turkey adopted by the Council in December 2001. The procedures for programming and implementing this programme largely mirror those of the Phare programme. The support provided by the programme is focused on the Accession Partnership priorities which are intended to help Turkey meet the criteria for EU membership.

Support is provided for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. This support comprises co-financing for technical assistance, twinning and investment-support projects, to help Turkey with its efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. The pre-accession financial assistance programme is also intended to help Turkey develop the mechanisms and institutions to promote economic and social cohesion; it is supported by a limited number of measures (investment and grant schemes) with a regional or thematic focus. It may also support activities which in the other candidate countries would be financed by ISPA or SAPARD.

Between 1995 and 2002, € 954 million was committed to various programmes in Turkey. In 2003 the pre-accession financial assistance national programme totalled €145 million. It focused on the following priorities:

- Addressing the Copenhagen political criteria: twinning and technical assistance will be provided for the national police, human rights, democracy and citizenship education in schools, and improving government-to-civil society dialogue. Separately, Turkey is also a focus country under the European Initiative for Democracy and Human Rights.
- Approximation to the *acquis*: twinning, technical assistance and investment to improve market surveillance and conformity assessment systems, adopt EU environmental standards in the fields of drinking water, air quality, chemicals and waste management, approximate insurance legislation and financial control practices with EU standards, and strengthen the public procurement system;
- Justice and home affairs: twinning, technical assistance and investment to improve visa policy and practice, strengthen police forensic capacity and help the fight against money laundering and trafficking in people.
- Strengthening public administration: this part of the programme includes projects to strengthen the capacity of the customs administration, fisheries management, the energy market, transport and foreign direct investment.

- Economic and social cohesion: this objective targets the under-developed regions of Samsun, Kastamonu and Erzurum and aims to improve the capacity of the Turkish authorities in developing EU approaches to regional economic development. It also seeks to promote SME clusters around Istanbul and pilots a cross-border cooperation programme with Bulgaria.

The programme also includes capacity building for the National Aid Co-ordinator secretariat (primarily in project preparation, to improve their capacity to design pre-accession assistance programmes) and co-financing for Turkey's contribution for participation in certain EC programmes and agencies.

Although Turkey is not a beneficiary under the Phare Regulation, the country's participation in Phare multi-country programmes, such as TAIEX, is sought as far as possible through its own pre-accession financial assistance envelope. More TAIEX activities were undertaken in Turkey in 2003 than ever before to support the legislative scrutiny process.

The EC Representation together with DG Enlargement played an active role during the programming process offering support and assistance to the Turkish authorities in their second pre-accession programming exercise. The final result respected a number of the standard features of a pre-accession programme, namely a minimum 30% dedicated to institution building activities and the remainder providing investment support; inclusion of 25% Turkish government co-financing for all investment components; use of twinning projects as the main instrument for institution building, and the co-financing of participation in Community programmes.

In April 2003 agreement was reached between the European Parliament, Council and Commission to include Turkey in the pre-accession heading of the financial perspectives and to provide substantially increased financial assistance for the period 2004-2006, amounting to €1 050 million over the three years.

Overview of programmes implemented

Around €700 million of EC financing is currently being managed in Turkey for projects committed between 1996 and 2003 inclusive. Most of this is managed by the EC Representation to Turkey ("deconcentrated management"). Over €300 million is managed through the DIS structures. Overall the impact of Community assistance to Turkey is increasingly positive. It is hoped that following the decentralisation of management of the assistance programmes to the Turkish authorities the acceleration already witnessed in 2002-3 will be maintained and support will have an even more significant impact.

Deconcentration of the management of pre-2002 programmes to the EC Representation in Ankara has continued to bear fruit. 2003 built on the excellent performance seen in 2002 in terms of implementation of the assistance programmes in Turkey. This has led to a continuing reduction in the backlog of assistance which had built up over the period 1996-2001.

Furthermore, following the decision in 2001 to establish a decentralised implementation system in Turkey, the Commission has undertaken a systems audit of the agencies forming part of the system (National Aid Co-ordinator, Central Finance and Contract Unit, National Fund). A formal decision was subsequently taken in October 2003 to devolve responsibility for implementing pre-accession financial assistance programmes to the Turkish government.

The Commission Decision authorising the Turkish authorities to act as the contracting authority for the pre-accession assistance programmes included a number of conditions which Turkey is required to meet within one month, three months, six months, one year and two years of the establishment of the DIS system. Turkey submitted its first compliance report in November 2003 and had met the first set of conditions required. At the time of writing the management of grant schemes are excluded from DIS due to a lack of readiness to manage such operations.

A number of major programmes are operational in fields such as basic education reform, training, drinking water provision, reproductive health, and regional development in the poorest areas of south and east Turkey. Although many of these programmes were agreed under the MEDA programme they continue to provide crucial support to Turkey's development and pre-accession needs, addressing both political and acquis-related priorities set out in the revised Accession Partnership, such as:

- developing a comprehensive approach to reduce regional disparities, and in particular improving the situation in the south-east
- promoting access to and quality of health care and improving the health status of the population

NDPs – state of play

Turkey's first National Development Plan was approved by a decision of its High Planning Council on 22 December. The NDP was prepared as the basis for programming financial assistance for economic and social cohesion during the period 2004-2006.

There are important economic and social development disparities both between Turkey and the EU, and among the 26 NUTS II regions in Turkey. The NDP therefore recognises the need to ensure convergence in the field of economic and social cohesion on the one hand, and to implement efficacious regional programmes to reduce regional development disparities on the other.

With the continuation of existing policies the Turkish government expects an average annual GDP growth rate of 5.1% in 2004-2006, together with a fall in unemployment (from 11.4% to 9.6%) and a fall in inflation (from 20% to 5%) over the same period. Structural reforms will play a crucial role in meeting these targets and it is difficult to foresee a measurable macroeconomic impact from EU funds over this limited timeframe. Therefore the NDP will aim to help reduce inter-regional disparities by focusing on increasing employment and competitiveness in 12 target NUTS II regions.

Four development axes form the basis of the NDP strategy:

- Enhancing the competitiveness of enterprises
- Developing human resources and increasing employment
- Improvement of infrastructure services and environmental protection
- Increasing the economic power of regions, reducing inter-regional development disparities and accelerating rural development

At the time of writing the European Commission is studying the NDP and is preparing a formal response to the Turkish government.

