

The Phare Programme



Annual Report 2000

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Message from the Commissioner

This 2000 Annual Report covers a period of significant progress made towards the enlargement of the Union. As part of the process of helping the Candidate Countries of eastern and central Europe to prepare for accession to the European Union, the European Commission increasingly transferred responsibility for the management and implementation of Phare programmes to the authorities in the Candidate Countries.

As set out in the 1998 new orientations for Phare, projects implemented in 2000 were increasingly based on an accession-driven approach. This accession-driven focus implies an increasing emphasis on national programmes designed to address the specific weaknesses identified in the Regular Reports.

In 2000, aid to the Candidate Countries under Phare was provided in accordance with the revised guidelines decided in 1999, which retained the unique focus of the programme on preparing for accession. These guidelines took account of the new ISPA and SAPARD regulations that took effect in 2000. While approximately 30 per cent of the aid went on Institution Building, the main instrument of which was Twinning, 70 per cent went on investments designed to improve the regulatory framework and economic and social cohesion. The guidelines also emphasised the need to use the Phare programme to help the Candidate Countries prepare to benefit from the Structural Funds after accession. In this perspective, the Commission extended its support to economic and social cohesion in 2000. In addition, the Commission revised and strengthened the internal arrangements within Delegations for overseeing the tendering and contracting of Phare carried out by the authorities of the Candidate Countries.

In the course of 2000, the Commission launched a review of the Phare programme. It concluded that Phare's current orientations, as introduced in 1997 and updated in 1999, continue to address the main needs of the applicant countries. In addition Phare will need to address two additional challenges in the coming years: delivering on the past reforms and moving to structural funds.

I commend this Annual Report as a record of the events and achievements of the 2000 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 2000

A. The year in review

A.1. Main evolutions of the Enlargement Process in 2000

During the year 2000 significant progress was made towards the enlargement of the Union. On 8 November the Commission adopted and presented the **Regular Reports** to the Council and Parliament. The Regular Reports were accompanied by a **Strategy Paper** on enlargement.

In The Strategy Paper the Commission put forward its views concerning the enlargement process and proposed a plan for the conduct of future negotiations. This included in particular establishing a roadmap for addressing outstanding issues during the course of 2001 and the first semester of 2002. The main objective of the roadmap is to ensure that all parties commit themselves to a realistic timetable. The roadmap adheres to the guiding principles of differentiation and catching up. This approach aimed at concluding the negotiations in the course of 2002 with those countries that had fulfilled the accession criteria.

In the Regular Reports the Commission assessed the progress made by the Candidate Countries in fulfilling the Copenhagen criteria (political, economic and in terms of their ability to assume the "acquis communautaire"). Particular attention was paid to the development of the Candidate Countries' administrative capacity. The main findings of the reports were on the whole encouraging. All Candidate Countries continued to meet the political criteria except Turkey. The overall economic performance of the candidates during the period of reporting had been good. However, although adoption of legislation progressed relatively well in most countries, the administrative capacity required to strengthen and enforce the legislation needed to be reinforced.

In addition, the Commission proposed to the Council on the 8 November 2000, the first **Accession Partnership with Turkey**. Accession Partnerships for Malta and Cyprus were decided by the Council, following a Commission proposal, in March 2000. The Accession Partnerships for all other candidate countries were decided by the Council in December 1999.

Several intergovernmental conferences were held in the framework of **accession negotiations**. On 15 February 2000, negotiations were launched with Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia. Accession negotiations were held at ministerial level on the 13-14 June in Luxembourg first with all 12 negotiating countries and then with Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia in Brussels on 20-21 November and finally with Cyprus, Czech Republic, Estonia, Hungary, Poland and Slovenia on 4-5 December in Brussels.

In line with the Helsinki conclusions emphasising the link between progress in the negotiations and progress on the ground, the Commission launched a process of **monitoring** implementation of commitments undertaken in the accession negotiations. The Commission also launched an updated **screening** of the acquis with

the twelve negotiating countries. The Screening examined the progress achieved in adopting and implementing the acquis and informed the candidates of the new acquis adopted in 1999.

On 10 May the Commission adopted an **Enlargement Communication Strategy**. This strategy aimed at informing citizens of the EU and Candidate Countries of the costs and benefits of enlargement.

A.2. The conclusions of the Feira and Nice European Councils

The Feira European Council on the 19-20 June 2000 confirmed the principles of **differentiation, catching up and monitoring** of progress established at Helsinki. The Council considered that it should be feasible to open all negotiating chapters with the most advanced of the "Helsinki" countries as early as possible in 2001. The Feira European Council emphasised the link between Candidate Countries' progress in the negotiations and their capacity to implement and enforce the acquis. Progress can only be made if Candidate Countries demonstrate improvements in strengthening their administrative and judicial structures. Consequently, the European Council invited the Commission to report regularly to the Council on this matter.

Moreover, the Feira European Council highlighted its expectations for concrete progress in Turkey in the area of human rights, the rule of law and the judicial system. Finally, the European Council emphasised the importance for the enlargement process of the support of public opinion and the need of duly informing the population, both in the EU Member States and in the Candidate Countries.

The Nice European Council

The Nice Council (7-9 December 2000), represented a significant breakthrough in the enlargement process. By concluding the IGC on institutional reform, Nice has cleared the last institutional obstacle to enlargement on the Union's side, enabling the Union (in line with the commitment taken at Helsinki) to welcome new members from the end of 2002, as soon as they have fulfilled the accession criteria. The Nice Summit also endorsed the enlargement strategy proposed by the Commission. The European Council also expressed the hope that the first acceding countries would be able to participate in the next elections for the European Parliament in June 2004.

The Nice European Council welcomed the agreement on the Accession Partnership with Turkey and requested Turkey to submit swiftly its national Programme for the adoption of the acquis.

A.3. The start up of ISPA and SAPARD and the Coordination of the Community pre-accession assistance

Two new pre-accession instruments (ISPA in transport and environment infrastructure and SAPARD in agricultural and rural development) came into effect on 1.1.2000.

A **Coordination Committee** at Directors level was set up between Commission services concerned.

A **General Assistance Document** has been forwarded to the Phare Management Committee, as part of the coordination task given to the Commission, assisted by the Phare management Committee, under Council Regulation 1266/1999.

A separate **annual report on coordination** of pre-accession assistance will provide more detailed information on coordination between Phare, ISPA and SAPARD.

B. Implementation of the Phare programme

B.1. General overview: in line with the Phare guidelines

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).

As older Phare programmes were completed and new programmes initiated, projects implemented in 2000 were **increasingly based on the accession-driven approach** set out in the 1998 new orientations for Phare¹. They are managed through the 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 precursors to 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 implies 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

¹ 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.

programmes. Previously these were very useful in raising awareness of issues - especially those relating to the *acquis* - of common interest to several candidate countries. The stage of awareness raising is past and the need now is to help the countries put in place the capacity on the ground to implement the *acquis*.

Programming in 2000 was based on the **revised guidelines for Phare** that 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 transport and environment projects will be financed from ISPA while agricultural and rural development will **mainly** be financed by SAPARD. 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).

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 allowed the Commission to approve tendering and contracting of Phare in-country by its Delegation (rather than having to send them back to Headquarters for approval).

B.2. General overview: Financial and technical assistance

In 2000, aid to the candidate countries of central and eastern Europe under Phare was provided in accordance with the revised guidelines decided in 1999 (as revised to take account of the new financial instruments), which retain the unique focus of the programme on preparing for accession. Approximately 30 per cent of the aid went 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 instill the capacity to implement a specific part of the *acquis*) and 70 per cent went on investments designed to improve the regulatory framework and economic and social cohesion, thereby facilitating adoption of the *acquis*.

The total Phare commitment for 2000 amounted to € 1,569 million. The operations financed were:

◆ **national programmes:** € 853 million, of which:

- Bulgaria: € 66 million
- Czech Republic: € 59 million
- Estonia: € 24 million
- Hungary: € 70 million
- Latvia: € 25 million
- Lithuania: € 38 million
- Poland: € 313 million
- Romania: € 215 million
- Slovakia: € 28 million
- Slovenia: € 16 million

- ◆ **cross-border co-operation:** € 163 million
- ◆ **participation in Community programmes:** € 188 million
- ◆ **nuclear safety:** € 82 million
- ◆ **regional and horizontal programmes:** € 284 million

B.3. The 2000 Phare review

In the course of 2000, the Commission launched a review of the Phare programme, culminating in a **Communication from the Commissioner** responsible for Enlargement (C(2000)3103/2 of 27 October). The review concluded that the current Phare guidelines continue to address the main needs of the candidate countries and should be maintained. However Phare will need to address two challenges in the coming years – fully realising the 1997 reform of the Phare programme and preparing for Structural Funds.

The 1997 reform of Phare moved the programme to an accession-driven basis. Phare will help candidate countries to build the **institutions** that they will need to implement the *acquis* upon accession. Countries are required to co-finance all projects in order to ensure their full commitment to and ownership of projects receiving Phare support. They are fully responsible for implementing Phare projects. The new instrument of twinning, which substantially replaces technical assistance in those areas where direct support is given to the public administration, requires a strong commitment from the country towards the “guaranteed result” of the twinning project – to develop the capacity to implement part of the *acquis*. The review confirmed this approach.

A second strand of Phare emphasised in the Phare review is to help the countries prepare themselves to **participate in the Structural Funds** – especially the European Regional Development Fund and the European Social Fund - after accession.² The principal developments foreseen in the Review include extended decentralisation (whereby the Commission no longer gives *ex ante* approval for tendering and contracting), multi-annual programming, a greater use of the “programmatic” approach used under structural funds (whereby the Commission approves programmes rather than individual projects). These changes will be introduced on a differentiated basis depending on the capacity of candidate countries to take these developments on board. In the meantime existing arrangements will continue to operate.

In the course of 2001 practical steps being taken to implement the Phare review include increased flexibility of the twinning instrument, moves towards multi-annual programming on a differentiated basis, preparation of extended decentralisation in close association with Ispa, increased use of grant schemes where countries show that they have adequate management capacity and improvements in the project pipeline. In addition DG Enlargement was given in mid-2000 full responsibility for the entire project cycle and has streamlined and rationalised the Commission’s internal decision procedures in the context of the Phare review and the broader Commission reform.

² The SAPARD programme provides the candidate countries with practical experience to prepare for the management of the European Agricultural Guidance Fund and Structural Funds; ISPA helps them prepare for Cohesion Funds.

B.4. Phare National Programmes

◆ Support to Institution building

Twinning

Twinning was launched in May 1998 as the principal instrument for Institution Building. It aims to help the 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 Member States.

In 2000, **twinning progressed further on**: 123 projects were funded for a total allocation of € 147 million. Twinning arrangements were made in a wide range of sectors reflecting the broad scope of the *acquis*. Between 1998 and 2000, a total of 375 Twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds, have been funded by the EU (1998: 103 projects 77 ME; 1999: 123 projects 121 ME). These represent the principal short-term priority sectors that have been identified in the Accession Partnerships. But also other important sectors of EU legislation have been addressed through Twinning, social policy, fight against drugs, transport, telecommunications regulation, etc.

An **independent assessment** of the design of Twinning was conducted in the spring and reported in July 2000. The main conclusion is:

“From our extensive consultations we are able to state confidently that the Twinning Instrument is a highly valued mechanism to support CC progress towards meeting the requirements of the various *acquis*. Despite some initial - and some remaining - reservations on the part of some CCs twinning is now widely recognised as providing a much-prized method of transfer of technical assistance from the MS administrations to the CCs. The CCs value in particular the permanent presence of the PAA and the close link that is provided into the MS administration where real expertise and experience lies in implementation of the *acquis*. In this respect Twinning is seen as a more useful and relevant mechanism than classical PHARE consultancy projects providing as it does access to real practitioner experience. The independence, impartiality and practical understanding of the public sector provided by civil servants is also seen as an advantage over the expertise provided by private sector consultants.”

The Commission has taken on board most of the recommendations of the experts for improvement of the procedural and financial rules for Twinning. Steps were taken to speed up implementation of the programme by **decentralising** operations to the Commission's Delegations in the candidate countries.

TAIEX

The year 2000 saw a significant increase in the activities of the TAIEX Office (Technical Assistance Information Exchange Office), with no less than 438 different events. These events consisted of technical assistance in the fields of Judiciary,

Private Sector Associations, Agriculture, Sub-National Level, Finance, Databases, Parliaments and Legislative Councils, and Translation. Events took the form of Seminars, Working Groups, Workshops and Study Visits, and were attended by 10,437 officials from the Candidate Countries (CCs) who benefited from the know-how of 1,131 Member State Experts.

As the CCs progressed in their preparations for membership both the number and range of beneficiaries increased. More work was done at sub-national level, with the private sector associations and with the Parliaments. Also, the need for technical assistance began to shift from approximation of laws towards an emphasis on the implementation and enforcement of this legislation.

The Phare 2000 review concluded that institution building mechanisms generally work well but also underlines the need for a **medium term instrument**, in between long term twinning and short term TAIEX: projects providing medium-term twinning ("**Twinning light**") will be introduced in 2001 Phare programmes.

◆ **Support to investment**

The 1999 guidelines called for **investment support** to be re-oriented to take account of the opening of ISPA and SAPARD. From 1997 to 2000, Phare had supported preparations for ISPA and SAPARD through the **Special Preparatory Programme** and through the **Large Scale Infrastructure Facility**. With ISPA and SAPARD applicable from January 2000, Phare's resources were re-allocated to focus on promoting investment related to the acquis and economic and social cohesion.

Moreover, the Phare Review underlined the need to assist candidate countries prepare for Structural Funds. The Commission expanded its support to **economic and social cohesion** in 2000 and plans to evolve from this basic approach towards the approaches seen under the Structural Funds as quickly as is sustainable and feasible, taking into account the specific features of each candidate country.

In the light of experience in 2000, **five key actions** have been identified:

- ? Programming and administrative capacities need to be strengthened through institution building and associated investment as well as pilot testing approaches for objective 1 actions.
- ? National Development Plans will be strengthened.
- ? An appropriate mix of national and regional schemes will be chosen by each candidate country.
- ? The use of the programmatic approach will be expanded and the management of such measures tightened up.
- ? As for economic and social cohesion, **programming for CBC** will follow the National Development Plan and will **move towards Interreg**.

B.5. Phare Cross-border cooperation

As stated above, important changes introduced under the new Phare CBC Regulation³ aiming at bringing Phare CBC closer to Interreg were further put into practice.

In January 2000, the Commission sent a 'Guidance note for the Joint Programming Document' to the candidate countries, inviting them to submit a preliminary version as well as project proposals for the year 2000 defined by the Joint Co-operation Committee to it by mid-May.

The adoption of the **Interreg III Guidelines** in April 2000 provided additional guidance for preparing and submitting joint Phare CBC/Interreg programming documents for the EU-CC border regions, covering the 2000-2006 period.

By the end of 2000, most joint programming documents had been submitted by the member State concerned for final approval by the Commission⁴.

Financing proposals for all eligible borders, based on provisional draft Joint Programming Documents and the mutually agreed joint priorities for the border region as a whole, considered as one single geographical, social and economic entity, were submitted to the Phare management Committee, approved by the Commission and turned into financing memoranda with the candidate countries concerned.

The appropriation of **159 M€ for the Phare CBC budget line (B7 031)** has been allocated between the different candidate countries taking objective criteria into account: population, GDP per capita and surface of the border regions concerned. However, it was also necessary to ensure a reasonable balance between the amount for the national Phare programme and for CBC. Another element to be taken into account was the need for a balance on both sides of the border, and a two third/one third repartition between EU-CC and CC-CC borders as provided in the budgetary comment.

The countries have been informed about their indicative allocation per border for the 2000-2002 period in December 1999 – subject to final approval of the 2000 budget by the Budgetary Authority. This would facilitate actual programming in a multi-annual perspective on the basis of the JPD.

On all borders, **Small Project Funds (SPF)** continued to operate or were established, using between 10 and 20 percent of appropriations, in line with the budgetary comment. 'People to people' actions supported under the SPF further enhanced the involvement of local and regional authorities in cross-border cooperation.

In February 2000, a special report of the Court of Auditors has been published concerning Phare CBC in the 1994-1998 period. Its conclusions were, in general, quite positive. Main weaknesses identified in this report had already been addressed in the new Phare CBC Regulation (December 1998). These improvements were confirmed – when relevant - in the Interreg III guidelines (April 2000):

³ Commission Regulation 2760/98 of 18/12/1998

⁴ As formal approval by the Commission concerns the Interreg component only, proposals for a JPD/CIP were submitted by the member State to DG REGIO

- ? Phare CBC became part of the country's overall regional development policy;
- ? The programme has been extended (borders between CCs are now also covered);
- ? Joint multi-annual programming documents have been developed (JPD/CIP) for each border;
- ? Joint bodies for programming and monitoring have been established.
- ? Local actors are getting better involved in the programmes (people to people cooperation)

Remaining differences between Phare CBC and Interreg have been examined in the context of the Phare 2000 Review; following the Communication from Commissioner Verheugen adopted by the Commission in October 2000, substantial progress has been made in bringing Phare closer to Interreg, notably as concerns:

- ? A more programmatic approach for Phare, allowing for projects similar in size and nature as for Interreg, provided candidate countries are capable of running 'schemes' instead of stand alone projects; therefore, more real joint projects should be possible
- ? Indicative multi-annual programming,
- ? Co-funding for transnational cooperation (Interreg III B), in particular in the Baltic Sea region. For other Interreg III B and C programmes, co-funding from Phare national programmes may be envisaged.

In 2000, for the second year, a '**Special Action for the Baltic Sea region**' has been included in the Budget (B7 537), of which 4 M€ has been earmarked for the Small Project Funds, established in each candidate country bordering the Baltic Sea (1 M€ per country) in 1999. Particular attention was paid to harmonising the functioning of the four SPFs concerned.

B.6. Multi-beneficiary programmes

Many problems facing the partner countries affect more than one country and require cooperative solutions. Phare has provided these through a range of multi-beneficiary programmes, which involve several partner countries at a time. Multi-beneficiary programmes have focused on the environment, telecommunications, energy, transport, nuclear safety, customs and the fight against drugs.

◆ Business Support Programme (BSP)

The programme was set up to strengthen the role of business representative organisations in the candidate countries of Central and Eastern Europe as interlocutors of the public authorities on questions related to the Community *acquis* on the one hand, and to improve their capacity to render services to the business community on the other. To this end, support is given to partnerships and twinning operations with business representative organisations in the existing Member States.

Following a call for proposals, 17 grants amounting to a total of €22 million were awarded to 17 projects covering a wide range of business sectors: 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 Steel Industry; the Textile and Clothing Industry; the Business Machine and Information Technology Industry.

Individual projects concentrate on 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 candidate countries understand the Internal Market and adapt to the related acquis, and on providing know-how about corporate development.

The Business Support Programme also includes 2 projects for support to institutions in the area of Industrial Property (€ 1.2 million) and to representative organisations in the agricultural sector (€ 2.5 million, implemented through COPA/COGECA) respectively. In 2000, a € 2 million follow-up project was approved for further assisting the representative organisations in the agricultural sector and in order to sustain the achievements of the first project.

◆ **Phare SME Finance Facility**

The objective of the Phare SME Finance Facility is to induce Financial Intermediaries (banks and investment funds) to expand and to maintain in the long term their financing of SME operations in the ten CEE Candidate Countries.

The Facility was launched at the beginning of 1999 with the **EBRD**, **CEB** and **KfW** have been included at the end of 2000.

The Facility comprises two windows:

- ? **the Loan and Guarantee Window (LGW)** can provide to Participating Banks (PBs) loan funds respectively from the EBRD or CEB/KfW, together with performance fees, guarantees, technical support, exchange risk cover and other appropriate incentives. The maximum loan per SME is € 250,000.
- ? **the Equity Window (EW)** provides to participating investment funds capital from the EBRD together with equity capital from Phare. Management costs of the investment fund (up to 25% of the Phare investment) can be covered by Phare on a grant basis. The maximum investment per SME is € 1 million.

At the end of 2000, 11 Loan Agreements were signed under the LGW between EBRD and PBs in the following countries: Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovenia. The committed Phare resources amount to € 17,69 million and the EBRD committed resources amount to € 93 million.

One Project Agreement was signed under the EW covering Czech Republic and Slovakia. Phare, EBRD and private investors are each contributing € 3 million.

◆ **Environmental Programme**

2000 saw the continuation of 3 accession-driven initiatives started in 1999:

- ? the sustainable nature protection project (€1.9 million)
- ? ad hoc assistance to the candidate countries in preparation for membership of the European Environment Agency (€1.6 million)
- ? Black Triangle inventory of situations non-compliant with selected EU Directives (€0.5 million)

and the launch of a major new initiative, the €6.25 million *Regional Environmental Accession Project* (REAP). The project aims to enhance compliance with EU environmental legislation in a number of sensitive areas such as air quality, water quality, etc., and in particular at improving levels of implementation capacity. Correspondingly, information and guidance is provided to municipalities in the candidate countries, to whom the responsibility of implementing many of the directives has been devolved. The project also helps to build the networks needed to ensure that NGOs and the general public are better informed and integrated into the approximation process.

◆ **Phare Horizontal Programme on Justice and Home Affairs**

3 projects on *“Fight against organised crime and corruption-Octopus II”* (€2.5 million), *“Police curriculum training”* (€4.5 million), and *“Asylum”* (€3 million), which had started in February 1999, finished at the end of the year. Their common aims were 2-fold: producing reports on the action required in the candidate countries in order to adopt the EU acquis in the fields concerned, and implementing training seminars.

The projects were implemented by the Council of Europe (Octopus II) or consortia of Member States, who made available experts from their public administrations. The forward-looking reports and the networks created between professionals from the candidate countries on the one hand and the Member States on the other should ensure the sustainability of the projects' results.

In parallel, a set of new projects were prepared covering the fields of *“Judicial co-operation in criminal matters”*, *“Rule of Law”*, *“Migration, Visa, and Border Management”*, and *“Training of Judges in EC law”*. The corresponding contracts with Member State administrations, amounting to a total of €10 million were signed towards the end of the year and the projects started at the end of 2000 or the beginning of 2001.

The project on the training of judges will establish a training scheme and methodology for each candidate country and provide a common practical manual for judges on EC law. The other 3 projects aim at setting up National Action Plans. All projects will include a number of training seminars based on the “train the trainers” concept.

◆ **Fight against drugs**

In the framework of the EU Drugs Strategy 2000-2004, the EU Action Plan on Drugs 2000-2004 was adopted at the Feira European Council in June 2000. In response to its

call upon the Commission and the Council to continue to ensure that the candidate countries adopt and implement the *acquis* and best practices in the field of fight against drugs, the Commission allocated €20 million to Phare programmes for the fight against drugs. Half of this amount will finance a new Multi-Beneficiary Drugs Programme aimed at strengthening the capacities for regional co-operation in the area of drug law enforcement, anti-money laundering, and synthetic drugs and precursors. The remaining €10 million were allocated to the National Phare Programmes to the tune of €1 million for each candidate country.

As to individual projects under the PHARE Multi-Beneficiary Drugs Programme, Phase V of the Phare *Precursor Project* (€1.3 million) brought assistance in drafting EU compatible legislation and provided training and equipment for strengthening the administration and the enforcement of precursor controls. 70 police officers from the CEECs and the EU Member States participated in the €0.8 million *Drug Police Exchange Project*. A mid-term review of the *Joint UNDCP-Phare Programme for strengthening drug law enforcement capacities in south-eastern Europe* (€6.9 million) gave an overall positive opinion about the achievements. The *Anti-Money Laundering Project* (€0.6 million) finished in March 2000. It assisted the CEECs in establishing a legal and institutional framework in compliance with the EU *acquis* and international standards. A new €2 million *Synthetic Drugs Project* aims at assisting the CEECs with the transposition of the EU *acquis* in the field of synthetic drugs and in strengthening the capacities in fighting against illicit manufacturing and trafficking of synthetic drugs.

Finally, preparations were made for the project “EMCDDA⁵ – CEECs” (€2 million), which has been launched in 2001. Its aim is to prepare the integration of the candidate countries into the Centre’s activities and work programme.

◆ Cross-border co-operation programmes

This *CREDO* multi-country programme was launched in 1997 as a support tool to cross-border co-operation of local and regional authorities along CEEC borders and those with the Newly Independent States (NIS). It mainly aimed at the promotion of good neighbourliness, social stability as well as joint economic actions. With an overall budget of almost €8.3 million some 149 projects were supported until 2000. The level of support from Phare was in average €55,600; the project promoters provided a 30% co-financing of the overall project costs.

After a pilot phase in 1997 with 28 projects, most mainstream projects (123) focused on so-called “soft” actions such as workshops, setting-up of business centres, feasibility studies etc. for a total of €3.75 million. The 26 “hard” action projects accounted for the larger part of the *CREDO* budget (€4.53) and financed small-scale infrastructures such as tourist facilities, incubator houses or improvement of the custom facilities.

31 Polish authorities were represented in the *CREDO* projects thus making the country the most active one in the programme. They were followed by Romanian (20) and Hungarian (17) authorities. Partners from the Balkan were lesser represented;

⁵ EMCDDA. European Monitoring Centre for Drugs and Drug Addiction

Bulgarian partners joined 10 projects, Macedonian 5 projects and Albanian 3 projects. Although the majority of projects was implemented across the border of 2 Phare-countries, 26 projects included counterparts across the NIS border.

The *Phare Baltic Project Facility* was funded from the 1996 Phare CBC Programme budget and designed to encourage the creation and development of cross border co-operation networks in the Baltic Sea Region with around €11.5 million for project funding. The 4 main spheres of co-operation eligible for funding under the Baltic Project Facility were: local and regional democracy, local economic development, environment and energy, local and regional services and policies. The Facility comprised 3 funding components: the Baltic Small Project Facility, a linking facility to the Interreg programme - Phare/Interreg and a Micro Project Facility. In total, 124 projects were funded under the Facility in 4 submission periods running from September 1997 to November 1998. Most of the projects (76) were financed through the Small Project Fund, another 28 through the Micro facility and some 20 larger projects through a Phare/Interreg financing.

The *ECOS-Ouverture* programme's aim is to strengthen mainly local authorities in Central and Eastern Europe through co-operation with EU counterparts, particularly those in the less-favoured areas of the Union. This interregional support measure encourages co-operation between relevant authorities through joint projects for the exchange of experience and know-how. The programme has been financed by Phare and ERDF since 1994.

31 projects approved under the programme's 1997 €6 million budget started their activities between November and December 1999 for an average duration of nearly 2 years. With an average support of €113,610 they focused mainly on capacity building for local authorities to achieve economic and social development. Another main area of activity is environment, which is dealt with by 10 projects. Hungary, Romania and Poland are the most represented with 6 projects each under their leadership. At mid-term of the programme, most projects had already achieved substantial results in creating lasting cross-border relationships.

The 32 projects financed under the 1998 ECOS-Ouverture budget (€15 million) are the last generation of the programme.⁶ With a life span of between 24 and 36 months their activities will be finished in the second half of 2002. The main themes of co-operation are economic development (18) and environment (7) while the remaining projects focus on cultural (4) or administrative (3) aspects. With an average budget of €244,440 the Phare partners (in general with 25% co-financing from the CEEC authority) play a more significant role in the projects than in the earlier generations of the programme. One third of all projects have 2 or more Phare partners. Romanian authorities are best represented in the programme, being involved in 11 different projects. This is closely followed by Hungarian (7) and Slovenian (6) partners while the Baltic area with 4 projects (Estonia, Poland) is not very present in the last round of ECOS-Ouverture.

⁶ Further activities of municipal co-operation will be supported through other programmes, e.g. Interreg III.

◆ Civil society programmes

The Phare *LIEN* and *Partnership* programmes focus on the promotion of the institution and capacity building of civil society in the Central and Eastern European Countries. Both programmes are coming to an end, with the “last generation” of about 100 projects started at the beginning of 2000.

