



**The Phare Programme**

**Annual Report 1999**



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## Message from the Commissioner

This 1999 Annual Report covers a key period of transition in the development both of the enlargement process and the Phare programme, its main financial instrument.

The Phare programme is one of the three pre-accession instruments financed by the European Communities to assist the applicant countries of central Europe in their preparations for joining the European Union. Phare's total "pre-accession" focus was put in place in 1997 in response to the Luxembourg European Council's launching of the present enlargement process. Phare funds now focus entirely on the pre-accession priorities highlighted in each country's Accession Partnership.

These basic orientations were adjusted in 1999 to reflect the coming on stream of Sapard in agriculture and rural development and of ISPA in transport and environment infrastructure. The principal adjustment was to redirect Phare's liberated funds towards tackling the issue of economic and social cohesion.

The 1997 reforms – especially those setting up new implementation structures – were fundamental and took some twelve to eighteen months to complete, making 1999 effectively the first year of operation of the reformed Phare programme. The overall results already indicate that the reforms were well judged:

- ? Phare programming has been fully re-oriented towards the accession objectives in the Accession Partnership and National Programme for the Adoption of the Acquis, as redefined annually by the Regular Reports and negotiations.
- ? Twinning is operational with 124 Twinning projects involving member states' civil servants in place advising their counterparts in national administrations on priority acquis issues.
- ? The new management structures are now operational in all ten candidate countries based on National Funds, Central Financing and Contracting Units and Implementing Agencies. More responsibility has been deconcentrated to Commission Delegations.
- ? The first Phare programme focusing on promoting economic and social cohesion was financed in 2000 on the basis of draft national development plans written by the countries in 1999.

I commend this Annual Report as a record of the events and achievements of the 1999 Phare programme and hope that it would serve as a useful documentation of the Programme's essential role in preparing the Candidate Countries for membership.

GÜNTER VERHEUGEN



## **Phare in 1999**





## **The year in review**

In addition to the ten candidate countries of Eastern and Central Europe that benefit from the Phare programme, Albania, Bosnia and FYROM, who are not candidate countries, received support from Phare in 1999. Malta, Cyprus and Turkey are also candidates but are not mentioned in this report due to the fact that they are not beneficiaries of Phare support.

### **Enlargement - priority activities and objectives**

At its meeting in Berlin on 24-25 March 1999, the European Council confirmed that enlargement is a historic priority for the European Union, and that the accession negotiations would continue "each in accordance with its own rhythm and as rapidly as possible." In the framework of Agenda 2000, the Berlin European Council adopted new financial perspectives for the Union in the context of enlargement, covering the period 2000-2006. These new perspectives make financial provision both for pre-accession expenditure and for the first new Member States to join the EU between 2002-06. In concrete terms, up to € 3.12 billion annually have been allocated for pre-accession expenditure, and a total of up to € 58 billion has been set aside to finance Structural Funds programmes, internal policies, administration and agriculture in the newly acceding states.

In December 1999, on the basis of the Regular Reports presented by the European Commission on the progress towards accession of the central and eastern European candidate countries, the Helsinki European Council decided to open accession negotiations with Bulgaria, Latvia, Lithuania, Romania and Slovakia.

Considerable progress was made in the accession negotiations which had already begun with the Czech Republic, Estonia, Hungary, Poland and Slovenia: two-thirds of the 31 chapters had been opened to negotiation by the end of 1999 and a third provisionally concluded. In the context of the pre-accession strategy, the Council adopted revised Accession Partnerships for the negotiating countries and regulations on the pre-accession structural and agricultural instruments and on coordination between the different instruments and the Phare Programme.

### **European conference**

In accordance with the conclusions of the Vienna European Council, a meeting of the foreign ministers of the 15 EU Member States and the candidate countries took place in Brussels on 19 July 1999. The meeting focused on the fight against transitional organised crime and the situation in the western Balkans. In December, the Council adopted a report on the work of the conference and of other fora engaged in similar work which it presented to the Helsinki European Council, which concluded that the conference's future would be reviewed in the light of developments and of decisions taken on the accession process.

## **Regular Reports**

Following the Regular Reports on the progress towards accession of the candidate countries adopted by the European Commission in 1998, the European Parliament adopted a number of resolutions on 15 April 1999 on five reports concerning the countries with which negotiations had already started (the Czech Republic, Estonia, Hungary, Poland and Slovenia).