Institution building highlights

One of the most important developments for Turkey since 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 most clearly in the importance given to twinning as the delivery mechanism of choice for institution building projects. Institution building activities have been prioritised under the financial programme – almost 40% of the 2002 programme was institution building and this rose to almost 50% in 2003. This provides an illustration of the desire of both parties to “kick start” institution building actions in the framework of the Accession Partnership.

In the 2003 programming exercise 19 twinning projects were identified, building on the 13 included in the 2002 programming exercise. Of the 19 twinning projects included in 2003, the selection process led to 15 member state teams being selected to implement the projects with the remaining four being re-published. Of the thirty twinning projects initiated for Turkey overall, 11 have been in the area of justice and home affairs or the political criteria. Agriculture, transport and environment have also had notable twinning projects and, in 2003, there has been a concerted focus on the financial field, from financial control to insurance and public procurement.

13.3 Results and impact

Overall

At the beginning of the year an interim evaluation service was established in Ankara on a par with that provided in the Phare countries. The 49 programmes which were evaluated for the JMC in 2003 form a significant proportion of the overall EC assistance programme operational in Turkey during the year – interim evaluation reports covered a total EU allocation of approximately €624 million. As such, the findings from these reports presented to the JMC are believed to provide a representative view of the progress of EU funded programmes in the country. The assessment set out below reflects the findings of the independent interim evaluation service.

Overall the post-2001 pre-accession programmes show a major improvement in design compared with the previous MEDA funded programmes. Efficiency of individual programmes has however been hampered in some cases by earlier design shortcomings, by inadequate management structures presently and by insufficient monitoring capacity – the availability of sufficient staff within the beneficiary institutions is a key issue to be further addressed. Programmes have, however, generally demonstrated adequate effectiveness, although their impact and sustainability will ultimately be reliant upon further action by the Turkish government, either to develop follow-up strategies or to enact appropriate legislation in the context of the pre-accession process.

State of play for JMC/SMSC development

Turkey’s first Joint Monitoring Committee met on 15 December. Eight Sectoral Monitoring Sub-Committees had been established in 2003:

- Regional development and cross-border cooperation
- Social sector, health, education and training
- Economic and business development

- Internal market, customs union, agriculture and fisheries
- Strengthening administrative capacity
- Justice and home affairs
- Civil society development
- Infrastructure, energy, transport, telecommunications and environment

Each SMSC met twice in 2003. The first of these was for the discussion of monitoring reports and the second for interim evaluation report debriefing. The interim evaluation service mentioned above provided considerable support for the JMC/SMSC structures in 2003.

M&A reports in 2002 (lessons learned)

No reports have been prepared.

Sectors with positive results

Under the pre-accession programmes begun in 2002 and 2003 there has been a focus on the following key priorities:

- Tackling the political criteria and, in particular, implementation of the recent reform packages
- Institution building in Accession Partnership priority areas, with an emphasis on twinning, particularly in a number of areas likely to see significant investment in future annual programmes, such as environment, agriculture, and transport
- Economic and social cohesion, targeted on the poorest regions in Turkey, and with associated institution building support in the regional development field
- A particular priority given to justice and home affairs, not least as a result of potential synergies with activities in the “political criteria” field
- Strengthening the accountability, efficiency and effectiveness of the Turkish National Police.
- Development of a multi-annual approach to pre-accession financial assistance thereby preparing Turkey to absorb the increased assistance to be granted in 2004-2006

Participation in Community programmes also accounts for a significant allocation under the pre-accession programmes, in particular for the Sixth Framework Programme and the education programmes (Socrates, Leonardo and Youth).

Success story box: Sanliurfa and capacity building in environment investment planning

In all candidate countries, significant funds have been invested to improve environmental infrastructure. This is important both in terms of alignment of standards in this key area but also in building up the experience within the candidate country for the management of such projects which are extensively funded under the cohesion and structural funds.

The municipality of Sanliurfa is the first such beneficiary in Turkey and in 2003 significant progress was made in the implementation of its drinking water project. The €20 million project aims to decrease the environmental pollution and health risks currently present in Sanliurfa due to the existing low water quality and thus lead to an increase in the standards of life in the region. In addition, the institutional capacities of the municipality of Sanliurfa, particularly its water services department, regarding the management and operation of the water supply system will be improved.

Since September 2002, when the works and supervision contracts started, pipes have been laid and work started at the four new reservoir and three new pump station sites. The construction of three large capacity water reservoirs is scheduled for completion and putting into service during 2004. Rehabilitation of the existing 10,000 m³ capacity water reservoir against leakage and for reinforcement is already completed and now ready for testing.

The project will provide the hygienic drinking water required by the city of Sanliurfa. Once completed, scheduled for mid-2005, the project will ensure that all districts in Sanliurfa have access 24 hours a day to good quality water, making the dream of the public a reality. The project is designed to meet the drinking water needs of both the current population of 400,000 and the projected population of 1,400,000 for the year 2020 in Sanliurfa.

It will also serve as a pilot project for the priority environmental projects for accession (PEPA) investment programme to be identified and prepared within the 2002 “Capacity building in environment” project. The MEDA-financed 2002 report “Analysis of environmental legislation for Turkey” gave a first preliminary estimation of the cost of implementation of the environmental *acquis* for Turkey as some €30 billion.

**PART 2: ADDITIONAL INFORMATION ON
IMPLEMENTATION AND PROGRAMME
MANAGEMENT ISSUES**

II.1 BRIDGING PRE-ACCESSION SUPPORT WITH STRUCTURAL FUNDS

The Communication from Mr Verheugen 'Phare 2000 Review – Strengthening Preparations for Membership', still provides the strategic focus for Phare programming, emphasising, *inter alia*, the need to bridge to Structural Funds through economic and social cohesion support.

After a year 2002 where the main focus of Phare support aimed at strengthening the administrative and judicial capacity of acceding countries, in 2003 an average of 39% of Phare national funds were allocated to Economic and Social Cohesion (ESC) as a mean to move towards the programmatic approach of the Structural Funds. ESC investment, based on the preliminary National Development Plans and, in the countries acceding on 1 May 2004, on the draft Structural Funds Development Plans, is being used to pilot-test the type of activities which will be financed from Structural Funds on accession.

ESC investments were, in 2003, more and more implemented in the format of grant schemes (similar to the 'measures' in Structural Funds terminology) in the field covered by ESF and ERDF. The wider use of schemes constitutes an important step towards Structural Funds approaches.