In the course of the year, 3 thematic conferences were held on “Equal Opportunities for women”, “NGO Opportunities in Local Development” and “Support to Roma Communities” in order to promote networking and collaboration of project beneficiaries beyond the end of LIEN or Partnership funding.

The LIEN and Partnership programmes are being replaced by ACCESS, a deconcentrated new programme implemented by the EC Delegations in the countries concerned.

B.7. Participation in Community programmes and Agencies

In the 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 was also proposed active participation in certain Community agencies or bodies in order to prepare these countries better for adoption of the *acquis*.

◆ Participation in Community programmes

In November 2000, the Commission proposed to the Council new legal instruments in order to streamline Community legal procedures and consequently **facilitate candidate countries’ participation in Community programmes**. This proposal was mentioned in the Enlargement Strategy Paper adopted by the College on 8 November 2000.

As underlined in the same Strategy Paper and also in Reports on progress towards accession published in November 2000, the participation of candidate countries in Community programmes is a **key feature of the pre-accession strategy**. 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 1998, all candidate countries in Central and Eastern Europe have participated fully in Community programmes, in particular in **education, vocational training, youth, research, energy, the environment, small and medium-sized enterprises and public health**. In most cases and at the candidate countries’ request, the cost of this participation is co-financed by Phare.

In 2000, the total of contributions from the 10 central and eastern European countries amounted around € 172 million. Of this total, **Phare contributed with € 85.5 million**.

◆ Participation in Community Agencies

Similar participation of candidate countries in Community Agencies is also foreseen.

In this context negotiations for the participation in the **European Environment Agency** were opened in March 2000 with all 13 candidate countries since all of them had applied for membership in the Agency. Having concluded these negotiations, ratification procedures of the relevant agreements by these countries are ongoing in view of their full participation in the Agency beginning 2001.

With respect to other Agencies, it has been decided to prepare now **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 broad sense of the term. 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.

To this purpose, **€ 5 million** have been allocated in 2000 as Phare support to implement preparatory measures in 2000-2001 as regards the 10 CEECs and the following 6 Community agencies:

1. European Centre for the Development of Vocational Training
2. European Environment Agency
3. European Agency for the Evaluation of Medicinal Products
4. Office for Harmonisation in the Internal Market
5. European Agency for Safety and Health at Work

Translation Centre for Bodies of the European Union.

B.8. Co-operation with the EIB and international financial institutions

Pre-accession aid can play its full role when it mobilizes funds from the international financial institutions (IFIs). With this in mind, the European Commission signed a **Memorandum of Understanding** on 2 March 1998 with the European Bank for Reconstruction and Development (EBRD) and the World Bank to reinforce their cooperation and to facilitate co-financing under the Phare programme. Four new partners joined this agreement in October 1998: the Nordic Environment Finance Corporation (NEFCO), the Nordic Investment Bank (NIB), the International Financial Corporation (IFC) and the Council of Europe's Social Development Fund. In 2000, the Memorandum of Understanding was extended to cover the two other pre-accession instruments, ISPA and SAPARD. Though not a signatory, the EIB works closely with the European Commission in serving the EU's policy objectives and collaborates with the other IFIs in the spirit of the Memorandum of Understanding.

In 1998-1999, **over €900 million were mobilised** (€150 million from Phare and €750 million from the IFIs) for investment projects in the areas of transport and the environment. Since 2000, the new accession instrument ISPA for transport and environment is the main facility for co-financing infrastructure projects with the EIB and other IFIs. The main co-financing instrument in Phare remains the SME Facility

(Phare contribution € 71 million, EBRD € 150 million, Council of Europe Development Bank / KfW € 113 million). Co-financing within national Phare programmes included a small municipalities water and wastewater investment project in Estonia with the Nordic Investment Bank and the Nordic Environment Finance Corporation (Phare contribution € 3.0 million, NIB/NEFCO input € 3.4 million), and an electricity and gas markets projects in Romania with the EIB and EBRD (Phare contribution € 28.9 million, EIB € 96 million, EBRD € 60 million).

C. Programme management

C.1. Deconcentration and Decentralisation

In the context of Phare, deconcentration is used to describe the **transfer of responsibilities** within the Commission from its Headquarters in Brussels to its Delegations in the partner countries. Decentralisation means the transfer of management responsibilities from the European Commission to the partner countries.

◆ Deconcentration

Under the Phare **Decentralised Implementation System**, the Commission must approve Phare tenders and contracts managed by the national authorities. Within the Commission that responsibility was deconcentrated to Delegations in 1999 for contracts up to € 5 million. In 2000, following a year's experience the upper limit has been removed so that Delegations are now responsible for approving all decentralised Phare tendering and contracting on behalf of the Commission – provided that standard procedures and documents are used. In addition, as part of the programming process, Delegations are now required to verify the systems that candidate countries propose to implement new grant schemes financed from Phare.

◆ Decentralisation

Implementation of the policy of decentralisation of the Phare programmes to the candidate countries (described in Phare Review 2000) was completed in 1999. The criteria for further decentralisation of the Phare Programme (together with ISPA and SAPARD)⁷ were laid out in the Coordinating Regulation of the Pre-accession Instruments (1266/99). Further decentralisation means **elimination of ex-ante approvals by the Commission** (but replacement by enhanced ex-post controls). However, the **Commission remains ultimately responsible** for the use of the funds. 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 can be 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 has to commit itself to respecting the rules governing Phare as well as the Community's Financial Regulation. Candidate

⁷ SAPARD was designed from its inception to operate on a fully decentralised basis.

Countries will ensure financial accountability and, if the rules are not respected, funds will be recovered by the Commission for the total value of the Phare contract grant in question.

The implementation structures launched by the new Phare guidelines became operational in all Candidate Countries in 1999. In each Candidate Country there is 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 (IA). An IA - 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.

In line with the decentralisation of implementation responsibilities, a **Decentralised Monitoring System** was introduced in September 2000 and new monitoring structures, Joint Monitoring Committee (JMC) and Sectoral Monitoring Sub-Committees (SMSC) have been established in all Phare Candidate Countries. IA assume responsibility for reporting on facts by preparing Monitoring Reports, as a bridging step towards the management of future Structural Funds.

During 2000 the Commission prepared and distributed to each candidate country a checklist of questions designed to guide them as to whether they had fulfilled the requirements of the coordinating regulation. When the candidate countries are satisfied that they can support these requirements, they will submit a request to the Commission who will carry out audits to confirm the quality of the systems.

This process is similar for ISPA and the approach of the relevant lead DG is being coordinated in order to avoid duplication or fragmentation of effort.

C.2. Monitoring, Assessment and Ex-post 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 2000, some 420 reports had been produced, covering all sectors in all Phare Programme recipient countries.

The M&A Scheme (a) adopts an inclusive approach in which all parties involved in the programming and implementation of Phare programmes / projects participate, (b) operates on an integrated approach which links in particular with programme preparation, contracting and implementation, and (c) follows a result-oriented methodology in line with the Commission Reform White Paper. The findings from the M&A reports feed into the Phare programming system by way of the improved and uniform progress reporting across all programmes and countries, more rapid

introduction of corrective measures if required and the exchange of the lessons of experience between the Commission and the Candidate Countries. The increased flow of feedback information improves the design of subsequent programmes and assists decision-makers at the approval stage.

M&A remains an essential component of the Phare Decentralised Implementation System providing all parties involved in programme management and implementation with sound information on how the various programmes are progressing, on whether the programmes are achieving their objectives and on their relevance to the Phare objectives and accession priorities defined in the AP and NPAA.

During the year 2000, **121 Monitoring and Assessment reports** have been issued covering all sectors of Phare assistance. These reports have been produced by an **independent external contractor**, the OMAS Consortium. The OMAS Consortium has operated offices staffed with EU and local evaluators in Albania, Bulgaria, Czech Republic, Estonia, FYROM, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. A Central Office operated in Brussels assessing multi-country/multi-beneficiary programmes.

◆ **Monitoring**

Phare Monitoring provides all the parties involved in programme management with a **regular and reliable flow of information on the implementation of all on-going programmes**. It provides at project/contract level a detailed analytical description of all aspects of the programme including the programme's objectives, its progress and results achieved and identifies specific corrective actions.

In line with deconcentration, monitoring (control and follow-up) of programmes is done locally by the Task Managers at the Delegations, with an independent and external assessment as a complementary activity.

In line with decentralisation, programme implementors (IAs, CFCUs, etc.) are responsible for reporting regularly on implementation in accordance with a template and criteria to ensure uniformity of approach. First Monitoring reports were already produced in end 2000 by the programme implementors in most of the Candidate Countries. Monitoring reports form the basis for discussions at the SMSC meetings and provide the factual basis for the subsequent Assessments. The SMSCs submit monitoring reports at least twice a year on all programmes in the county in the relevant sector.

◆ **Assessment**

The objectives of Phare Assessment are twofold: (1) to provide an independent analysis of the effectiveness of on-going programmes, describing the success of the programmes in achieving their objectives, the performance of the parties involved and the capacity of Candidate Countries to absorb the *acquis communautaire*; and (2) to disseminate the lessons of experience with a view to improving the implementation of current programmes and the design of future programmes.

Assessment reports of national on-going programmes are produced by independent assessment cells established in each country (external contractor) while multi-country programmes are carried out by an central unit based in Brussels. Each assessment cell must also submit a half-yearly report to ELARG, detailing activities over the past six months and drawing attention to overall trends in the implementation of Phare sectoral programmes.

The procedure of producing Assessments is an entirely participatory process which can only properly function with the active participation of the stakeholders in the management of programmes being reviewed. The assessors work on the basis of the relevant monitoring data and carry out interviews and field visits to assess the information contained in the monitoring reports and other sources. Assessment reports contain management and design recommendations, in line with the accession priorities defined in the AP and NPAA.

A follow-up process of recommendations and feedback within the Phare management system completes the Assessment cycle. Once a report is issued, a debriefing meeting is organised by the Commission's delegation in each country, when interested parties agree on the ways and means of applying recommendations made, as well as an appropriate timetable. Assessment reports together with SMSC and debriefing meetings' minutes are handed over to the JMC which 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 through annual reports submitted to the JMC by the respective Monitoring Committees). Based on the Assessment reports, the JMC proposes remedial actions to improve the programme management and design of future projects and puts forward measures to facilitate the progress of Candidate Countries in absorbing the *acquis communautaire*.

◆ Ex-post Evaluation

While many individual and ad-hoc ex-post evaluation studies on Phare programmes have been carried out from the start of Phare, a systematic approach to the ex-post evaluation of Phare started in 1997 with the publication of the « Phare Interim Evaluation report ». Following that report, separate ex-post evaluation studies were launched for each of the sectors covered by Phare, taking a multi-country approach.

Ex-post evaluation focuses on the impact of the overall Phare assistance in specific sectors and **draws conclusions related to economic and social cohesion and impact about two years after the closures of the programmes**, although the elapse of time varies considerably. Ex-post evaluation reports are produced by external independent evaluators under the responsibility of the Commission.

During the year 2000, four ex-post evaluations reports were produced, covering the programmes financed by Phare over the period 1990-1998 in the following sectors: support of Small & Medium Enterprises, Telecommunications & Posts, Labour Market & Social Security Reform and Nuclear Safety activities.

◆ **Tasks ahead**

In order to be in line with the Structural Funds system of Mid-Term Evaluation, the Assessment function will be renamed as **Interim Evaluation**. The revised Interim Evaluation Scheme is to become effective in the 3rd quarter of 2001. The revision is based on the Candidate Countries assuming entire responsibility for reporting on facts by issuing Monitoring Reports twice a year for all sectors, as a bridging step towards the management of Structural Funds. The Interim Evaluation function will remain under the responsibility of the Commission.

Elarg Directorate D will operate a quality support function for the Country Teams providing programming guidance, peer review and comments on financing proposals. To ensure that this support adds value to the programming authorities, a greater emphasis will be placed in future in preparing Horizontal and Thematic reports presenting lessons learned on key areas such as Economic and Social Cohesion, Transition towards Structural Funds, Justice and Home Affairs, etc. These reports should assist programmers to learn of current best practices, lessons learned from past Phare support and Structural Funds approaches. In addition, Country Assessment Reviews will be produced on an annual basis. They will provide information on past programmes to the ex-ante evaluation process to be started in 2001 and help programmers to decide on the future focus of support, alongside the critical documents of the NDP and NPAA.

The Interim Evaluation Scheme will be extended to Cyprus, Malta and Turkey in 2002. However, Albania and FYROM will not be covered in 2001 as the responsibility for these countries has been transferred to DG RELEX at the end of 2000.

An Interim Evaluation web site will be created by September 2001 with the purpose to improve the dissemination of the reports' findings and to increase internal and external communication to other institutions/services such as OLAF, Court of Auditors, European Parliament, Phare Management Committee, other DGs, Candidate Countries, etc. This Phare ELARG web site will include inter alia lists of reports, statistics and i.e. executive summaries. Subsequently, the outputs of the Interim Evaluation system will be made electronically available for integration into the Management Information System under development in DG ELARG.

D. Financial overview and performance

In 2000, the Phare Programme committed a total of € 1,651.5 million to its partner countries. The following chart shows the break down year by year of the Phare funds committed in the period 1990-2000 (€ million):

1990	1991	1992	1993	1994	1995
475.3	769.7	979.6	966.1	946.1	1,114.0
1996	1997	1998	1999	2000	
1,207.8	1,135.1	1,153.9	1,481.7	1,651.5	

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

Total commitments 1990-2000	€ 11,880.7 million
Total value of contracts signed 1990-2000	€ 8,902.8 million (thus 74.9 per cent of all commitments have been contracted)
Total payments under signed contracts 1990-2000	€ 7,647.25 million (thus 64.4 per cent of all committed funds have been paid and 85.9 per cent of all contracted funds have been paid).

ANNEXES

Candidate countries

BULGARIA

A. The year in review

As noted in the Commission's latest Regular Report (November 2000), **Bulgaria continued to make progress in meeting the accession criteria in 2000.**

Political developments

Bulgaria continued to fulfil the political criteria. The political situation remained stable, as the reform-oriented governing party continued to implement its policy of economic reform and integration of Bulgaria into the EU. Progress was also achieved in building broad political support for NATO membership and Bulgaria participated actively in the Stability Pact. However, much more needed to be achieved to strengthen public administration and create a strong, independent and effective judicial system. Corruption remained a serious problem.

Since the adoption of the framework programme for the integration of Roma into society in 1999, some progress has been made but the administrative capacity of the National Council on Ethnic and Demographic Issues to implement the programme remains low. The limited financial means allocated for implementation of this programme make effective performance of its task difficult.

Economic developments and structural reforms

Bulgaria made **further progress towards becoming a functioning market economy** though remained as yet unable to cope with competitive pressure and market forces within the Union in the medium term. The macroeconomic position remained quite comfortable. GDP growth in 2000 is estimated at 5 percent, while inflation rose to 11 percent at the end of the year, mainly reflecting temporary shocks. Unemployment remained high. The fiscal deficit was contained at 1 percent of GDP, while the external position remained under control. Privatisation of state enterprises and banks neared completion, but much remained to be done to improve financial intermediation and the functioning of the land market, enforce bankruptcy provisions, and create a more attractive legal and regulatory framework for business and inward investment.

Progress in meeting the "Acquis communautaire"

Bulgaria maintained a good pace of alignment of its legislation with the acquis in most areas, but needed to pay more attention to how this would be implemented and enforced. Progress was made in most areas, though outstanding areas of concern included state aids, data protection and veterinary inspection. Progress on public administration reform, in particular to implement the civil service law, was a positive sign, but in general the capacity of the Bulgarian administration to apply the acquis remained limited. Very little was done to strengthen the judicial system, a source of particular concern.

B. Phare in 2000

Programmes launched

For the year 2000, Phare commitments for Bulgaria totaled € 150.601 million. This figure excludes the benefits to Bulgaria from horizontal and multi-country Phare programmes such as the SME Facility. Phare support for Bulgaria's accession preparation was channeled through the following programmes: **National Programme** including **Supplementary Investment Facility** (€ 93.751 million), **Cross border Cooperation programmes** - (€ 28.000 million), the **Special Programme for Nuclear Decommissioning** (€ 26.850 million), and **Access** (€ 2.000). The relevant Financing Memoranda between the Commission and the Government of Bulgaria were signed at the end of 2000.

The overall aim of the **National Programme** was to assist Bulgaria's preparations for EU membership, on the basis of the priorities identified in Bulgaria's Accession Partnership, approved in December 1999. The National Programme reflected the findings of the Commission's 1999 Regular Report and the priorities identified in the Government of Bulgaria's 1999 National Programme for the Adoption of the Acquis and preliminary National Development Plan.

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

- **Economic reform** (€ 5.500 million). The programme included projects to restructure the state-owned Railway Company, institution building at the Ministry of Economy, and post-privatisation support for enterprises.
- **Adoption of the acquis and strengthening the regulatory framework** (€18.800 million). The programme included projects on conformity assessment, public procurement, institution building and adoption of the acquis in the area of the environment, maritime safety equipment, and capacity building for the energy, energy efficiency and telecommunications regulatory bodies.
- **Economic & social cohesion** (€ 15.000 million) was supported for the first time in 2000. The programme included four schemes focusing on SME development and vocational training in the two target regions identified in the preliminary National Development Plan.
- **Strengthening the rule of law and protection of vulnerable groups** (€ 22.500 million). The programme included four projects in the area of justice & home affairs: at the public prosecutor's office, border police equipment, the fight against drugs, and maritime border control. There was also a pro-active intervention to improve policies towards socially marginalised children.
- **Public finance and management of EU funds** (€ 13.320 million). The programme included projects in internal financial control, independent external audit, tax administration, national and agricultural statistics, strengthening the

CFCU and SAPARD implementation capacity, and a Phare project preparation facility.

Phare funds were allocated to help Bulgaria meet the cost of participating in selected EC programmes in both 2000 and 2001 (€ 18.631 million), and from the Access programme to support the development of civil society (€ 2.000).

The overall aim of **the Cross-border cooperation programme** was to promote economic and trade cooperation 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 cooperation projects with Greece** (€ 20.000 million): Makaza border crossing, Goce Delchev border tunnel.
- **Cross-border cooperation projects with Romania** (€ 8.000 million): Telecoms and utilities infrastructure, Danube environmental protection and border crossing, regional development initiatives.

Finally, the Commission offered Bulgaria additional special Phare funding, over and above its normal allocation, in the context of the **early closure agreement** reached in 1999 on units 1-4 of the Kozloduy nuclear power plant. The funds will be used to support nuclear decommissioning, restructure the energy sector and improve energy efficiency. They will be largely managed by EBRD. A first tranche (€ 26.850 million) was made available in 2000.

Overview of programmes implemented

The year 2000 saw the **conclusion of most projects** supported under the 1997 and earlier programmes, the ongoing implementation of projects under the 1998 programme, and the tendering and contracting of many new projects under the 1999 programme. Further details are provided below.

Phare management performance

Implementation of the Phare programme in Bulgaria was generally adequate in 2000.

At the end of 2000, the 1998 and earlier programmes had been almost **fully contracted**, though the contracting period of several elements of the 1998 programme was extended to accommodate unforeseen delays. Meanwhile, about half the 1999 programme had been contracted by the end of 2000, a rather better performance than the equivalent position a year earlier.

The EC Delegation established in November 2000 a **dedicated Finance and Contracts Team** to reinforce the Financial Officer's position in relation to the national authorities responsible for the tendering and contracting of Phare funds, and to strengthen the Delegation's capacity for checking the correctness of decentralised procedures. The Commission's financial management tool SINCOM 2 was installed in the Delegation in mid-2000, enabling the Delegation to manage more Phare programmes directly.

The Ministry of Finance took a major step forward in taking **full ownership and responsibility** for the sound management of EU funds by issuing a decree in September 2000 giving both the National Fund and CFCU the status of Directorates within the Ministry, and by undertaking to ensure that these bodies are staffed by suitably qualified permanent officials. The responsibilities of the National Fund increased significantly in 2000, with the work associated with the new ISPA and SAPARD instruments. A project under the Phare 2000 programme will provide further support to strengthen the CFCU.

National Development Plans

The Bulgarian authorities tabled an updated version of the preliminary NDP in May 2000, which was discussed at a meeting with the Commission services in June. The Commission stressed the need to evolve the NDP into a single coherent and integrated document that plays an operational role in shaping and implementing development priorities, whether they are financed from the national budget, by the EU or from other external sources.

Subsequently, to facilitate early discussions on the Phare 2001 programme, the Bulgarian authorities prepared **summary strategies** for the sectors that could benefit from Phare investment in economic & social cohesion. These strategy documents will be integrated into the NDP. The Commission expects to receive an updated and further improved version of the NDP in May 2001, following an ex-ante independent evaluation. The NDP must be finalised by September 2001 in order to act as a framework for multi-annual Phare programming from 2002 onwards.

Institution Building highlights

Most new Phare institution building projects are now delivered through **twinning**. For Bulgaria, eleven projects under the 1998 programme and eight under the 1999 programme are being wholly or partly delivered using twinning. Twinning will contribute to the results of eleven projects under the 2000 programme, spanning a broad range of acquis-related activities.

C. Results and impact

State of play for JMC/SMSC development

A Phare Joint Monitoring Committee (JMC) has been established and met for the first time in December 2000 in Sofia. In addition to its responsibilities for monitoring Phare, the JMC will be in charge of the coordination of monitoring of the Community pre-accession instruments. A calendar of meetings in 2001 for the JMC and its nine sectoral sub-committees (SMSCs) has been established.

M&A reports in 2000

In accordance with the Monitoring & Assessment Workplan 2000, the OMAS consortium carried out an assessment of the following programmes: **labour market and employment, civil society development, education, statistics, customs,**

environment, and nuclear safety. OMAS also completed the assessment initiated in 1999 of privatisation development and restructuring, and general technical assistance. The majority of sectors were thus covered. The programmes were assessed in a rigorous manner and many of the recommendations on programming and implementation adopted.

Sectors with positive results

Overall, the impact of Phare in Bulgaria continues to be positive, though there are undoubted weaknesses in project implementation capacity and it is difficult to distinguish between the impact of Phare support and initiatives sponsored by the complementary programmes provided by the international financial institutions and bilateral agencies. However, a number of ongoing Phare programmes made **good progress** during 2000.

In the **agriculture** sector, projects were launched to improve plant health and veterinary control, prepare capacity to manage the new SAPARD instrument, install phytosanitary equipment, identify and track animals, and improve compliance with the acquis in the areas of viticulture and seed control. Three of the four ongoing institution-building projects delivered by twinning were completed, as were technical assistance projects focusing on CAP and Common Market Organisations. Two large procurement tenders were launched to equip veterinary and plant health laboratories.

In the area of **cross-border cooperation** with Greece, work continued on improving several border crossings, electrifying the main connecting railway line, installing an optic communications cable, improving wastewater treatment, and monitoring the environmental impact from disused uranium mines. The first Phare-supported cross-border cooperation projects with Romania were launched, to upgrade basic energy and transport infrastructure and tackle air pollution.

In the area of **customs and border control**, two institution building projects involving twinning were concluded: the project on approximation of legislation has been a particular success and has led to further cooperation with the twinning partner. A tender for border post equipment and customs information systems was also launched.

In the area of **employment creation and vocational training**, the Beautiful Bulgaria II project neared completion. By refurbishing historical buildings, monuments and parks, the project has provided around 20,000 people with temporary employment and 8,000 with vocational training. The project's success is reflected in the Ministry of Labour's decision to finance a third phase from its own resources. A pilot project was launched in the Pernik region to alleviate social problems arising from the closure of uneconomic coal and steel enterprises. The project is being extended to three other regions.

In the area of **enterprise and financial** sector reform, progress was made with projects for restructuring and preparing for privatisation the last large state-owned bank, and promoting inward investment in key sectors. Consultancy services were

given to selected private sector enterprises to improve their competitiveness, and the joint EU-EBRD post-privatisation fund increased its equity investments and advisory services in target enterprises. Further assistance was given to strengthen the capacity of the National SME Agency to coordinate business-friendly policies and provide information and services to small businesses through its regional network.

In the **environment** sector, projects continued to help the authorities adopt and implement the acquis in the areas of air quality, wastewater and waste management, nature protection, and the IPPC and Seveso directives. A National Environmental Strategy and Action Plan and programme for public awareness and access to information were developed.

In the area of **justice and home affairs**, three institution-building projects delivered by twinning were launched to strengthen the Ministry of Justice, the police and border police. Good progress was also made in contracting the equipment elements of these projects for patrol vehicles, night vision devices, and training equipment (see success story box).

In the area of **regional development**, support focused on strengthening institutional capacity to manage pre-accession instruments and prepare for eventual participation in Structural Funds. This included a twinning at the Ministry of Regional Development, assistance with preparing the National Development Plan, and support for the creation of regional commissions for economic and social cohesion.

In the **transport** sector, a transit roads rehabilitation project was successfully completed, while work on rehabilitating roads in the south of the country proceeded steadily. Phare also supported the preparation of several important ISPA projects, including Sofia airport modernisation and a further phase of roads rehabilitation.

Phare Success Story:

Institutional strengthening of the Bulgarian Border Police

The Bulgarian Border Police are a national service within the Ministry of Interior, entrusted to guard the state border and enforce the border regime. A priority task for the Border Police is the establishment of a modern border management system meeting EU criteria. A modern organisational structure and substantial investment support are prerequisites for implementing this system.

The EU allocated funds under the 1999 Phare National Programme for Bulgaria to support this process. Two twinning projects and an investment component, with a total budget of **€ 3 million**, are in the process of being implemented.

The **twinning** partner of the Border Police is the German Federal Border Police. The projects are implemented with the help of two Pre-Accession Advisors from Germany, who are working within the Border Police for 24 and 12 months respectively, supported by a considerable number of short-term experts. The projects focus on enacting new legislation, restructuring the organisation, planning and management activities, as well as strengthening the Border Police's training facilities. Under the investment component, 48 all-terrain patrol vehicles, surveillance

equipment with night vision devices, and IT equipment have been delivered.

The results obtained so far contribute significantly to the **strengthening of the Border Police's capacity to control and guard Bulgaria's borders** in preparation for the country's membership of the EU. Further assistance is being provided under the Phare 2000 programme, which includes two investment projects with Phare support of € 15 million, aimed at strengthening control of the maritime border at the Black Sea and the Bulgarian-Turkish land border.

Tasks ahead

The challenges for 2001 and subsequent years are to continue to improve the programming and implementation of Phare, and to make steady progress towards the goals of **multi-annual programming** and **extended decentralisation** foreseen in the Phare Review Communication (October 2000). These are in turn preparation for Bulgaria's eventual participation in **Structural Funds** after accession.

CZECH REPUBLIC

A. The year in review

Political developments

The two main political parties represented in Parliament reaffirmed their commitment to the so-called ‘**Opposition Agreement**’ at the beginning of the year, indicating accession as a priority, and outlining common targets in a number of areas. This enabled the Government to continue its pre-accession programme. A number of ministers were replaced during the year 2000, including interior, health, transport, regional development, justice and the minister without portfolio. A new post of Ombudsman was filled by the former Minister of Justice, while the Government Commissioner for human rights also resigned and was replaced by his deputy.

The election of one-third of the 81 seats of the Senate took place in November, with the opposition ODS and Quad-coalition doing particularly well, securing for the latter the control of the Senate, although they did not manage to reach the three-fifths constitutional majority. However, the elections turnout reached only 34%, lower than in the 1998 by-elections and 1996 elections. Voters also voted for regional assemblies for the newly created regions, where the centre-right ODS and the Quad-coalition also established themselves as the leading parties, leading to the appointment of new regional premiers.

