

FINANCING MEMORANDUM

The European Commission, hereinafter referred to as "THE COMMISSION", acting for and on behalf of the European Community, hereinafter referred to as "THE COMMUNITY"

on the one part, and

The Government of the Republic of Bulgaria, hereinafter referred to as "THE RECIPIENT"

on the other part,

HAVE AGREED AS FOLLOWS:

The measure referred to in Article 1 below shall be executed and financed out of the budget resources of THE COMMUNITY in accordance with the provisions set out in this Memorandum. The technical, legal, and administrative framework within which the measure referred to in Article 1 below shall be implemented as set out in the General Conditions annexed to the Framework Agreement between THE COMMISSION and THE RECIPIENT, and supplemented by the terms of this Memorandum and the Special Provisions annexed hereto.

ARTICLE 1 - NATURE AND SUBJECT

As part of its aid programme, THE COMMUNITY shall contribute, by way of grant, towards the financing of the following MEASURE:

<u>Programme number:</u>	BG9804 to BG9810
<u>Title:</u>	BULGARIA NATIONAL PROGRAMME 1998
<u>Duration:</u>	Until 31 December 2000

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 62.6 MECU hereinafter referred to as "THE EC GRANT".

ARTICLE 3 - DURATION AND EXPIRY

For the present MEASURE, THE EC GRANT is hereby available for contracting until 31 December 2000, subject to the provisions of this Memorandum. All contracts must be signed by this date. Any balance of funds of the EC GRANT which have not been contracted by this date shall be cancelled. The deadline for disbursement of THE EC GRANT is 31 December 2001 except for sub-programme BG9808 (Transport) for which the deadline for disbursement is 31 December 2002. All disbursements must be completed by the date of disbursement. THE COMMISSION may however, in exceptional circumstances, agree to an appropriate extension of the contracting period or of the disbursement period, should this be requested in due time and properly justified by THE RECIPIENT. This Memorandum shall expire at the expiry of the disbursement period of the EC GRANT. All the funds which have not been disbursed shall be returned to the Commission.

ARTICLE 4 - ADDRESSES

Correspondence relating to the execution of THE MEASURE, stating THE MEASURE'S number and title, shall be addressed to the following:

for the COMMUNITY:

Delegation of the European Commission to Bulgaria
Interpred
World Trade Center
36, Blvd. Dragan Tsankov
1040 Sofia
Bulgaria

Tel.: (+359) 2-97 33 240
Fax: (+359) 2-97 33 872

for THE RECIPIENT:

Ministry of Foreign Affairs
Department for European Integration
2 Al. Jendov Str.
1113 Sofia
Bulgaria

Tel.: (+359) 2-73 99 22
Fax: (+359) 2-971 24 13

ARTICLE 5 - NUMBER OF ORIGINALS

This Memorandum is drawn up in duplicate in the English language.

ARTICLE 6 - ENTRY INTO FORCE

This Memorandum shall enter into force on the date on which it has been signed by both parties. No expenditure incurred before this date is eligible for the EC GRANT.

The Annexes shall be deemed an integral part of this Memorandum.

Done at Sofia

Date 22. XII. 1998

for THE RECIPIENT



Mrs N. Mikhailova

Minister of Foreign Affairs
National Phare Coordinator

Annex 1 Framework Agreement (Annexes A & B)
Annex 2 Special Provisions (Annex C)

Done at Sofia

Date 22. XII. 1999

for THE COM



Mr J. Wunentburger

Head of European Commission
Delegation to the Republic of Bulgaria

SPECIAL PROVISIONS

1. STRATEGY

In Agenda 2000, the European Commission outlined a reinforced pre-accession strategy for the candidate countries including a re-orientation of the Phare programme from demand-driven to accession-driven. Based on this document and after consultation with the Bulgarian authorities, an Accession Partnership was adopted to help guide the preparations for membership by determining priority areas. In order to implement the priorities set out in the Accession Partnership, the Bulgarian government has adopted a National Strategy for Accession to the European Union and elaborated a National Programme for the Adoption of the Acquis, (NPAA), which sets out in detail the actions that will have to be undertaken.