In this framework, Phare continued to provide assistance (through twinning – including twinning 'light'-and short-term technical assistance) to help the countries to put in place the necessary administrative and budgetary structures for the Structural Funds. These concern programming (finalising a Development Plan and preparing a Single Programming Document or a Community Support Framework), preparing a project pipeline, management, evaluation and control.

In 2003, Commission services (DGs Regional Policy and Enlargement) pursued the "roadmap" in three phases, covering the period 2001-2003, for moving from National Development Plans to Structural Funds programming documents. In particular, by early 2003, all countries acceding on 1 May 2004 were in a position to introduce their draft National Development Plans or Single programming Documents. During the year, these Structural Funds programming documents were assessed by the Commission and negotiated with the relevant country's authorities with the aim to finalise them in early 2004.

The 2003 Phare programming exercise is the last one for the countries acceding on 1 May 2004. While ISPA and SAPARD will be replaced, upon accession, by the Cohesion Fund and the EAGGF (rural development), Phare does not have a comprehensive and direct successor; only Institution Building actions for the consolidation of capacity to implement the acquis and not eligible for funding under the Structural Funds, can be funded by the Transition Facility, created for the period 2004-2006. In order to address this unprecedented transition from pre-accession aid to structural support, an ad-hoc phasing-out strategy for Phare was adopted by the Commission on 6 September 2002 [C(2002)3303-1]. In 2003 the Phare phasing-out strategy continued to be implemented with the aim to ensuring a smooth transition to countries acceding on 1st May 2004.

The "bridging Phare to Structural Funds" added value of this strategy has been, *inter alia*, strengthened by an early programming of Phare 2003 ESC and CBC actions, and a closer

association of the Structural Funds DGs to the Phare 2003 programming, with the aim of aligning as far as possible the operations to the strategies of the forthcoming Structural Funds programmes.

II.2 TECHNICAL AND FINANCIAL ASSISTANCE

II.2.1 Information on Twinning and Taix activities in 2003

Twinning was launched in May 1998 as the main instrument for Institution Building. It aims at helping the Acceding and Candidate Countries in their development of modern and efficient administrations, with the structures, human resources and management skills needed to implement the *acquis communautaire* to the same standards as the current Member States.

Twinning projects involve the secondment of EU experts, known as Pre-Accession Advisors, to the Acceding and Candidate Countries. They are made available for a period of at least one-year to work on a project in the corresponding Ministry in a Acceding or Candidate Country. Pre-Accession Advisors provide technical advice and are in charge of the day-to-day implementation of the project.

They are supported by a senior Project Leader in their home administration, who is responsible for ensuring the overall thrust of the project implementation and co-ordinating all other inputs from the Member State. In order to achieve the objective of the Twinning Project, it is necessary to combine different means, including short-term expertise, training, services (such as translation and interpreting) in addition to the Pre-Accession Advisor.

Twinning operates on the basis of specific projects. A total of 851 Twinning projects have already been funded by the Community between 1998 and 2003. Between 1998 and 2003, 668 of these projects were primarily targeted towards agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds. These represented the principal priority sectors that were identified in the Accession Partnerships. Since 2000, other important sectors of the *acquis* have also been addressed through Twinning for example, social policy, fight against drugs and transport and telecommunications regulation. Twinning therefore now covers all sectors pursuant to the *acquis*.

The 2003 programming exercise encompassed 152 Twinning projects across all Acceding and Candidate Countries, including Turkey. The distribution of Twinning projects in Candidate Countries for 2003 is the following: Bulgaria: 17 / Cyprus: 0 / Czech Republic: 12 / Estonia: 12 / Hungary: 3 / Latvia: 15 / Lithuania: 11 / Malta: 3 / Poland: 19 / Romania: 32 / Slovakia: 7 / Slovenia: 4 and Turkey 17.

Overall the highest number of projects for 2003 relates to Justice and Home affairs (34), Public Finance and Internal market (31) and Social policy (17).

Furthermore, the Acceding and Candidate Countries are being offered the possibility of drawing on Member States' expertise through "Twinning Light", in order to address well-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation. In 2003, this instrument has been continuously used by the Acceding and Candidate Countries.

The Court of Auditors has analysed Twinning as the main instrument to support Institution Building in Acceding and Candidate Countries. In this report that has been published in the Official Journal in May 2003 the Court of Auditors has scrutinised and welcomed it as a positive initiative of the European Commission.

TAIEX

TAIEX activities continued to increase in 2003 as the 10 countries that joined the EU on 1 May 2004 made their final preparations by completing their legislative alignment and strengthening their administrative capacity for implementation and enforcement. Technical assistance was provided to all public and semi-public entities, from the national Parliaments and central government through to the judiciary, private sector associations and social partners.

The need for the development of technical skills at the regional and local levels resulted in a major growth in activities under the **Regional Training Programme**, whereby regional administrations receive tailored training to support the implementation of the *acquis* at their local level. This programme was extended in scope and to cover ten beneficiary countries. In 2003, more than 10 500 local government officials participated in different aspects of the programme.

TAIEX also continued to support final preparations for enlargement through its **Peer Review Programme**. A total of 147 peer reviews were carried out in 2003 covering 21 sectors within 10 different chapters of the negotiations. A total of 452 experts were mobilised, representing the expertise of all the Member States, for these reviews. The reports of the reviews were submitted to the Enlargement Group of Council in October 2003.

Taking together the activities for all 13 beneficiary countries, TAIEX organised a total of 1008 events in 2003, an increase of 20% over 2002, using 7591 experts and involving 22 794 participants.

TAIEX also continued to provide information through its wide variety of databases, which included the Law Approximation Database giving an up-to-date overview of the legislation adopted by each candidate country in their transposition of the *acquis communautaire*, and CCVista, an electronic database containing translations of binding legal acts in all candidate country languages.

II.2.2 Information on multi country and horizontal programmes

II.2.2.1 Participation in Community Programmes, Agencies and Committees

In Agenda 2000, the European Commission proposed the progressive opening-up to the candidate countries of a broad range of Community programmes, as one of the intermediate objectives of accession, without waiting for the accession date. It also proposed active participation in certain Community Agencies or bodies, in order to better prepare these countries for the adoption of the *acquis*.