The Czech Republic continues to **fulfil the Copenhagen political criteria**. Progress has been made in more effective collaboration between the government and Parliament. However, the reform of public administration has not advanced significantly, apart from the process of decentralisation, which is underway. Also, certain key parts of judicial reform still have not been adopted and the fight against corruption and economic crime needs to be strengthened. Whilst steps have been taken to address the condition of the Roma, sustained efforts over time are needed.

Economic developments and structural reforms

The **reform of the banking sector** continued, including the controversial intervention by the Government and National Bank to place the third largest bank, IPB under forced administration. It was subsequently sold for a yet to be specified price to the CSOB – KBC Group.

After three years of recession, the Czech economy experienced a **recovery** in 2000, resulting in a real GDP growth of 2.9 %. At the beginning of the year, economic growth was mainly pushed by external demand, but meantime domestic demand has taken over the lead. While gross capital formation rose by a hefty 10.3 % supported by an increase of 4.2 % in fixed investments, final consumption expenditures grew only by 1.1 % year-on-year. The annual inflation rate has been rising, reflecting the economic pick-up, the resumption of price deregulation, and the rise of world energy prices. Growth and ongoing enterprise restructuring, modest wage developments, coupled with high productivity growth rates, have contributed to a downward trend in unemployment. The economy showed strong export growth benefiting from the favourable developments in the EU and indicating the increasing competitiveness of

Czech goods and services. However, the trade balance deteriorated sharply. The current account of the balance of payments ended up with a deficit of 4.8% of GDP which was covered by the surplus of the capital and financial account arising from continuously strong foreign capital inflows into the Czech Republic. Foreign direct investment amounted to € 4979 million or 9.3% of GDP in 2000. The general government run a deficit of 4.2% of GDP. The deficits reflect the coverage of losses from cleaning-up the banking and enterprise sectors, financed mostly by the issuance of bonds. Although there has been a trend of accelerating mandatory expenditures, there is no clear evidence that a reform in these areas is a political priority.

As regards the Copenhagen economic criteria, the Czech Republic can be regarded as a **functioning market economy** and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it keeps up and completes the process of structural reforms.

Progress in meeting the “*acquis communautaire*”

There has been a **significant acceleration in the rate of legislative alignment** with the EC *acquis*, in particular in key areas of the *internal market*, sectoral policies such as *industry, telecoms and transport*, as well as *economic and social cohesion and regional policy*. However, further efforts are required, in particular on the *environment, agriculture, justice and home affairs*.

As regards **administrative capacity**, there has been some **further strengthening** but the delays in administrative and judicial reform have hampered these efforts. The bodies responsible for standards and certification and function well and in other areas such as competition, agriculture, regional policy and the environment progress has been made. Nonetheless, in these areas it is important that progress should continue. As regards justice and home affairs, insufficient progress has been made.

The Czech Republic has met a significant number of short term Accession Partnership priorities, especially in the areas of free movement of goods, employment and social affairs and telecommunications. In other areas the priorities have been met partially. A number of medium-term priorities have also started to be implemented.

B. Phare in 2000

Programmes launched

A total of **€ 102 million** was made available for the Czech Republic under the **2000 Phare programme**. At the end of October 2000, the Commission and the Czech authorities signed the financing memorandum for the 2000 Phare national programme for the Czech Republic, which amounted to 59 € million. In line with the Phare Guidelines, the 2000 national programme focused on the short-term priorities of the Accession Partnership of October 1999 and improving the quality of life in regions experiencing high levels of unemployment.

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

- ? **Strengthening the democratic system, the rule of law, human rights and the protection of minorities** (€ 4.5 million) through making grants available for non-

governmental organisations, advice on anti-discrimination legislation and improving the education system with reference to the Roma community.

- ? **Strengthening the competitiveness of the Czech Republic's market economy** (€ 5.5 million) through improving the system of credit risk management, the legal and business environment and the pension system.
- ? **Helping the Czech Republic adopt and implement the acquis and strengthening the institutional and administrative capacity to manage the acquis** (€ 31.5 million), including the spheres of internal market (e.g. advice on bringing public procurement systems into line with European Union directives), agriculture (e.g. phyto-sanitary inspection), the environment (e.g. pollution prevention), justice and home affairs (e.g. anti-money laundering measures), employment and social affairs (e.g. health and safety inspection), and public administration (e.g. modernisation of the central state administration).
- ? **Improving the standard of living in economically depressed regions and at preparing the Czech Republic for the management of Structural Funds** (€ 17.5 million) through the consolidation of the National Development Plan and grant schemes for Small and Medium Sized Enterprises, the development of business-related infrastructure and the development of human resources.

Also included in the 2000 national allocation for the Czech Republic, but subject of separate financing memoranda, was Phare support to the Czech Republic's further participation in various **Community Programmes** (€ 13.7 million).

In December 2000 and January 2001 three financing memoranda were signed for the 2000 **cross-border co-operation** (CBC) programme. € 10 million was allocated for co-operation with Germany, € 4 million for co-operation with Austria and € 5 million for co-operation with Poland.

Under the 2000 programme Phare also made € 8.1 million available for **the large scale development of business infrastructure** through supporting industrial zones. Finally, € 1.7 million was made available under the 2000 **Access** programme specifically for supporting the NGO sector.

Overview of programmes implemented

2000 saw the **successful conclusion of a number of financially large programmes**, particularly in the area of investment. A large number of works project (such as waste water treatment plants which will help to improve the environment) were completed under the Cross-border Cooperation programmes for 1996 and 1997 (€ 68 million), as was the upgrading of the Brno-Vranovice section of the railway line from Berlin to Vienna (to decrease the journey time on the Trans European Network Corridor 4) under the 1995 Infrastructure programme (€ 60 million). In terms of Institution Building a further € 32 million worth of projects were successfully completed.

The 1998 and 1999 National programmes and the 1998 Cross-border Cooperation programmes were successfully contracted, and most projects are still being implemented, though some supply projects (such as the delivery of equipment to strengthen border control) have already been completed. The remaining 1999 programmes, notable the Cross-border Cooperation ones, are still in the process of being contracted.

Phare management performance

The management of Phare programmes **improved** significantly during 2000 compared to 1999. During the latter year, many contracts were signed at the very end of the contracting period, leading to a burdensome concentration in workload for all parties concerned and short project implementation periods. However, with the establishment of intermediate deadlines agreed between the Commission and the Czech authorities, project documentation was increasingly submitted to the Delegation in good time, allowing for a smoother contracting process and for longer project implementation periods. These intermediate deadlines were included in the Phare 2000 financing memoranda and are anticipated to be standard procedure in future, thus ensuring that the delivery of aid is swifter and more effective than previously.

2000 also saw a consolidation and improvement in the management of Phare on the Czech side. The performance of the **National Fund** improved on 1999 and it is now in a position, with the valuable experience gained, to manage funds more effectively and to prepare for the introduction of the Extended Decentralised Implementation System.

In total € 92 million were contracted and € 130 million disbursed in 2000 as compared to € 122 million and € 75 million respectively in 1999. The decrease in the amount contracted is due to the comparatively small budget of the Czech National Programmes in 1998 and 1999 (which both had contracting deadlines during 2000), while the increase in the amount disbursed is due to the completion of larger programmes from the years before 1998. The percentage of total Phare funds contracted remained constant (78% in 2000 and 79% in 1999) though both these figures are a large improvement on the 1998 figure of 70%. The percentage of total Phare funds disbursed increased in 2000 by 8% (69% in 2000 and 61% in 1999).

National Development Plans

The first version of the Czech National Development Plan was prepared by the Ministry for Regional Development and submitted to the Commission Services at the beginning of 2000. It is a very detailed and **well-worked** document, and respected the partnership principle through extensive consultation with a broad range of national and regional stakeholders. The new regional self-governing units were unable to contribute to consultation on the first draft, as they not formally established until the beginning of 2001. Comments to the draft Czech Plan were provided by 4 DGs and the ETF in Autumn 2000, to be used as some basis for further development. The second draft of the Plan was discussed by the government in May 2001, and subsequent comments will be incorporated, with the final version expected to be submitted to the Commission by the end of June 2001. In its presentation to Candidate Countries at the Twinning meeting in March 2001, DG Regio recommended that countries should consider simplifying their management structures by reducing the number of Operational Programmes proposed. In the case of the Czech Republic, the draft NDP currently contains 14 OPs – 6 sectoral and 8 regional programmes. Such a large amount of fully-fledged programmes may be difficult to implement, particularly with regard to the capacity of the management authorities during the current financial perspective (until 2006), given that the programming period will be substantially shortened.

Institution Building highlights

In institution building, **twinning** has become the key instrument. In addition to the 8 projects which commenced in 1999, a further 10 were signed in 2000 (under the Phare 1999 programme) for strengthening the phyto-sanitary administration, implementing strategies in the water sector, making recommendation regarding the system of indirect taxation, improving the control and management of EC financial flows, combating economic crime, preparing for the implementation of Schengen, combating organised crime, making recommendations regarding human resource policies and preparing for the European Social Fund, improving health and safety at work, and assisting in the design and implementation of supplier linkage and upgrading programme. All 18 twinning projects are being **successfully implemented**, while a further 23 should commence in 2001.

A twinning project at the **Czech Environmental Inspectorate**, though still ongoing, has already substantially contributed to the Czech Republic's ability to implement and enforce the acquis in the area of the environment. 200 environmental inspectors have been trained and as a result the number of inspections increased from 16,125 in 1999 to 18,500 in 2000 (13%) while the total value of fines rose from € 1.7 million to € 2.1 million (19%). The average fine also rose from € 714 to € 743 (24%) thereby acting as a more effective deterrent. A draft law concerning the organization of the Czech Environmental Inspectorate is in the process of being produced (for incorporation in the Czech environmental code). The project has also supplied the Inspectorate with pilot IT equipment and software for connecting with their regional offices.

2000 also saw the implementation of another twinning project concerned with **State Aids**. The twinner participated in the preparation of the law on State Aids, which came into force on 1 May 2000, and is fully in line with the acquis. Under this law the Office for the Protection of Economic Competition in Brno was tasked with new powers of supervision. The project continues to provide advice to this office and to review existing legislation.

C. Results and impact

State of play for JMC/SMSC development

SMSCs have been set up and running since **May 2000**, while the first JMC was held in October 2000 acting as the coordinating body for Phare, ISPA and SAPARD. Monitoring reports have been produced by the Czech authorities since November 2000 while they are also responsible for producing the minutes of SMSCs and the JMC.

Though the introduction of this system has proved complex given the condition that SMSCs should be attended by Deputy Ministers, who tend to have little time, it has contributed to a greater focus on monitoring and ensuring implementation and increased the sense of ownership of Phare programmes on the side of the Czech authorities. In addition, by holding SMSCs back to back with the relevant EU Agreement Sub-Committees and ISPA and SAPARD monitoring committees, coordination between policy developments and negotiations and Phare projects is increased as well as between the three pre-accession instruments.

In the area of **employment and social affairs** Phare financed projects to improve cooperation between enterprises and universities and upgrading human resource management businesses and hospitals. These were successfully implemented; for instance the changes in management in hospitals led to substantial financial savings, allowing them to provide more and better treatment with the same budget. Under the Phare-financed loan scheme PALMIF, 31 projects were successfully implemented in areas of high unemployment and either trained or requalified around 6,500 people and helped to create more than 500 new job opportunities.

**Phare Success Story:
Restructuring the Ministry of Agriculture, establishment of a Market
Intervention Agency, and Reinforcement of the Market Information System –**

On accession the Czech Republic will have to be able to manage funds under the Common Agricultural Policy (CAP). In order to help the Czech Republic with preparations for the CAP, therefore, the first ever twinning project in all of the Candidate Countries, commenced in May 1999. The twinner, Mr Goeman, swiftly established good relations with the Ministry of Agriculture and has substantially helped the Czech Republic to prepare for the CAP and the introduction and implementation of the relevant aspects of the *acquis*.

In November 2000, Mr Goeman produced final recommendations concerning the restructuring of the Ministry of Agriculture in order to ensure satisfactory implementation of the CAP in line with the *acquis*. These recommendations, having been considered by the Ministry of Agriculture, were partially implemented as of 1 April 2001. The implementation of the recommendations in full should take place prior to accession. Mr Goeman has also been responsible for proposing, to the Minister of Agriculture directly, amendments to the law which established the State Agricultural Intervention Fund (SAIF) and recommendations for the organisation of this body, including its structure, its personnel and a description of its functions. This institution is necessary for the CAP and is contained in the *acquis*. Though established in July 1999 in the Czech Republic, it does not yet fully match the relevant criteria. Again, the implementation Mr Goeman's proposals should ensure that SAIF is fully in line with the *acquis* prior to accession. The project has finally contributed to the development of a market information system on the data of agricultural products which will enable producers, buyers and administrators to know what the prices of these products are in real time

Given the large amount of preparation for the management of the CAP, 3 future twinning projects are planned to address this issue. This first twinning has laid sound foundations for these future projects, has resulted in concrete outputs, and can be held up as a fine example of how the expertise from Member State administrations can be transferred to those of Candidate Countries.

Tasks ahead

Given the proximity of accession, one of the top priorities will be ensuring that the **institutional building issues remaining to be addressed** (to be identified in the regular report of 2001) are supported in the Phare 2002 programme. Also with reference to accession, projects must also prioritise preparing the Czech Republic for the **management of Structural Funds**. To this end, the successful introduction of EDIS and increasing the sense of ownership of programmes and projects on the side of the Czech authorities will be key.

With regard to the rest of the programme cycle, goals will include **the further improvement of the contracting process** in order to speed up the delivery of aid, closer monitoring of projects and ensuring value for money, and the performance of final audits on completed programmes in order for them to be closed.

ESTONIA

A. The year in review

Political developments

Estonia continues to **fulfil the Copenhagen political criteria**. Important steps have been taken to support the integration of the Russian-speaking non-citizens into Estonian society. In March 2000, the State Integration Programme for non-citizens was adopted. The Estonian language law was amended in June 2000 and is now in accordance with international requirements. Steps have also been taken to improve the capacity of the Citizenship and Migration Board to handle residence and citizenship applications. The implementation of the language law (implementing decrees expected March 2001) and integration programme will be followed, not least as the Commission is continuing to support Estonian language training through the PHARE programme.

Economic developments and structural reforms

The Regular Report 2000 confirmed that Estonia is a **functioning market economy** and should be able to cope with competitive pressure and market forces within the EU in the near term. Estonia is making progress in improving macroeconomic stability and in introducing some structural reforms.

In terms of economic development, Estonia is growing quickly. Whilst overall this is very positive, differences between Tallinn and the rest of the country are becoming more apparent so that economic and social cohesion is becoming more important on the political agenda. Unemployment remains relatively high.

Estonia's new medium term fiscal strategy 2001-2004 aims to cut government spending to 34% of GDP, maintain a conservative borrowing policy and including all items of revenue and expenditure in the budget and has been well received by the Commission.

Growth at around 6% remains strong, driven in particular by the manufacturing and telecom sectors. Inflation has increased to nearly 5% because of the increase in the oil price.

EU-Estonia trade is growing. The top 3 EU exports are machinery and electrical, agriculture, and transport equipment. The top three EU imports are machinery and electrical, wood and textiles.

The EU has been encouraging Estonia to complete remaining structural reforms, notably of the oil shale industry (due to be privatised June 2001), land and pension reforms. Reinforcement of the regulatory framework in the financial sector is also necessary.

Progress in meeting the “acquis communautaire”

Estonia is making **good progress** in its preparations for accession, particularly in terms of approximation of legislation. Where there are weaknesses, more focus needs to be placed on implementation and in developing administrative capacity in sectors such as intellectual property rights, customs, taxation, fisheries, JHA, state aid control and in preparing for CAP and structural funds. There is also an immediate need to improve capacity to plan and implement Phare and ISPA projects.

In terms of negotiations, Estonia is amongst the leading candidates with 16 of the 29 negotiation chapters closed by the end of 2000 (and 19 closed by mid-2001). The remaining chapters are open for negotiations.

B. Phare in 2000

Programmes launched

A total of **€ 33,475 million** was allocated to Estonia under the 2000 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 of 2000 plus the Community and horizontal programmes, granted by the Commission.

Phare support for Estonia's accession preparation was channeled through the following main programmes: the **Phare National Programme** (€ 24 million), the **Baltic Sea Cross-Border Co-operation Programme** (€ 2 million) and the **Baltic Sea Special Action** (€ 1 million). In addition, Estonia received national allocation for the programmes of **Supplementary Investment Facility** (€ 2.5 million), **Access II** (special programme for strengthening Civil Society; € 0.9 million) and participated in a number of **Community Programmes** (€ 3.383 million).

The Phare Management Committee approved the Phare 2000 National Programme in July 2000 and the Financing Memorandum was signed by the Estonian Government and the European Commission on 24 November 2000. Phare funds will be used to support institution building through twinning and technical assistance and investment in the acquis, which will support the institution activities by providing equipment to assist Estonia in complying with EU norms and standards. Phare funds will also be used to invest in economic and social cohesion. **Two target regions** have been identified as regions needing particular development assistance – these are Northeast and Southeast Estonia.

The **Phare 2000 National Programme** provides close to € 24 million for:

- ? Social integration and language training for ethnic minorities (€3.140.000);
- ? Strengthening good governance and accountability in the public sector (€1,000,000);
- ? Market surveillance and Computerised master tariff system (€3,800,000);
- ? Support to the balanced development of labour market services (€1,800,000);

- ? Support to development and implementation of national drug strategies, Police training and educational system, and Crime prevention (€1,852,000);
- ? Development of the agricultural support system administration (€1,980,000);
- ? Economic and social cohesion with emphasis on vocational educational training, support for business development and investment in tourism and water services infrastructure (€10,121,000).

Projects under **CBC 2000** includes investment into the water and sewage system of the city of Rakvere (€ 2.0 million) and a Baltic Sea Special Action (€ 1 million).

The participation of Estonia in **Community Programmes** (€ 3.383 million) consisted of the following components:

- ? Leonardo da Vinci II, Socrates II, Youth for Europe and the 5th Framework on Research: 1,437,000
- ? LIFE III, 5th Framework Programme on Research and Technological Development, Fiscalis, Leonardo da Vinci II, Socrates II, Youth and Culture 2000: 1,916,385 EUR
- ? Small and Medium-sized Enterprises: 29,189 EUR

Finally, Estonia benefited from its participation in **Phare multi-beneficiary and horizontal programmes** in 2000, including the Horizontal Programme on Justice and Home Affairs, the SME Facility (Council of Europe Development Bank and Phase 2 with the EBRD), the phasing of our JOP Programme, the Phare Programme to Support Business Representative Organisations, the Statistical Co-operation, the Approximation of legislation Programme (TAIEX), the Small Projects Programme, the 2000 Phare Multi-Beneficiary Information and Communication Programme, the Administrative and Technical Assistance Programme, Sigma, the Bangkok Facility and the Participation of Candidate Countries from Central and Eastern Europe in Community Agencies.

Overview of programmes implemented

From 1992 to 1999, the Phare Programme has provided €205 million of grant aid for national programmes in Estonia and an estimated €25-30 million under horizontal programmes. The main National Programme for Phare 2000 is additional €24 million, to which should be added other national Phare programmes, e.g. CBC and participation in Community Programmes.

The 1997-2000 Phare National Programmes can roughly be divided in the following sectors: transport, environment, Cross-border co-operation (36%), European integration, justice and home affairs, financial sector (20%), Economic affairs, internal market (19%), Agriculture, regional development (11%), Social sector (7%), and Public sector, language training, education (7%).

In agriculture and environment, the first five twinning projects of the 98 budget will come to an end before the end of the third quarter 2001. All equipment projects financed from the 1998 and 1999 budgets have been procured and delivered.

Phare management performance

The Phare management performance in terms of contracting and payments is satisfying. By mid-2001 the contracting rate for the 1998 programmes was 90% and the disbursement (payment on contracts) rate 73%. For the 1999 programmes these figures are 44% and 62%, respectively.

The **National Fund** has been successfully operating during the year 2000 and continued administration of Phare programmes. In order to ensure full follow up of the resources of Phare projects and sound financial management of the overall budget, all Phare and ISPA programmes are reflected in the state budget since August 2000 indicating amounts as stated in the Financing Memoranda. This procedure also ensures the availability of local co-funding for the Phare and ISPA projects. Once a year the National Fund is reporting to the Government on the usage of the foreign assistance funds. The National Fund officers have also contributed to the preparations of the pre-accession financial instruments Ispa and Sapard by developing the relevant mechanisms for the flow of funds and management tools.

National Development Plans

The Ministry of Finance submitted the first **National Development Plan** to the Commission in December 1999. The Commission commented on the first NDP in early 2000 and invited the Ministry of Finance to submit a revised version in time for the Phare programming 2000 in October 2000. The preparation of the revised NDP has been supported with twinning and short-term expertise. The Commission received the revised in April 2001. The Ministry of Finance has confirmed that the revised NDP will not be a basis for the budgetary deliberations for the national budget 2002 during June 2001. It is however, the objective to present a draft Single Programming Document in mid 2002 as input for investment expenditure of the national budget 2003. The preparation of the draft SPD will be supported by a twinning project under Phare 2001.

Institution Building Highlights

Twinning has proved to be an efficient instrument for institution building in Estonia. Initial start-up difficulties in 1998 and 1999 have been overcome and twinning is evaluated generally positive by the Estonian administration.

In 1998, twinning projects have been agreed in the sectors of agriculture, environment, finance, justice and home-affairs and preparation for Structural Funds for a total of approx. € 3.7 million. For Phare 1999 twinning projects in the areas of economy, social affairs, justice and home-affairs and finance have been agreed for a total budget of approx. € 2.9 million. For Phare 2000 twinning projects in agriculture, social affairs, justice and home-affairs and finance have been agreed for a tentative budget of more than € 3 million.

The **National Fund** (NF), established in 1998, manages European Community assistance under the Phare Decentralised Implementation System. Originally, a unit in the Treasury Department, the National Fund has become a separate department in the

Ministry of Finance since 1 January 2001. It also channels ISPA and SAPARD funds to the Implementing Agencies in the Ministries of Transport, Environment and Agriculture. The Secretary General (= Director General) of the Ministry of Finance, Mr Aare Järvan, is the National Authorising Officer (NAO) with overall responsibility for the management of European Community funds and supervision of the National Fund.

The **Central Finance and Contracting Unit (CFCU)**, set up in 1997 in the Ministry of Finance, administers tendering, contracting and payments for all Phare Programmes (both Institution Building and Investment Support). It operates under the overall responsibility of the National Aid Co-ordinator (NAC), Mr Siim Kallas, Minister of Finance. The NAC has delegated most day to day duties to the Programme Authorising Officer (PAO) Mr Renaldo Mändmets, who supervises the CFCU and is directly responsible for its operations. The running costs of the CFCU are currently supported by Phare, but as of 2003, all costs related to the CFCU will be fully financed from the Estonian budget. The Estonian CFCU has recruited new personnel

C. Results and impact

State of play for JMC/SMSC development

The **Joint Monitoring Committee (JMC)** for the decentralised monitoring system in Estonia is operational. There are four Sectoral Monitoring Sub-Committees (SMSC) for Agriculture, Transport and Environment, Economic and Social Cohesion, and other Institution Building and Investment Projects based on the NPAA, respectively. There are ten Sectoral Monitoring Working Groups (SMWG), in principle one per ministry implementing Phare projects, which prepares the Monitoring Reports that are submitted to the relevant SMSC(s). The SMWG meetings are chaired by the Programme Authorising Officer from the Ministry of Finance and co-chaired by the Delegation. The SMSC meetings are chaired by the Delegation (Head of Phare Section).

M&A Reports in 2000

Fifteen M&A Reports were produced in 2000 by the OMAS Consortium, of which Agriculture was an ad hoc report. Two reports covered the education sector, as there were too many projects to be assessed as one report. Two reports covered European Integration, of which one the SPP. The other sectors were Public Administration, Customs, Energy, Environment, Justice and Home Affairs, Regional Development, Social and Health Sector, Statistics and Transport.

Despite the assistance provided to planning, investment preparation and harmonisation of legislation, there are a number of shortcomings and problems, particularly in terms of political commitment and the readiness of the Beneficiary to take "ownership" of the policy issues concerned. The guaranteed sustainability of the programmes is also relatively weak. While designing the project, already in the preparatory phase, the objectives must be realistic and achievable during the project implementation, and the necessary national legal acts and structures must be in place to allow for a successful implementation.

Sectors with positive results :

A recent assessment of the performance of Phare projects in Estonia since budget 1996 (OMAS "Country Assessment of Phare assistance up to the year 2000") led to a **general positive conclusion**, in line with the results achieved in other Candidate Countries. Sectors that have performed particularly well include environment, agriculture and Justice and home-affairs.

Phare Success Story

Twinning project "Agriculture Information Systems" € 0.5 million

The twinning project "agricultural Information systems" (EUR 500.000) that will come to an end by July this year has provided important assistance in the setting up of an information system on Estonian agriculture that will serve the Commissions statistical interest and provide an analytical tool for agricultural policy to the government of Estonia. In addition the foundations for a management system of the CAP have been laid. In particular the project has contributed to the setting up of an Integrated Administration and Control System (IACS), a Market Information System (MIS) and an Economic Analysis Tool, Economic Accounts for Agriculture (EAA). The project will be followed up by a twinning project financed under the 2000 Phare budget line to further assist the preparation for the management of the CAP.

Tasks ahead

Phare 2001: Finalise the programming of Phare 2001 and initiate the first activities, for example circulation of twinning fiches.

Extended Decentralised Implementation System (EDIS): Complete the initiated process towards EDIS for ISPA, where Estonia has been selected as a pilot country, and proceed with preparations for EDIS for Phare.

New Monitoring Scheme: Continue the efforts to develop the new monitoring scheme with the Joint Monitoring Committee (JMC), the four Monitoring Sub-Committees (MSCs) and the ten Sectoral Monitoring Working Groups (SMWGs).

HUNGARY

A. The year in review

Political developments

Hungary continues to fulfil the **Copenhagen political criteria**.

Further progress in the modernisation of the public administration is apparent from the continued implementation of the 1999 development programme. However, despite a number of important measures taken to fight corruption, this remains a problem and renewed efforts should be made to address this issue.

In line with the short-term Accession Partnership priority, Hungary started to implement the **medium-term Roma action programme**, supported by financial means at national and local levels. This programme facilitates the integration of the Roma and their fight against discrimination in the fields of education, culture, employment, housing, health and social services. However, sustained implementation of this programme is needed in order to obtain concrete results in the medium-term.

In June 2000 Parliament elected a new President. No other significant new political developments are to be reported.

Economic developments and structural reforms

The **macroeconomic situation** has improved since 1999. The concerns about the size of the current account and the fiscal deficits have subsided. Economic growth has accelerated, while the current account deficit narrowed, notwithstanding significant import growth. The employment losses associated with economic transformation have been clearly offset as export-oriented sectors of the economy have grown rapidly and hired new workers. The fiscal deficit narrowed during 1999, and fiscal performance during the first half of 2000 was better than expected.

Reflecting the advanced stage of the reform process, the pace of **structural reform** has slowed. Nonetheless, during 1999 and mid-2000 Hungary started a number of important reforms, in the areas of healthcare, rail transportation and the consolidation of financial sector supervision. In addition, the government sold some of its remaining shares in financial institutions. More generally, the privatisation process is almost complete and the enterprise sector is principally in private ownership. Nonetheless, the government continues to hold a significant number of residual minority stakes. The implementation of the far-reaching pension reform continues, although the government has failed to raise the contribution rate to the second pillar.

Progress in meeting the “*acquis communautaire*”

Hungary continued to make progress in aligning and implementing the **acquis** in most sectors thereby reaching a good level of preparation for membership. This process was in general accompanied by satisfactory institution building measures.

Hungary has satisfactorily addressed most of its short-term **Accession Partnership priorities** with the exception of agriculture, environment, certain elements related to the internal market, industry policy and economic and monetary union. Hungary has already started to implement a number of medium-term priorities.