On 13 October, the Commission adopted its 1999 Regular Reports and a composite paper on the progress towards accession of the candidate countries. On the basis of a detailed analysis of the progress towards accession made by each of the countries, the Commission concluded in these reports that all central and eastern European countries met the political criteria laid down by the Copenhagen European Council, but that none fully met the economic criteria. It also noted that progress in the adoption of the *acquis* varied between candidate countries. Based on these reports, the Commission recommended opening negotiations with Latvia, Lithuania and Slovakia and, conditionally, with Bulgaria and Romania. It also recommended that the negotiations be conducted in accordance with the principle of differentiation, thereby taking account of the progress achieved, and that steps be taken to decide from 2002 on the accession of candidates that fulfil all the necessary criteria.

Further to the above recommendations, the Helsinki European Council decided to convene bilateral intergovernmental conferences in February 2000 with a view to opening negotiations with Bulgaria, Latvia, Lithuania, Romania and Slovakia, stressing that each candidate country would be judged on its own merits in the negotiations. Finally, the European Council made a political commitment to make every effort to complete the intergovernmental conference in time so that the European Union (EU) would be in a position to welcome new Member States from the end of 2002, as soon as they had demonstrated their ability to assume the obligations of membership and once the negotiating process had been successfully completed.

## **Accession negotiations**

The process of screening the Community *acquis* with the five central and eastern European countries with which negotiations had been formally opened in March 1998 (the Czech Republic, Estonia, Hungary, Poland and Slovenia), as well as with Bulgaria, Latvia, Lithuania, Romania and Slovakia, was concluded in autumn 1999 except for the chapter on agriculture.

In the accession negotiations with the Czech Republic, Estonia, Hungary, Poland and Slovenia, two more ministerial conferences were held, one on 22 June in Luxembourg, the other on 7 December in Brussels. Each of these conferences was preceded by two preparatory conferences at deputy level (on 19 April and 19 May and on 30 September and 4 November). Sixteen new chapters were opened to negotiations at these conferences, bringing to 23 the total negotiated since the beginning of the process in 1998.

## **Pre-accession strategy**

On 13 October, the Commission proposed the revision of the Accession Partnerships drawn up in 1998 for the candidate countries of Central and Eastern Europe to take account of the progress they had achieved. On this basis, detailed Accession Partnerships for each country were adopted by the Commission. Each country's Accession partnership sets out clear priorities. It also highlights the main instruments and financial resources available, all of which should be maximised to target the objectives effectively. The Accession Partnerships are therefore, the single programming framework for European Community assistance.

On 26 May, the Commission adopted a communication on countering racism, xenophobia and anti-Semitism in the candidate countries. The Council adopted conclusions on 26 October concerning cooperation with the candidate countries in the public health field. In response to communications from the Commission on those subjects, the European Parliament adopted resolutions on nuclear-sector-related activities for the central and eastern European candidate countries on 11 March and on the pre-accession strategy in the environmental field, an area it considered a priority, on 15 April. In December, the European Council also recalled the importance of high standards of nuclear safety in central and Eastern Europe. The Economic and Social Committee adopted a report on 7 July on the employment and social situation in the candidate countries and, on 8 December, an own-initiative opinion on the situation in Poland.

## **Europe Agreements and other agreements**

The Europe Agreement with Slovenia entered into force on 1 February, replacing the 1993 Cooperation Agreement. The new agreement will permit more extensive cooperation, thereby facilitating implementation of the pre-accession strategy for Slovenia.

The protocols adapting the Europe Agreements to take account of the accession of Austria, Finland and Sweden to the EU and the results of the Uruguay Round entered into force on 1 January for Hungary, Latvia and Romania and on 1 September for Estonia and Lithuania. The Council concluded a similar protocol with Bulgaria on 9 March. It was signed on 25 March.

The Association Councils set up by the Europe Agreements adopted decisions on competition rules (Estonia, Latvia, Lithuania, Romania), rules of origin (Hungary, Lithuania, Poland, Slovakia) and a double-checking system for trade in ECSC products (Poland and Slovakia). They adopted further decisions concerning the participation of the candidate countries in Community programmes, more specifically allowing the 10 central and east European countries to participate in the Fifth Research and Technological Development Framework programme; Lithuania and Romania in the Raphael programme on protecting cultural heritage; Bulgaria and Slovenia in education and training programmes; the Czech Republic, Lithuania, Romania and Slovenia in programmes in the public health field and on equal opportunities; Bulgaria, Hungary, Lithuania and Romania in the SAVE II programme to promote energy efficiency; and Romania and Slovenia in programmes supporting small businesses. The Commission set out its approach on the candidate countries'

participation in Community programmes, agencies and committees in a communication on 20 December.