The 1998 Phare programme has been elaborated on the basis of the overall priorities outlined in the Accession Partnership and the measures set out in the NPAA. It focuses on the short term priorities of economic reform, reinforcement of administrative and institutional capacity, internal market, environment and energy (nuclear safety). The medium term priorities in relation to transport, employment and social affairs and regional policy and cohesion are also addressed in this programme.

Only those projects which directly support the realisation of the priorities and objectives of the AP and NPAA; are presently at a satisfactory level of maturity in terms of preparation; facilitate mobilisation of co-financing with the International Financial Institutions; and prepare the ground for future funding under existing and proposed instruments have been selected for funding.

Focus has been placed on capacity building and continuation of legal alignment in agriculture (including veterinary and phytosanitary controls), environment, customs transformation, occupational health and safety, and statistics.

In the area of economic reform, the focus is on support for privatisation and market based regulatory institutions, in line with the Governments privatisation strategy. Facilitation of equity investments in private enterprises through co-financing with EBRD and private sector capital is also foreseen. Investments in environmental “hot-spots” are supported. Assistance to nuclear safety improvements of the Kozloduy Nuclear Power Plant will be continued.

Funding for Bulgaria’s participation in Community programmes (1.374.397 ECU) and in TEMPUS (4.0 MECU) has been committed under separate Financing Memoranda.

2. OBJECTIVES AND DESCRIPTION

Objective 1: Political Criteria

The Accession Partnership priority related to the Political Criteria is “further efforts to integrate the Roma and consolidation of protection of individual liberties”.

This priority area will be addressed through the

Civil Society Development project

The objective of the project is to promote civil society organisations (NGOs) through an improved legal and fiscal environment, information, training and co-financed grant support. The grant facility constitutes an important component of the project, aimed at increasing the institutional capacity and effectiveness of NGOs. Decisions on grants - which are provided on a co-financing basis - will be made through open competitions ensuring transparency and equal access. This process will be

managed and monitored by the Civil Society Development Foundation (CSDF) established in 1994 as an independent NGO. The eligible areas for grant financing covering operational and direct project costs are: i) protection and development of minorities, particularly the Roma, in order to facilitate their socio-economic integration in society, ii) fight against crime and corruption, iii) nature preservation and environmental protection, and iv) social entrepreneurship for marginalised groups and youth.

The outputs of the project will be a legal and fiscal environment encouraging a flourishing civil society NGO sector, enhanced financial sustainability of the NGO sector, increased influence of the civic sector in policy formulation and Civil Society Development Foundation institutional capable of serving as a focal point for information and training for NGOs and private citizens on civil society issues.

The conditionalities for this project include the Government's commitment to take active steps to implement an improved legal framework for the operation of NGOs in accordance with its declared strategy in this area and allocation of budget resources for support to the NGO sector. The CSDF should develop strategy for medium term sustainability with a view to the eventual phasing out of Phare assistance. Furthermore, the CSDF shall remain independent, assure full coordination and complementary with other funding sources, and conduct ongoing monitoring and evaluation of the NGO funded activities.

Objective 2: Economic Reform

As underlined in the Accession Partnership, the priorities in this area includes transparent completion of the privatisation of state enterprises and banks, restructuring measures in industry, the strengthening of market economy institutions and measures to encourage increased foreign direct investment.

These priority areas will be addressed by the following two projects:

Private Sector Development

The objective of this project is to reinforce the structural reform process and consolidate the stability of the Bulgarian economy achieved to date so as to the basis for regeneration of sustainable economic growth. Specifically the project will contribute to the completion of the privatisation of the remaining major state owned enterprises, promote foreign direct investments, further strengthening of the banking supervision capacity of the Bulgarian National Bank, promote the further restructuring and privatisation of the banking sector and finally strengthen the legal and regulatory framework of the financial sector.

The project is a follow-on to the Phare 1997 SARA programme and will continue to enable the Privatisation Agency, principle line ministries and the Bank Consolidation Company, to fulfil their privatisation mandate and strengthening of the regulatory enforcement mechanisms in the financial sector.

The main conditionality for the successful implementation of this project is the Government's adherence to the conditionalities included in the IMF agreement for an Extended Facility, presently under negotiation. In addition the Government shall assure that the further development of the legislative framework for the financial sector is in compliance with the Acquis.

Bulgarian Post-Privatisation Fund – BPPF

The objective of this project is to further the development of private enterprises in terms of strengthened corporate governance and post-privatisation restructuring. This will be achieved through equity investments in medium-size enterprises and turn-around-management assistance provided by the BPPF.