As the Community programmes encompass most Community policies, they provide a useful preparation for accession by familiarising the candidate countries and their citizens with the Union's policies and working methods. Since 1997, the candidate countries have participated fully in almost all Community programmes open to them, in particular in education,

vocational training, youth, research, energy, the environment, and small and medium-sized enterprises. The participation of candidate countries in Community programmes is a key feature of the pre-accession strategy.

On the basis of new procedures which streamline the adoption of international instruments to facilitate the participation of the candidate countries in Community programmes, 69 Memoranda of Understanding were signed in 2003 between the European Commission and the 13 Governments of these countries.

Candidate countries are requested to make a financial contribution to each programme in which they participate. In most cases and at the candidate countries' request, the cost of this participation is co-financed by Phare and the relevant pre-accession funds for Cyprus, Malta and Turkey.

A similar participation of candidate countries in Community Agencies is taking place. On the basis of full participation, bilateral Agreements were concluded with all 13 candidate countries to become members of the *European Environment Agency*.

Negotiations on the participation in the *European Monitoring Centre for Drugs and Drug-Addiction (EMCDDA)* were concluded with Bulgaria and Romania in 2003, although the relevant Agreements had not been ratified by the end of the year. The equivalent negotiations with Turkey had not concluded yet by then. Negotiations with the remaining 10 "acceding" countries were inappropriate because the Accession Treaty signed in April 2003 foresaw that the new Member States would be treated as if they were full Member States as of 1st January 2004 as regards their participation in all Community programmes and agencies.

With respect to other Agencies, it has been decided to prepare the future participation of candidate countries. Preparation for full participation in Community Agencies is a fundamental step towards familiarising these countries with the Community *acquis* in the broadest sense of the term. It could serve the interests of both the Union and the candidate countries. This involvement will take the form of participation of representatives of these countries in some ad hoc meetings, groups of experts and other specific work of mutual interest being carried out by the Agencies.

As a continuation of a 2002 Phare programme of € 6 million to implement preparatory measures in 2002-2003 as regards the 10 CEEC's participation in Community agencies, the following eight Agencies received Phare support for such preparatory measures:

- European Centre for the Development of Vocational Training
- European Agency for the Evaluation of Medicinal Products
- Office for Harmonisation in the Internal Market
- European Agency for Safety and Health at Work
- European Monitoring Centre on Racism and Xenophobia
- Translation Centre for Bodies of the European Union
- The European Foundation for the Improvement of Living and Working Conditions
- The European Monitoring Centre for Drugs and Drug Addiction

From the signature of the [Accession Treaty](#) on 16 April 2003 until their accession to the Union on 1st May 2004 (the so-called "interim period"), representatives from Cyprus, the

Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia were benefited from a status as "active observers" in various bodies of EU institutions - as in previous enlargements of the Union.

The observers had in principle the possibility to act and speak on the same footing as representatives from current Member States, but without the right to vote or stand for elections. Therefore, the Commission departments responsible for any type of Community committee or working party invited representatives of these countries. The aim was to involve them in the process of adopting new *acquis* during the "interim period".

The costs resulting from the participation of observers from the [8 "Phare" acceding countries](#) in meetings of this type of committees or working parties were borne by a special allocation of € 13 million from the [Phare](#) programme. It was agreed that the Governments of Cyprus and Malta would bear such costs as regards committees not managing Community programmes. In case of committees managing such programmes, these two countries would be treated as if they were full Member States, including the reimbursement of observer costs.

II.2.2.2 Information on horizontal programmes:

Phare networking programme

The Networking Programme provides *acquis*-related assistance in priority areas where it is in the nature of the problems that country-specific action cannot cover the needs and meet the objectives. This is the case in particular where the targeted result itself implies communication and networking between the candidate countries or between these and the Member States.

In addition, the programme also reflects the idea that enlargement is a social project involving all citizens and proposes support to co-ordinators and beneficiaries of pre-accession assistance to publicise its impact. The output generated will be complementary to the Communication Strategy for Enlargement and can be fed into its dissemination channels. It will also enhance the effectiveness of assistance by providing project participants with the opportunity to learn from the successes (and failures) of their peers in other candidate countries.

The Networking Programme is composed of 4 components:

- ***eEurope+***: This component supports monitoring and benchmarking the impact of eEurope+, the candidate countries' initiative to join the Union's efforts to turn Europe into the most competitive and dynamic knowledge-based economy in the world. It thus allow the Phare candidate countries to become actively involved in the eEurope initiative launched by EU Heads of State and Government as part of the Lisbon Strategy. A contractor started in spring 2003 assisting the statistical offices in the central European candidate countries in gathering and interpreting the data required for benchmarking. At the end of the year, a report was submitted indicating the progress the countries had made in order to meet the eEurope+ objectives.
- ***Internal Market***: This component supports beneficiary administrations and bodies in the candidate countries relying on efficient communication and co-operation with partner organisations in the Member States and in other candidate countries.

Under a contract of more than €1.6 million (with 5% EFTA contribution) assistance is provided to the candidate countries to create a quality infrastructure (metrology, accreditation, testing-certification-inspection, market surveillance), capable of operating to the same high standards as equivalent structures in the EU and EFTA.

In addition, 2 on-going contracts (total value close to €3.2 million) aim at improving the interconnectivity of taxation and customs IT systems in the candidate countries with similar systems in the Member States.

- **Civil Society:** This component addresses the reduction of drug demand and the participation of disabled persons in the social and economic life, i.e. 2 areas in which the implementation of the *acquis* is to a large extent in the hands of civil society actors. In this context, networking with Civil Society organisations in the existing Member States is an important factor for the strengthening of Civil Society organisations in the candidate countries.

With the support of a €1 million grant, the European Disability Forum implements a project aimed at strengthening the national organisations of disabled people in the candidate countries and at promoting the creation of these umbrella bodies. As a result, all participating countries now have national councils representing disabled people and their organisations. The project also provides information on how disability organisations can use the accession process and accession itself to improve the situation of disabled people in their countries. Throughout 2003, the project contributed to country-specific action plans on the European Year of Disabled People.

As to the reduction of demand for drugs, 8 projects are being supported through grants for a total value of around €1.7 million. The projects involve over 50 organisations with a strong track record in dealing with drug misuse and drug demand reduction, and target a wide audience. Their focus is on the exchange of experiences, training and the design of new actions, and they have led, amongst other things to the launch of awareness campaigns, improved assistance and care for drug addicts or the opening of new treatment centres.