### **Adoption of ISPA, SAPARD and the Coordination Regulation**

As part of Agenda 2000, the Council adopted three regulations on 21 June establishing the framework of aid to the candidate countries of central and eastern Europe for the period 2000-2006. Regulation (EC) No 1267/1999, established a pre-accession structural instrument to provide aid for improving the environment and transport infrastructure (ISPA). Regulation (EC) No 1268/1999, established a pre-accession instrument to support agricultural and rural development (SAPARD). Regulation (EC) No 1266/1999, is designed to co-ordinate and ensure the consistency of aid operations under the above two instruments and the Phare Programme.

## Implementation of the new Phare guidelines

### General overview

The European Commission has increasingly transferred responsibility for the management and implementation of Phare programmes to the authorities in the candidate countries of eastern and central Europe. This is part of the process of helping them to prepare for accession to the European Union (EU).

In 1999, candidate countries had to implement simultaneously both 'old Phare' programmes decided before 1998 and managed through PMUs and 'new-Phare' programmes decided after 1998. The 'new-Phare' programmes follow on from the 1998 new orientations for Phare<sup>1</sup>. They reflect the accession-driven approach and are focused solely on institution building and investment in the *acquis*. They are managed through the new structure of a National Fund and a limited number of Implementing Agencies in each country. A key role is played by the Central Finance and Contracting Unit which manages all institution building programmes (as well as some investment activities co-financed by Phare). The other Implementing Agencies are intended to develop into the administrative structures that will be needed to implement the Structural Funds after accession.

The new implementation mechanisms reflect the lessons learned from implementation of the Phare Programme in previous years and, in particular, the need to ensure that a limited number of 'centres of excellence' be responsible for handling EU funds. This is an essential precondition for full transfer of responsibility for tendering and contracting from the Commission to the candidate country (extended decentralisation).

The accession-driven focus that underpins the new orientations of Phare inevitably involves an increasing emphasis on national programmes designed to address the specific weaknesses identified in the Regular Reports that the Commission prepares on each candidate country. The corollary is a reduction in the importance of multi-country programmes. Previously these were useful in raising awareness of issues - especially those relating to the *acquis* - of common interest to several candidate countries. The need now is to help each country prepare itself to implement the *acquis*.

In the course of 1999, revised guidelines were developed for Phare and were approved by the Commission (SEC (1999) 1596 of 13 October). These guidelines build on the changes decided in 1998. They take account of the new ISPA and SAPARD regulations that take effect from 2000. (Henceforth major transports and environment projects will be financed from ISPA while agricultural and rural development will be financed by SAPARD. Phare cannot therefore finance projects in these areas.) The new guidelines also emphasise the need to use the Phare Programme to help the candidate countries prepare to benefit from the Structural Funds after accession (economic and social cohesion).

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<sup>1</sup> The 'Guidelines for Phare programme implementation in candidate countries, 1998-1999' were adopted in June 1998 and cover the Phare budgets for 1998 and 1999.

In addition, the Commission has revised and strengthened the internal arrangements within Delegations for overseeing the tendering and contracting carried out by the authorities of the candidate countries. This has enabled the Commission to increase the upper limit for tender dossiers and contracts to be endorsed by the Delegation locally from € 500,000 to € 5 million.

### **Financial and technical assistance**

In 1999, aid to the candidate countries of central and eastern Europe under Phare was provided in accordance with the new guidelines decided in 1998 (as revised to take account of the new financial instruments), which shift the whole focus of the programme towards preparing for accession. Approximately 70 per cent of the aid went on investments designed to improve the regulatory framework and economic and social cohesion, thereby facilitating adoption of the *acquis*, and 30 per cent on institution building, the main instrument of which was twinning (secondment of experts from Member State governments and agencies to the candidate countries to help on specific projects).

In 1998 and 1999, twinning arrangements were made in four sectors identified as short-term priorities in the Accession Partnerships: agriculture, environment, finance and justice and home affairs. Examples of twinning arrangements include projects on reforming the veterinary control administration in Bulgaria, improving the function and enhancing the independence of the judiciary in the Czech Republic and modernising Hungary's tax system. Steps were taken to speed up implementation of the programme by decentralising operations to the Commission's Delegations in the candidate countries.