The project has been prepared in response to the low availability of long-term finance and risk capital, and the lack of necessary turnaround management expertise in Bulgaria.

Phare assistance will be utilised to provide additional grant finance for technical assistance to and via the BPPF. The risk profile of the BPPF at this stage of Bulgaria's economic transition is higher than that which the EBRD is normally able to accept and therefore Phare assistance has been necessary to facilitate the creation of the BPPF. Phare assistance aims essentially to provide the Fund Manager with the means of meeting its investment objectives in an economy which is changing rapidly from a central to a market economy with all the resultant needs for pre- and post-investment training, due diligence and environmental impact assessments.

The assistance will cover expenses related to the Fund Manager's fee and operating costs directly related to the BPPF, fees for consultancy services and operating costs directly related to the BPPF for pre- and post- investment services during the first 5-6 years of the functioning of the BPPF.

The funding covered by this project is additional funding in accordance with the agreement of 1997 which provides for 4 years funding to a maximum amount of 15 MECU (1,5 MECU was provided under Phare GTAF 1997 programme). Co-financing is provided by the EBRD and the selected fund manager in an amount of 30 MECU and 10 MECU, respectively.

The key conditionality for this project is the Governments continued commitment to private sector development and the active implementation of its privatisation strategy.

Objective 3: Reinforcement of the institutional and administrative capacity

The ability of the Bulgarian civil service to prepare and implement systematic programmes of administrative reforms and strengthening to support the European integration and legal approximation process is a critical factor for an acceleration of the preparations for EU membership. The institution building and transformation priorities outlined below have been derived from the priorities set out in the Accession Partnership and further elaborated in the NPAA.

The priorities under this overall objective will be addressed by three projects.

Developing the agricultural administrative, veterinary and phytosanitary capacity to manage the acquis

The objective of this project is to support the Ministry of Agriculture, Forestry and Agrarian Reform (MAFAR) to undertake the short-term sectoral priorities for EU alignment and market oriented reforms and pursue the medium-term reforms identified in the Accession Partnership and the NPAA. Specifically the project will develop and implement a phased programme of other CAP/CFP sectoral alignments, develop national rural policy and SAPARD planning capabilities within the Ministry in parallel with the local, regional and general regional policy capabilities being established under the Special Preparatory Programme (SPP). It will contribute towards the strengthening of the existing 9 regional and 30 local advisory offices of the recently established National Agricultural Advisory Service to meet the needs of agricultural and rural businesses in the private sector. An important component is the assistance to the reinforcement of animal health diagnostic, border control and animal movement controls in Bulgaria and at the main border crossing point with Turkey to EU standards. Finally, the project will address the plant health and quality controls within Bulgaria and at border crossing points.

The outputs of the project will include improved national veterinary and phytosanitary control systems, legislation approximated with the EU, and strengthened capacity of the MAFAR.

The conditions for the successful implementation of this project includes the Government commitment to pursue the implementation of the legislative agenda as set out in the NPAA and the

provision of budgetary resources necessary for covering the costs associated with the upgraded operational structures.

Transformation of the Bulgarian Customs Administration - BCA

In the process of accession of Bulgaria to the European Union the customs administration should be ready to play a crucial role in the stable functioning of the EU Internal Market and should accordingly take on the responsibility for the control of its part of the external border of the EU as well as the responsibility for the application of the Common Trade Policy.

The objectives of this project are to:

- develop a more efficient and effective Customs Administration in line with EU standards;
- introduce the legal foundation of customs activities in accordance with EU legislation;
- improve the border controls efficiency by implementing risk-assessment and selectivity tools and anti-fraud techniques in line with EU needs and practices;
- promote cooperation and coordination internally and with neighbouring countries and the EU Member States;
- implement a “Integrated Customs Information System“ through extensive computerisation to improve the efficiency (increased throughput) and reliability (decrease number of fraud cases);
- simplify the consolidation of all customs transactions for accounting, financial and statistical purposes.

The outputs of the project will be a legislative framework corresponding to the recommendations of the White Paper, customs officers trained to implement the newly adopted regulations and other legislative provisions, improved management organisation through the introduction of new technologies.