- **Dialogue and information dissemination:**

This €1.5 million component has enabled beneficiaries and aid co-ordinators to provide feedback about pre-accession assistance e.g. through the publication of 2 new issues of the Phare 'Highlights' brochure as well as newsletters reporting about drug demand reduction projects and the projects supporting disabled people and their organisations. Moreover, the component has also supported the conference networking between the beneficiaries of the Programme's Civil Society projects.

Business support programme

The programme intends to strengthen the role of business representative organisations in the central European candidate countries so that they could assist business operators in these countries to adapt to the challenges of accession to the EU, and in particular to the changes arising at company level as a result of the need to adapt to the Community *acquis*. To this

end, support was given to the development of partnerships and twinning operations with sectoral and horizontal business representative organisations in the existing Member States.

2002 saw the end of the BSP I programme, under which grants amounting to a total of €22 million had been awarded to 17 projects. The projects covered a wide range of business sectors and activities, including chambers of commerce; small and medium sized craft enterprises; the furniture and wood industry; producers co-operatives, social enterprises and participative enterprises; the chemical industry; the food and drink industry; the iron and steel industry; the textile and clothing industry; animal production; and the information and communication technology industry.

The projects focused on topics such as reinforcing the democratic and independent operation of business representative organisations; developing the efficiency of these organisations as interest groups at national and international level; assisting businesses in the central European candidate countries understand the Internal Market and adapt themselves to the related Community *acquis*; and on providing know-how about corporate development. Results and outcomes achieved suggest a general improvement in the level of knowledge and awareness on subjects related to EU accession as well as an understanding of the role and responsibility of business support organisations in the EU. Partnerships have also been established between business support organisations in the candidate countries and the EU.

The aim of the second-phase BSP 2 programme is to assist the business representative organisations in the industrial sector only by strengthening their understanding, implementation and enforcement of their sectorally relevant *acquis*. The corresponding 2002 Call for Proposals resulted in the award of grants worth in total €13.8 million to 10 projects addressing the needs of business representative organisations. These projects are currently on-going.

Environmental programme

The Phare 2002 Multi-Country Programme on Environment and Enlargement came to an end in the course of 2003. This programme, whose total budget was €1.5 million, included

- the development of strategies for financing and implementation of the environmental *acquis*; and assistance in ensuring that new investment projects were in compliance with this *acquis*, including through development of checklists that could be used by national and local officials. In addition to 2 large multi-country workshops, targeted workshops were held for groups of neighbouring countries with similar problems, as well as specific assignments related to individual countries;
- assistance to the candidate countries in central and eastern Europe to monitor progress in transposition and implementation of the environmental *acquis* and monitoring specific commitments made during negotiations. This activity included a facility for checking national legislation for compliance with EU *acquis*, at the request of the countries concerned. An update to the 1999 Handbook for Implementation of the Environment *Acquis* was also produced;
- promoting the improved implementation and enforcement of environmental *acquis*, and the exchange of experience and information at national and regional level,

through permitting the Phare countries to participate in the activities of the IMPEL network. This included the development of specific new IMPEL activities focused on these countries, such as in-country participative assessments of the inspection and enforcement system in selected Phare countries;

- promoting partnership between the local authorities, and enhancing their ability to carry out the obligations of the EU environmental acquis. This programme financed specific actions in 15 municipalities as a follow-up to the 2001 City Towards EU Compliance Award.

The 2003 Multi-Country programme on Environment and Enlargement was endowed with a budget of €5 million in order to

- further improve the implementation and enforcement of environmental acquis, and the exchange of experience and information at national and regional level, through Phare country participation in the IMPEL network. (This is a follow-up to the related project in the 2002 programme.);
- assists capacity building in implementation of the environmental acquis at the local and regional level, with a particular focus on the IPPC and EIA directives;
- develop the capacity of environmental NGOs, through transfer of best practice from NGOs in the EU15, especially through twinning and exchange activities.

Statistics programme

The wider objective of the Phare Multi-Beneficiary Programme for Statistical Co-operation is to improve the provision and the quality of official statistics from Phare candidate countries, especially in the context of pre-accession.

The €12 million 2003 Programme is oriented towards taking the process of integrating the Phare beneficiary countries' National Statistical Offices (NSOs) into the European Statistical System (ESS) forward, to continue to support sustainable capacity building of the NSOs for enabling them to better meet the needs of their customers by providing data that is accurate, reliable, timely and compiled in full compliance with the new acquis communautaire and to intensify efforts to improve the quality of statistical information and to reinforce confidence in methods and professionalism.

The Programme addresses in particular new acquis requirements through projects on macro-economic statistics, social statistics, agriculture statistics and external trade statistics, whose implementation will start in autumn 2004. The total budget allocated to these projects is around €8.5 million.

Another important part of the programme contains all the statistical assistance activities like participation in working groups, seminars, training courses, seconding trainees to Eurostat or a Member State statistical office and implementing study visits and consultations. This part of the programme has a budget of €3.5 Million. It will be implemented through grants awarded to the candidate countries' statistical offices.

2003 also saw the successful closing down of the 2000 Multi-country Programme on Statistical Co-operation with a budget of €8 million, the full implementation of the 2001 Multi-country Programme worth €7.39 million and the launch of the €9 million 2002 Multi-country Programme. The actions under these programmes cover similar objectives in different areas of statistics and will contribute significantly to providing good quality statistical information for the enlargement process for 12 candidate countries.

Finally, a new “Strategy for statistical co-operation with the acceding and remaining candidate countries for the period 2003-2006” was developed in 2003 in close co-operation between Eurostat, the candidate countries, Member States, international organisations and other donors. This strategy and the results of an external evaluation report prepared in 2003 on the implementation of the 1999, 2000 and 2001 Multi-country Programmes on Statistical Co-operation will provide useful background for future programming and implementation.

Justice and home affairs programme

In order to strengthen the administrative capacity of the judiciary and law enforcement bodies in the central European candidate countries, the programme financed assistance in view of the “*training of judges in EC law*” (€1.3 million), in order to enhance “*judicial co-operation in criminal matters*” (€1.5 million) and administrative capacities in the area of “*migration, visa, and external border management*” (€3.0 million), as well as a series of measures related to the “*rule of law*” (€3.1 million).