The total Phare budget for 1999 (which also covers Albania, Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia) amounted to € 1,527 million.

The operations financed were

- national programmes: € 782 million, of which
  - Albania: € 46 million
  - Bulgaria: € 51 million
  - Czech Republic: € 21 million
  - Estonia: € 8 million
  - Hungary: € 103 million
  - Latvia: € 16 million
  - Lithuania: € 30 million
  - Poland: € 231 million
  - Romania: € 167 million
  - Slovakia: € 78 million
  - Slovenia: € 31 million
- cross-border cooperation: € 180 million
- regional and horizontal programmes: € 461 million
- rehabilitation of former Yugoslavia (excluding Kosovo reconstruction aid): € 42 million
- other: € 62 million.

## Phare cross-border cooperation

The new Phare Cross-border Cooperation Regulation (CBC), adopted by the Commission on 18 December 1998<sup>2</sup>, has introduced a number of important changes for programming and implementing Phare CBC, in comparison with the 1994-1998 period. These changes have taken account of the evaluation of the programme, which was made in 1998, and aim at better integrating the programme in the central and eastern European countries' overall regional development strategies. Together with the Phare reform of 1997, they ensure a more balanced and efficient programme, which is also better aligned with the main Phare Programme and Interreg.

The main changes introduced by the new regulation include

- the geographical extension of the programme, whereby, in addition to the border regions adjacent to the EU, those between the candidate countries themselves also become eligible
- the preparation by a joint committee of a single joint programming document, covering both sides of the border and drawn up in a multi-annual perspective
- specific provisions concerning Joint Small Project Funds, allowing the selection and implementation of small projects at the local level in a certain number of areas.

The budgetary appropriation in 1999 was € 180 million, as it was in 1998. However, following the eligibility of borders between candidate countries, and in compliance with the budgetary comment providing that up to one third of the appropriation had to be earmarked for those borders, allocations for borders with the EU were reduced correspondingly. Of the total budgetary appropriation, € 118 million was allocated to borders between candidate countries and the EU, 34 million to borders between candidate countries, € 21 million to borders between non-candidate countries and the EU, and € 7 million<sup>3</sup> to the candidate countries bordering the Baltic Sea.

The Commission invited the countries to start programming Phare CBC with their neighbours in January 1999, and the full amount of € 180 million was approved by the Phare Management Committee and committed in time. Projects were jointly selected on the basis of priorities established in the Accession Partnerships and in the 1995-1999 Phare CBC Multi-annual Indicative Programmes and Interreg II Operational programmes. Most projects related to infrastructural development in the fields of transport and the environment. The minimum project size of € 2 million was applied, although in a flexible manner; in several cases, projects for less than € 2 million were accepted, provided strong cross-border impact was shown.

On most borders, including newly eligible borders between candidate countries, Small Project Funds continued to operate, or were established, using between 10 and 20 per cent of appropriations. This allowed regional and local actors to become increasingly involved in the programme.

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<sup>2</sup> Commission Regulation (EC) N° 2760/98, OJ L345 of 19.12.1998.

<sup>3</sup> This amount was transferred to budget article B7 537 'Special Action for the Baltic Sea region' and added to the € 5 million on that line earmarked for the candidate countries concerned.

At the invitation of the Commission, candidate countries and their neighbours also started actively preparing data with a view to preparing joint programming documents for the 2000-2006 period.

### **Multi-beneficiary programmes**

#### **▪ Lien and Partnership programmes**

A substantial delay in the signature of contracts under the 1997 Phare LIEN and Partnership programmes was incurred due to the discussion between the European institutions regarding the possible role of an administrative and financial technical assistance office in their implementation. Co-financing agreements eventually concluded at the end of the year are based on the new standard grant contract developed by the Common Service for External Relations. The contract reduces the administrative burden on grant beneficiaries and combines more flexibility in the use of funds with the need for annual financial audits for projects with grant funding exceeding € 100,000.

The November meeting of the Phare Management Committee gave a positive opinion on the ACCESS programme, the successor to the LIEN and Partnership programmes. Activities eligible for ACCESS funding must be related to the adoption of the *acquis* in the fields of environmental protection, socio-economic development or the promotion of sustainable health and social support for marginal groups within the population. Unlike the centrally managed LIEN and Partnership programmes, ACCESS will be implemented locally by the Commission Delegations in the candidate countries.