The conditions attached to this project relates to the assurance of the full compatibility of the new information system with the various computerised systems necessary for the management of the customs and indirect tax provisions in the EU internal market as well as for mutual administrative assistance in customs, agriculture and indirect tax matters. The BCA shall make provisions in its budget as appropriate to cover recurrent costs implied by the new structures in particular as concerns the new informatics system introduced through this project.

Institution Building Facility (IBF)

The wider objective is to strengthen institutional and administrative capacities to manage the acquis in selected key areas.

The specific objectives of this facility are to:

- complete the legislative approximation process, strengthen the management structure and regulatory capabilities in relation to occupational safety and health in the context of EU occupational safety and health systems, and to upgrade the quality, information management, reporting and enforcement capabilities;
- ensure the provision of reliable and comparable statistics to national and EU users, harmonise statistical standards and methods and compliance with the statistical acquis.

The outputs of the project will be:

- the full transposition of EU framework directive in occupational safety and health and the equal and proper application of these standards through independent and effective inspection capacities of the General Labour Inspectorate;
- approximation of the legal basis for Bulgarian statistics and improved economic, agricultural and regional statistics data.

Objective 4: Environment

Institution building and investment projects for the Ministry of Environment & Water (MEW)

As emphasised in the Accession Partnership continued transposition of legislation is required through the establishment and implementation of detailed approximation programmes and the monitoring and implementation control structures shall be developed.

In this context the objectives are to:

- develop the functional institutional structures for environment, including the setting up of a continuous planning mechanism, and the realisation of accession programmes in the field of the environment;
- continue the transposition of the legal framework and horizontal legislation, including establishment of detailed approximation programmes and creation of implementation strategies;
- improve the environmental infrastructure in relation to pollution control, reduced pollution emissions, the protection of environmental resources and public health and safety.

Institution building:

Special attention will be paid to water protection, air quality, waste management and nature protection. Priority will be given to the elaboration and adoption of the legislative framework as well as the supporting regulations in order to ensure application of European norms and standards in all areas of environment and especially in the area of water quality and waste management, EIA, integrated pollution prevention and control, right of the public to access environmental information, economic regulators.

The outputs of the project will be legislation harmonised with EU, strengthened capacity of the MEW including the National Environmental Protection Fund, overall strategy for the MEW, updated National Environmental Action Plan, environmental public awareness programme, established system for automated exchange of information between monitoring stations, established national cadastre for protected areas and the provision of relevant information to the public.

The successful implementation of the project requires that the MEW secures funding for the recurrent costs in human and operational terms which will be triggered by the improved infrastructure provided.

Environmental investments

The investment projects will contribute to the implementation of measures for some of the most important directives on environment. The project will permit initiation of effective implementation of the EC standards for water quality and waste management as specified in the Accession Partnership and the NPAA.

The outputs will be completion of the second phase of the reconstruction of the Buhovo tailings pond and reconstruction and improvement to environmental standards of production facilities of the non-ferrous metal works in Gara Iskar.

The Buhovo site is located 20 km north-east of Sofia in a mountainous zone. Uranium mining activities ceased in 1992 in Bulgaria. Following detailed studies, the tailings dam of the Buhovo uranium mine was declared no longer adequately safe and the facility producing the tailings ceased operation. Today, the Buhovo tailings pond is potentially one of the most dangerous facilities surrounding Sofia.

The works for Buhovo are intended to minimise the risk of contamination from the tailings pond and eliminate the contamination of water by preventing contaminated water leaving the site and entering drinking water supplies.

The Gara Iskar Non-Ferrous Metal Company is located in the East Sofia Industrial Zone. The plant utilises a metal pickling operation involving emission of sulphuric acid and oxides of sulphur. This currently poses serious threats to both the health and safety of the workforce and also results in acid and heavy metal discharges to the environment (air, soil and water resources). The elimination of this major environmental hazard will be achieved through the replacement of an air cooling line for brass extrusions which requires subsequent acid pickling with an anaerobic water cooled extrusion process. The termination of the pickling operation would mainly eliminate the discharge of sulphuric acid into the atmosphere, and would prevent the contamination of the waste and ground water with acid solutions.

In addition to the co-financing requirements for the Gara Iskar being fulfilled the conditionality for this project is the establishment within the National Environmental Protection Fund of an effective operational structure for the project management.