B. Phare in 2000

Programmes launched

A total of **€ 119.8 million** were provided to Hungary under the Phare Programme in 2000. In September 2000, the **2000 National Programme** was signed and amounted to **€ 65 million**. Additional Financing Memoranda confirmed Phare funding for the **Cross-Border Co-operation Programmes** (€ 19 million), the **Access Programme** to support civil society development (€ 1.7 million), and Hungary's participation in **Community programmes** such as Socrates and Leonardo da Vinci (€ 24.28 million).

Finally € 9.8 million were allocated to Hungary from the **Phare Reserve**.

The **2000 Phare National Programme** concentrates on several priorities. It finances efforts aimed at:

- Strengthening the **democratic system**, the rule of law, human rights and the protection of minorities, in particular the Roma; € 2.5 million has been allocated to assisting Roma social integration. This includes measures to improve infrastructure (e.g. drinking water, electricity supply) in Roma neighbourhoods, development of NGOs in the field of Roma rights, and an information database within the Office for National and Ethnic minorities.
- Reinforcing **institutional and administrative capacity** in the fields of justice and home affairs, occupational health and safety, agriculture and the environment, (€ 27.50 million).
- Helping to strengthen the **management of external borders** (€ 13 million). The Customs will benefit from twinning support and modernisation of border stations on the Yugoslav, Croatian and Ukrainian borders, while equipment for border surveillance will be purchased for the Border Guards.
- Making funds available for **economic and social cohesion** (€ 17 million) , especially in three target regions North Hungary, Northern Great Plain and Southern Great Plain. Specific activities include grant schemes for vocational education, assistance to disadvantaged groups in the labour market, and co-operative ventures by consortia of SMEs.
- Helping Hungarian regions to **prepare for management of EU structural funds** through the Regional Preparatory Programme, which will include four long-term twinning advisers, (€ 4 million).
- Supporting **infrastructure and investments** (€ 11 million), such as a solid waste deposit system in Vaskút and Gyomaendröd, and road-building to improve access to tourist sites and industrial parks in South Great Plain region.

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

Overview of programmes implemented

Since 1990 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of institution building and policy development. Increasingly Phare resources have also been mobilised in the form of support for investment priorities identified by the Government as essential to the fundamental restructuring of the economy over the medium term.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources took place in a number of important fields such as industrial restructuring and privatisation, SME development, trade and investment promotion, environment, energy, land registration and training. Phare support has developed sector strategies and essential institutional structures.

Phare management performance

Hungarian performance in Phare programme management in 2000 maintained the **improved performance** that was already evident the previous year. The **contracting** deadline for the 1998 programme fell at the end of September. By this time the Hungarian Implementing Agencies had committed about 95% of the available funds. The major deficiency of Phare programme management in Hungary continues to be that the bulk of contracting is not completed until the last few months of the two-year contracting period. This means that in cases where tenders are cancelled or procurement is performed with less than the maximum foreseen budget, there is insufficient time to re-tender or to re-allocate the funds.

The National Fund, the Central Financing and Contracting Unit (CFCU), and the National Agency for Regional Development are now **well established** in Hungary. The CFCU has now taken over the contracting role from most of the PMUs that managed Phare programmes in previous years. A third Phare Implementing Agency was foreseen to manage projects of the European Social Fund type, but at the end of 2000 this had still not been fully established.

National Development Plan

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

Framework (CSF). The Community Support Framework will be implemented through Operational Programmes (OPs).

The Hungarian administration, with assistance provided by Phare twinning, has established a **framework for the NDP programming process** aimed at assuring the involvement of the appropriate partners (including the social partners in a consultative role). This framework has four layers:

1. **The Inter-ministerial Coordination Committee for Development Policy (FKTB):** A high level inter-ministerial body responsible for decision making on proposals and drafts prepared at a lower level.
2. **The Planning Sub-Committee:** This is the operational body of the FKTB and is in charge of guiding the overall process.
3. **NDP Task Force** consists of the heads of the Working Groups (see below) and is responsible for the coordination of the Working Groups' output.
4. **Five Working Groups** providing bottom-up input for the programming process. There are four sectoral working groups and one regional working group, reflecting the likely OPs (see below).

The NDP should be ready for approval by the Hungarian government in January 2002. The Hungarian administration is already working on the socio-economic analysis element of the plan and has begun drafting the strategy section. The following OPs are most likely to be defined:

- Economic Competitiveness
- Infrastructure
- Human Resources
- Agriculture and Rural Development
- Regional Development

According to Council Regulations 1260/99 Hungary must establish a management authority at the level of the CSF and of each Operational Programme. The decision on the location of these Managing Authorities is expected soon; this will open the door to further twinning assistance and forms a crucial step in establishing an appropriate administrative framework for Structural Funds.

Institution building highlights

In institution building, twinning has become the key instrument. Under the **Phare twinning** scheme, by the end of 2000 a total of 17 twinning projects from the 1998 programmes and 3 twinning projects from the 1999 programme were underway. The remaining three 1999 twinning projects were scheduled to start early in 2001.

In those twinings, that started in 2000, long-term pre-accession advisers are provided for: the environment sector (for legal approximation, and implementation of the Habitats Directive); the internal market (for development of a market surveillance system); justice and home affairs institutions (for the fight against organised crime); finance sector (for harmonisation of the tax system, and for government financial accounting); health sector (for health and safety at work). Furthermore, twinning assistance is a key element of the Special Preparatory Programme to prepare Hungary for pre-accession aid management (ISPA and SAPARD) and for subsequent management of EU structural funds after accession.

Concerning the twinning projects funded from the 2000 programme, the Hungarian authorities have already chosen the Member State twinning partners, and the twinning covenants will be submitted to the Commission for approval soon.

C. Results and impact

JMC/SMSC development : state of play

In 2000 Commission Services and the Hungarian authorities started to put in place the new system for monitoring of EU funds in Hungary. The first meeting of the Joint Monitoring Committee (JMC) was held in October 2000. The JMC discussed and approved its own rules of procedure, and allocated all ongoing and forthcoming Phare projects between a set of nine thematic monitoring clusters (e.g. there is a Justice and Home Affairs monitoring cluster and a Public Finance monitoring cluster). In each of these clusters project implementers and beneficiaries are expected to produce Monitoring Reports twice per year and discuss them at a Sectoral Monitoring Sub-Committee (SMSC) meeting. The first set of SMSC meetings will take place in early 2001, and the second meeting of the JMC is scheduled for May 2001.

M&A Reports in 2000-Main lessons learned

While the new monitoring system was being established, the existing monitoring and assessment contractors OMAS continued their work of previous years.

As concluded in the last OMAS Report "*Country Assessment Review of Phare assistance up to the year 2000*", during the last years, in Hungary there has been **considerable progress**, made as a consequence of Phare support, and the impact has been positive. However, there are several elements, which still need to be improved.

Among the main areas for improvement recommended in the report, the following should be mentioned:

- There is an urgent need to increase capacity, competence and experience of the entire Public Administration Sector in Hungary, with special emphasis on civil servants involved in the implementation of EU funded Programmes and the accession process.
- Only well prepared, mature projects should be approved for Phare financing, which are ready to be launched at the time of submission.
- Particular attention should be paid to a strengthening of financial control structures at regional levels.
- There is a need to promote better networking between PAA across the Phare assisted countries to discuss issues of common interest, to utilise already existing resources and share lessons learned.
- The Hungarian Government should regularly monitor the performance of Beneficiaries, Implementing Agencies or Partners, to identify their effectiveness and efficiency in absorbing Phare assistance.

More than 25% of the works have already been carried out. The clearance of the Danube bed and the reshaping of the original river piers and abutments are nearly finished. An interesting anecdote is that during this process 27 World War bombs were lifted, the largest one being over 3,5 meters long. Presently there are 250 people working at the construction plant and 70 on the bridge. The reconstruction of the three middle spans are going on and they should be installed on the site between May and August 2001. No major delays have been encountered and according to all parties, the bridge will be finished in time. Along with the reconstruction of the Danube bridge, construction of border post facilities on the Slovak side and access roads on both sides will be carried out for an amount of € 8 million.

At a political level, the reconstruction of this bridge reflects the new phase in the relationship between the Slovak and Hungarian states. It symbolises the need to cement the Agreement on Good Neighbourly Relations and Friendly Co-operation between Hungary and Slovakia signed on 19 March 1995 in Paris. This Agreement was made under the auspices of the Pact for Stability.

At a more local level, the rebuilding of this bridge will finally re-unite the two communities, situated on both sides of the Danube. By increasing local travel across the Danube, it will economically, socially and culturally benefit the people of Esztergom and Sturovo and will contribute to the friendship between these two towns.

Tasks ahead

In the comparatively short time that remains before Hungary's accession to the EU, some substantial tasks remain to be accomplished.

In the field of **Institution Building**, the 2001 programme will include no fewer than 18 twinning projects involving 24 long-term pre-accession advisers. The 2002 programme, too, will have a heavy emphasis on Institution Building. One of the most crucial tasks is for Hungary to prepare the institutions and trained staff to manage **structural funds** as soon as Hungary becomes a member. It is also essential to build up a **pipeline of well-defined projects** that contribute to achieving NDP objectives.

In terms of management, the greatest task will be to move to **extended decentralisation** – this means moving from the current ex-ante system of control for contracting and disbursement, to a system of ex-post controls more similar to that used in member states. This will be a great challenge for the Hungarian Implementing Agencies, and particularly for the CFCU and the NARD, which have the biggest Phare workloads.

LATVIA

A. The year in review

Political developments

In 2000, a **new government** came into office in Latvia. The Prime Minister, who had taken up his post in July 1999 following the resignation of his predecessor, resigned in April 2000. Supported by the former three-party coalition and one additional party, the new Prime Minister was appointed, and a new government was approved by Parliament in May 2000. No major shift in government policy took place, and EU and NATO membership remained among the government's key objectives.

Latvia continues to **fulfil the Copenhagen political criteria**. The last year saw progress in carrying forward the Public Administration Reform process, improving the functioning of the judicial system, and in designing the framework for the fight against corruption. Several important steps were taken to support the integration of on-citizens into Latvian society. It will be necessary to continue and accelerate the Public Administration Reform process, to further strengthen the judicial system, and to continue the fight against corruption on a broad scale. To facilitate and promote the integration of non-citizens, the effectiveness of the Naturalisation process needs to be maintained and Latvian language training needs to continue and be expanded.

Economic developments and structural reforms

The **Latvian economy recovered** remarkably well in 2000 with a GDP growth of 6.6% - as compared to 1.1% in 1999. This growth was mainly attributable to investments, and a strong growth of exports. Domestic consumption, and especially public consumption, on the other hand was comparatively weak. With the economy characterised by strong external demand and weak public consumption, both the current account deficit and the budget deficit narrowed significantly (from 9.6% of GDP to 6.8, and from 4.0% of GDP to 2.8% respectively).

According to official Latvian unemployment rates, unemployment fell with some 1 ¼ percentage point during 2000 and came just within the target of 8% in December. However, during the end of the year unemployment stabilised. The rate of jobseekers, which is closer to the ILO definition of unemployment, was fairly stable at about 13 ¼ %.

Regarding the Copenhagen economic criteria, Latvia can be regarded as a **functioning market economy** and should be able to cope with competitive pressure and market forces in the Union in the medium term, provided that it completes and maintains the pace of its structural reforms. Market entry and exit mechanisms kept improving. The financial sector remains small but functioned well. As in 1999, only few developments related to privatisation of the remaining large enterprises took place in 2000.

Progress in meeting the “acquis communautaire”

Latvia continued to make **steady progress in aligning its legislation** to the *acquis* in most areas, including in the areas of the Internal Market, transport, environment, consumers and health protection, and justice and home affairs. While overall progress in terms of strengthening the administrative capacity was more limited, Latvia nevertheless undertook efforts to re-structure and reinforce its institutions in several sectors, and decided to establish several new bodies in line with the provisions of the *acquis*. In general, the strengthening of the Latvian administration needs to continue in all areas in parallel and complementary to the general public administration reform process.

Latvia started to address almost all of the relevant short-term priorities of the 1999 Accession Partnership, and already achieved a certain degree of success in most cases. This included in particular the adoption of several pieces of key legislation in the Internal Market and of framework legislation in the environment sector, as well as work on the modernisation of the tax and customs administrations, efforts related to maritime safety and the upgrading border posts. Latvia also already started to work towards meeting some of the medium-term priorities of the 1999 Accession Partnership, including in the areas of audiovisual policy, consumer protection, energy and transport.

B. Phare in 2000

Programmes launched

A total of **€ 33,75 million** was allocated to Latvia under the Phare 2000 budget to support Latvia's accession to the EU. Phare support to Latvia was channelled in the year 2000 through the following programmes:

- ? **Phare National Programme** – € 24.76 million
- ? **Baltic Sea Cross-Border Co-operation Programme** – € 2.0 million
- ? **Special Action in Favour of the Baltic Sea Region** – € 1.0 million
- ? **Supplementary Investment Facility Programme** for Latvia in 2000 – € 1.75 million
- ? Participation of Latvia in **Community programmes** for 2000 and 2001: *Fiscalis, Leonardo da Vinci II, Socrates II, Youth, Culture 2000, the 5th Framework on Research and Technological Development* - € 4,24 million

On 28 December 2000, the Commission and the Latvian authorities signed the Financing Memorandum for the 2000 **Phare National Programme** for Latvia. In line with the Accession Partnership Priorities, the 2000 Phare National Programme focused on the following areas:

- **Political Criteria:** *Promotion of Integration of Society in Latvia* – € 1.1 million
- **Internal Market:** *Latvian National Quality Assurance Project* – € 2.0 million
- **Agriculture and Fisheries:** *Strengthening Latvia's fishery administration to meet the requirements of the Common Fisheries Policy (CFP)* – € 2.0 million
- **Justice and Home Affairs:** *Development of Integrated Latvian Border Management and Infrastructure ; Development and Implementation of Latvian*

Drug Control and Drug Abuse Prevention Master plan in accordance with EU recommendations. € 4.16 million

- **Reinforcement of Institutional and Administrative Capacity:** *Public Expenditure Management Project ; Upgrade the Latvian Statistical System in accordance with EU requirements – € 5.0 million*
- **Economic and Social Cohesion** Development of Capacity for Regional Development; Economic and Social Cohesion measures in Latgale Region; Economic and Social Cohesion measures in Zemgale Region – € 10.5 million

In 2000, Latvia also participated in several Phare **multi-beneficiary and horizontal programmes** – such as TAIEX, ACCESS as special support to the NGO sector (€ 1.12 million), SME Finance Facility Phase 2 - Council of Europe Development Bank jointly with Kreditanstalt für Wiederaufbau (KfW), SME Finance Facility Phase 2 - European Bank for Reconstruction and Development (EBRD) as well as Programme to support Business Representative Organisations, Joint Venture Phare Programme (JOP), EBRD Bangkok Facility Programme (€ 0.75 million), Small Project Programme (€ 0.2 million), Approximation of legislation and Phare Statistical Cooperation.

Overview of programmes implemented

In the area of **public administration reform** the second phase of an important project was carried out, focusing on the issues of territorial-administrative reform. The year 2000 saw also the implementation of the bulk of the Special Preparatory Programme for structural funds addressing the preparation for Ispa and Sapard programmes as well as pilot activities and the National Development Plan process. A significant project was conducted in the Latvian region of Latgale to develop the regional planning and programme management capacity.

A number of projects in the **environment** sector totaling almost € 10 million were successfully completed, such as the construction of iron removal plants in Madona and Liepaja and assistance to the Latvian administration in terms of institution building and acquis related equipment. Further activities in the water management and sewage area continued in several municipalities, including Cesis, Ainazi and Saulkrasti and new activities were started in Talsi financed under the Baltic Cross Border Framework.

In the **transport sector**, the construction of bridges over the Memele and Gauja rivers was completed and reconstruction of Via Baltica from Bauska to Iecava began. Projects were undertaken in the field of marine infrastructure providing for a radio communication system for search and rescue.

The **Baltic cross border cooperation Small Project Fund** (1999) has started its operation and 12 projects were selected for co-financing. The projects cover all regions of Latvia and address priorities such as tourism, economic development, environment, human resource development and local democracy.

As in previous years, Phare continued to support the Latvian language training programme – implemented through the UNDP – including the development of teaching materials, production of films and programmes that are designed to improve Latvian language skills among non-speakers.

Phare Management Performance

The Phare management performance in terms of contracting and payments is satisfying. By the end of 2000 the contracting rate for the 1998 programmes was 92% and the disbursement rate 50%. For the 1999 programmes these figures respectively were- 50% and 21%.

The **National Fund** has been successfully operating during the year 2000 and continued administration of Phare programmes. In order to ensure full follow up of the resources of Phare projects and sound financial management of the overall budget, all Phare and ISPA programmes are reflected in the state budget since August 2000 indicating amounts as stated in the Financing Memoranda. This procedure also ensures the availability of local co-funding for the Phare and ISPA projects. Once a year the National Fund is reporting to the Cabinet of Ministers on the usage of the foreign assistance funds. The National Fund officers have also contributed to the preparations of the pre-accession financial instruments Ispa and Sapard by developing the relevant mechanisms for the flow of funds and management tools.

National Development Plans

The year 2000 saw the mobilisation of resources on the Latvian side for **improving the preliminary National Development Plan (NDP)**, which was presented at the end of 1999. In order to support this process, Phare contributed substantially through technical assistance, mostly for the elaboration of macro-economic models, analysis as well as sectoral studies. Moreover, through a twinning project with Finnish partners, Phare contributed to the elaboration of a Strategic Memorandum for the NDP to be finalised in the first months of 2001, which should then be the basis for a full-fledged NDP.

Institution Building Highlights

In the year 2000, the majority of Institution Building projects are implemented through the **twinning** mechanism. In 1999 and 2000, ten twinning projects in several areas of the *acquis communautaire* took place with Germany, Sweden, Denmark, Finland, France and United Kingdom for an overall amount of 4.6 million Euros.

The twinning projects concerned the following sectors: Agriculture, in particular veterinary and phytosanitary control as well as food control where for the latter the twinning project provided support for designing a food control system; Public Finance, where the twinning project contributed to improve economic forecasting and tax audit; Justice and Home Affairs, where two twinning projects were successfully implemented: One project concerned practical aspects of border guarding and the other project helped to support Latvia's Court System Reform. It resulted in proposed amendments to the Law on Judicial Power, the setting up of an international department in the Ministry of Justice and submission to Parliament of a new Law on Bailiffs ; Environment, where two twinning projects provided support to the Latvian Administration in its efforts to implement EU legislation. Twinning assistance also supported Latvia's efforts to prepare for structural funds' participation.

Further eight twinning projects should start their implementation in 2001.

C. Results and impact

State of Play for JMC / SMSC development

The Latvian-European Commission **Joint Monitoring Committee (JMC)** was established in 2000. The JMC will co-ordinate the monitoring of the three pre-accession instruments (Phare, Ispa and Sapard) and provide recommendations for the management of the Phare programme. The first Joint Monitoring Committee meeting took place on 18 December 2000 and provided a list of recommendations in all the areas covered by the Phare programme.

The JMC is supported by four Phare Sectoral Sub-Committees (SMSC) that will meet twice a year and review programmes/projects in all sectors covered by the Phare support: 1. Economics, Regional Development and Agriculture; 2. Human Resource, Social Sector, Education and Civil Society; 3. Public Sector and Finance; 4. Environment, Transport and Energy. This will be done on the basis of monitoring reports prepared by the responsible ministries. The first meeting of the SMSC took place in October 2000.

M&A Reports in 2000

In 2000 OMAS Consortium provided 10 assessment reports on Phare programmes in Latvia in the following sectors – Energy, Cross Border Co-operation, Statistics, Environment, Education – Tempus, Justice and Home Affairs, Banking, Public Finance, Agriculture, Aid Co-ordination. OMAS also presented a Report on “Country Assessment Review of Phare assistance up to the year 2000” which analyses the Phare assistance, identifies the key features and trends, assesses the extent to which the Phare assistance has enabled Programme objectives to be achieved in a sustainable way and recommends actions for improvements.

With the approaching of the date of enlargement, issues more and more complex are addressed by the Phare programme. There are **two main lessons** that can be learned by the implementation of the Phare programme in the year 2000. Firstly, the need for the beneficiary institutions to further increase their strategic thinking and have a more consistent and longer-term approach to programming of Phare assistance, in order to be able to address on a sound basis the demanding requirements of the *acquis communautaire*. Secondly, the need for the beneficiary institutions to further increase their capacity to ensure proper implementation and monitoring of the Phare projects, in order to ensure sound financial management and value for money.

Sectors with positive results

In 2000, Phare continued the **strengthening of public administration**, through support to territorial-administrative reform and internal audit. The latter was particularly successful with internal audits units strengthened and procedures for internal audit established across the central administration.

Tasks Ahead

Important challenges will have to be met in 2001, especially as regards the successful implementation of the **Economic and Social Cohesion** schemes, the further preparation for **Structural Funds** (NDP, legal and institutional requirements, human resources, pipeline of projects, etc.) and regional development as well as the overall strengthening of the impacts of **institution building projects**.

The Latvian administration will also have to accelerate procedures and strengthen human resources in order to be able to deal with requirements of **extended decentralisation** of pre-accession funds. The Phare programme will provide specific resources and technical assistance to contribute to this task.

LITHUANIA

A. The year in review

Political developments

The year 2000 in Lithuania's political life was predominated by the **Municipal** (in March) and **General elections** (in October). The elections showed the defeat of the ruling Conservative Party and the victory of the new political parties. After the General elections, as no political party secured majority votes, the Liberal Union and the New Union (Social Liberals) together with the other two minor parties formed a Center Coalition. The Center Coalition also managed to enter into an agreement with enough parties to secure a parliamentary majority. However, because of the need for parliamentary support from a wider, 7 party grouping, and because of policy differences between the main two parties, the coalition is rather fragile.

The new Centre-Left Government and the Parliament have confirmed **Lithuania's commitment towards EU accession**. In particular, following an agreement between the ruling coalition and the opposition parties, the Seimas has adopted a resolution whereby all outstanding legislation related to EU integration should be adopted as soon as possible with a view to concluding negotiations by 2002. The new Center – Left Government is expected to continue reforms started by the Conservatives Prime Minister Kubilius Government (Oct 1999-Oct 2000), which was rather successful speeding up economic reforms and introducing restrictive fiscal policy.

Economic developments and structural reforms

The economic situation in Lithuania has **improved considerably** since the wake of the Russian crisis (GDP falling by over 4% in 1999), due to the Kubilius Government adopted a courageous (though unpopular) economic policy, which led to GDP growth of 3.3 % in 2000. The Kubilius Government entered the office when financial market faced troubles; thus, the Government succeeded in stabilising the situation in a fairly short time. The fiscal adjustments reduced the fiscal deficit from 8.5% of GDP in 1999 to 3.3% of GDP in 2000. Moreover, the current account deficit decreased by 43.5 % y/y mainly due to higher savings, decrease in imports (13%) and significant increase in exports (28%) mainly to western markets. On the other hand, weak domestic demand, due in part to a slow down in investment, led to higher unemployment, with the unemployment rate increasing from 10% in 1999 to 12.1% in 2000.

The efforts made by Lithuania were recognised in the 2000 Regular Report, which concluded for the first time that Lithuania is regarded as a functioning market economy. Moreover, the progress has been commended also by the IMF, with which the Lithuanian government signed a stand-by agreement in March 2000. It is expected that in 2001 the economic recovery will continue, notably thanks to growing exports.

Progress in meeting the “Acquis communautaire”

Lithuania has made **significant overall progress in terms of transposition** and, to a lesser extent, implementation of the *acquis*. Additional progress is required notably in areas such as taxation, agriculture, regional policy and financial control. As Lithuania reaches a more advanced level of alignment, greater attention needs to be paid to strengthening administrative capacity, so as to ensure effective implementation and enforcement of the *acquis*. Some efforts have been made in this regard. In particular, certain existing institutions have been reformed, such as veterinary and market surveillance bodies, and the legal basis for the establishment of new institutions has been laid down, for example in the case of the Consumer Protection Council.

Lithuania has made satisfactory progress in meeting the short-term priorities of the Accession Partnership, especially as regards economic reform. However, in some areas such as agriculture, taxation, administrative capacity (including management and control of EC funds), further progress is still required. Lithuania has already started to address a number of medium-term Accession Partnership priorities.

B. Phare in 2000

Programmes launched

The objectives of Phare assistance to Lithuania did not change in comparison to the targets set by the Accession Partnership of 1999 as it was decided not to formulate a new Accession Partnership document but to focus on tasks not fulfilled yet.

A completely new element of Phare assistance was introduced in 2000: Financial support for **Economic and Social Cohesion** (ESC). This assistance, counting for about one third of funds allocated under the National Programme (see below), is supposed to be the precursor of the financial support coming through the EC-Structural Funds after accession. Structural Funds (SF) in this context mean the European Social Fund (ESF) and the European Regional Development Fund (ERDF). For 2000 the Commission had favoured a “**Target Region**” approach and, as a consequence, specific support programmes were designed for the counties of Klaipeda, Taurage, Marijampole and Utena.

The bulk of Phare support to Lithuania was provided under the **National Programme** with a total amount of **38.3 Mill EUR**. This programme covers Institution Building and Investment activities in the following sectors:

- Promotion of competitiveness/enforcement of financial discipline for enterprises (€ 2 million);
- Strengthening the institutional and administrative capacity to adopt and enforce the internal market *acquis* including support in the field of free movement of goods, customs, communications and statistics(€ 10.05 million);

- Strengthening the capacity to manage and administer the *acquis* in the field of agriculture (CAP), phyto-sanitary and fisheries (€ 6.5 million);
- Implementation of the *acquis* in the maritime safety sector (€ 1 million);
- Preparation for participation in the European Employment Strategy (€ 2.15 million);
- Adoption of the *acquis* related to the fight against drug trafficking (€ 1 million);
- Reinforcement of institutional and administrative capacity in the field of budget management, financial control and price statistics (€ 1.5 million);
- Economic and social cohesion, including business and human resources development in the three target regions (€14 million).

In addition a series of other programmes were launched in order to cover specific needs in a wide variety of sectors. The following list gives an overview on these:

- Participation in **Community Programmes** (€ 2.6 million)
- **Civil Society** (€ 1.23 million)
- **Supplementary Investment Facility** (JHA-Projects) (€ 4.3 million)
- **ABC** (Investment + Small Project Fund) (€ 3.0 million)

Together with the National Programme this gives a Phare contribution of **€ 50 million**.

Following the pledging conference on the **decommissioning of Ignalina Nuclear Power Plant** (INPP) a special allocation of 15 Mill EUR was added to the 20 Mill EUR 2000 instalment for nuclear safety. All in all 85 Mill EUR, including nuclear safety measures (INPP Decommissioning Fund), have been allocated to Lithuania for 2000 under Phare.

Besides this national allocation Lithuania will benefit from about a dozen **horizontal Phare-programmes** in which the country will take part.

Overview of programmes implemented

Most of the implementation work was focused on **contracting the Funds** committed under the 1998 programme. This reflects the existing backlog, which is not untypical for Phare. In so far the 1997-reform of Phare has not yet delivered the results expected.

In 2000 the biggest Institution Building project financed from 1997-funds was completed, the Support to European Integration of Lithuania (SEIL). The results of this project were crucial for the good progress Lithuania made in 2000 within the accession negotiations.

Four out of five twinning projects of the 1998 programme were completed, with **very positive results** in Justice and Home Affairs (Border Police) and Internal Market (Standardisation, Certification).

Investment projects completed last year were stormwater collection system in Melnrage (near Klaipeda) and equipment for the Klaipeda Hazardous Waste Storage.

In addition, programmes such as the Large Scale Infrastructure Facility (LSIF) and CBC contributed to the financing of environmental and transport infrastructure projects whereas the Catch-Up Facility focused on support to the financial sector and the fight against corruption, organized and economic crime.