#### **▪ Horizontal Programme for Justice and Home Affairs**

Under the 1996 Phare Horizontal Programme for Justice and Home Affairs, three projects were launched in February 1999 (and will run until December 2000)

- training for police (€ 4.5 million); the contractor is the Association of European Police Colleges (AEPC) and ten Member States are taking part in the implementation of the project
- transfer of the *acquis* in the field of asylum (€ 3 million); this project is led by German Bundesamt für Anerkennung ausländischer Flüchtlinge (BAFI), with the support of the United Nations High Commissioner for Refugees (UNHCR) and seven Member States
- fight against organised crime and corruption (€ 1.5 million), which is being implemented by the Council of Europe.

The 1999 Phare Horizontal Programme for Justice and Home Affairs will cover four sectors: training of judges in European Community law (€ 1 million), rule of law (€ 3 million), judicial cooperation in penal matters (€ 2 million) and migration, visa and border management (€ 3 million). Projects are expected to start in September 2000. As under the 1996 Programme, Member States and international organisations will lead the projects.



## ▪ Drugs Programme

The Drugs Programme continued to focus on the translation of EU drug priorities into actions. The programme facilitated the implementation of the *acquis* in the field of drugs and the development of national strategies, consistent with the EU approach. In 1999, various projects and activities were completed under the programme, bringing significant results in the three areas of drug policy development, drug demand reduction and drug supply reduction.

In the field of drug information, the programme implemented activities in line with the European Monitoring Centre for Drugs and Drug Addiction and the network of EU National Focal Points. One of the main outputs was the publication of National Reports on the state of the drug problem in 11 partner countries. In this way, the work contributed to the development of comparable drug information systems at European level and helped to further the integration of the candidate countries into the Centre's activities.

A major technical assistance demand reduction project was finalised in 1999. This project established resource centres and strengthened drug demand reduction strategies in all Phare partner countries, increasing their preventive and harm reduction impact and harmonising them with the strategies prevailing in EU countries.

In the field of money laundering, a final assessment concluded that, in most of the candidate countries, the legislation in this area generally meets EU requirements. Substantial progress was also made under the joint Phare-UNDCP drug law enforcement programme in southeastern Europe. Additionally, a number of important new supply reduction projects were designed and launched:

- the drug police personnel exchange programme under which approximately 90 police officers will be exchanged between EU Member States and the candidate countries
- the last phase of the precursors' project, which will continue to focus on the implementation of EU compatible legislation, inter-agency coordination and cooperation with the industry
- as synthetic drugs have been identified as one of the main challenges under the new EU Action Plan to Combat Drugs 2000-04, a project was designed to strengthen measures and capacities to combat the illicit production of and trafficking in synthetic drugs and to prepare the candidate countries for participation in the EU Early Warning System.

Finally, 1999 also witnessed the preparation of a large project (€ 2 million) aimed at increasing the role of civil society in combating drugs. This project will strengthen the institutional capacities of selected drug demand reduction NGOs in the partner countries and will reinforce national strategies on the prevention of drug dependency and associated risks.

## ▪ **Environmental Programme**

1999 saw the launch of two accession-driven initiatives:

- ◆ the Sustainable Nature Protection Project (€ 1.9 million);
- ◆ *ad hoc* assistance to the candidate countries in preparation for membership of the European Environment Agency (total funding € 3 million).

Meanwhile activities within the framework of the Black Sea Environmental Programme and the Project Preparation Facility were brought to completion at the end of the year.

In addition, a number of sizeable investment projects were launched during the course of 1999

- ◆ Budapest Municipal Waste Water Programme (€ 16 million)
- ◆ Small Municipalities Environment Programme (Estonia, € 6 million)
- ◆ Leipaja/Madona Environment Project (Latvia, € 6.6 million)
- ◆ Klaipeda/Panavezys Environment Project (Lithuania, € 10.2 million)
- ◆ Maribor Water Concession (Slovenia, € 6.5 million).

## ▪ **Customs Programme**

In 1999, the customs component of the multi-beneficiary Transit Facilitation and Customs Modernisation Programme focused on preparing the partner countries' customs administrations for accession in two main areas: 'strategic management development' and 'improvement of operational capacity'.

The 'strategic management development' area was addressed with pre-accession meetings and workshops, with a view to completing the processes of comparing the current situation in each country with the Commission's Customs Blueprints and subsequently identifying detailed requirements for assistance (needs-analysis). The partner countries' customs administrations consequently defined their main priorities in the pre-accession period and most of them developed Customs Business Strategies. In addition, the top management of the customs administrations in the candidate countries developed a better understanding of core EU systems, the implications of accession on organisational and personnel issues and relations with the trading community.