Only the “*rule of law*” project continued into 2003. It focused on four aspects of the functioning of the judicial systems in the 10 central European candidate countries: an independent judicial system; the status and role of the public prosecutor; court procedures and execution of judgements; safety of victims, judges, prosecutors, defence lawyers and jurors.

Fight against drugs programme

The EU Action Plan on Drugs 2000-2004 called on the Commission and the Council to ensure that the candidate countries adopt the Community acquis and best practice in the field of the fight against drugs, and that their implementation is satisfactory. In February 2002, the candidate countries signed at Ministerial level, together with the Member States and the Commission, a Joint Declaration on Drugs emphasising the importance of the EU Drugs Strategy and Action Plan as a model for national global, balanced and integrated drug policies in the candidate countries and the development of a sufficient administrative capacity and coordination between relevant authorities to tackle the drugs problem.

Activities under the Fight Against Drugs Programme have to be seen in this context. In particular:

The initial €2 million project *EMCDDA – CEEC co-operation* aimed at integrating the 12 candidate countries in the activities of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) and establishing structural links with the REITOX network (Réseau européen d’information sur les drogues et les toxicomanies) ended in 2002. It was followed up in 2003 by a further support worth €0.5 million. Both projects aimed at strengthening and institutionalising National Focal Points in all beneficiary countries.

After a preparatory phase, the *Regional Drug Law Enforcement* project for strengthening cross-border co-operation in disrupting major drug trafficking channels and dismantling international criminal organisations was endowed with €4.9 million for the implementation of country-specific and regional activities by customs and police experts under the contractual leadership of Eurocustoms. Its operational phase started at the end of 2002 and will extend until mid-2004.

The *Phare Synthetic Drugs and Precursors Project* (€1.5 million) launched in 2002 supports law enforcement agencies in their efforts to strengthen controls on manufacturing precursor chemicals and legally manufactured synthetic drugs, and to reduce the clandestine manufacturing and trafficking of illicit synthetic drugs on the one hand and the diversion of precursor chemicals on the other. The project is being implemented by a consortium of specialist agencies from Germany, the Netherlands, Sweden and the UK and continues until the end of March 2004.

The *Anti-Money Laundering Project* (€2 million) started in 2002 assists the candidate countries in transposing the relevant parts of the *acquis* in order to create a European framework to combat money laundering with a view to enhancing co-operation and working relationships between the competent institutions of the anti-money laundering chain at a national, regional and international level. The project will, *inter alia*, create a FIU Network linking the Financial Intelligence Units of the 25 Member States to enable the exchange of intelligence on suspicious transactions. The project is being implemented by the Dutch Ministry of Justice, Office for the Disclosure of Unusual Transactions, and it will run until the end of April 2004.

Small projects programme

The programme supports small scale activities related to the enlargement and accession process with the intention to create more visibility of the European Union and facilitate integration between citizens of the current and future Member States. The objectives of the programme are:

1. to raise awareness in the Phare countries on European integration, the Enlargement process and the impact of accession;
2. to contribute directly to closer European integration in the Phare countries;
3. to increase the visibility of the European Union in the Phare countries.

The programme includes in particular:

A Traineeship scheme for officials of the Phare candidate countries. In the context of institution building and assistance for integration and approximation of legislation, the programme finances the costs of placing officials from the Phare countries on traineeships within the European Commission for periods of up to 3 months. Between 1999 and 2003, approximately 175 Phare stagiaires were recruited. All of these trainees had been pre-selected by the countries involved in the programme and proposed to the European Commission. They are public administrators, young civil servants, local authorities administrators, etc. Despite limited available infrastructure and places almost all of the Commission services have taken officials for 3-month internships.

A Small Projects Facility. Activities from this facility comprise a wide variety of actions such as seminars and conferences, public information and dissemination campaigns, documentation materials, initiated by third parties from the civil society. The Facility is managed both locally by the Commission Delegations in the Phare beneficiary countries and centrally by the Commission in Brussels. The budget for in-country management has increased from €3.2 million in 2001 to €3.9 million in 2002 and €4.35 million in 2003. The centralised component of the Facility has witnessed ever increasing interest from civil society since 2001 when the first call for proposals was launched. Accordingly the budgets for 2001, 2002, and 2003 have been respectively of €1.2, €2.1 and 2.95 million. A total of 83 projects have been funded under the 2001 and 2002 budgets with the maximum grant amount limited to €50,000.

II.2.2.3 Information on multi country programmes in cooperation with IFIs

SME Finance facility

The SME Finance Facility's objective is to persuade financial intermediaries, i.e. banks, leasing companies or investment funds in the Central and Eastern European candidate countries to expand and sustain their financing operations to SMEs. In order to help financial intermediaries overcome their lack of experience and to cover the special administrative costs and risks involved, the Facility provides them with access to finance and with specific incentives. The Facility is co-financed by International Financial Institutions (IFIs) namely the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) in co-operation with Kreditanstalt für Wiederaufbau (KfW).

The Facility projects are set up under 2 co-ordinated Windows: the Loan, Guarantee and Leasing Window and the Equity Window, and take the form of loan or equity finance for the local financial intermediary, combined with tailored packages of non re-imbursable financial incentives. The financial intermediaries on-lend or lease to individual micro-enterprises or SMEs, or provide them with equity capital. In certain cases, the financial intermediaries also channel additional funds from their own resources to the recipient businesses.

The SME Facility was launched by the Commission and the EBRD in April 1999. In 2000 CEB/KfW joined the Facility, followed by the EIB in 2001.