Phare management performance

The overall **contracting rate** of funds (96%) for the funds from 1998 was satisfactory, however this result was achieved only by an extraordinary effort over the last two months before the contracting deadline. About 30% of funds were contracted within that relatively short period, cutting down in some cases the time for implementation to an insufficient period. Contracting of 1999 programmes started slowly. By end of 2000 about 40% of funds were contracted, notably twinning projects.

The reorganization of the government following the general elections of October 2000 has left traces as well on the management of Phare assistance. Signature of Financing Memoranda for some 2000 programmes were delayed by several weeks as nominations and authorizations had to be arranged. The backlog mentioned earlier has not been reduced. Contracting of 1999 projects was mainly limited to Twinning Covenants, but no major tenders were processed.

The readiness of projects for implementation at the time of signing the Financing Memorandum has not proved to be a realistic assumption. Due to delays linked to the start of a number of twinning projects, supply tenders linked to twinning activities ran into trouble. The three months period foreseen for the elaboration of Twinning Covenants was hardly achieved by any project. Some of the 1999 twinning projects had even not started at the end of 2000.

Insufficient staff resources on the side of beneficiaries continue to be an obstacle to speedy implementation as well as co-financing in some cases. The latter problem could be felt more frequently in the second half of the year. Ownership of projects by beneficiaries differs widely among institutions from excellent (e.g. Statistics) to next to non-existent.

For the 1998 and next Phare Programme the EC funds have been channeled to beneficiaries through the **National Fund** which has been established in the Treasury Department in the beginning of 1999. The Community instruments (ISPA and SAPARD) are also now managed by the NF, which has produced a workload increase. There is a shortage of staff that is manifest in the difficulty to manage the 1998 programme closure.

End of 2000, the cash-flow management didn't answer to a clear identified method. Regards to monitoring implementation, the main focus had to be put on a risk analysis. These difficulties have not hindered the NF to achieve quite good results during the year 2000.

National Development Plans

With the assistance of Phare, the Lithuanian Government has prepared two Preliminary National Development Plans (PNDPs) in 1999 and 2000. The Commission's DG ELARG accepted them as basis for Phare 2000 and 2001 Economic and Social Cohesion programming. The PNDP 2000 selected 3 target regions in Lithuania for initial EU support to regional development. However, already in the following PNDP 2001 the target region approach was largely abandoned and the PNDP defined a more sectoral approach for the support to national and regional development in Lithuania. Despite of the PNDPs recognized role in Phare Economic and Social Cohesion programming, the drafting process and the PNDPs themselves both times suffered from a series of structural problems that prevented them from achieving the ownership in Lithuania that would be required for a successful implementation of such a plan:

- ? Absence of high level policy discussion or decisions concerning the strategies and measures listed in the PNDPs
- ? Absence of a financial or institutional framework that would allow to implement the priorities and measures listed in the PNDPs
- ? Insufficient inter-institutional coordination and involvement of local, regional, economic and social partners in drafting the PNDPs but instead the production of mainly Phare consultancy driven documents

Following the completion of the PNDP 2001-2003 and recognizing the need for an intensive effort to prepare Lithuania's institutions for the absorption of Structural Funds upon accession, the Lithuanian Government reviewed the NDP drafting process with a view towards possible remedies for the above deficiencies. As a result the Government adopted a NDP Concept Paper, which aims to provide revised scope, timetable and institutional responsibilities for the ongoing NDP preparations. According to the Concept Paper the next NDP shall be developed in a process that will deliver the basis for the transition towards a Single Programming Document as will be required for Lithuania as Objective 1 country on the NUTS II level.

Since 1999 the Lithuanian administration has progressed considerably in laying the conceptual fundament for Structural Funds with the assistance of the Phare Special Preparatory Programme for Structural Funds. Now the decisive factor for a successful completion of the Structural Funds preparations in Lithuania will be whether a capacity can be built that allows to transform these concepts into a functioning institutional set-up.

Institution Building highlights

In 2000, Institution Building support was provided to Lithuania mainly through **Twinning** and most of the Phare 1999 projects started their implementation phase. More specifically, 11 projects started in 2000 while another 2 twinning projects funded out the FM 1999 were in the final stage of preparation of the covenants by the end of 2000 with a starting date early spring 2001.

4 1 winning projects were **successfully completed** by 2000, namely two in the field of Justice and Home Affairs (*Border Police and Training programme of judges* under

Phare 1998.), one in the field of Internal Market (*Standardisation and Accreditation*) and one in Public Finance (*Budgetary Process*). These four projects had an overall financial volume of 1.1 Million EUR.

Twinning continued to be the main instrument for Institution Building with 8 projects being selected for implementation by the Lithuanian Authorities. Implementation of these is to start in 2001. Most of them focus on the Internal Market but Agriculture and Justice and Home Affairs keep their prominent places as well.

C. Results and impact

State of play for JMC/SMSC development

The JMC/SMSC mechanism was established and is **fully operational since early 2000**. The first round of SMSCs took place on 4 May 2000 following the final IRM in October 1999. The first JMC took place on 15 December 2000.

14 SMSCs were set up. Each SMSC met twice during the year before reporting to the JMC in December. Meetings were held on two consecutive days, following the IRM concept. This proved not to be the most effective and efficient approach and many of the key players were involved in all SMSCs which placed a too high demand on the committee members. The system was changed to holding not more than 3-4 SMSCs during a given month, selected in order of urgency and the need for corrective actions to be discussed. Also, it is intended to reduce the number of SMSCs to 9.

M&A Reports in 2000

OMAS assessed **8 sectors** in 2000.

Some of the main conclusions were:

- Problems of the transitional phase from centralization to decentralization have disappeared in 2000;
- Co-operation between Contractors and Beneficiaries in general worked well;
- Weaknesses exist more in programming (logframe approach, quantifiable indicators) than in implementation;
- Due to insufficient resources on the Beneficiaries' side, external advisers got involved into day to day operations which did not figure in experts' brief.

Monitoring reports presented by the various POs differ considerably in style, accuracy, and consistency. There is a great need for harmonization; the NAC was encouraged to organize a number of training sessions for POs to assure a more coherent approach to the establishment of monitoring reports.

Sectors with positive results

Border Police: The 14-months duration twinning project for the Lithuanian border police was successfully completed in October 2000. Within the scope of the project the main attention has been paid to ensure development of the border management system according to the Schengen *acquis* and other relevant EU regulations. The

training seminars have been focused on the issues related to border checks, passport control, inspection of travel documents. In addition, a modern and effective planning and follow-up system has been developed and is currently implemented.

Privatisation: A Phare technical assistance project of 1 million EUR dedicated to the privatisation of five large scale enterprises and to the institution building of the Lithuanian body responsible for privatisation, the State Property Fund (SPF), has been implemented from June 14, 1999 to October 30, 2000. The contractor assisted the SPF during all the privatisation process, from the drafting of the due diligence to the final negotiation with the future buyer. At the beginning of 2001, 3 firms have been privatised successfully. In parallel; an intensive training programme has been delivered "by doing" rather by "advising", through the broad spectrum of activities to be carried out by the SPF: from firms valuation to public relations.

Internal Market: The German-Swedish Twinning project on standardization and accreditation ended in November 2000. As main result we regard the preparation of the Lithuanian Standard Board for membership of CE and CENELEC which could be expected within the next two years.

Support to the National Accreditation Bureau focused on assistance for the implementation of New Approach Directives with respect to conformity assessment. Another positive outcome was to bring to life the first Lithuanian accredited inspection body (Technical Supervision Service).

**Phare Success Story:
*Baltic Management Institute (BMI)***

One of the highlights of Phare 2000 was the fact that the Baltic Management Institute (BMI), established with Phare funds, was able to demonstrate its sustainability and continued operations without further financial support of Phare or Lithuanian national cofunding; the latter being a conditionality imposed by the Commission should the BMI not be able to support its continued operations by the time Phare funding has elapsed.

The BMI was established in 1994 and received additional Phare funding in 1997 for the provision of European management training for Lithuanian entrepreneurs and executives. In 1999 BMI registered as a public educational institution and, within less than a year, grew into a business management centre which now endeavors to become a regional training centre for business managers in the Baltic Region.

Thirty-EMBA students graduated from the first course in November 2000; the second class of forty students began its EMBA programme in December 2000.

Tasks ahead

Enforcement of the acquis will be the predominant target for the next few years of Institution Building Projects. Training of suitable staff and co-financing of the necessary investment are reflected in the Phare-projects of the 1998 and 1999 programmes due for implementation until 2001 and 2002 respectively.

Reorganization of the National Aid Coordination, which will move from the Ministry of Foreign Affairs to the Ministry of Finance, will have to be supported and monitored. The still rudimentary implementation structures for economic and social cohesion need further strengthening.

2001 will require first steps to be made to the **extended decentralization** of ISPA and possibly Phare.

POLAND

A. The year in review

Political developments

A minority government came in office in June 2000 when the coalition government elected in September 1997 formally ended. Presidential elections held in October 2000 saw the re-election of the incumbent President. Throughout the changes Poland's political institutions have continued to function properly in conditions of institutional stability. The government continues to support EU membership as a top political priority and a broad consensus on this issue exists across the main political parties.

Economic developments and structural reforms

The Polish macroeconomic situation in 2000 was characterised by GDP growth at 4.1% and a general slowdown in the second half of the year. The economy experienced a strong recovery in output, linked to a pick-up in external demand and an acceleration of domestic demand. However, the rate of unemployment was high and rising up to 15%. While inflation initially picked up it fell to its lowest end-of-year level in the history of Poland's transformation.

The current account deficit widened considerably. Although exports have picked up and FDI inflows remained high, import growth was even more robust, reflecting the rapid increase in domestic demand. The public sector deficit remained at 3.5% of GDP with some fiscal loosening during the year, partly due to the difficult implementation of social sector reforms. Poland continued to register progress in privatisation and structural reforms. The pace of privatisation remained encouraging.

Progress in meeting the "Acquis communautaire"

Fresh impetus was gained since the creation of the Parliamentary Committee on European Law with an acceleration in the adoption of the acquis. Poland made progress in aligning its legislation further. In particular, progress was achieved in adopting legislation in key areas of the internal market acquis, standards and

certification, state aids, consumer protection. Moreover, there has been notable progress in the area of regional policy.

Further efforts need to be undertaken in order to match the progress in aligning legislation when adapting and strengthening the structures required with a view to implementation of the *acquis* and further preparation for accession.

B. Phare in 2000

Programmes launched

A total of **€ 484 million** was allocated to Poland under the 2000 Phare budget to support Poland's accession to the EU, in line with the priorities highlighted in the Accession Partnership. Phare support for Poland's accession preparations was channelled through four main programmes: **the Phare National Programme Part I** (5 general objectives - with a budget of € 183 million), **the Phare National Programme Part II** (supporting investment projects in selected regions – with a budget of 130 million), **the Cross-Border Cooperation Programme** (€ 56 million) and **the Supplementary Investment Facility** (additional allocation of € 40,7 million). Poland also participated in **Phare multi-beneficiary and horizontal programmes** in 2000.

On 28 December 2000, the Polish Government and the European Commission signed the Financing Memorandum for the Phare National Programme for Poland.

In line with accession priorities, the **2000 Phare National Programme Part I**, amounting to € 183 million focused on five general objectives:

- **Strengthening institutional and administrative capacity** (€ 65,01 million)
- **Internal market** (€ 21 million)
- **Justice and Home Affairs** (€ 48 million)
- **Agriculture** (€ 41,6 million)
- **Environment** (€ 7,39 million)

The **second part of the 2000 Phare National Programme**, amounting to € 130 million, focused on investment projects related to economic and social cohesion of selected regions. Five regions, selected at the NUTS II level are targeted with the assistance in 2000, including four Eastern border regions (warminsko-mazurskie, podlaskie, lubelskie and podkarpackie) and one area affected by industrial restructuring (slaskie).

The **2000 Cross-Border Cooperation Programme (CBC)** consisted of the following main components:

- **CBC Programme Poland-Germany** (€ 44 million), comprising investment projects with a cross-border impact in transport and the environment and a small projects/small infrastructure fund
- **CBC Programme Poland-Slovak Republic** (€ 4 million), including road modernisation, bridge construction, and a small projects fund

- CBC Programme Poland-Czech Republic (€ 5 million), comprising one city bypass and a joint small projects fund
- Baltic Sea CBC Cooperation Programme for Poland (€ 2 million), including a sewage system plant and system in the Vistula Spit
- Special Action in Favour of the Baltic Sea Region for Poland (€ 1 million), consisting in a small projects fund with cross-border impact.

In 2000, Poland was awarded an additional allocation of € 40,7 million for the **Supplementary Investment Facility Programme**. It will be used to co-finance modernisation of border crossings, border bridges and roads on Poland's Eastern border.

Poland also participated in a number of **multi-beneficiary programmes** (in the area of development of infrastructure, environment, SME support, development of public administration, standardisation and statistics) as well as **community programmes** (the 5th Framework Programme on Research and Technological Development, Leonardo da Vinci, Socrates, Youth, SAVE II and SME).

Overview of programmes implemented

2000 saw the **successful conclusion of a number of financially large programmes**, particularly in the area of investment. A large number of infrastructure related measures including transport, environment and utilities (such as construction and modernisation of access roads to the border crossings to alleviate bottlenecks at border crossing points and waste water treatment plants which will help to improve the environment) were completed under the Cross-border Cooperation programmes for 1996 and 1997 (€ 107 million), as was the co-financing of infrastructure modernisation on the E-20 railway TEN corridor no 2 (first section of the Warsaw-Terespol link; € 20 million), as well as TEMPUS (€ 45 million for 1996 and 1997) and the Integrated Eastern Polish Border programme (combining training, equipment and infrastructure for €17 million – 1996 and 1997).

The 1998 National programme, the 1999 LSIF programmes (part 4 and 5) and the 1998 Cross-border Cooperation programmes were successfully contracted and are still being implemented. The remaining 1999 programmes, notably the Cross-border Cooperation programmes, are still in the process of being contracted.

Phare management performance

Phare is implemented in Poland through the **Decentralised Implementation System**. The in-country administrative structure, reorganised significantly in 1999, is working well. The year 2000 saw a strengthening of the standing of the CFCU and of the National Fund at the Ministry of Finance with the Polish ministries and the contractors. For Phare 2000 the number of Implementing Agencies for most projects is further cut back.

The performance of the Phare Programme in terms of **contracting and payments** was unsatisfactory in 2000. By the end of the year, all 1990-1998 programmes were fully contracted. However, the contracting rate for the 1999 programme amounted to 30 per cent (disbursement – 5%). The rate of contracting at the end of 2000 stood at 73 per cent of all funds allocated to Poland over the 1990-2000 period.

National Development Plans

As of the third quarter of 2000, the work concerning preparation of the **National Development Plan (NDP)** was conferred to the newly established Ministry of Regional Development and Construction.

At the end of 2000, the Ministry of Regional Development and Construction elaborated the **National Regional Development Strategy** as one of the pillars of the NDP. Regional development strategies, prepared by all voivodships (regions), have also been adopted.

The concept of the NDP structure assumes that there are **5 directions of development** (development axes) and 20 priorities. The following axes were identified:

- Increase of the economy's competitiveness,
- Restructuring of the food sector and development of rural areas,
- Development of local infrastructure,
- Environmental protection and sustainable development,
- Human resources development.

Institution building highlights

In institution building, **twinning** has become the key instrument in Poland. The year 2000 has seen a large increase in the number of Twinning projects and related activities: a total of 20 twinning projects were implemented (including 8 from Phare 98 and 12 from Phare 99), devoted to institution building in eight key areas: agriculture, environment, internal market, finance, justice and home affairs and preparation for structural funds and coal and steel restructuring. Selection meetings were also held for the 2000 round of twinning, under which 43 projects will be implemented. By the end of 2001 a total of 70 twinning projects in Poland will have been launched and 8 completed.

The total amounts allocated to twinning in the three years of its operation are on a **considerable increase**. The 1998 round comprised 9 twinning projects with a total allocation of ca € 18 million. These figures doubled in the 1999 round, which contained 18 projects with a total allocation of € 35,6 million. Phare 2000 has 43 twinning projects (with more than 25% addressed to regional administrations) with a total allocation of € 55 million. The total allocation to the twinning instrument in the last three Phare programmes in Poland amounts to more than € 108 million.

C. Results and impact

State of play for JMS/SMSC development

The first meeting of the **Joint Monitoring Committee (JMC)**, preceded by the meetings of the Sectoral Monitoring Sub-Committees (SMSCs), took place in September. CFCU, other Implementing Agencies and line ministries prepared the initial Monitoring Reports as a basis for the SMSCs work. Recommendations were formulated and interim results evaluated for the running programmes of Phare 1996

and 1997, as well as Phare new orientation programmes of 1998 and 1999. For projects where poor performance was reported, remedial action was taken.

M&A Reports in 2000

In 2000, **ten monitoring and assessment reports** were developed covering a total of 31 programmes from 1996 to 1999. The reports focused on a wide range of technical areas, including social, regional, institution building, SME, transport, JHA, cross-border and agricultural projects. At the same time they covered the whole spectrum of Phare instruments, including technical assistance, investment, grants and twinning.

The overall **assessment** of the progress in each of these programmes led to a general positive conclusion. The sustainability of the on-going projects was equally assessed as good, although some concerns were expressed in relation to possible political changes and their impact on the training of civil servants financed under the programmes.

Considerable **progress** was noted in several programmes that were assessed as “unsatisfactory” in previous reports, notably cross-border cooperation and STRUDER/INRED. The latter, supporting local initiatives, was particularly commended for the high rate of leverage (1 euro of Phare funds against 2 euro of co-financing). The 2000 reports were also the first to cover twinning projects. Overall twinning is seen as the key instrument in institution building, conducive to high sustainability based on bilateral cooperation between the CC and the MS's.

The principal issues, common to many projects, raised in the monitoring reports were related to three fields: **programming, implementation and Polish involvement**:

- ? For **programming**, a recurring recommendation was to make sure that the political ambitions and targets are commensurate with the financial allocations and human resources. Special emphasis was also placed on applying the logical framework methodology in programming and reporting to facilitate assessment.
- ? In terms of **implementation**, one of the key recommendations was the need for periodic checks of the fulfilment of conditionalities of projects. Greater coordination should also be ensured between related projects – in order to avoid overlaps but also to learn on the examples of previous programmes.
- ? Regarding the **commitment** of the beneficiaries and the Polish administration, it was noted that in some projects there was no institutional continuity, with different entities coordinating successive programmes in the same areas (especially regional programmes).

Sectors with positive results

In the **transport** sector the termination of three sizeable investment projects has to be noted. Two stretches of roads were completed under Phare 97 – Szypliszki-Suwalki (Northeast) and Zywiec-Wardon (South). A 126 km stretch of the A4 motorway was also completed between Bielany and Dabrówka (Opole region), financed out of two programmes: Phare 94 and 96.

In regional development programmes, specifically **STRUDER and INRED**, Phare continued to fund municipal infrastructure as well as invest in institutional and human resource development in the least developed regions. The total amounts allocated to STRUDER 2 and INRED throughout their implementation amounted to € 20,3 million.

In the field of **agriculture**, Phare continued to support the harmonisation of Polish legislation with the *acquis*. The three principal areas of support in this respect were: the development of animal identification system, preparation for the introduction of IACS and FADN systems, support for the future paying agency as well as veterinary and phytosanitary administration.

Environmental projects completed in 2000 focused mainly on investment in wastewater treatment and environmental central heating solutions. The key projects under implementation included: Geotermia Podhalanska (use of geothermic water for heating – € 14 million), and wastewater treatment plants in Bielsko-Biala, Bydgoszcz, Wroclaw and Gdansk.

The projects in the area of **justice and home affairs** concentrated on the eastern border, visa and migration issues, as well as improvement of the court system and the public prosecutor's office. The 1998 border management twinning project was the first twinning to be completed in Poland with a very positive impact reported and a continuation project starting in December 2000.

Also the programme for supporting **cross-border co-operation** between Phare countries and the EU Member States established in 1994, has contributed to advancements in the fields of transport, environment, as well as economic development. The last years saw the completion of such infrastructure projects as: a border crossing facilities in Osinów Dolny, Gubinek, Rosówek or Swiecko, modernisation of the railway border crossing in Kunowice/Rzepin and Szczecin/Gumience, sewage treatment plants in Gorzów Wielkopolski, Zielona Góra and Gubin.

Phare Success Story:

“Alleviation of social and regional costs of coal and steel restructuring”

One of the sub-projects of this programme consisted in the possibility for former coal miners or their wives to take up preferential loans for business start-ups and for investments in SMEs on the basis of employing former coal miners for a minimum period of time.

Out of the 366 loans provided so far, 142 loan contracts were signed with SMEs (for approx. 2 million Euro) and 224 with individuals for business start-ups (for approx. 2 million Euro). The beneficiaries were 145 ex-coal miners, 62 wives of ex-coal miners, 5 limited companies (Spółka C.) and 133 SMEs. 538 new work places will be created. The majority of work places were created in the transport and construction sectors.

The loan fund was especially attractive for small and micro business, which does not have easy access to bank credits. Most beneficiaries were individuals.

This scheme had an important demonstration effect in the region of former coal mines in Poland and will also be continued in the future.

Tasks ahead

Decentralisation

One of the biggest challenges is the extended decentralisation of the implementation of the Phare and Ispa programme. This will allow for better preparation of the Polish administration in view of future operations within Structural Funds and Community Policies. However the key concern in this area should be that the financial control function is properly carried out by the Polish administration

Multi-annual programming

For the years 2002-2003 it is expected that a multi-annual programming exercise will be undertaken of Phare funds for Poland in order to better respond to the strategic needs and to prepare for Structural Funds.

Increase of the assistance value

Since 1998 Poland has benefited from a rapid increase in the total allocations of the Phare programme. In 1998, the total Phare allocation for Poland amounted to € 198 million, in 1999 to nearly € 303 million, and in 2000 it grew to € 484,6 million. These increases – together with SAPARD and ISPA will bring the annual value of Community assistance to Poland to nearly 1 billion euro per year but at the same time will require the strengthening of the administrative capacity of Poland to prepare, manage, implement and monitor projects.

ROMANIA

A. The year in review

Political developments

Following the local and general elections, **Romania's political scene has changed considerably** during the year 2000. The ex-President Ion Iliescu won the presidential elections defeating the extremist politician Corneliu Vadim Tudor in the second round of the elections. The Romanian Party for Social Democracy (PDSR) won the parliamentary elections, obtaining 36.6% of the cast votes (with 65 of the 140 seats in the Senate and 155 of the 345 seats in the Chamber of Deputies). The PDSR formed rapidly a minority government led by the PM Adrian Năstase, who benefited from the initial support of two other parliamentary parties: the liberals (PNL) and the UDMR, the party of the Hungarian minority. The new executive has 27 ministers.

The 1999 Accession Partnership identified the development of a government strategy on the Roma as a priority for Romania. A Phare 1998 programme supports the development of such strategy. However, in the year 2000, work was delayed and preparations were at the end of 2000 still at an early stage.

Economic developments and structural reforms

The year 2000 marked the **resumption of economic growth** in Romania, after three successive years of decline with a 1.6% GDP increase. The main engine of growth was exports, which recorded an impressive jump: 22%. Inflation at 41% also declined from 55% one year before.

These achievements, however, remain fragile because of the limited underlying structural reforms, which are crucial for ensuring their sustainability. The privatisation process marked several failures, as no transaction could be concluded in 2000 for any of the large companies put on sale (oil, tobacco, airlines). Restructuring of network industries (public utilities) also came to a virtual halt, against the background of a fierce opposition by trade unions. In agriculture, ownership issues have become even more complicated following the enactment of a law extending the size of land plots, which can be restituted to their pre-communist owners. This, together with politically motivated feuds, continued to hamper the privatisation of state farms, thus blocking the emergence of efficient agricultural exploitations.

Progress in meeting the “Acquis communautaire”

Romania has continued to advance with the adoption of the *acquis*, but the achievements over the last year have been mixed. In sectors like company law and competition, both legal transposition and the setting up of the necessary administrative structures are advanced. Significant progress was also made with the transposition and implementation of transport and statistics *acquis* during the last year. Concerning internal market legislation, progress has been made with regard to the simplification of the issuance of work permits for EU citizens and in social security in general. Romania has also eased authorisation requirements on capital imports and made progress in combating money laundering. VAT and excise duties are broadly in line with the EC principles, but considerable progress is necessary in the area of direct taxation.

There is however a worrying **lack of progress** in key areas like agriculture, where a major structural reform of the sector is needed. In the case of social policy, further measures are needed to improve the protection of employee rights and to secure their health and safety at work. In the environmental sector, progress was made in preparing strategies for transposing the *acquis*, but the status of approximation is still very low. The approach to industrial policy is not yet either market-based or predictable and an official policy at both national and sectoral level remains to be developed. There has been no substantial progress with the transposition of the telecommunications *acquis*. In the field of justice and home affairs it is still necessary to adopt legislation in important areas like the state borders, the organisation of the police and the statute of police officers. Romanian authorities have not yet elaborated a comprehensive policy framework for internal financial control. National budgetary procedures are weak and the medium-term programming of expenditure needs to be substantially improved. A related concern is the ability of Romanian institutions to effectively manage the increased levels of EC funding.

The quality of the Romanian administration is very diverse. In general terms, the capacity of the public administration to implement and manage the *acquis* is very limited and represents a major constraint in the accession preparations.

B. Phare in 2000

Programmes launched

The new Phare programmes launched in 2000 amounted to **€ 250 million**. The assistance covered the **Phare National Programme** (€ 215 million), the **Cross Border Co-operation with Bulgaria** (€ 8 million) and Hungary (€ 5 million), and a Phare allocation of € 28 million to support Romania's **participation in Community Programmes**.

The support provided by the **2000 Phare National Programme** took account of Romania's accession-driven objectives and provided support in the areas listed below:

- **Political criteria** (€ 13 million): reinforcement of the **Romanian judicial and penitentiary system** and improvement of the **civil society** role by developing

sustainable partnerships between NGOs and local administration and promoting integration of the Roma community.

- **Economic criteria** (€ 40.90 million): in the **energy sector liberalisation**, consolidation of the restructuring and reform of the electricity and gas sectors; development of **inter-bank payments system** which will assist Romania in fulfilling the expected conditionalities of the World Bank's PSAL II Loan and the reinforcement of the **securities market regulations and supervision**.
- **Meeting the obligations of the Acquis** (€ 73.12 million): this sub-programme was divided into several projects related to:
 - improving the **industrial policy** and the policy-making capacity of the Ministry of Industry and Resources as investing in the Romanian **quality infrastructure**; setting up the co-ordination system for the **mutual recognition of qualifications for professions**
 - improving the **revenue collection** system within the Ministry of Finance; strengthening the implementation and monitoring of the new law on **public procurement**; creating an **internal audit and financial control system** and enhancing the role of the **Romanian Court of Audit**;
 - developing **agricultural policy** along with the reinforcement of the **agri-food quality control** and of the national system for **agricultural and regional statistics**. Another 3 projects aim at the implementation of the acquis in the **phytosanitary, veterinary and winery sectors**;
 - implementing the **environmental Acquis** through enhancing the capacity of central environmental administration and setting up capacities for regional management; improving the **road-worthiness** of vehicles; further supporting the **border management and asylum** especially on Romania's Eastern borders and the **fight against drugs** by elaborating a comprehensive national sectoral strategy;
- **Economic and social cohesion** (€ 88 million): support to the **implementation of the national development plan (NDP)** and investment in **NDP priorities** in accordance with regional development programmes in a number of priority regions in Romania.