The results of the gap- and needs-analyses, along with the approved strategies and annual plans, create a sound basis for the strategic update of the customs chapter within the National Programmes for the Adoption of the Acquis (NPAA) and for strategic project proposals within the framework of Phare and other Commission Programmes at national level.

The 'improvement of operational capacity' area was addressed through the continuation of a number of major projects, in different stages of implementation:

- ◆ 'general customs technical assistance and training', involving 12 partner countries, aimed at providing assistance to the customs administrations in key

areas of the customs business, in line with both the Commission's pre-accession strategy and the approved sectoral strategies;

- ◆ 'measures to improve efficiency at border posts', successfully implemented in 11 partner countries, aimed at implementing risk assessment, selectivity and profiling tools and techniques in the operational customs environment, through the creation/improvement of national training teams/programmes;
- ◆ 'customs information and intelligence', involving 12 customs administrations, aimed at creating/improving national 'intelligence' systems, teams and programmes and implementing 'intelligence' tools and techniques in day-to-day customs operations, through the use of information already available within the customs administrations concerned;
- ◆ 'transit north-south', implemented in six partner countries, aimed at preparing the legal and institutional framework for the final implementation of the Common Transit Convention and the EU new computerised transit system.



## **Programme management**

### **Deconcentration and decentralisation**

In the context of Phare, decentralisation means the transfer of management responsibilities from the European Commission to the candidate countries. Deconcentration describes the transfer of responsibilities within the Commission from its Headquarters in Brussels to its Delegations in the candidate countries.

#### **▪ Deconcentration**

The new Phare guidelines (1998) foresaw an increased responsibility for Commission Delegations in candidate countries in the supervision of the implementation of Phare. This policy was reconfirmed in the 1999 Phare guidelines, as it is an important step towards the further decentralisation of the Programme to the countries themselves.

A certain level of deconcentration already existed with respect to the approval of contracts under the Phare Decentralised Implementation System, whereby the Head of Delegation had responsibility for endorsing contracts up to € 500,000. The Head of Delegation now has authority to approve tender documents and evaluations and to endorse contracts up to € 5 million.

The objective was to ensure that deconcentration was implemented in all candidate country Delegations as quickly as possible. The precise timing has depended on a strengthening of each Delegation's administrative capacity, through the introduction of more rigorous internal procedures and the recruitment of a Financial Officer in charge of checking the correctness of Phare procurement. Following the recruitment of local agents and Financial Officers and appropriate training, deconcentration was introduced in all the ten Delegations concerned by June 1999.

#### **▪ Decentralisation**

As part of the preparation of the candidate countries for accession, the policy of decentralisation of the implementation of the Phare Programme to the candidate countries was continued. This meant that, to the extent permitted by the European Communities' Financial Regulation, the implementation of national programmes will be the responsibility of the candidate countries, under the supervision of the European Commission – which remains ultimately responsible for the use of the funds.

As part of the decentralisation process, centralised contracting by the Commission for national programmes was terminated. The candidate countries now conclude all contracts in the national programmes.

The criteria for further decentralisation of the Phare Programme (together with ISPA and SAPARD) were laid out in the Coordinating Regulation of the Pre-accession Instruments (1266/99). Accordingly, further decentralisation will only be authorised by the Commission on a case-by-case basis in those sectors where the criteria defined in the Annex of the Coordinating Regulation are respected by the candidate country

and the implementing agency responsible. This will ensure sound and efficient management and transparency of the use of the funds in line with the objectives of the agreed programmes. The partner country will commit itself to respecting the rules governing Phare as well as the Community's Financial Regulation. Candidate countries will be financially accountable and, if the rules are not respected, funds will be recovered by the Commission.

### **Implementation structures in partner countries**

The new implementation structures launched by the new Phare guidelines became operational in all candidate countries in 1999. In each candidate country there is now a National Fund, headed by a National Authorising Officer, in charge of the financial management of the programme. The actual implementation is carried out by Implementing Agencies. An implementing agency - a Central Finance and Contracting Unit (CFCU) - is specifically in charge of tendering and contracting institution building projects, whilst the beneficiary ministries are responsible for project selection and monitoring.

### **Monitoring and evaluation**

The regular monitoring and assessment (M&A) of Phare programmes was introduced in 1996. M&A reports are essentially a management tool which provide Phare programme managers with facts on the implementation of on-going programmes and an assessment of the progress and likelihood of a programme's success in achieving the objectives set. Recommendations are put forward for improving management and delivery, as well as the design of similar future programmes. The reports are also used when an *ex-post* evaluation is carried out on a particular sector.