Objective 5 : Transport - IFI co-financed projects (Sofia Airport)

In line with the Accession Partnership the overall objective is to provide practical assistance to the Republic of Bulgaria for development of transport infrastructure, regulations and practices in line with the EU policy. Harmonisation with the *acquis communautaire* on matters of safety, security, competition, customs and border control provisions at Sofia airport, in advance of Bulgaria's application for membership of the Community.

Sofia Airport Development (IFI co-financed project)

The project is directed to the development, upgrading and expansion of Sofia Airport. The object will also be for the Airport to become commercially efficient with improved quality control and improved customer service, thereby increasing business and revenue.

Sofia Airport is the national airport for Bulgaria providing access to the rest of Europe, North America, Africa and Asia, catering for regular and charter passenger flights plus cargo traffic. With the limited resources and capacity available, it is not possible to provide passengers with the facilities and comfort expected and demanded from a modern international airport. The situation would become even more acute with any increase in passenger numbers. Equally the cargo terminals are sub-standard and in the case of both passenger and freight terminals well below the recommendations set by the international civil aviation authority. The Government has decided to reconstruct and modernise the present operating airport to meet current and future air traffic demands. With this in mind a Master Plan for Reconstruction, Development and Extension of Sofia Airport has been developed and adopted.

A loan agreement for 60 MECU was signed in September 1997 between Government of the Republic of Bulgaria and the European Investment Bank (EIB) for financing of the reconstruction of Sofia Airport, the total costs of which is estimated at 128 MECU.

The project will provide for technical assistance for the project planning, design and supervision as well as the management of the airport in terms of operations, commercial issues, strategy, finance and administration.

The condition for the successful implementation of the project and the requirement of the EIB is the establishment of a Project Implementation Unit at the Sofia Airport.

The reconstruction of the airport will be the opportunity to transpose several aspects which are enforced in a Community airport. This includes air transport provisions (airport management, implementation of safety, security and competition rules), but also customs and border control provisions. The Ministry of Transport, which is chairing the project Steering Committee - which the Ministry of Finance and the Ministry of Interior are part of - will report on an annual basis to the EC about progress in these sectors.

Objective 6: Energy - Nuclear Safety

The Accession Partnership emphasis under energy in the short-term priorities the need to the respect of internationally recognised nuclear safety standards and realistic closure commitments for certain units as entered into in the Nuclear Safety Account Agreement. The medium-term priorities refers to Bulgaria's commitments on the phased closure of certain units of Kozloduy nuclear power plant, decommissioning and nuclear waste management plan.

Nuclear Safety measures for Kozloduy Nuclear Power Plant (KNPP)

As indicated in Agenda 2000 the main objective of the EU's strategy on nuclear safety is to ensure that upgrading undertaken in case of upgradable nuclear installations - KNPP Units 5 and 6 - is effectively implemented and leads to satisfactory results. For reactors that can not be upgraded at a reasonable cost - KNPP Units 1 to 4 - the objective is to secure definitive closure on the basis of a realistic and agreed timetable. The Nuclear Safety Account agreement with Bulgaria provides for conditional anticipated closure for the latter.

The objectives of this project is to assist the design safety and operational safety improvements and the KNPP operator and support the process of decommissioning and waste management.

This will be achieved through continuation of the assistance to the National Electricity Company (the operator of the KNPP) for the implementation of the programme for the modernisation of Units 5 and 6 and implementation of the agreed safety improvements of Units 1-4, including upgrading of equipment and piping to improve the steam generator control system and safety related seismic upgrading. As concerns the decommissioning preparations the project will provide assistance for the conceptual design of the pre-decommissioning stage for Units 1 and 2, the establishment of a state body for radioactive waste management and the establishment of funds for decommissioning and radioactive waste management as provided for in the legislation.

The Commission services are currently considering a Euroatom loan for the modernisation of the KNPP Units 5 and 6 to western safety standards.

The key conditionality for the nuclear safety project is that the short-term nuclear safety improvements applied for Units 1-4 achieve a high level of operational safety which do not go beyond the NSA closure commitments.

Objective 7: Regional Policy and Cohesion

The Accession Partnership identifies the short-term need to start the process of setting up structures needed for regional and structural policy and for the medium- term to introduce the legal basis and

development of administrative structures and budgetary procedures. Strengthen financial instruments and control mechanisms in order to participate in EU structural programmes after membership.