The **Cross-border Co-operation** programme (€ 8 million) with Bulgaria encompasses projects concerning the development of the telecommunications infrastructure of the electricity companies for the improvement of the data exchange, ecologization of Danube and transportation facilities, alleviation of the administrative obstacles to the free flow of persons, products or services across the border, joint small project funds, and assistance to the implementation of the multi-annual strategy agreed between Romania and Bulgaria. The similar programme with Hungary (€ 5 million) provides assistance for the further development of the infrastructure facilities at Cenad/Kiszombor border crossing point, flood prevention at Suplacu de Barcau, Tur river environmental protection, and a small project fund.

Overview of programmes implemented

The implementation of Phare programmes from previous years continued in 2000.

The **Arad 400 KV electricity sub-station** was commissioned at the end of 2000. It was financed entirely through the Phare programme (€ 10 million) and represents the main link with the Western European electricity network UCTE.

The **implementation of 1996 and 1998 programmes** led to new developments in the justice and home affairs sector with particular emphasis on the border management component. Thus the Arad Immigration Accommodation Centre that can accommodate around 50 asylum seekers or immigrants until their legal situation is clarified by the Romanian Ministry of Interior was opened as a result of funding a new refugee law was adopted

The € 2.5 million allocated to enhancing the role of the **ministry of public finance** for the proper implementation of global income tax (GIT) for individuals resulted in the improvement of the operational capacity of the ministry. The IT configuration of the ministry was up-graded substantially to increase its capacity and that of the territorial units in dealing with future tax declarations. About 17 million declarations are expected to be submitted in 2001. In this respect a database for the GIT was created and became operational. Besides the training for its staff, the Ministry also benefited from Phare support to implement a massive information campaign on GIT (mass media, TV stations, radio and leaflets) that reached all counties and major cities.

The **School of Public Finance** was opened in October 2000 to provide training not only to the civil servants in the Ministry of Public Finance but also to other civil servants in the public administration. The school has also two territorial units in Rimnicu Valcea and Focsani.

Phare Management Performance

While Romania achieved a satisfactory **commitment rate** on the 1998 programme which expired for contracting at end 2000, little progress was made in the contracting of the Phare 1999 programme (deadline for contracting end 2001) with only 15% of the overall budget allocated (€ 150 million) contracted at the end of 2000..

The significant increase of funds from 2000 onwards correlated with the low commitment rate on the 1999 programme demonstrates that there is a clear need to **increase the administrative capacity** of the Romanian authorities to comply with programme conditionalities. The capacity to identify mature projects for financing will also be crucial for programming Phare 2001 and 2002.

As the **National Fund and Implementing Agencies** (the Central Financial and Contracting Unit, and the Ministry of Development and Prognosis) could not wholly meet the challenge of the twofold increase of Phare funds, the strengthening of their institutional capacity has become an issue of utmost importance. Particularly the National Fund needs adequate staffing, as it should develop into the first contact point for information on the current financial state of play of all programmes. The reinforcement of the Central Financial and Contracting Unit (CFCU) also has to be considered taking into account its enhanced responsibilities in the financial management of the ISPA environmental projects.

National Development Plan

The **National Development Plan (NDP)**, identifying the Romanian development priorities for 2000 - 2002 period was endorsed by the National Board for Regional Development and approved by the Government of Romania, according to the legal procedures in force in June 2000. It is at the same time a programming document for the pre-accession financial instruments: Phare - economic and social cohesion component, ISPA and SAPARD.

Three of the key NDP priorities namely **SMEs, Regional and Local Infrastructure and Human Resources Development** were considered as the most important for the country's development and were included as the priority objectives in the economic and social cohesion component of the Phare 2000 programme.

Institution Building highlights

In 2000, four Phare 98 **twinning** projects were approved and three more from Phare 99. That makes a total of seven projects finalised and approved, compared to 12 in 1999.

The implementation of the first twinning projects (Phare 98) proceeded in 2000, showing the first results. It was visible that the projects having as an objective the institutional reform of a whole ministry (Finance, Agriculture) had difficulties either in finding a twinning partner (Finance – had to be transformed into classical technical assistance) or in getting any clear impact on the beneficiary (Agriculture). The most successful projects were rather technical ones, less ambitious politically, indicating that twinning can make a difference mainly on specific topics and if there is real interest and will on the beneficiary to implement the project.

C. Results and impact

State of play for JMC/SMSC development

The **Joint Monitoring Committee (JMC)** for Romania was officially created on 17 July 2000 and 8 Sectorial Monitoring Sub-Committees (SMSCs) were also established covering the following sectors: economic and social cohesion; administrative capacity, financial services and internal market; environment; transport; justice, home affairs and border management; social, health, education; and agriculture. The monitoring reports elaborated at the first SMSCs meetings in 2000 provided the supporting material for the first JMC formal meeting on 29 January 2001.

The JMC proved a useful tool in fostering Government awareness and co-ordination on EU financed programmes but in order to be fully effective, it will have to develop a follow-up mechanism on the implementation of its recommendations.

M&A Reports in 2000

In 2000 the monitoring and evaluation of the assistance experienced a transitional period where the old Monitoring & Assessment (M&A) exercise performed by OMAS Consortium co-existed with the new monitoring system allowing the Romanian authorities to benefit from the experience that OMAS assessors had been accumulated for the last four years. The 10 M&A reports finalised in 2000 focused on the following clusters: **banking, justice and home affairs, statistics, agriculture, education**, improvement of Roma situation, cross border co-operation, environment, research and technology, and energy.

The transfer of monitoring responsibility to the national authorities was successfully achieved due to the experience they already accumulated through their involvement in the different stages of the M&A exercise.

Sectors with positive results

A number of projects under previous Phare assistance were finalised in 2000 with significant impact on various sectors of activity.

With a relatively modest budget (300,000€) and in the short span of 10 months, the Ministry of Education managed to introduce the curricula on quality in the primary, secondary and vocational schools in Romania, under RO9602-**Technology Transfer and Quality Management**. The curricula covers grades from 1 to 12, including high schools, vocational and technological schools and is being taught either independently or incorporated into other curricula. The goal of the project is to familiarise youngsters with the concept of quality, from simple examples of the daily life to introduction into the more abstract notions of Total Quality Management and ISO 9000 standards.. Finally, its introduction in schools was legally secured by an order of the Minister of National Education, to become effective at the beginning of the 2001 – 2002 school year.

The commissioning of the waste-water treatment plant in Danutoni in August 2000 was an important achievement of the investment programme for **the rehabilitation of municipal water and waste-water** infrastructure RO9608-Jiu Valley Programme. The objective of the programme was to improve the environmental conditions in Jiu Valley as well as the overall performance of the Regia which provides services for about 150,000 inhabitants in the Jiu Valley: Aninoasa, Uricani, Lupeni, Vulcan, Perila, Petrosani.

In the **agricultural** sector namely the **plant health and residue inspection**, the 1998 twinning project led to the approval of two legislative acts regarding protective measures against introduction and spread in Romania of quarantine organisms harmful to plants and plants products and regarding procedures for setting up maximum residue levels of pesticide in plants and plant products. A Central Analytical Laboratory for pesticide residue monitoring was set up and is now operational. The building was provided, restored and refurbished by the Ministry of Agriculture and the supply of laboratory equipment has also been financed by EU. Four scientists working in the new pesticide laboratory were trained in new and modern laboratory techniques. Romanian inspectors have subsequently been trained

in implementing new legislation and the current phytosanitary system was screened and corrective alterations were proposed and enforced. Plant passports for movement of plants and plants products similar to the ones used in the EU Member States are now introduced in Romania.

Phare Success story: SME Pilot Credit Line

The SME pilot credit scheme is the first credit line financed under Phare programme in Romania. Its implementation started in June 1999, when three commercial banks selected by local tender ("Ion Tiriac" Bank, Banca Româneasca, and CEC – Romanian Savings Bank) started receiving loan applications from SMEs in 16 counties. Total finance Phare available was € 5.75 million.

The objective of the scheme was to stimulate commercial banks to support SME development by providing affordable long-term finance for investment in productive assets. The aim of the scheme was to create a sustainable mechanism for commercial lending to SMEs, showing banks that SME lending can be profitable. The scheme is revolving: once loans are repaid by borrowers, banks extend further credits to other SMEs. Phare involvement ended on 31 Dec. 2000, when Romanian authorities became the only responsible institutions for monitoring scheme implementation.

After 22 months of implementation, the results of the scheme were as follows: out of 144 credit applications pre-screened by the implementing banks, 75 were approved and received finance worth € 8.4 million, out of which banks co-finance was € 3.4 million, and Phare contribution was € 5 million.

The main outcomes of the scheme were:

- ? this successful scheme design could be used for developing other similar SME finance schemes;
- ? the scheme provided SME finance which otherwise was not available on the Romanian financial market
- ? Enterprises financed increased their profits (some of them doubled their profit further to the funding provided under this scheme), exports, and employment.

Tasks ahead

RICOP (RO9904) represents a particular challenge for the period to come. The implementation of this € 100 million programme designated to mitigate the social consequences of restructuring was significantly delayed in 2000 through lack of a nominated RICOP co-ordinator within the RO government. In addition, the conditionalities of the programme require that restructuring of 69 state owned enterprises have to be completed by March 2001. As such, the new government will need to send a clear message with regard to their intention to resume and accelerate privatisation or liquidation of loss-making companies.

The strengthening of **border management**, in particular on the eastern border, is a key element of Romania's Accession Partnership with the EU. The Romanian Ministry of the Interior has -with the assistance of EU funds- started an ambitious border reform and modernisation programme. A key challenge ahead will be to assure

the implementation of the elements of the multi-annual programme already accepted for funding in the Phare 1998, 1999 and 2000 programmes.

SLOVAKIA

A. The year in review

Political developments

The situation within the ruling coalition was marked by internal tensions throughout the year. They culminated in April 2000, when the Chairman of the Parliament and Party Chairman of the ruling Party of the Democratic Left (SDL) voted against the Prime Minister in a censorship motion prompted by the opposition. A referendum on early parliamentary elections in November 2000, as requested by the opposition party HZDS was declared invalid because of too low turnout. In December 2000, Slovakia became the 30th member of the OECD.

Progress was achieved in the **fight against corruption**, mainly in adopted a national plan for the fight against corruption. These good intentions now need to be translated into concrete actions. The perception continued to exist that corruption is still widespread in Slovakia and either rising or at the best not decreasing. Approaches to tackle the problems of **minorities** were further developed. There remained, however, a gap between policy formulation and implementation on the ground. Notably the situation of the Roma minority needs tangible improvement.

Slovakia continued to **meet the political criteria for accession**. Slovakia further advanced in the consolidation of its democratic system and in the normal functioning of its institutions. However the speed of the public administration reform process lost some momentum due, in part, to dissension within the ruling coalition.

Economic developments and structural reforms

The Slovak government continued to implement a number of **stabilisation measures** aimed at curbing domestic demand, with a view of reducing the external deficits. As a result, the current account deficit decreased from 7.7% of GDP in 1999 to around 3.3% in 2000. Exports recovered and the currency strengthened. Although a recession was avoided mostly due to increase of exports, this restrictive policy resulted in a

sharp slow down of economic growth (2.2 %), and a significant increase of headline inflation (above 12% in 2000, although core inflation was significantly lower). The unemployment rate was at 18% in 2000. Effective budget-reduction measures were also taken, which brought down the deficit from 6% of GDP in 1998 to 4.1 % at the end of 2000 (excluding costs of bank restructuring). The budget picture for 2001, however, raised some concerns, as the government forecasted a deficit of 3.9%, not including costs for bank restructuring (1%) and a possible financing of motorway construction (1%). In addition, no substantial structural reform was implemented.

As regards structural reform, the government achieved **significant results on enterprise and banking sector restructuring**. In 2000, the national Telecom operator was sold to Deutsche Telekom, and VSZ, the main steel company, to US Steel. Preparation for partial privatisation of a large share of the energy sector was under way. As for the banking sector, privatisation of the two largest state-owned banks, accounting for more than 40% of assets, was well on track after a costly but effective transfer of bad debts to a Consolidation Agency. SLSP, the main bank, was sold to Erste Bank of Austria in December 2000 and VUB's sale should be finalised before summer 2001. Foreign investments, traditionally lower than in neighbouring countries, increased significantly in 2000 as a result of these sales. The introduction of wide-ranging incentives to attract foreign investments was being discussed at government level, and analysed by the Commission in light of competition rules. Other regulatory framework reforms include a recently approved Bankruptcy Law whose effectiveness in easing enterprise restructuring is still to be tested.

Concerning the Copenhagen economic criteria, **Slovakia was, for the first time, regarded as a functioning market economy** and should be able to cope with competitive pressure and market forces within the EU in the medium term, provided that the structural reform agenda will be fully implemented and broadened to include remaining reforms.

Progress in meeting the "acquis communautaire"

Slovakia continued to make **good overall progress** in *legislative alignment* with the acquis. However, progress was not uniform across chapters. Significant progress was made in some key areas of the internal market (notably as regards consumer protection legislation, public procurement, financial services and capital movement as well as preparing a basis for full alignment in the New Approach area, including standardisation), telecommunication and Justice and Home Affairs. Less progress was achieved in important areas like agriculture, environment, justice and home affairs, regional development and financial control.

As regards *administrative capacity* in general, Slovakia made little progress, with a few exceptions, in strengthening the relevant institutions. Delays in the adoption of the public administration reform and in the civil service law further contributed to this general weakness.

The fulfilment of the short term *Accession Partnership* priorities varied in a broad range from sector to sector. As regards the internal market, Slovakia met the relevant priorities to a large extent. Whereas in the area of social policy and employment, energy and co-operation in the field of justice and home affairs the short term

priorities were partially met, they were fulfilled only to a limited extent in the case of agriculture. Concerning environment and reinforcement of administrative and judicial capacity, the short term priorities were essentially not met. Slovakia took some initial steps to start addressing a number of medium-term priorities.

B. Phare in 2000

Programmes launched

On 21st December 2000, the Slovak Government and the Commission signed the Financing Memorandum for the Phare National Programme for the Slovak Republic.

The overall Phare financial envelope for the Slovak Republic in 2000 amounted to **78.8 M€**. Phare support to Slovakia was channelled in the year 2000 through the following programmes:

- ? 28 M€ were allocated to the **National Programme**;
- ? 12 M€ to **Cross Border Co-operation Programmes** (6 M€ for the border with Austria, 4 M€ for the border with Poland and 2 M€ for the border with Hungary);
- ? 20 M€ for the **closure and decommissioning of Bohunice VI**;
- ? 4 M€ to the **Supplementary Investment Facility**;
- ? 14 M€ for Slovakia's **participation in Community programmes**, including front-loading for 2001;
- ? 0.9 M€ for **ACCESS 2000 Programme**.

The **2000 Phare National Programme for Slovakia (28 M€)** focussed on the following Accession Partnership priorities:

- ? **Political criteria** (3.8 M€): improving the situation of the Roma through a better integration into society while maintaining their identity;
- ? **Economic criteria** (6.5 M€): promoting competitiveness through market driven enterprise restructuring, particularly bad-debt recovery mechanisms; establishing an annual fiscal surveillance procedure in line with European standards.
- ? **Internal market** (1 M€): implementing the law on technical requirements of product and conformity assessment.
- ? **Agriculture** (1 M€): upgrading of border inspection posts.
- ? **Employment and social affairs** (1.5 M€): enhanced bipartite social dialogue; establishing an independent guarantee fund for employees in case of employer's insolvency.
- ? **Environment** (0.9 M€): implementation of the environmental impact assessment directive and reinforcement of the environmental inspectorates.
- ? **Justice & Home Affairs** (6.5 M€): fight against corruption and drugs.
- ? **Economic and social cohesion** (6.3 M€): preparation for the implementation of regional development programmes and Community initiatives.
- ? **Reinforcement of administrative capacity** (0.5 M€) in statistics.

In addition Slovakia received further allocations through horizontal programmes not included above. 12 M€ have been committed for **cross-border co-operation (CBC)** programmes, notably with Austria (6 M€), Poland (4 M€) and Hungary (2 M€). Slovakia also participates in and benefits from **Phare funded multi-country and horizontal programmes**, such as TAIEX and the Small and Medium-sized

Enterprises facility. Slovakia also received in 2000 an allocation of 20 M€ supporting the decommissioning of Bohunice V1 reactors.

In 2000, approximately 6.4 M€ has been committed for Slovakia's **participation in Community programmes**, notably the fifth Framework Programme for Science and Technology, Socrates, Leonardo, Youth and the Third Multi annual Programme for SMEs. In addition, 7.3 M€ were also committed in 2000 for Slovakia's participation in Community programmes in 2001. Slovakia expressed its interest to participate in the Culture 2000 programme.

Overview of programmes implemented

Phare, jointly with the Slovak government financial assistance, continued to support the **National Agency for the Development of SME (NADSME)**, which has been providing an extensive range of services to SMEs through its network of 12 Regional Advisory and Information Centres (RAICs) and 5 Business Innovation Centres.

Phare also played an important role in the **financial sector reform**, for example by supporting the bank privatisation programme. Financial and legal advice, which was essential for the successful implementation of privatisation transactions, was provided to the relevant Slovak institutions (approximately 2.9 M€).

In the framework of the **export development programme**, Phare supported the transfer of marketing know-how to Slovak producers, providing inter alia export market information, support for export development and promotion and an export development investment scheme (9 M€).

In the environment field, the **Environmental Grant Scheme** provided grant support to capital investment projects in the private and public sectors which directly facilitate compliance levels in the key environmental problem areas. Phare grant (15M€ - corresponding to 40% of the overall investment) has mobilised local sources in amount of 25 M€. By the end of 2002, Phare grants and local sources allowed to build and complete 87 environmental facilities for a total amount of 40 M€.

In the **transport sector**, Phare funds were committed to build a 6.5 km section of motorway D-61 by-passing the city of Bratislava (15 M€). The new link will divert transit traffic and part of the urban through-traffic away from congested city centre streets, thus improving traffic conditions, safety and environmental conditions in the city centre. This project is also co-financed by the European Investment Bank.

Phare Management performance

A **reform of the Phare Management System** took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare's activities. The 2000 Phare Review Communication continued to refine these basic management structures so as to further bridge towards accession and the structural funds.

Over 98% of the 1998 Phare National Programme was **contracted** and 56.4% **disbursed** by the end of 2000. However, the contracting rate for the 1999 National Programme was approximately 25% by the end of 2000 only (Phare 97 and Phare 98 achieved respectively 36% and 46% at the end of year N+1). It has to be recalled that Slovakia received in 1999 the largest allocation ever for the National Programme

(69.5 M€), roughly double size of the average annual commitment, due to the fact in 1996 no funds were committed to Slovakia, apart from the allocation for TEMPUS. Under the multi-annual financial perspective, annual commitments could be modulated on the basis of needs, absorption capacity and past programme performance. In the case of Slovakia, the low allocation in 1996 was compensated in higher annual commitments in following years and notably in 1999.

The establishment of the CFCU has allowed to rationalise and streamline the implementation of Phare assistance, ensuring at the same time sound financial management and effectiveness. The **National Fund**, established at the Ministry of Finance, supervises the financial management of the Phare financed projects and is responsible for financial reporting to the European Commission.

In spite of some progress achieved over the past few years, further progress is needed in programming, co-ordination and management capabilities in order to reap the full benefit of future assistance. This applies both to the Department of Foreign Assistance within the Office of Government and to line ministries and beneficiary institutions.

National Development Plans

After the final version of the Preliminary National Development Plan (PNDP) for the years 2000-2002 was delivered in November 1999, in 2000 started, under the responsibility of the Ministry of Construction and Regional Policy responsible for inter-ministerial coordination, consultations (institutionalised via the Preparatory Committee for Structural Funds), including relevant Government, regional and non-governmental institutions. In addition, preliminary Regional and as well Sectoral Operational Plans were developed in partnership between the various Government services, NGOs, Chamber of Commerce, etc. **The adoption of the NDP by the Government is expected in early 2001.**

Institution Building highlights

One of the main challenges Slovakia continues to face is the need to strengthen its administrative capacity to implement and enforce the *acquis*. In 2000, Institution Building support was provided to Slovakia mainly through **twinning**. Most of the 1999 projects started their implementation in the course of 2000.

In 1998, twinning focused primarily on the **priority sectors** of agriculture, environment, public finance, justice and home affairs and preparatory measures for the Structural Funds. In 1999, 18 additional twinning arrangements were financed including inter alia support for product standardisation and certification, the establishment of a public procurement agency, occupational safety and health, the establishment of a national regulatory authority for telecoms, public administration reform and legal advice on implementation of energy policy.

Under the 2000 National Programme, a total of approximately 4.8 M€ was allocated to 8 twinning projects in various fields: Environment (Implementation of the Environmental Impact Assessment Directive, Strengthening of the Slovak Environmental Inspectorates), Social Policy (Development of Social Dialogue on the Bipartite Level) and Justice and Home Affairs (Fight Against Corruption, Fight Against Drugs, Improvement of the Situation of the Roma in the Slovak Republic),

Statistics (Business Registers census), Standards (Application of the Act on Technical Requirements and on Conformity Assessment for Products).

C. Results and impact

State of play for JMC/SMSC development

The Slovak-European Commission Joint Monitoring Committee (JMC) was established in 2000 and held its first meeting on 5th December 2000 providing recommendations for the overall management of the Phare programme and on specific sectoral issues. The JMC is supported by five Sectoral Monitoring Sub-Committees (SMSC) that meet twice a year and review programmes/projects in all sectors covered by Phare assistance: 1) Justice & Home Affairs and Political issues; 2) Economic Reforms and Internal Market; 3) Infrastructure; 4) Economic & Social Cohesion; 5) Agriculture and related issues. The review is carried out through the monitoring reports prepared by the relevant ministries/agencies/offices.

M&A Reports in 2000

In 2000 the OMAS Consortium provided **nine sectoral assessment reports** on Phare assistance. These reports highlighted the following **main issues**:

- Need of a professional and competent public administration in support of the accession process (adoption of the Civil Service Act by the Parliament, as a pre-condition for a clear division of the political and the civil servant functions);
- Special difficulties in budgeting (annual versus multi-annual) for Phare activities and instruments which require State co-financing;
- The Ministry of Finance should co-ordinate the financial management of all foreign aid activities, while the National Aid Co-ordinator should require as a pre-condition for assistance that the implementing Agencies are properly located in ministry structures, that adequate numbers and quality of staff are appointed;
- Phare sectoral co-ordinators in ministries should be placed at a level, which enables them to maximise the value of the assistance within the ministry.
- The relevant authorities should address the weaknesses in programme design through a process of identifying good practice, promoting and disseminating it.
- A working group should be set-up to identify bottlenecks in the system, the training needs, the need for improved communication and any institutional problems outside their control;
- Specific need for a communication strategy to accession;
- Proposals for improving the effectiveness and transparency of the tendering process.

An information training session on monitoring requirements (Monitoring & Assessment Reports templates) targeted to the Implementing Agencies took place in October 2000 and focused on the new system of monitoring and assessment of Phare funds and on the role of the annual Joint Monitoring Committee and the bi-annual Sectoral Monitoring Committees.

Sectors with positive results

Overall the impact of Phare assistance in 2000 has been **positive**. **Effective transfer of know-how, equipment and financial resources** has taken place in a number of

important fields such as justice and home affairs, minority issues, agriculture, customs, etc.. Phare support has been instrumental in Slovakia's transformation process of adjusting to the characteristics of a market economy, a democratic society and the other requirements of EU membership.

The **SME programme** continued to play an important contribution to increasing competitiveness of Slovak companies. In 2000, the National Agency for the Development of SME continued to implement financial schemes (supported through Phare sources) which have a revolving character and which make highly needed capital available for SMEs at favourable rates, namely Support Loan Scheme, Micro Loan Scheme and Seed Capital Scheme.

Both projects aimed at reducing regional disparities. In the field of development of Civic Society, the Phare funded Civil Society Development Foundation (CDSF) continues to support NGOs in the fields of democracy, minorities, human rights, social activities and the environment (5.5 M€).

Phare Success Story: Privatisation of State-owned banks

The authorities have made impressive progress in 2000 in the restructuring and privatisation of the state-owned banks. The latter can serve as a good example of **successful cooperation** of the European Commission with the World Bank, USAID and the British Know-how Fund in supporting a transition country in a major step towards market economy.

In a well-guided Bank Privatisation and Financial Sector Restructuring Programme, Phare has financed a total of **5.38 M€**. A total of nine projects has been set up to strengthen the administrative structures at the Ministry of Finance co-ordinating the reform, to cover the costs for legal advisors and, partly, the privatisation advisors and to support the newly created institution for the settlement of bad loans, Slovenska Konsolidacna, SKA.

As for the banking sector, privatisation of the three largest state-owned banks, accounting for more than 46% of assets, is on track. This represents a major success for the current government. Great progress was made last year in restructuring and recapitalising the state-owned banks. Approximately SKK 108 billion – or 13 per cent of GDP – of bad assets were taken out, reducing their share of non-performing loans to less than 20%. With the support of PHARE, the bad loans were transferred to the newly established Consolidation Agency. In December 2000, Slovakia's biggest bank, SLSP, was sold to Austria's Erste Bank. In February the International Finance Corporation (IFC), and EBRD signed an agreement on the sale of a 12.5 percent stake of VUB to each IFI. All remaining shares will be sold before end 2001.

The progress has been regularly monitored by a Donor Coordination Group, which involves all mentioned institutions as well as the responsible Slovak institutions. The Slovak government's programme of enterprise and financial sector restructuring has achieved significant results.

Tasks ahead

As a general task, **reform of public administration**, including decentralisation (i.e. transfer to regional/local authorities of competencies and power related to public administration), is among the most important pre-accession priorities of Slovakia. A

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

More specifically, Slovakia should further intensify in the years ahead its efforts in the areas of **justice and home affairs (JHA)** - including the fight against corruption and organised crime - **financial control and economic and social cohesion**. Environment, agriculture, transport should also receive priority attention.

Minorities' issues, notably the Roma, will also remain among the main priorities before - and probably also after - accession. Slovakia's efforts in this area will be further supported by Phare funds in future.

SLOVENIA

A. The year in review

Political developments

The centrist coalition government, which had been in power since February 1997, lost a vote of confidence in the Parliament in April 2000. A new coalition government holding 44 of the 90 seats in the parliament was approved by the Parliament in June. European issues and EU membership were identified as one of the main priorities of the government. New parliamentary elections took place on October 15. The centre-left Liberal Democratic Party emerged as the largest party in the Parliament. On 30 November a coalition government led by Janez Drnovšek as Prime Minister was approved by Parliament and will count on a comfortable two thirds majority to be able to carry out some constitutional changes and to pass new Parliament Standing Orders.

Slovenia continues to fulfil the Copenhagen political criteria. Progress has been made in judicial reform. However, it is still too early to assess the effectiveness of the new measures aimed at reducing the backlog of pending court cases. Public administration reform is another area requiring attention. Little progress has been achieved in this respect as important pieces of legislation that are to provide the basis for reform have not yet been adopted.

Economic developments and structural reforms

*The macroeconomic situation in Slovenia has **remained stable** during 2000.* GDP growth, fuelled by domestic demand and rapid export growth, reached according to Slovene sources 4.8%. However, the positive economic results were achieved at the expense of an undermined balance of certain macroeconomic aggregates and slow corporate restructuring, pending structural reforms, particularly in the areas of privatisation and labour market flexibility, gaps in technological development and modest foreign direct investment flows lead to an insufficient level of competitiveness. In addition to rising external debt and worsening public finance position, the year 2000 was also characterised by high inflation (8.9%), primarily due to external factors but as well to the introduction of the VAT and to the existing system of price control.

Progress on structural reforms has been slow. Only few of the enterprises transferred to the Slovene Development Corporation have been divested. Two important laws on the insurance sector were adopted in January 2000. They pave the way for ownership transformation in the sector and grant the right of establishment to foreign companies. The privatisation process in the financial sector made only little progress.

Regarding the Copenhagen economic criteria, Slovenia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it completes the remaining reforms that would increase competition in the economy. Some steps to assure the medium-term sustainability of pension reform have been taken but further efforts are needed to speed up the denationalisation process.