The year 2003 was characterised by

- Commission Decisions about new Phare contributions totalling €50 million to meet the continued demand for support under the Loan, Guarantee and Leasing Window. For the EBRD and CEB/KfW, this window now includes a Rural Sub-Window of €15 million of Phare resources to meet the specific needs of financial intermediaries targeting the rural areas and agriculture sector;
- a reduction of the amount allocated to the Equity Window as a consequence of its apparent lack of attractivity;
- continuous expansion of Facility projects supporting local financial intermediaries in financing leasing operations with SMEs;

- growing focus of local intermediaries on micro-companies and increasing regional spread, including an emphasis on activities in less developed regions;

As per end of 2003 the financial status of the Programme was the following:

| BUDGET | LGLW | | | | | | EW | | TOTAL |
|--------------|---------------|------------|------------|------------|-----------|------------|--------------|--------------|----------------|
| | EU/EBRD | | EU/CEB/KfW | | EU/EIB | | EU/EBRD | | |
| | Phare | EBRD | Phare | CEB/KfW | Phare | EIB | Phare | EBRD | |
| 1999 | 33.75 | 125 | 0 | 0 | 0 | 0 | 16.25 | 16.25 | 191.25 |
| 2000 | 30 | 150 | 21 | 113 | 0 | 0 | 0 | 0 | 314 |
| 2001 | 30 | 150 | 30 | 150 | 30 | 300 | 0 | 0 | 690 |
| 2002 | 20 | 275 | 15 | 75 | 15 | 150 | 0 | 0 | 550 |
| 2003 | 25 | 125 | 15 | 75 | 10 | 100 | | | 350 |
| TOTAL | 138.75 | 825 | 81 | 413 | 55 | 550 | 16.25 | 16.25 | 2095.25 |

Municipal finance facility

There are numerous municipalities in the candidate countries, which have investment needs in areas such as water supply, sewerage, roads, public transport, solid waste, heating etc. At the same time, smaller municipalities in particular have still limited access to long term credits needed for infrastructure investment. Market-based municipal lending broadens the range of finance available to municipal authorities for ensuring sustainable living conditions to their populations.

The Municipal Finance Facility, operated in co-operation with the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank/Kreditanstalt für Wiederaufbau (CEB/KfW) and the European Investment Bank (EIB), aims at the deepening and strengthening of the municipal credit markets in the candidate countries. By tailoring financial packages to the needs of local banks, the new Facility assists the financial sectors in the candidate countries to expand lending to municipalities for the financing of *small infrastructure investments*, to extend loans over longer maturities, and to enhance the capacity to assess and monitor the related risks and to manage loans.

A total of €79 million has been allocated to this Phare Programme in 2002 and 2003; however, no Facility projects were financed during the period under review.

The mechanism of the Municipal Finance Facility is similar to the SME Finance Facility mechanism. Loan and risk-sharing instruments from resources of the EBRD, CEB/KfW and the EIB will be combined with non-reimbursable financial incentives for local financial intermediaries. It is also foreseen that a limited amount of technical assistance for municipalities will be funded by Phare to strengthen the demand side of the municipal credit market.

EIB special programme for border regions. Municipal infrastructure facility

The Municipal Infrastructure Facility was developed in 2002 in response to the Nice European Council, which had called upon the Commission to propose a programme to strengthen the border regions' overall competitiveness in the view of enlargement. An analysis revealed that the lack of adequate transport and environmental infrastructure in the candidate countries' border regions with the EU is a persisting problem to regional development.

The objective of the Facility is to contribute to the social and economic development of border regions in the candidate countries and the integration with their neighbouring regions in the current EU Member States. To this end, the Facility combines loans from EIB resources with non-reimbursable Phare support to accelerate the completion of small local infrastructure investments, and to increase the related funding sources available to municipalities via local banks. Support will mainly focus on the funding of small local transport and environmental infrastructure investments.

The eligible border regions are based on the Communication of the Commission on the Impact of Enlargement in Border Regions^[1]: Estonia; Zachodniopomorskie, Lubuskie, Dolnoslaskie (Poland); Severovychod, Severozapad, Jihozapad, Jihovychod (Czech Republic); Zapadne Slovensko, Bratislavsky (Slovak Republic); Nyugat Dunantul (Hungary); Slovenia; Yuzhen Tsentralen, Yugozapaden (Bulgaria). A total of €50 million has been allocated to this Phare Programme in 2002 and 2003; however, no Facility projects were financed during the period under review.

II.3 PROGRAMME MANAGEMENT ISSUES – MONITORING AND EVALUATION

II.3.1 Monitoring and Interim Evaluation

The Phare Monitoring and Interim Evaluation scheme adopts a participatory approach to providing the parties involved in programme management with a regular, reliable assessment of the implementation of all on-going measures. Two means are used:

- Monitoring reports drafted by the implementing agencies providing the stakeholders' view; on average and in most countries, two reports are produced per year and per monitoring sector.
- Interim Evaluation reports giving the independent view of the external evaluators.

Based on the findings of the regular IE reports, the Sectoral Monitoring Sub-Committees (SMSCs) and Joint Monitoring Committee (JMC) for each Candidate Country/new Member State discuss and decide on remedial actions to improve programme implementation. To this effect, a follow-up recommendation table is prepared by the stakeholders with a specified deadline. Consolidated country reports (Country Phare Evaluation Reviews and Country Summary Reports) are also prepared with recommendations for follow-up measures. The thematic IE reports, as well, provide for follow-up measures by sector and function on a cross-country basis.

In 2003, the Phare Interim Evaluation scheme generated some 123 individual country, sectoral and thematic evaluation reports of the Phare programmes. Thematic reports covered nuclear issues, civil society, public administration, justice and home affairs, national aid coordination, recommendations, twinning, small and medium-sized enterprises, and statistics.

The IE reports were synthesised into a final Country Phare Evaluation Review for each country and one consolidated Phare Interim Evaluation Review (to be finalised in early 2004). Moreover, the IE of the pre-accession aid programme for Turkey was contracted in early 2003 and generated eight IE reports. The IE scheme was also introduced in Malta and Cyprus.

On the whole, Interim Evaluation results concluded that Phare performance in 2003 was satisfactory. Evaluations have found projects' priorities to be generally in line with those of the Accession Partnerships, Regular Reports and Action Plans. From a sectoral angle, there has been generally good progress made in meeting objectives in cross border co-operation, environment, justice and home affairs, public administration/finance, transport and the social domain. Outcomes were more mixed in agriculture, and rather poor in economic and social cohesion/regional policy. Results in the SME and in the internal market sectors have been uneven but improving. Although the findings point to that the results of twinning (the secondment of EU experts to the CCs to help them strengthen their administrative capacities) have been mixed, the tendency is for increasingly satisfactory performance of the instrument.

Interim Evaluation itself is now accepted by almost all Candidate Country beneficiaries as an integral part of the project management cycle. Reports receive serious attention, generate healthy debate among stakeholders, and lead to sustained consideration of the recommendations they contain. Following through on evaluation findings and recommendations generates a cascade of beneficial effects. These include institutional changes within implementing agencies; better co-ordination between municipal, regional and national levels in the Candidate Countries, and between donors; improvements in project design; re-allocation of resources; gaining of additional co-financing; and more attention paid to sustaining the results of projects after completion.