The European Commission has proposed two new pre-accession financial instruments which would be available to Bulgaria from 2000 onwards till 2006: the ISPA (Instrument for Structural Policies for Pre-Accession), and the SAPARD (Special Accession Programme for Agriculture and Rural Development). These will complement and be fully coordinated with the Phare assistance programme.

In that context, the increased Community financing, the required national public co-financing within a stable macro-economic context, implies that Bulgaria has to adapt its programming, implementing, monitoring, audit and evaluation capacity to be ready in time to implement efficiently the two new pre-structural instruments from year 2000 onwards and to ensure a smooth transition in order to benefit from the Structural Funds and the Cohesion Fund at the time of accession.

The following two projects are designed to facilitate this process.

Special Preparatory Programme for Structural Funds (SPP)

The objectives are to support:

- preparation of design and implementation of structural and cohesion policies in line with Objective 1-type programmes including the progressive shift in procedures towards the application of Structural Funds principles to enable a smooth transition at the time of accession;
- preparation and approval of a National Development Programme similar to those drawn-up for the EU cohesion member states;
- specific preparation necessary for the effective use of the new pre-accession instruments from year 2000 onwards;
- developing direct experience of the operational aspects of the conception, planning and implementation of an Objective 1-type of programmes at regional and local level through a specific integrated project in an area of declining industry and a rural development measure.

The outputs of the project will be institutional structures at national, regional and local level capable of implementing EU Structural Policy, a National Economic Development Plan for the whole territory of Bulgaria similar to the ones drawn up in Objective 1 Member States, an institutional framework for the future implementation of ISPA and SAPARD and selected projects/measures implemented.

The decision by the Government to establish and adequately staff a Central Co-ordination Unit to undertake the essential programming, planning and co-ordination activities necessary for the utilisation of the ISPA and SAPARD instruments and, subsequent to accession, the Structural Funds and the Cohesion Fund, is a precondition for the implementation of the SPP.

Project Preparation Facility - PPF

ISPA will provide assistance to contribute to the preparation for accession to the European Union of Bulgaria and other applicant countries. ISPA is intended to contribute to the objectives laid down in the Accession Partnership for Bulgaria and to the corresponding national programmes for the improvement of the environment and of transport infrastructure. ISPA will mirror the Cohesion Fund that is available to Objective 1 Member States.

SAPARD aims to provide support for sustainable agriculture and sustainable rural development for the pre-accession period for Bulgaria and other applicant countries.

If Bulgaria is to benefit fully from the ISPA and SAPARD funds from the moment they are proposed to become available, there is an immediate requirement to identify, select and prepare projects. The process for project preparation needs to be closely co-ordinated with the national budget preparation process in order to ensure that co-financing obligations are met by the Government of Bulgaria and that investments are properly identified in the budget to aid transparency and accountability.

The immediate objective of this project is to enhance the capacity to prepare:

- projects in the field of environment and transport to be financed under ISPA from year 2000,
- measures in the field of agriculture and rural development to be financed under the SAPARD from year 2000.

For the environment sector, priority projects will be identified based on a national investment strategy and project selection procedures. Specific institutional development assistance will be provided to the Ministry of Environment and the National Environment Protection Fund for this purpose.

Priority projects will focus on water and air pollution, waste management, productive investment in the field of environment as well as environmental protection.

For the transport sector, priority projects will be determined by the ongoing screening exercise conducted in close cooperation between the Ministries of Transport and Regional Development and Public Works. The output of this first exercise will be the establishment of a short list of projects for further preparation under the project preparation facility.

Projects will be selected for preparation on the basis of an assessment of their eligibility and on a provisional assessment of their quality according to the criteria described in the draft ISPA regulation.

The SAPARD measures will be the subject of a plan to be drawn up at the most appropriate geographical level, covering a period of seven years from 1/1/2000. Priorities will be given to measures to improve the market efficiency, quality and health standards, and measures to maintain jobs and creating new employment opportunities in rural areas, in compliance with the provisions on the protection of the environment. On the basis of this plan, a Programme for Rural Development will be submitted to the Commission by the Bulgarian authorities.

The outputs of PPF are eligible projects and measures identified, selected, fully prepared and detailed, and proposed for funding under ISPA and SAPARD in years 2000 and 2001. Actions foreseen are complimentary to the Special Preparatory Program (SPP).