Progress in meeting the “Acquis communautaire”

Slovenia has made good overall progress in transposition of the acquis. It has made significant progress in some key areas, such as environment, agriculture, free movement of goods, freedom to provide services, and energy. However, only limited progress has been made in other areas, notably on free movement of persons, telecommunications and the audio-visual *acquis*. Slovenia’s administrative capacity has been reinforced; however, in some areas it still needs strengthening.

In general, Slovenia’s *administrative capacity* for implementation of the *acquis* has been **enhanced**. Significant progress has been made with the establishment of the supervisory and implementing institutions in the areas of state aids, energy and agriculture, and separation of the institutions for standardisation, accreditation and certification. For telecommunications and data protection, independent regulatory agencies still remain to be established.

Slovenia has met a significant number of the short-term Accession Partnership priorities, especially in the areas of the economic criteria, transport, environment, employment and social affairs. In other areas the priorities have been met partially. Slovenia has also already started to implement a number of medium-term priorities.

B. Phare in 2000

Programmes launched

On 11 December 2000, the Slovene Government and the European Commission signed the Financing Memorandum for the 2000 Phare National Programme for Slovenia. A total of **€ 33.4 million** was allocated to Slovenia under the 2000 Phare budget to support Slovenia’s accession to the EU, in line with the priorities highlighted in the Accession Partnership. This amount includes the annual allocation of 2000 plus the Community and horizontal programmes, granted by the Commission.

Phare support for Slovenia’s accession preparations was channelled through three main programmes: the **Phare National Programme** (with a budget of € 15,724,372) and the **Cross-Border Cooperation Programmes** with Austria (€ 5 million) and

Hungary € 2 million). In addition, Slovenia received national allocation for the programmes of **ACCESS** (€ 350,000) and **Supplementary Investment Facility** (€ 2.6 million) and participated in the Fifth Research and Technological Development Framework Programme and in the **Community programmes** of Life III, Fiscalis, SME, Leonardo da Vinci II, Socrates II, Youth and Culture 2000 (a total of € 7,691,028). Finally, Slovenia benefited from its participation to **Phare multi-beneficiary and horizontal programmes** in 2000 including Information, Small Projects, Justice and Home Affairs (Drugs fighting), SME Facility I and II, SIGMA, Statistical Cooperation, Business Support, SME-JOPP, SME Phase 2 EBRD, TAIEX, and the Bangkok Facility.

In line with accession priorities, the **2000 Phare National Programme** focused on

- reinforcement of administrative capacity (€ 1.6 million)
- further integration of Slovenia into the internal market (€ 2 million)
- economic and social cohesion (€ 5 million)
- justice and home affairs (€ 7,124,372).

The **2000 Cross-Border Cooperation Programme** consisted of the following main components

- Cross-Border Cooperation with **Austria** (€ 5 million): creation of a business zone in Jesenice, regional development structures/activities in Kranj and Maribor and a Small Project Fund.
- Cross-Border Cooperation with **Hungary** (€ 2 million): development of a Joint Nature Park and a Small Projects Fund.

Overview of programmes implemented

During 2000 the projects for a total amount of € 25 million funded under COP 97 and CBC 97 with Italy and Austria were concluded. For the first time, under COP 97, projects dealing more specifically with the Acquis in preparation of the accession were funded by the Phare programme. The programmes of 1997, in view of the proliferation of actions foreseen, saw the largest number of contracts experienced in the Phare programme. With their ending and the introduction of the minimum size since 1998, the process of monitoring will be easier and the impact of the projects more evident.

In 2000 three revolving funds (for the benefit of the sectors of environment, energy saving and SME) saw the termination of the Commission's responsibility while they are successfully continuing under the Slovene management. The first three twinning projects were also terminated in 2000. In two cases, follow up activities are on going funded by the Phare programme.

ACCESS and Small Project Programme (SPP) programmes were implemented in October 2000, with the launch of the joint Call for Proposal on 18 October 2000 for both programmes but with their specific guidelines and application forms. 87 application forms (out of which 5 were selected) were received for ACCESS and 33 project proposals (out of which 7 were selected) for SPP.

Phare management performance

Implementation of the Phare Programme in Slovenia **improved considerably** in 2000. The programme was implemented under the **Decentralised Implementation System**. 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 Delegation staff was also reinforced with the hiring of ALATs and local staff as to monitor all the programmes.

Within the Ministry of Economy, the **National Agency for Regional Development (NARD)** has been established which will be in the future the agency responsible for future structural funds with the exception of the EAGGF. Through the Special Preparatory Programme for Structural Funds with the services of both a technical assistance and a twinning project, the training of the personnel and the management capacity of the Agency are progressing. A review of their implementation capacity should be carried out in the course of 2001.

The performance of the Phare Programme in terms of **contracting and payments** has also **substantially improved**. € 38 million were contracted during 2000 against € 29.5 million in 1999, an increase of 32%. Regarding the implementation of the programmes, the FM 1998 was 84% contracted after two years: an extension of the contracting period for four months was granted for one sub-programme which will likely lead to a contracting rate above 90%.

The FM 1999 was 60% contracted after the first year (excluding the contribution to the Community Programmes and Tempus) against 30% of the FM 1998 at the end of the same period, t+1. The figure of 60% at the end of t+1 period is even more remarkable since the funds committed in 1999 were four times larger (€ 59 million) than in 1998 (€ 14.75 million).

€ 41 million were tendered against € 20.5 million in 1999. The increase of 100% in tendering can be attributed to: i) larger amount of funds available; ii) principle of "ready to go" implemented; iii) stricter discipline imposed by the Delegation in preparing the tendering process; iv) larger size of tenders.

On this last point, it is worthwhile mentioning that the average value of contract has increased from € 192.857 in 1999 to € 427.747 in 2000. At the same time, the number of contracts decreased from 153 in 1999 to 80 in 2000. The percentage of Slovene contractors towards non-Slovene contractors has passed from 65:35 to 48:52. This is due also to the twinning projects.

National Development Plans

After the final version of Preliminary National Development Plan (PNDP) for the years 2000-2002 was delivered in November 1999, the first strategic consultation of the Drafting Committee on the preparation of NDP for the Republic of Slovenia for the years 2001-2006 (NDP-RS) was organised on 12 September 2000. The second strategic consultation took place on 18 September and the third one on 20 September. The interministerial consultations in September-November 2000 resulted in identification of sectoral and regional groups and organisation of workshops, preparation of expert bases for NDP and submission of working proposals, preparation and presentation of projects for Phare 2001, discussion of working proposal within interdisciplinary horizontal group of Strategic Environmental

Assessment and discussion of working proposal within interdisciplinary horizontal group for gender equality. On this basis, workshops, inter-ministerial co-ordinations and meetings continued into 2001.

Institution Building highlights

In 2000, Institution Building support was provided to Slovenia mainly through **Twinning** and most of the Phare 1999 projects started their implementation phase. More specifically, 15 projects started in 2000 while another 5 twinning projects funded out the FM 1999 were in the final stage of preparation of the covenants by the end of 2000 with a likely starting date early spring 2001. An assessment was carried out by external experts who reported a general positive impression of the mechanism and its implementation in Slovenia.

3 Twinning projects were successfully completed by 2000, namely two in the field of Justice and Home Affairs (*State Border Control* under Phare 1997 and *Migration and Immigration* under Phare 1998 both for a total amount of € 646,389) and one in the field of Agriculture (*Strengthening Phytosanitary Control* under Phare 1998 with an amount of € 50,000).

Under the Programme Phare 2000, a total of € 4 million was allocated for Twinning with 5 projects in various fields: Economic and Social Cohesion (*Business Incubators Network in Pomurje* with a total of € 1 million), Internal Market (*Market Surveillance and Conformity Assessment Bodies* and *Liberalisation of Energy Market* with a total amount of € 1.7 million) and Justice and Home Affairs (*Strengthening the Police Force* and *Strengthening National RETOX* for a total amount of € 1.3 million).

C. Results and impact

State of play for JMC/SMSC development

The following six Sectoral Monitoring Sub-Committees (SMSC) have been established: Transport and Environment; Justice & Home Affairs; Agriculture; Economic & Financial Issues; Internal Market; Economic & Social Cohesion. During the year 2000, one SMSCs meeting for each of the six sectors mentioned above had been held from May to November 2000 and the exercise had been concluded with the Joint Monitoring Committee of 29 November 2000. With these meetings, the new system for the monitoring and assessment of Phare programmes had started to be implemented and the Joint Monitoring Committee was considered a “zero meeting” where the parties involved had started to familiarise with the new procedure. The projects to be discussed during the meetings have been grouped in clusters and the responsible Slovene counterpart for each SMSC has been named. An information training session on the Monitoring Reports template for the Implementing Agencies took place on 8 September 2000 with participants from the Commission, from OMAS and the Delegation.

M&A Reports in 2000

Eleven sectors were assessed by OMAS during 2000, which led to a **general positive conclusion**. The lessons learned are:

- With six sectors judged “satisfactory” the general assessment of the Phare programme in Slovenia is positive.
- The Implementing Authorities (IA) continued to consider their role, as a provider of information while a more active part in the monitoring part of the exercise would have facilitated their tasks in the future.
- In some ministries there is a problem of understaffing within departments responsible for the implementation of Phare programme.
- There is a general positive commitment on the part of the Implementation Authorities as far as concerns the managing of the acquis but a need for training.
- In some cases the co-ordination between the Implementing Authorities and the Government for European Affairs did not work smoothly and some overlapping occurred.
- Slovenia has not yet fully developed the necessary structures for the implementation of the Structural Funds after the accession. A better understanding of the role of the National Agency for Regional Development is needed.
- The logical framework matrices that should support implementation appear to have been produced as an administrative routine rather than as a management tool.

Sectors with positive results

Phare also achieved positive results in a number of key sectors during 2000.

In the **Agriculture sector**, during the year 2000 the Phytosanitary sector has seen an important improvement due in part to the support channelled through two Phare Institutional Building projects. The first project under the Phare 1998 National Programme started in January 2000 and focused on the control of harmful organisms and identification techniques for quarantine organisms and begun the collaboration between the Dutch Plant Health Service and the Slovene Ministry of Agriculture. Under Phare 1999 a full-scale twinning had been agreed. The twinning, which was awarded to the same Member State as the previous project, started in October 2000 and has been providing support for the legal alignment of the Phytosanitary sector and in particular external and internal market controls, plant pests and diseases communication, registration and authorisation of plant protection products.

The project is due to finish in October 2001 and the Slovene Administration has already planned two follow up projects (full scale twinning in Phare 2001 National Programme and twinning light in 2002) which will finalise the strengthening of this important sector. A long lasting commitment by Phare and a long term planning by the Slovene Administration is allowing the alignment, not only of the legal framework but also of the implementation capacity of the staff both at the Ministry of Agriculture and other involved agents in this sector (producers and users).

In the **Education sector**, the achievement of the 97 programme had a very positive impact on the sector. The MOCCA Programme (Modernisation of Curricula, Certification and Assessment in Vocational Education for Youth and Adults) started in April 1999 and was completed in October 2000. It was a joint initiative between the Ministry of Education and the Ministry of Labour using Phare support for the on-

going reform of the vocational education and training system. The VET system was developed into a more flexible and innovative and sustainable tool. It supported the implementation of pre-accession measures in the area of human resource development including the development of a certification system.

In the sector of **Justice and Home Affairs**, the year 2000 had seen positive developments through Institution Building as well as through investment. The biggest achievements have been reached in the field of migration/immigration, where the Slovene legislation has been approximated to the Acquis. Another positive development has been achieved in the area of Border Control. Two Twinning projects in this area provided the Ministry of Interior with an exact overview about the needs that have to be met to take over the Schengen Acquis. Supplementary to these Institution Building projects Investments in the area of Border Control have provided a big step forward for the realisation of Schengen.

Phare Success Story:

TIPO - Support to Slovene Trade, Investment and Promotion Office (TIPO)

The year 2000 saw the end of a Phare Project that offered support in strengthening Slovene Trade, Investment and Promotion Office (TIPO). The TIPO was established within the former Ministry of Economic Relations with the objective of maximising the contribution of export business and foreign direct investments (FDI) to the economic development of Slovenia.

The Phare project from the budget line 1997 can be seen as a logical continuation of Phare projects of 1994 and 1995 budget year where Investment Promotion and Export Development was supported with € 1.25 million. The 1997 Project was launched in 1999 with the following immediate objectives:

- Assistance to export oriented companies to increase the scope of exports, and improvement of their export performances;
- Support to the FDI promotion and increased inflow of FDI.

Phare contribution to the 1997 Project was € 0.5 million while the duration of the contract was 12 months.

The project delivered outputs that contributed to the following:

- An FDI inflow worth € 50 million and generating 500 new jobs. The investment was linked with a German investor controlled by a British conglomerate;
- Further strengthening of the internal management skills of TIPO;
- The Cost Sharing Grant Scheme was effectively reviewed, allowing the learning of important lessons from the Scheme;
- Export sales missions abroad were organised by TIPO, but no information was available concerning the actual increase of exports among the participating enterprises.

Tasks ahead

In view of the advanced stage of preparation for accession, the focus of the efforts in the field of institution building is no longer on the adoption of the *acquis* but on its **enforcement**. 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.

At the same time, the preparation for the management of **structural funds** will have to be accelerated. During 2001, progress is expected in the strengthening of the National Agency for Regional development, the drafting of the National Development Plan, the recovery of the backlog in the implementation of the Economic and Social Cohesion projects as well as of the CBC programmes, the improvement of the quality of the project proposals submitted for ESC and CBC 2001. In all these fields, Phare support is available and the optimisation of its use will be one of the challenges of the Slovene administration.

Non Candidate Countries

ALBANIA

A. The year in review

Political developments

Albania is linked to the EC since 1992 by a **Trade and Co-operation Agreement**. The Feasibility Report for an SAA in November 1999 identified pre-requisites to be met before the opening of negotiations for a Stabilisation and Association Agreement. Albania replied with a Status Report (March 2000) and a related action plan. General structural weaknesses remain (fiscal resources insufficient; low performance of governance). In the Zagreb Summit it was decided to ensure a closer monitoring of progress through the establishment of a High Steering Group and report by the Commission before the end of the Swedish Presidency in first half of 2001.

The **Local elections** of October 2000 resulted in a large victory of the ruling party (Socialists) - controlling almost all large cities and 2/3 of mayors overall - but were overshadowed by irregularities in the Himara area (Greek minority). The political life remains of confrontational, archaic nature with old leaders dominating (Mr. Berisha Chairman of DP, former PM Nano Chairman of SP). General elections will be held on June 2001.

The **Albanian Government's strategy** for political, social and economic reform is based on three main axes: (i) strengthening democracy and law enforcement; (ii) institution building and fight against corruption; and (iii) economic consolidation and development. This fundamental strategy is in agreement with the actions outlined in the Status Report of March 2000 presented by the Government of Albania to the EU as a response to the Commission's feasibility report on negotiating a Stabilisation and Association Agreement with Albania.

Economic developments and structural reforms

Preserving macroeconomic stability and deepening structural reforms undertaken during last years, are all conducive factors to sustain economic growth. Although macroeconomic parameters worsened extremely due to social unrest in 1997 and the countrywide impact of the Kosovo crisis, in 1999, the Government of Albania, with support of the international donor community, has been successful in countering adverse impacts on the macro-economic situation. Actually the **economy is entered a sustainable economic development path**, inflation is completely kept under control, considerable progress is made toward fiscal consolidation.

Within the **reform** undertaken for the public administration sector, considerable progress is made for a better tax and customs administration, further reducing public expenditures and improving the revenue collection infrastructure. Strong measures are taken in the field of monetary policy and banking system. Broad money expansion has been consistent with fiscal targets and inflation objectives. Within structural reforms, a series of steps are taken for providing a well functioning banking system through privatisation programmes.

For providing a rapid and sustainable growth, the Government remains committed to economic structural reforms and improving of environment for business development. It is anticipated that during year 2000 the economic growth will be maintained at a level of 8% and that monetary policies will keep the inflation rate under 4%. Privatisation of small and medium enterprises is nearly complete, four big state companies - in the agriculture and pharmaceutical sector - will be privatised in the mid of June 2000. AMC is the first strategic sector company to be privatised and for TELECOM the government is in the process of identifying potential investors. The privatisation is expected to significantly contribute to increasing investments and further modernisation of the concerned sectors.

Agriculture sector, representing nearly 54% of GDP, still remains domestically oriented with a percentage of only 10% directed towards exports.

B. Phare in 2000

Community assistance to Albania in the year 2000 amounted to € 73.2 million and was channelled through the following programmes: **Phare** (€ 33.4 million), **ECHO** (€3.4 million), **Democratisation and Human right** (€ 0.5 million), **others actions** (€ 1.9 million) and **European Investment Bank loans** for € 34 million.

Programmes launched

In 2000, the **Phare Programme** aims to provide complementary support to complete technical assistance and infrastructure support to Albania under previous Phare assistance. In addition, the Programme provides assistance for supporting fresh country strategy development and programming after 2000 in the framework of the EU Stabilisation and Association Process.

The 2000 programme proposes an overall allocation of **33.4 M€** to Albania. The main sub-programmes are three:

- ? **assistance to institution building** (12.2 M€);
- ? **support to infrastructure development** (transport) (18.7 M€);
- ? **Tempus to support University education** (2.5 M€)

The **institution building programme** continues to focus on the establishment of a stable institutional environment (public administration reform, specifically customs administration, police development, judiciary, and statistics). The programmed assistance will also support the preparatory process for future negotiations for a Stabilisation and Association Agreement between the EU and Albania and for approximation of legislation to Internal Market "Acquis" in selected areas.

The allocation for the **Transport Infrastructure Programme** will provide sufficient funds for the successful completion of large-scale road transport investments, specifically for those cases where it has become necessary to supplement allocations under previous Phare Programmes. In addition, it will support the implementation capacity at the PMU and implementing agencies as well as strategy development.

Overview of programmes implemented

A number of ongoing Phare programmes made good progress during 2000.

▪ **Institution building and strengthening**

Judiciary and prisons : the EU continued in 2000 to help Albania develop a modern judiciary system compatible with EU standards in the framework of a joint programme with the Council of Europe in the organisation of the judicial system. The EU is also improving the physical infrastructure of court facilities and is providing support for the rehabilitation of the prison system, in order to improve its quality and standards for inmates.

Police development: in cooperation with the WEU/MAPE mission, support were directed to the equipment of the Albanian police and renovation of training centers.

Public sector reform: the main aim of the assistance which the EU is providing to public sector reforms in Albania is to establish efficient self-sustaining public administrations compatible with those in the EU. Together with the OECD, the EU implemented the SIGMA programme in 1999 to enhance the professionalism of the civil service.

▪ **Development of infrastructures**

Transport: the EU continues to support the construction of roads along the East-West corridor (No. 8) and the North-South axis. The European Investment Bank (EIB) has been a key partner in these road development projects. A Transport Master Plan, encompassing road, rail, civil aviation and maritime networks is being designed with the help of EU specialists to prepare the future investment strategy in this key sector.

Water: works for several projects of water supply and water sewerage in Saranda, Vlora, Fier, Gjirokaster are at the tendering phase.

The EU **cross-border cooperation programme** continued throughout 2000 with Greece and Italy. Its focus on implementation of past programmes in particular in the fields of infrastructure.

▪ **Local community development**

Through its **local community development programme**, the EU provided funding for hundreds of projects at local community level in Albania in 2000. Most projects, identified on a demand-driven approach, aim to build or repair public infrastructures to be operated by the beneficiary local governments. The main objective is to improve access to remote areas, improve public services such as water, primary education and health and to achieve higher standards of living by improving the urban environment. The projects include training in regional planning for local government staff.

- **Democracy and human rights**

The EU is providing **assistance to NGOs** working in the field of democracy and human rights under its European Initiative for Democracy and Human Rights. Projects include raising awareness on the role of human rights in building a civil society, the production of radio and TV programmes promoting understanding and tolerance and support for journalist networks,

Phare Management Performance

The Phare management performance in terms of **contracting and payments** is mitigated. By the end of 2000 the overall contracting rate for the period 1991-2000 was 77% and the disbursement rate 65%. For the 1999 programmes these figures respectively were 47% and 33%.

Phare programme still operates in Albania under the **1994 Decentralised Implementation System**. A reform of the operating mode of implementation is being studying.

Institution Building Highlights

Strengthening the administrative capacity of the Albanian State is essential to achieve necessary reforms and to establish the rule of law. The continued high levels of corruption in public administration and the judiciary together with organised crime have considerably undermined the efforts of the government.

Judiciary and prisons : the EU continued in 2000 to help Albania develop a modern judiciary system compatible with EU standards in the framework of a joint programme with the Council of Europe in the organisation of the judicial system; a Plan of Action includes ongoing for monitoring the reform. Legal and regulatory frameworks have been put in place, assistance has been provided to the Ministry of Justice and other judiciary institutions and training programmes have been organised in the School of Magistrates. The EU is also improving the physical infrastructure of court facilities and is providing support for the rehabilitation of the prison system, in order to improve its quality and standards for inmates.

Public sector reform: the main aim of the assistance which the EU is providing to public sector reforms in Albania is to establish efficient self-sustaining public administrations compatible with those in the EU.

Together with the OECD/SIGMA, the EU implemented the **SIPAR** (State Institution and Public Administration Reform) programme in 2000 to enhance the professionalism of the civil service.

C. Results and impact

M&A Reports in 2000

In 2000 OMAS Consortium provided **4 assessment reports** on Phare programmes in Albania in the following sectors – Assistance/ AID Co-ordination, Customs, Justice and police and Transport. OMAS also presented a Report on “Country Assessment Review of Phare assistance up to the year 2000” which analyses the Phare assistance, identifies the key features and trends, assesses the extent to which the Phare assistance has enabled Programme objectives to be achieved in a sustainable way and recommends actions for improvements.

Sectors with positive results

Statistics: The EU, together with Italy, Greece, Switzerland and the Council of Europe, is providing assistance to INSTAT, the national statistical institution, for organising a population census in the year 2001. The preparatory phase has been continue with succes in 2000, including datfing of the questionnaires, mapping of the enumeration areas and manuals of instructions for enumerators and controllers.

Customs administration: CAM-A continued throughout 2000 and today, Albania is the leading country in the region in terms of anti-smuggling capacity and intelligence development. For customs enforcement, the anti-smuggling service with 24 teams put in place in 1999 has been trained and has started to be fully operational.

Phare Success Story:

“Successful Implementation of the 1999 Action Plan for the Judicial and Legal Reform” € 1.0 million

During the Third Conference on judicial and legal reforms in Albania, jointly organised by the European Commission and the Council of Europe, which took place in Brussels in November 2000, the participants concluded that the main objectives fixed by the 1999 Plan, had been achieved. In particular, good achievements have been reached concerning the organisation of the judiciary, the training of judges and prosecutors (Magistrates’ School) and the establishment of the State Publications Centre (Official Journal). Two very crucial steps were reached with the abolition of the death penalty and the creation of the Ombudsman institution (People’s Advocate).

During the Conference, the European Commission and the Council of Europe went on to adopt a Second Action Plan aimed at the effective functioning of the judicial and legal system. This new Plan will focus at strengthening the quality of the legislative process, the training of legal professionals and to support the functioning of judicial institutions. This second Plan, as the first one, will be implemented through a joint programme with Council of Europe. (€ 0.6 million).

Tasks Ahead

Since December 2000, **the Phare Programme is no more applicable to Albania**. A new Programme especially design for the Balkan countries took over, **CARDS** for Community Assistance for Reconstruction, Development and Stabilisation. The main purpose of assistance under the CARDS Regulation is to support the participation of Albania in the Stabilisation and Association Process. In the case of Albania, the main focus of the CARDS programme will be to support:

- ? **Administrative Capacity Building**, i.e. the enhancement of the implementing and enforcement capacity of the Albanian public administration, particularly as regards central areas of a future SAA;
- ? **Justice and Home Affairs**, notably through the strengthening of the judiciary, fighting organised crime, corruption and fraud;
- ? **Economic and social development**, notably through providing support to certain key areas such as agriculture, education and transport.
- ? **Environment and natural resources**, recognising the importance of a prompt reaction in this area.

BOSNIA AND HERZEGOVINA

A. The year in review

Political developments

In November 1995, the State of Bosnia and Herzegovina, comprising two Entities, the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), was established as a result of the signature of the General framework for Peace (GFAP) in Dayton. The Constitution of Bosnia and Herzegovina guarantees human rights, democratic principles, the rule of law and fundamental freedoms. It foresees a number of Joint Institutions: a Parliamentary Assembly, Council of Ministers, Constitutional Court, Central Bank and a rotating Presidency. Six Ministries were subsequently established at the State level: Foreign Affairs, Civil Affairs and Communication, Foreign Trade and Economic Relations, Human Rights and Refugees, European Integration and the State Treasury. The State Institutions now have a firm legal and regulatory basis. Nevertheless, the State is constrained in its ability to assert its authority. The Entities have separate local government systems, based largely on the experiences of the war and the immediate post-war period. Moreover, the central state is further constrained by a limited capacity to raise revenue, by a weak judicial system, by the lack of a common police force and by the existence of at least two (Entity) armies.

Given these constraints, BiH's capacity to implement a national policy agenda will always be more constrained than in "conventional" states. These political and structural constraints explain a further enduring aspect of BiH political life: the dominant role of the international community, in particular of the Office of the High Representative, in guiding political change and ensuring post-war stability. Since being given extended powers by the Bonn Peace Implementation Council in 1997, the High Representative has used his authority to promote reform, to impose legislation, and to remove from office those who obstruct progress. Undoubtedly this has advanced reform process, but has in the past also permitted the BiH authorities of Bosnia and Herzegovina to remain passive, to disown unpopular measures and to avoid taking "ownership" of the development of their country.

BiH's political and structural idiosyncrasies mean progress on reform and within the SAP constitute a major challenge. The November 2000 general elections resulted in the three major nationalist parties being excluded from government for the first time since the war. The success of the "Alliance for Change" in forming government at both the national and FBiH levels opens the prospect of real movement and the national acceptance of "ownership" of reform at government level.

Economic developments and structural reform

The economy of BiH has faced the challenge of a **double transition** during the past years: from a post-war and a socially planned economy to a market economy. In the past few years high GDP growth rates have been sustained. However, those have been achieved mainly thanks to a large inflow of external assistance in the context of the Economic Recovery and Reconstruction Programme.

Bosnia and Herzegovina remains one of the **poorest countries** in the region, with a GDP per capita at 1,081 USD, just half of the pre-war level. Furthermore, the pattern of economic growth has been uneven, and the GDP per capita in the Republika Srpska is estimated to be only 75% of the national average.

With the petering out of external reconstruction aid real GDP growth has started to decline: from 10% in 1999 to an estimated 5% in 2000. The slowdown in 2000 has probably been accentuated by a deceleration of growth in the electricity and water supply sectors, and by a decline in agricultural production, due to one of the worst droughts experienced by BiH in recent years. Growth is expected to recover to about 8% in 2001.

Macroeconomic stability has been maintained mainly under a series of IMF-supported programmes. A strict adherence to rules of the currency board arrangement (CBA) has contributed to moderate inflationary pressures and to the almost universal acceptance of the common currency, the Konvertible Marka (KM), pegged to the deutsche mark (Euro) at 1:1. The countrywide average inflation rate increased in 2000 from 3^{1.4} to 5^{1.2} % although there are sharp differences between the entities.

On the fiscal side, weak fiscal discipline and poor expenditure control continue to be a major source of macroeconomic risk. The expenditure ceilings in the 2000 budgets were not adhered to in either entity. General government expenditure remains very high at about 56% of GDP. Bloated public sector wage bills, public sector subsidies, and unsustainable social security schemes are a cause for concern. Current levels of military expenditure appear unsustainable. A reduction in unproductive expenditure and a downsizing of the public sector, while protecting social expenditure and increasing capital expenditure are essentials for fiscal sustainability. Significant progress in this direction was made in 2000 with steps being taken to establish Treasury Systems.