By the end of 1999, some 300 reports had been produced, covering all sectors in all Phare Programme recipient countries.

In line with deconcentration, monitoring of programmes will now be done locally, with an independent and external assessment as a complementary activity.

Joint Monitoring Committees (JMCs) and Sectoral Monitoring Committees (SMSC) have been established in the ten candidate countries. The JMC is responsible for reviewing the progress of all Phare programmes implemented in the respective country, once a year (as well as ISPA and SAPARD programmes). The SMSC must submit monitoring reports at least twice a year on all programmes in the county in the relevant sector. The JMC may make recommendations to the Commission on the development of on-going programmes.

Responsibility for monitoring will lie with programme implementors (Implementing Agents, CFCUs, etc.), who will be responsible for reporting regularly on implementation in accordance with a template and criteria to ensure uniformity of approach.

## Financial overview and performance

In 1999, the Phare Programme committed a total of € 1,481.62 million to its partner countries. The following chart shows the break down year by year of the Phare funds committed in the period 1990-1999 (€ million):

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
475.3	769.7	979.6	966.1	946.1	1,114.0	1,207.8	1,135.1	1,153.9	1,481.7

The situation with regard to implementation may be summarised as follows:

Total commitments 1990-1999	€ 10,229.19 million
Total value of contracts signed 1990-1999	€ 7,915.16 million (thus 77.4 per cent of all commitments have been contracted)
Total payments under signed contracts 1990-1999	€ 6,355.13 million (thus 62.1 per cent of all committed funds have been paid and 80.3 per cent of all contracted funds have been paid).





## **Phare in the individual partner countries**



## **Candidate countries**



## **Bulgaria**

### **The year in review**

Despite the unfavourable external environment, macroeconomic developments in Bulgaria have remained relatively positive since mid-1998. Economic activity and real incomes have recovered from the depressed levels of early 1997, inflation has been reduced to low levels and the currency has remained stable.

However, the Kosovo crisis has affected the still-fragile economy. GDP growth started to slow down in the second half of 1998; weak industrial sales and negative developments in external accounts in early 1999 pointed to a continued deceleration of GDP growth. The Bulgarian authorities revised their GDP growth forecast for 1999 down from 3.7 per cent to 1.5 per cent. Despite the termination of the military campaign, the aftermath of the Kosovo crisis was expected to lead to a further deterioration of Bulgaria's external accounts and to affect growth prospects for 1999.

There was further progress in the reduction of inflation thanks to the stabilising effect of the currency board and the fall in international commodity and energy prices. Year-on-year inflation declined to 1.3 per cent in July 1999. As in both 1997 and 1998, fiscal performance was better than expected. The 1999 budget provided for an overall deficit of 2.8 per cent of GDP. However, in view of the widening current account deficit, the authorities adopted a general government deficit target of 2 per cent of GDP in May. A higher-than-expected surplus was recorded in the first half of 1999.

Although progress on privatisation slowed somewhat in 1998, the authorities set themselves the target of privatising all commercial enterprises, as well as a significant number of utilities, by the end of 1999. Significant progress was achieved, with the successful privatisation of the Bulgarian telecoms company in July, for over € 450 million. With United Bulgarian Bank and Postbank already privatised, three out of the four remaining state banks were expected to be privatised in 1999.

Measures to increase the efficiency of the tax administration continued. The 1999 budget pursued the reform of the tax system initiated in 1998 by reducing the VAT rate, eliminating most remaining exemptions and lowering the corporate tax rate. As part of the healthcare reform, a 6 per cent payroll tax was introduced on 1 July 1999. Implementation of the reform programme continued, with adoption of legislation on healthcare reform and laws designed to streamline facilities and employment in the healthcare sector. Preparation of the reform of the pension system also continued.

In the banking sector, measures were taken to strengthen banking supervision and improve the efficiency of the sector. A self-financing deposit insurance system was introduced in January 1999; in addition, prudential standards were strengthened and the central bank empowered to ensure compliance with these rules. As a result the banking system is relatively sound and highly capitalised. However, the sector still suffers from high operating costs and low profitability.

With regard to enterprise reform, progress was made in limiting the losses of state-owned enterprises and promoting their restructuring by isolating the major loss-makers from the banking system. The isolation programme was completed for

commercial enterprises by June 1999. However, progress in restructuring utilities was less satisfactory. The government decided to freeze the wage-bills of loss-making state-owned companies in the first half of 1999.