An environmental impact assessment will be carried out for all investment projects.

Equal opportunity for men and women to participate in all projects will be ensured. Indicators will be elaborated to assess the extent of women's participation in projects.

3. BUDGET: National Programme Bulgaria 1998¹

Project N°	OBJECTIVE AREA: Projects	Budget MECU	Institution Building	Investment
BG9804	Objective 1: Political Criteria Civil Society Development	2.0	2.0	-

¹ Up to 20.4% of the budget may be contracted directly by the Commission and will not, therefore, be transferred to the National Fund.

BG9805	Objective 2: Economic reform Private Sector Development Bulgarian Post-Privatisation Fund	11.7	-	11.7
BG9806	Objective 3: Reinforcement of institutional and administrative capacity Institution building for the Ministry of Agriculture, Forestry and Agrarian Reform Transformation of customs Institution Building Facility	18.0	7.75	10.25
BG9807	Objective 4: Environment Institution building and investment projects for the Ministry of Environment & Water	7.3	2.0	5.3
BG9808	Objective 5 : Transport Transport-IFI co-financed projects (Sofia Airport)	7.6	3.6	4.0
BG9809	Objective 6 : Energy Nuclear Safety measures for Kozloduy Nuclear Power Plant	6.0	1.8	4.2
BG9810	Objective 7 : Regional Policy and Cohesion Special Preparatory Programme for Structural Funds Project Preparation Facility	10.0	4.8	5.2
	TOTAL	62.6	21.95	40.65

Note: Under separate Financing Memoranda the 1998 Phare programme will provide Bulgaria with an additional 1,374 MECU for participation in EC Programmes and 4,0 MECU for TEMPUS.

4. IMPLEMENTATION ARRANGEMENTS

The programme will be managed in accordance with the Phare Decentralised Implementation System (DIS) procedures. The National Aid Co-ordinator (NAC) will have overall responsibility for programming, monitoring and implementation of Phare programmes.

The National Fund (NF) in the Ministry of Finance, headed by the National Authorising Officer (NAO) will supervise the financial management of the programme, and will be responsible for financial reporting to the European Commission. Appropriate financial control shall be carried out by the competent National Financial Control Authority with respect to the implementation of the programme.

The Commission will transfer funds to the NF following requests from the NAO in accordance with provisions in a Memorandum of Understanding to be signed between the Commission and the Government of Bulgaria in 1998. Funds will be transferred following request from the NAO. A payment of up to 9.96 MECU will be transferred to the NF following signature of the Financing Memorandum. Four replenishments will be made of up to 9.96 MECU or the full balance of the budget whichever is the lesser amount. The first replenishment will be triggered when 10% of the budget has been disbursed by the IAs and the CFCU. The second replenishment may be requested when 30% of the total budget in force has been disbursed.

The trigger point for the third replenishment is 50%, and for the final fourth instalment when 70% is disbursed. Save for the prior authorisation of the Commission HQ, no replenishment request may be made if the aggregated of the funds deposited in the NF and the IAs exceeds 10% of the total budget in force of the commitment. Exceptionally, the NAO may request an advance payment of more than 20% in accordance with the procedures laid down in the aforesaid Memorandum of Understanding.

In the case of the Bulgarian Post Privatisation Fund (BPPF) project the Commission will transfer funds directly to the EBRD under a Technical Co-operation Agreement.

In the case of the following foreseen twinning arrangements, the Commission will transfer funds to finance long-term secondments of staff directly to a Bureau d'Assistance Technique: agriculture, environment, customs, occupational health and safety and the SPP.

Implementing Agencies will be responsible for projects as follows

Implementing Agencies - IA	Responsible in relation to project
Central Finance and Contracts Unit	Transformation of customs; Institution Building Facility; Nuclear Safety measures; Special Preparatory Programme for Structural Funds; Project Preparation Facility
Civil Society Development Foundation	Civil society development
Ministry of Agriculture Integration Policy Department	Developing the agricultural administrative, veterinary and phytosanitary capacity
Ministry of Environment and Water	Institution building and investment projects for the Ministry of Environment
Ministry of Transport	Co-financed projects (Sofia Airport)
Council of Ministers: SARA Programme Secretariat	Private Sector Development

The National Fund will transfer funds to Implementing Agencies (IAs), including the Central Finance and Contracts Unit (CFCU), in accordance with Financing Agreements (FAs) signed between the NFs and the IAs/CFCU. Each individual FA will be endorsed in advance by the European Commission. In cases where the NF is itself the paying agent for the IA/CFCU there will be no transfer of funds from the NF to the CFCU. The CFCU and the IAs will each be headed by a Programme Authorising Officer (PAO) appointed by the NAO after consultation with the NAC. The PAO will be responsible for all the operations carried out by the relevant CFCU/IA.