B. Phare in 2000

Community assistance to Bosnia and Herzegovina in the year 2000 was channelled essentially through the OBNOVA programme (€ 88 million). **€ 6.5 million were allocated under the Phare programme.**

Programmes launched

The 2000 allocation of 6.5 M€ to Bosnia and Herzegovina included the following:

- ? **Customs assistance/ASYCUDA++** (2.7 M€);
- ? **Information activities** (0.2 M€);
- ? **Tempus to support University education** (3.0 M€)
- ? **Democracy and Human Rights** (0.6 M€)

Overview of programmes implemented

- **Customs assistance/ASYCUDA++**

Initial support for the introduction of ASYCUDA++, the computerised customs

declaration system developed by the United Nations Conference on Trade and Development (UNCTAD), was included in the 1999 Phare programme. Under this scheme, the first BiH ASYCUDA prototype was finalised during 2000, and the first field testing were successfully carried out in end 2000. Following this process a stable and “stand alone version” of the system, capable of processing import and export declarations and calculating the respective customs duties, was ready by the end of the year. The system is working in full compliance with the EU standards and meets all legal requirements in BiH. A series of training courses and workshops were organised and held to provide the customs officers with all relevant information concerning the functional and technical aspects of the software.

The 2000 funds will provide for the second phase of the installation and implementation of two identical automation systems for customs data one in each of the two entities, the Federation of Bosnia and Herzegovina and the Republika Srpska, which make up the territory of the State of Bosnia and Herzegovina (BiH). These two identical systems will replace three existing systems currently available in the entities of BiH (one in the Republika Srpska and two in the Federation of BiH), and will reinforce the customs territory of BiH as a State. The modernisation and development of the two customs services of BiH to ensure that the customs can be operated in an effective, efficient and cohesive manner throughout the entire territory of BiH can not be achieved without the computerisation of customs data. The system will provide the automation of the declaration processing function, and thus will enable the production of similar accounting and statistical data in each entity, which will facilitate the production of cohesive trade statistics at the national level.

▪ **Institution Building**

Support to the State Institutions continued throughout 2000. The first phase of the Technical Assistance project in support to the State institutions was completed on 31st October 2000. The wider objectives of the assistance were to develop a professional and accountable civil service capable of supporting the Common Institutions and to secure the internal and external competencies and functions of the State institutions. To this aim one long-term expert was attached to each of the six structures (Presidency, Parliamentary Assembly, Council of Ministries, Minister of Foreign Affairs, Ministry of Foreign Trade and Economic Relation and Ministry of Civil Affairs and Communication) and has been supported where necessary by external short-term experts. With the establishment of 3 new Ministries in 2000, the assistance has been extended to them too.

A second project supporting the Constitutional Court started in January 2000 and continued through all the year, focusing mainly in intensifying the knowledge of the judges and legal staff of the Court in European legal practice, providing a sustainable training programme, organising seminars and round tables. In parallel additional IT and office equipment was purchased to enable a more efficient work of the Constitutional Court and a refurbishment programme completed, to improve the premises of the Court, which is essential in order to keep the dignity of its status. A Monitoring Report issued in June 2000 concluded for Phase I that *“In general, the project has had a positive impact upon the development of the Constitutional Court and there has been progress towards the achievement of the immediate objectives”*.

The EC assistance gives also specific priority to reinforce the capacity of the Police Academies so that the police forces can acquire the necessary skills so that the country can reach European standard of security. A team was mobilised to provide assistance in project design and tendering for the Refurbishment of the Police Academies in Vraca, Ramiz Salcin and Suhodol in Sarajevo and the rehabilitation and construction of Police Academy buildings in Banja Luka.

- **Statistics**

Support to the statistic sector aims at improving the fundamental basis for decision making and governance in BiH. A 2 years project started in 2000, which global objectives are to provide the BH Statistical Agency with the necessary skills, institutional capacity to guarantee the harmonisation and the aggregation of Entities' statistics at State level according to the international requirement and to support the two Entities Statistical Institute in reaching the same working capacity, and in the modernisation of the statistic production. To this aim a team of long and short-term experts has been mobilised for the management of the programme and advisory/assistance actions in the field of statistical technical work, information technology adapted to statistics, organization and management of each of the statistical systems and institutions, training courses have been and will be organising focusing on: national; accounts, macro-economic statistics, social and demographic indicators, sampling and sample survey methodology, statistical software use and new classifications and nomenclatures. In addition study stays abroad for managers of the three involved institutions will be organised. This will include visits to various statistical offices of EU countries in specific domains such as organization, data processing, GIS, etc.

- **Democracy and human rights**

Support for democracy and human rights in Bosnia and Herzegovina is essential for continued stability and the country's future integration into Europe. In addition to the support that the EC gives to the "Dayton Institutions", set up to pursue the fundamental rights and freedoms of the individual, the EC also provides funding for projects that assist the strengthening of a democratic society. Funded projects include those that promote the rule of law, respect for human rights, protection of minorities, and political pluralism. The EC has provided funds toward the development of **democracy and civil society** and protection of **human rights** sector since 1996 for large and small scale projects i.e. through macro and micro budget line depending on the amount of the money allocated per project. Micro projects are designed to deepen support for local civil society initiatives and reinforce their contribution to democracy. **618.750 Euro** for the **micro** projects are planned to be allocated for Bosnia and Herzegovina. For 2000, the priorities can be summarised as follows: a) fight against torture and the death penalty, racism and xenophobia, b) human rights education and freedom of expression; c) economic and social rights; d) protection of particularly vulnerable groups, especially children; e) promotion and protection of the rights of women; f) promotion of democracy and the rule of law.

- **Vocational Education and Training**

Support has been channelled to a **Vocational Education and Training programme** implemented by the European Training Foundation for a total value of ? 570,000. The

1999 project started on 6 April 2000 and will be completed by February 2002. The objectives include i) staff development and policy reform, ii) Curricula Development, iii) encouraging refugee return by adult training and short-duration training courses for returned refugees, iv) development of recommendations for the development of an adult training system in BiH, building on the new modular curricula developed during the Phare 1997 Vocational Education and Training Programme.

▪ **Education**

In October 2000, a major € 1.5 million contract for **Technical Assistance to the Educational Reform** was launched. This project will address i) Primary and Secondary Education Reform, ii) Institutional Development and Policy Advice, iii) Higher Education including the Higher Education Co-ordination Board, iv) European School Networking.

▪ **Health**

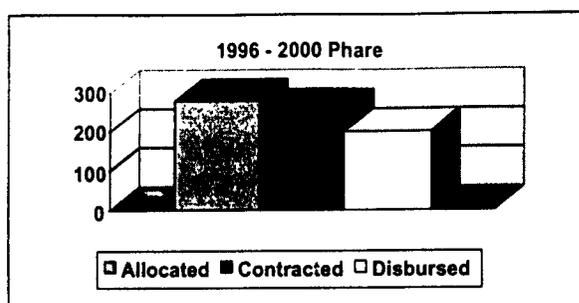
Two large Phare projects started in June 2000.

The first, for a total of € 1.1 million, offers **Technical Assistance in Public and Environmental Health**. This project is to i) assist the development of a public health integrated plan, including health promotion, for each one of the entities, ii) assist establishment and implementation of health promotion strategies at government level which are defined in the health policy strategies in both entities, iii) ensure sustainability of a public health surveillance system through an integrated public health network, iv) assist in the analysis of the feasibility and sustainability of existing technological facilities and manpower capacities to cover the public health functions, v) assist in the design of a master plan for manpower development and training for the public health function taking especially in consideration the sustainability and the present and future economic scenario.

The second project, entitled **Technical Assistance in Health Care Reform** (€ 2.4 million) is to i) assist the Ministry of Health of both entities to assist the implementation of their strategic plan through continued assistance to the required regulatory and legislative transformation to allow a more efficient health care system, ii) assist the Ministry of Health of both entities to increase the management capabilities of the health insurance funds and of the Bosnian public network of health care facilities, iii) assist the Ministry of Health of both entities in upgrading their pharmaceutical policy, building on already delivered technical assistance.

Phare Management Performance

By the end of 2000, € 278 million had been allocated to BiH under Phare. The overall contracting rate was 85 % (€ 235 million), out of which 86 % had been disbursed (€ 201 million). The Commission Delegation in Sarajevo, responsible for project implementation, has in 2000 let 51 contracts representing a total of € 25 million and processed 450 payment orders representing € 41.6 million.



C. Results and impact

The Commission has commissioned a number of ad hoc **evaluations** and in February 2000 established an **independent Monitoring Support facility** to monitor the impact and sustainability of EC assistance (OBNOVA but also Phare). By July 2001, 26 reports had been issued covering EC assistance in agriculture, water supply, private sector development, finance and banking. In addition, assistance to the return of refugees and displaced persons through housing reconstruction, job creation for returnees, electricity supply and de-mining had been monitored, as had support to the development of the Common Institutions.

The reports have revealed a number of specific short-comings in the design and implementation of EC financed projects. The recommendations have been incorporated into the design of more recent programmes and have allowed for project terms of reference to be refocused. Successful instruments, for example the SME and housing credit lines, are to be extended, while less sustainable interventions (the supply of livestock) have been curtailed.

The general conclusion derived from the reports is that while the earlier Programmes were of emergency responses to the immediate post-war situation, the later Programmes (1998–2000) could have benefited from better strategic focus. The absence of an economic development strategy at State or Entity level has not facilitated programming of funds. This has led on occasions to inappropriate project design and sequencing of the assistance, and has consequently reduced the impact of the support provided. This problem is notably being addressed through the elaboration of a Country Strategy Paper for the period 2001 to 2006 under the new CARDS programme. The harmonisation of EC interventions with the provisions of the SAP and the recent efforts by the authorities of BiH to formulate an economic development strategy should optimise the impact of future assistance.

An important observation was that an unfavourable programme environment has hampered the delivery of EC assistance to BiH. The beneficiary structures have often suffered from limited human and technical resources and have not therefore been able to play a constructive role in the design and implementation of the assistance. This has also diminished their sense of ownership of projects and has reduced the impact of the assistance provided. This problem is being addressed under the 2001 Annual Programme through the provision of technical assistance and training to develop the institutional, technical and human resource capacity of the State to participate in the programming, co-ordination and monitoring of international assistance programmes.

**Phare Success Story: Customs Assistance ASYCUDA++,
5 Million Euro Allocated under Phare 1999 and 2000**

Customs revenue is vital for the prosperity and development of Bosnia and Herzegovina. The European Union has already in 1996 established the Customs and Fiscal Assistance Office (CAFAO) to assist the Entity and State authorities implement customs and tax regulation. So far the European Union has allocated 41 Million Euro to CAFAO activities.

As an important part of this assistance, **5 Million Euro has been allocated through Phare for the installation and implementation of two identical automation systems for customs data** one in each of the two entities, the Federation of Bosnia and Herzegovina and the Republika Srpska, which make up the territory of the State of Bosnia and Herzegovina (BiH). These two identical systems will replace the existing systems currently available, and will reinforce the customs territory of BiH as a State.

The modernisation and development of the two customs services of BiH to ensure that the customs can be operated in an effective, efficient and cohesive manner throughout the entire territory of BiH can not be achieved without the computerisation of customs data. The system will provide the automation of the declaration processing function, and thus will enable the production of similar accounting and statistical data in each entity, which will facilitate the production of cohesive trade statistics at the national level.

Although tangible progress has been achieved in the area of customs and tax reforms, the future reform agenda remains wide. On the revenue side, both entities have implemented a common schedule of excise duties, reduced customs duties exemptions, and eliminated temporary sales tax exemptions. They have established working groups that meet regularly to discuss implementation issues. Sales tax harmonisation is proceeding through convergence.

The completion and consolidating of customs reform, which has been comprehensively supported by the EC since the beginning of the process by institution building activities through the CAFAO programme will be pursued. The achievement of this reform will contribute to improving the business environment for importers and exporters, enhance revenue, combat corruption, and facilitate inter entity and regional co-operation and trade.

Tasks Ahead

Since December 2000, the Phare Programme is no more applicable to Bosnia and Herzegovina. A new Programme especially design for the Balkan countries took over, **CARDS** for Community Assistance for Reconstruction, Development and Stabilisation. The main purpose of assistance under the CARDS Regulation is to support the participation of Bosnia and Herzegovina in the Stabilisation and Association Process.

The Former Yugoslav Republic of Macedonia (FYROM)

A. The year in review

Political developments

FYROM has been linked to the EC since January 1998 by a Co-operation Agreement and an Agreement in the field of Transport. Following the positive conclusion of a feasibility study in June 1999, negotiations on a Stabilisation and Association Agreement were launched in Skopje on 5 March 2000. Negotiations proceeded swiftly and led to the initialling of the SAA on the margins of the summit meeting between heads of state or government of EU member-states and countries covered by the Stabilisation and Association Process held in Zagreb on 24 November 2000.

The Kosovo crisis, the continued presence of 9000 refugees, the situation in the Federal republic of Yugoslavia, and the resulting international presence in the country continued to influence political decision-making.

The political situation has remained **relatively stable** in 2000 and the democratic process has continued to function normally in spite of internal strains between the ethnic Macedonian and ethnic Albanian communities.

A **Government reshuffle** took place in November 2000 when the centre-right party Democratic Alternative (DA) left the governing coalition. The new coalition saw the entry into the government of the ethnic-Albanian Democratic Party of Albanians led by Arben Xhaferi.

Local elections held in September 2000 resulted in the victory of the governing centre-right VMRO-DPMNE coalition party led by the Prime Minister Ljubco Georgievski. However, widespread irregularities were reported by international observers and in some municipalities forced to quash the results and call a recasting of the ballots.

The government continued to bring forward, with mixed success, its ambitious programme to boost the economy, reform legislation and the public administration, reduce unemployment, increase direct foreign investment and improve inter-ethnic relations.

Economic developments and structural reforms

FYROM's economic policy agenda has been set out in a medium-term macroeconomic framework agreed with the IMF and in an Interim Poverty Reduction Strategy agreed with the World Bank.

The policy agenda was centred around five themes: sustained high economic growth; the maintenance of price stability through appropriate policy mix; continued structural

reforms; legal approximation to EU standards and other institution building measures and appropriate social protection.

In 2000, **strong economic activity** driven by domestic demand, both investment and consumption, and also linked to the reconstruction of neighbouring Kosovo boosted economic growth in FYROM. Real GDP growth stood at 5.1%, the highest growth rate since the beginning of economic transition, despite a sharp deceleration in the second half of the year. In spite of rather buoyant economic growth the very high unemployment rate remained virtually unchanged at 32.2%. As regards public sector finances, during 2000 fiscal performance was particularly strong. The rebound of economic activity and especially the better-than-expected results in VAT collection resulted in a surplus of about 2 ¼ % of GDP in the general government accounts. Inflation remained rather moderate at 5.8% whilst the monetary policy of the authorities remained oriented towards the maintenance of the de facto exchange rate anchor between the denar and the Euro. The performance of the external sector remained fragile. In the course of 2000, imports grew by 17.4% while exports grew by 10.7%, implying a considerable widening of the trade balance deficit. As a result, the trade deficit widened considerably to USD 760 million in 2000 from USD 410 million in 1999. Since 1997 the external debt level has been increasing rather rapidly and at the end of 2000, total external debt amounted to some 43% of GDP.

The **process of reform** produced mixed results in the year 2000. In the course of 2000, significant progress was achieved in tax reform, including the successful introduction of VAT. Moreover, there were reforms in the financial system, including new Banking, Security and Collateral Laws, as well as significant amendments to the Law on Bankruptcy. With regard to public sector reform, the action of the authorities during the year 2000 broadly followed the guiding principles agreed with the IFI's for a medium-term transformation of the fiscal domain. Despite those improvements, government finances still suffered from a number of structural shortcomings, especially regarding the composition of the budget. Within the central government budget, transfers and wages accounted for close to 80% of total government expenditure, leaving little room in the budget for investment and other activities supporting growth over the medium term. The process of privatisation of small and medium enterprises was largely completed by the end of 2000 but privatisation of large, loss-making firms proved a difficult task to accomplish and showed little progress. The banking sector is mostly private (80%), and the privatisation of the largest commercial bank (through sale to foreign investors), Stopanska Banka, was completed in April 2000. This sale, as well as the previous one of Kreditna Banka, the closure of Almako Banka and the announcement for the sale of the third largest bank are major steps for the restructuring of the sector. Those steps were reinforced by a new Banking Law in June 2000, which is in line with EU legislation and BIS principles. The legislation strengthened the legal framework of bank supervision and enhanced the monitoring ability of the Central Bank. The sector, however, continues to suffer some structural problems, such as a large number of banks, many non-performing loans, lack of competitiveness and efficiency in the banking sector, etc., which the authorities aim at addressing in the medium term.

In sum it can be said that in the year 2000 the country made some progress with macroeconomic stabilisation policies and that an adequate and ambitious policy agenda for the medium term was established.

B. Phare in 2000

Community assistance to FYROM in the year 2000 amounted € 58.55 million and was channelled through the following programmes: **Phare** (€ 25 million), **Balance of Payments support** (€ 30 million), **ECHO** (€ 3.35 million) and **support to media** (€ 0.20 million)

Programmes launched

Amounting to **43 %** of the total assistance to the country, a total of **€ 25 million was allocated under Phare**, to facilitate the process of economic and social transformation towards a market economy and to strengthen the institutional and administrative capacity of the state. The **National Programme** (NP) for 2000 for the former Yugoslav Republic of Macedonia is based on priorities within the Stabilisation and Association Agreement which was being negotiated in 2000. It takes account of absorption capacity, past performance and programme readiness.

The NP in 2000 consists of **five components**: approximation to Internal Market “acquis”, public administration reform, justice and home affairs, education and support for the Central Finance and Contracting Unit. The programme is composed of the following projects:

- ? approximation of legislation in the Internal Market area (€ 2.0 million);
- ? improving the situation of the financial sector in the country (€ 3.0 million);
- ? Public Administration Reform aimed at Courts and the Judiciary (€ 2.0 million);
- ? support for the population and agriculture census (€ 1.32 million);
- ? support for the development of an integrated border control system € 4.35 million);
- ? support for the vocational education and training system (€ 2 million);
- ? assistance to the Central Contracts and Finance Unit within the Ministry of Finance, to support the process of decentralisation and responsibility of the country for its assistance programmes (€ 0.53 million);
- ? support the implementation of the new Law on Higher Education (€ 1 million);

In addition to Phare support, assistance under the **Obnova (Reconstruction in the Former Yugoslavia) Programme** was granted in May 1999. The aim was to provide budgetary support for refugee related expenditure. The assistance covers costs in the areas of health care, education and accommodation of refugees in host families. By December 2000, almost 70 % of the total funds had been paid.

Macrofinancial assistance amounting to up to € 80 million was agreed in 1999 and the first tranche of € 30 million has been disbursed in December 2000.

The European Community Humanitarian Office, **ECHO**, continued its activities in the country, to bring **emergency aid** to the refugees still in the country and especially the vulnerable among the Macedonian population.

Democracy and civil society: the EU is helping to strengthen Macedonian civil society and the social network, through funding for projects which aim to develop the activities of NGOs, for example projects to support families with disabled children or to help the social integration of marginalised Roma communities.

Support is also being given to develop an **independent media**, which will play an essential role in democratisation. A comprehensive audience research survey funded by the EU is currently underway in order to achieve better understanding of the overcrowded media scene in FYROM and to help develop a sound media market with self-sustainable magazines, newspapers, radios and televisions.

Overview of programmes implemented

The **implementation** of the first series of Phare projects began in the first half of 1997, with the process continuing in 1998, 1999 and 2000. Phare programmes begun in previous years have continued to be implemented in 2000. This is particularly the case of: cultural development, social sector, local government development, transport and cross border co-operation programmes.

A considerable number of the projects experienced common implementation difficulties, stemming from limited absorption capacity and inexperience on the part of beneficiaries in relation to internationally funded assistance projects. The government has been making concerted efforts to address these difficulties, which have in some cases started to show in 2000.

ACHIEVEMENTS

1. **Approximation to the Internal market acquis:**

- ? **Financial sector reform:** the EU is supporting the country in improving the regulatory framework of the financial sector in order to create better conditions for entrepreneurs and the general public.
- ? **Approximation of legislation:** the main goal is approximation of national legislation and preparation of the institutions for its implementation. Harmonisation with the *acquis communautaire* in the area of the Internal Market is a first priority, in compliance with the priorities set out in the Stabilisation and Association Agreement.

2. **Public Administration Reform:**

- ? **Judicial administration:** assistance is provided to the Ministry of Justice and the Supreme Court of the former Yugoslav Republic of Macedonia to enhance the effective fulfilment of tasks associated with reform of the court system and judicial administration. Specifically, the programme focuses on compliance with EU legislation, managing the court administration reform, workload of the courts;

provide a basis for a secure system of court budget execution; efficiency of the court administration; and transparency and access to court decisions.

? **Census:** assistance is given to:

- Increase the institutional capacity in methodological, organisational and technical matters related to the census preparation, conducting and processing, in particular for the Agriculture Census;
- Improve the methods of data processing in order to increase the data quality-control and speed-up the availability of the results; in particular for the Agriculture Census;
- Introduce appropriate methods for a large-scale market-oriented dissemination of the results;
- Increase the analysis skills of the census results, for both censuses;
- Prepare a sound base for the conducting of the agricultural census and the constitution of an agricultural holdings register;
- Enhance the quality of all census activities and of their results.

3. Justice and Home Affairs

The need for an integrated border management has prompted assistance to develop, implement and maintain a co-ordinated strategy for management and control of persons and goods entering, leaving or transiting through the State territory, via all official Border Crossing Points. Technical assistance to the various national authorities involved as well as specialised equipment will be provided.

4. Education

The EC has given 1 M€ of assistance to support the implementation of the Law on Higher Education (adopted 25 July 2000) and the creation of the first University in the country providing education in the Albanian language (as well as in Macedonian and English). The contribution will be concentrated under the heading 'construction and infrastructure'.

The overall objective of the second phase of the VET reform programme is to continue to provide support to the Ministry of Education and Sciences (MoES) in developing a lifelong learning system through the systemic adaptation of vocational education and training to the needs of the labour market.

5. Decentralisation: assistance to the Central Contracts and Finance Unit

The Central Contracts and Finance Unit has been set up in 2000 in the Ministry of Finance. Given its key role as instrument for decentralisation, it is benefiting from technical assistance, to ensure that all relevant Community rules are respected when and if full decentralisation takes place.

Phare management performance

Implementation of Phare programmes began in 1996, under the centralized system. In the course of 2000, the **Central Contracts and decentralized management** began in certain sectors. It is foreseen that the Delegation will be one of those included in the devolution process, which is part of the Commission reform of management of external aid.

C. Results and impact

Monitoring and Assessment reports

Monitoring and assessment reports have been provided by OMAS Consortium since 1998. Reports issued in 2000 covered the following sectors: agriculture, aid co-ordination, cross-border co-operation, cultural development, vocational education and training, environment, statistics, enterprise and financial sectors, and central contracts and finance unit.

OMAS also presented a "Country Assessment Review of Phare Assistance up to the year 2000" report, which analyses the evolution of Phare assistance on a sector by sector basis. The report assesses the extent to which Phare assistance has made it possible to achieve the programme objectives in a sustainable way, and makes recommendations on programming, design, management and implementation of programmes.

Sectors with positive results

Phare Success Story Cross Border Co-operation between FYROM and Greece

Modernisation of Bodgorica Border Crossing

This is an important border crossing point with Greece, located on the so-called Trans-European Corridor X. Corridor X links Thessalonica, Skopje, Belgrade, Zagreb and Munich/Passau. The project was completed in October 2000. The CBC programme's contribution, € 3.16 million, helped to reconstruct the existing border crossing infrastructure and construct a new heavy vehicles terminal capable of hosting 65 vehicles, complete with all necessary facilities (customs and forwarding building, special vehicle control building, etc.) The border crossing point will be further upgraded with the construction of buildings for veterinary and phyto-sanitary inspections.

Modernisation of Medjitlija Border Crossing

This border crossing is located on the same Trans-European Corridor X and the project has already been successfully completed. The works included construction of the border-crossing infrastructure with all the necessary facilities (customs and police buildings etc.) The EC contribution is in the order of € 2.46m.

Upgrading of road E75

Section from Gevgelija to the Greek Border: this section of the road (also part of the Trans-European Corridor X) is located just before the Bogorodica border crossing. The works were successfully completed in September 2000 (CBC contribution in the order of € 5.68m). Section from Negotino to Demir Kapija: Phase I (5.6 km) is under construction, and it is expected that the project will be completed in March 2002; CBC funds amount to € 8.1m. € 6.5 million have also been provided for the construction of the second phase (4km) expected to begin in September 2001. The section Demir Kapija-Gevgelija is the last stretch of Trans-European Corridor X crossing FYROM and has not yet been upgraded. €2.7 million of CBC funds were spent on the design and tender documents, ready since the end of 2000.

Tasks ahead

Since December 2000, Phare has been **replaced by the CARDS** (Community Assistance for Reconstruction, Development and Stabilisation) programme. The main purpose of assistance under this programme is to support the participation of the Former Yugoslav Republic of Macedonia in the Stabilisation and Association process, following the initialling of the Stabilisation and Association Agreement in November 2000.

Assistance in the future shall focus on the following:

- ? institutional and legislative framework to underpin democracy, rule of law and respect of minority rights;
- ? sustainable economic development, and market economy oriented reform;
- ? social development, in particular poverty reduction, education, and environment;
- ? regional co-operation with neighbouring countries, candidate countries and EU Member States

Statistical overview

Phare funding by country, 1990-2000

Total Phare commitments, contracts and payments, 1990-2000, in million EUR

Partner country	Commitments	Contracts	Payments
Albania	621.35	497.52	409.37
Bosnia & Herzegovina	289.19	283.82	241.49
Bulgaria	1,000.86	729.79	603.14
Czech Republic	576.57	394.97	355.23
Estonia	222.49	171.23	152.71
FYROM	257.00	200.05	156.94
Hungary	1,075.23	845.29	730.95
Latvia	282.72	217.88	179.09
Lithuania	420.65	275.01	227.57
Poland	2,500.28	1,739.94	1,609.88
Romania	1,439.50	916.85	784.76
Slovakia	433.45	251.98	205.59
Slovenia	224.75	144.03	122.58
Czechoslovakia	230.49	231.82	228.88
East Germany	34.49	28.86	28.61
Yugoslavia	43.68	43.68	43.68
Multi-country programmes	2,228.00	1,930.07	1,566.78
Total	11,880.70	8,902.80	7,647.25

Phare funding by sector, 1990-2000

Total Phare commitments, contracts and payments, 1990-2000, in million EUR

Sector	Commitments	Contracts	Payments
Administration & public institutions	1,265.19	759.48	547.00
Agriculture	690.19	547.58	488.28
Approximation of legislation	141.47	111.49	92.35
Civil society and democratisation	179.26	120.20	86.70
Consumer protection	12.28	12.28	11.25
Education, training and research	1,262.45	1,125.56	1,101.51
Environment and nuclear safety	1,056.11	725.01	593.81
Financial sector	280.90	265.54	259.28
Humanitarian, food and critical aid	598.31	615.87	573.63
Infrastructure (energy, transport and telecoms)	2,855.44	1,995.27	1,664.44
Integrated regional measures	343.60	289.03	193.05
Other (multidisciplinary, general TA, etc.)	1,132.57	806.99	693.51
Private sector, privat. & restructuring, SMEs	1,389.71	1,157.89	994.21
Public health	113.39	103.33	98.72
Social development and employment	559.83	267.28	249.52
Total	11,880.70	8,902.80	7,647.25