The political situation remained stable in 1999. The Parliament continued to operate smoothly; its powers are respected and the opposition plays a full part in its activities. Policy making in the central institutions has improved but remains rather weak; coordination between officials of different ministries needs to be strengthened. There has been some progress with the entry into force of the Law on State Administration and the Civil Service Law. Judicial reform needs to continue and would benefit from the preparation of an overall strategy, including measures to increase the effectiveness and transparency of the judicial system.

The reform-oriented majority under the leadership of the United Democratic Forces helped to secure continued support for market economy reforms and the further integration of Bulgaria with the EU and the Euro-Atlantic bodies. Commitment to EU membership remains high on the government agenda. Bulgaria also continued to prepare for NATO membership. Its commitment to membership was underlined again during the Kosovo conflict when Bulgaria was firmly supportive of EU action and aligned itself to all EU and NATO positions.

In May 1999, Bulgaria presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlined its strategy for accession, including how to achieve the priorities of the Accession Partnership. A Joint Assessment of Bulgaria's Medium-Term Economic Policy Priorities was signed in June 1999. The meetings of the Association Council and Association Committee were held in November and July 1999 respectively. 1999 also saw the publication of the second Regular Report (see box below) on Bulgaria's progress towards accession.

**Conclusion of the European Commission's Regular Report,  
October 1999**

Bulgaria fulfils the Copenhagen political criteria. However, further efforts need to be undertaken to strengthen the rule of law and protect human and minority rights, particularly in relation to the Roma population, where recent government decisions need to be followed by concrete measures together with appropriate financial resources. Particular attention needs to be paid to fighting corruption and improving the functioning of the judicial system.

Bulgaria has continued to make progress in establishing a functioning market economy but further steps are needed and it is not yet in a position to cope with competitive pressures and market forces within the Union in the medium-term.

Bulgaria has made determined efforts to put in place the key elements of internal market legislation. A new law on public procurement sets out the basic principles of the *acquis* and there has been progress in the area of standardisation. There has also been progress in the fight against piracy, the alignment of audio-visual legislation, liberalisation of the telecommunications market and the introduction of new VAT and

excise laws. In all these areas there is a need to pay particular attention to the capacity of the administration to implement and enforce legislation.

There has been no significant improvement in the area of state aids. Despite some progress in alignment with the agricultural *acquis*, there are problems of implementation. There has been some legislative progress in the environmental field but the lack of an overall strategy and sectoral strategies continues to pose problems. Bulgaria has made significant progress in the area of justice and home affairs, particularly in the fields of immigration and justice.

Although Bulgaria has taken some steps in developing energy policy, it has made no progress in committing itself to a realistic timetable for the closure of Units 1-4 at Kosloduy nuclear power plant, despite the fact that this was a short-term priority of the Accession Partnership.

The adoption of a Civil Service law indicates that the government intends to pursue its efforts to strengthen administrative capacity. Progress has been made in establishing the legal framework for setting up the institutions responsible for the application of EU legislation and many of the structures have been set up. However, the shortage of human and financial resources has hampered the capacity of these institutions to effectively implement the *acquis*.

Bulgaria has made progress in meeting all of the short-term priorities of the Accession Partnership except as regards the nuclear sector.

### Phare in 1999

A total of € 123.7 million was allocated to Bulgaria under the 1999 Phare budget to support Bulgaria's accession to the EU. The relevant Financing Memoranda between the European Commission and Bulgaria were signed in December 1999.

Phare support for Bulgaria's accession preparations was channelled through four main programmes: the National Programme (€ 52.1 million), the Cross-Border Cooperation Programme with Greece and Romania (€ 30 million), the Large-Scale Infrastructure Facility (€ 25.7 million) and the Catch-Up Facility (€ 14 million). Bulgaria also received funding under the Consensus III programme (€ 1.9 million), as well as for participation in Phare multi-beneficiary and horizontal programmes, including those on customs, democracy, standardisation, SMEs, nuclear safety, environment, statistics, public administration reform and TAIEX.

The **1999 Phare National Programme** focused on the following priorities identified in Bulgaria's Accession Partnership

- **integration of the Roma** (€ 0.5 million): improving education, living standards and access to jobs for the Roma population
- **economic reform** (€ 4.8 million): providing management training and capacity building for the national SME agency and regional network