A separate interest bearing account, denominated in ECU will be opened and managed by the NF in a separate accounting system in a bank agreed in advance with the Commission. Interest will be reported to the European Commission; if the Commission so decides, on the basis of a proposal from the NAO, interest may be reinvested in the programme. The same procedure will apply to any funds transferred to an IA or the CFCU.

The NAO and the PAOs will ensure that all contracts are prepared in accordance with the procedures set out in the DIS Manual with the exception of the BPPF project and for twinning arrangements for which separate measures have been defined by the Commission. All contract will be greater than 2 MECU, except in the case of the Civil society project and some areas where it would be deemed more efficient in terms of absorption capacity not to conclude too large contracts (concerns private sector development, nuclear safety and statistics).

All contracts must be concluded by 31 December 2000. All disbursements must be made by 31 December 2001. In the case of the Transport - IFI co-financed (Sofia Airport) project disbursements must be made by 31 December 2002.

Any funds not used by the expiry date of the programme will be recovered by the Commission.

For those contracts with funds retained for a warranty period extending beyond the end of the disbursement period of the programme, the overall total of funds related to those contracts, as calculated by the PAO and established by the Commission, will be paid to the Implementing Agency/CFCU before the official closure of the programme. The Implementing Agency/CFCU assumes full responsibility of depositing the funds until final payment is due and for ensuring that said funds will only be used to make payments related to the retention clauses. The Implementing Agency/CFCU further assumes full responsibility towards the contractors for fulfilling the obligations

related to the retention clauses. Interests accrued on the funds deposited will be paid to the Commission after final payment to the contractors. Funds not paid out to the contractors after final payments have been settled shall be reimbursed to the Commission. An overview of the use of funds deposited on warranty accounts - and notably of the payments made out of them - and of interests accrued will annually be provided by the NAO to the Commission.

5. MONITORING AND ASSESSMENT

A Joint Monitoring Committee (JMC) will be established. It will include the NAO, the NAC and the Commission. The JMC will meet at least once a year to review all Phare funded programmes in order to assess their progress towards meeting the objectives set out in the Financing Memoranda and the Accession Partnership. The JMC may recommend a change of priorities and/or the reallocation of Phare funds.

The JMC will be assisted by Monitoring Sub-Committees (MSC) and will include the NAC, the NAO and the PAO of each IA, the CFCU and the Commission Services. The MSC will review in detail the progress of each programme, including its components and contracts, on the basis of regular Monitoring and Assessment reports produced with the assistance of external consultants (in accordance with the provisions of the DIS Manual), and will put forward recommendations on aspects of management and design, ensuring these are effected. The MSC will report to the JMC, to which it will submit overall detailed reports on all Phare financed programmes.

6. AUDIT AND EVALUATION

The accounts and operations of the National Fund, the CFCU and all relevant Implementing Agencies may be checked at the Commission's discretion by an outside auditor contracted by the Commission without prejudice to the responsibilities of the Commission and the European Union's Court of Auditors as referred to in the General Conditions relating to the Financing Memorandum attached to the Framework Agreement.

The Commission services shall ensure that an ex-post evaluation is carried out after completion of the programme.

7. VISIBILITY AND PUBLICITY

The appropriate Programme Authorising Offices will be responsible for ensuring that the necessary measures are taken to ensure appropriate publicity for all activities financed from the programme. This will be done in close liaison with the Commission Delegation. Further details are at the Annex.

8. SPECIAL CONDITIONS

In the event that agreed commitments are not met for reasons which are within the control of the Government of Bulgaria, the Commission may review the programme with a view, at the Commission's discretion, to cancelling all or part of it and/or to reallocate unused funds for other purposes consistent with the objective of the global Phare programme.