Following up recommendations is also leading to the diffusion of an evaluation culture that promotes accountability and, in turn, sound financial management, to improvements in monitoring and thus management capacity and the development of a real participatory approach to evaluation on the part of all stakeholders. In this regard, the strong involvement of Commission Delegations has a considerable impact on the quality of the outcome of Interim Evaluations.

As from the beginning of 2004, decentralised Interim Evaluation in the new Member States will cover the programmes funded by Phare, as soon as the relevant authorities have contracted their external IE scheme. To this purpose, the Commission clarified the new distribution of responsibilities after decentralisation, including those for quality control in the new system.

II.3.2 Ex post evaluation

In 2003, DG Enlargement completed an external ex post evaluation of Phare national programmes launched in 1997-98. This evaluation exercise generated 10 country-level reports and one consolidated report. The exercise involved a built-in component of local evaluation capacity-building based on learning-by-doing supported by training workshops and a distance-learning package.

An overview of the outputs of the ex post evaluation revealed that:

- As to relevance and intervention logic, the report finds a very high relevance (94%) of Phare where the reorientation towards an accession driven process in 1998 had immediate

results and that the programme addressed problems that “were very critical or rather critical obstacles on the path towards accession”.

- As to legislative/administrative and socio-economic impact, the report finds the highest impact scores in acquis-oriented policy domains (third Copenhagen criteria), whereas impact scores are lower in the domains of political and economic criteria. It also notes that many Institution Building projects had wider positive side effects on horizontal/non-acquis Public Administration Reform. Although it indicates that impacts so far on the economy, society and the environment have been more marginal, more socio-economic impacts can be expected in the longer term.
- As to the design and management of strategies/projects, the Report indicates a strong Commission Services domination of the programming process that partly reflects the programming weaknesses of the Candidate Countries. It also notes that many Phare projects lacked clear objectives and clear commitment from the responsible institutions in the CCs. Whilst the twinning instrument faced considerable start-up implementation difficulties, the Report concludes that twinning has been a relatively effective instrument.

As to follow-up actions, the findings of the report were extensively discussed with all the stakeholders, which is expected to improve the design and implementation of the programmes for Romania, Bulgaria and Turkey as well as the programmes of the forthcoming Transition Facility for the new Member States.

DG Enlargement also engaged in the preparation of another ex post evaluation covering the 1999-2000 Phare national programmes including CBC, the 1996-2000 multi-country programmes, and the public administration reform and related actions (Sigma, Twinning and Taix). The launching of this ex post evaluation is planned for mid-2004.

II.3.3 Other activities of the monitoring and evaluation function

During 2003, a number of other activities were undertaken by the Commission services in order to improve the quality of projects at the design stage of the 2004 programming cycle and to support the development of local monitoring and evaluation capacity.

- *Reinforcement of monitoring function* – In view of the proximity of accession, the introduction of EDIS and the phasing-out of the EC Delegations, DG Enlargement proposed a further reinforcement of the monitoring function in the new Member States. A revised JMC Mandate to be effective as from the date of accession and providing for the introduction of an Implementation Status Report was prepared.
- *Evaluation Advisory Group (EAG)* – In March 2003, DG Enlargement set up an Evaluation Advisory Group of Member State and Candidate Country representatives. All the objectives of the EAG mandate were successfully achieved:
 - Key good practices for development of national strategies that would also include evaluation capacity of their own public funds were effectively promoted;
 - Action Plans on Decentralised Monitoring and Evaluation were completed for all new MS. A significant contribution of these Action Plans is that evaluation bodies/functions will be/have now been established in all CCs;
 - Key support technical tools were developed by the two EAG Working Groups on a Guide to Good Practices on Evaluation Capacity Building and a Practical Guide on Monitoring and Interim Evaluation including particular emphasis on monitoring and evaluation indicators.

In conclusion, substantial progress was made towards developing a viable and sustainable capacity on monitoring and evaluation in all CCs.

- *Training of key actors in the Candidate Countries* – DG Enlargement organised a number of two-day training workshops delivered by external experts to officials in ministries and co-ordination offices in the new MS/CCs on various topics such as monitoring and programme/project design.
- *Quality checks* - The quality support function at ex ante stage was enhanced through the systematic consistency and quality checks of the early draft national programme project fiches, with main focus on the uptake of lessons learned, the application of the logical framework methodology and the existence of feasibility studies.

^[1] COM (2001) 437

PART III: FINANCIAL DATA

PART III.1. PHARE FUNDS BY YEAR 1990-2003

In 2003, the Phare programme committed a total of 1.698 million to its partner countries. The following chart shows the breakdown year by year of the Phare funds committed in the period 1990-2003 (€ million):

1990: 475,3

1991: 769,7

1992: 979,6

1993: 966,1

1994: 946,1

1995: 1114,0

1996: 1207,8

1997: 1135,1

1998: 1153,9

1999: 1481,7

2000: 1651,5

2001: 1635,4

2002: 1695,1

2003: 1698,1

III.2 Phare funds by country 1990-2003

Total Phare commitments, contracts and payments, 1990-2003 (million EUR)

| Recipient Country | Commitments (1) | Contracts (2) | Payments (2) |
|--------------------------|--------------------|------------------|---------------|
| Bulgaria | 1498,62 | 1113,09 | 919,82 |
| Czech Republic | 881,14 | 667,23 | 579,54 |
| Estonia | 328,32 | 242,78 | 221,58 |
| Hungary | 1442,95 | 1125,43 | 1055,51 |
| Latvia | 403,21 | 299,12 | 273,97 |
| Lithuania | 772,75 | 664,32 | 553,39 |
| Poland | 3879,23 | 2655,49 | 2409,01 |
| Romania | 2290,1 | 1526,54 | 1307,97 |
| Slovakia | 687,81 | 475,35 | 400,95 |
| Slovenia | 340,85 | 254,86 | 224,83 |
| Czechoslovakia | 230,49 | 231,82 | 228,88 |
| East Germany | 34,49 | 28,86 | 28,86 |
| Multi-country programmes | 2908,1 | 2371,5 | 1790,99 |
| Total | 15698,06 | 11656,39 | 9995,3 |

(1) amounts committed in Brussels headquarters

(2) amounts contracted or paid by Brussels headquarters and as reported by the Local Authorities via Perseus