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 is 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:

Programme number: BG2004/006-070
Title: 2004 Phare National Programme for Bulgaria (Part 1)
Duration: Until 30 November 2006

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 12,972 M€ hereinafter referred to as "THE EC GRANT".

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1 The Financing Memorandum structure is as follows : 1. the cover pages with the references to the country concerned, amount and authority to sign, 2. Framework Agreement incl. Annex A and Annex B; Annex C – Special Conditions (the text of the adopted financing proposal starting from Description and Objectives onwards; and Annex D 'Visibility/Publicity.
ARTICLE 3 - DURATION AND EXPIRY

For the present MEASURE, THE EC GRANT is hereby available for contracting until 30 November 2006 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 30 November 2007 with the exception of the project BG2004/006-070.05.01, where the deadline for disbursement is 30 November 2008. All disbursements must be completed by the deadline for 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. In no case can the contracting period for projects implemented under this programme exceed three years after the date of the global commitment (Art. 166 (2) FR). Budgetary commitments which have not given rise to payments during three years counted from the date of the legal commitment will be decommited (Art. 77 (3) FR).

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
9 Moskovska Str
PO Box 668
BG-1000 Sofia
Bulgaria

Tel: (+359 2) 933 5252
Fax: (+359 2) 933 5233

for THE RECIPIENT:

Mr Milen Veltchev
Minister of Finance
102 Rakovski St
BG-1040 Sofia
Bulgaria

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 16/09/2004

for THE RECIPIENT
M.R. MIGREN VELCHEV
MINISTER OF FINANCE

for THE COMMUNITY


Encl.:

2. Special Provisions (Annex C)
3. Visibility/Publicity (Annex D)
ANNEX C TO THE FINANCING MEMORANDUM

SPECIAL PROVISIONS

1. OBJECTIVES, DESCRIPTION AND CONDITIONALITIES

The Bulgarian authorities have agreed with the Commission that Phare 2004 should focus on six overarching priorities related to accession.

These priorities are:

- Strengthen public administration at all levels and the judiciary;
- Improve transparency, financial control and the fight against corruption and fraud;
- Promote economic growth and competitiveness and social cohesion;
- Integrate minority and vulnerable groups into mainstream society and create a more dynamic and pluralist civil society;
- Enhance the administrative and judicial capacity to implement and enforce legislative measures and assume the obligations of EU membership;
- Improve the strategic planning and effective utilisation of EU funds and prepare for Structural Funds (including implementing EDIS).

Summary descriptions\(^1\) of the individual projects grouped under a number of accession related Objectives are as follows:

**BG2004/006-070.01.01: Development of an adult training centre network**
This project, which involves Technical Assistance and a grant scheme, aims to improve the employability and adaptability of the labour force and prevent social exclusion as well as adapt the Bulgarian employment system for implementation of the European Employment Strategy. It focuses on building up a system for vocational training of adults corresponding to the needs of a dynamic market economy.

**BG2004/006-070.02.01: Institutional Building at the Energy Efficiency Agency**
This project, which involves twinning and modest investment, aims to enhance the administrative capacity of the Energy Efficiency Agency by developing staff and public awareness and improving implementation. It focuses on capacity to implement different policy and operational tasks under the New Energy Efficiency Act:

- establishing a National Energy Information Centre and increased public awareness of energy efficiency and clean and renewable energies issues;
- the provision of mobile measuring laboratory equipped with portable measuring instruments and computer software and hardware;
- the capacity to implement different energy audits on buildings and/or installations.

\(^1\) Descriptions are indicative; some details may be changed
**BG2004/006-070.03.01: Support of the Implementation of the Strategy for Reform of the Judiciary through the Introduction of Information Technologies Phase – Phase 2**

This project, which involves Technical Assistance and investment, is the second phase of a 2003 project. It aims to continue the Judiciary business computerisation, facilitate the Judiciary users day-to-day work, achieve immediate provision and control of Judiciary information, strengthen the administrative capacity of Ministry of Justice “Information Service and Technologies” Directorate and introduce proper IT standards and methodology in the MoJ “Information Service and Technologies” Directorate. It focuses on computerisation of the main business functions of the Judiciary system and providing experienced Technical assistance in the areas of IT and Judiciary specific systems area.

**BG2004/006-070.03.02: Establishment of Mobile Units for Border Control and Surveillance at the Bulgarian-Turkish, Black Sea and Western-Phase 2**

This project, involving investment, is the second phase of a 2003 project. It aims at further strengthening of the border management in Bulgaria, through introduction of operational standards and requirements based upon the EU best practices of border control, as well as through modernisation of the equipment in compliance with the EU standards for external borders. It focuses on further stimulation of the process of strengthening border control and management through introduction of surveillance equipment in the border regions of Elhovo (the border with Turkey) and Bourgas (the Black Sea border) in order to fight effectively all forms of criminality that takes place across the Bulgarian state border. It constitutes the first phase of an expected multi-year Phare investment in this area.

**BG2004/006-070.04.01: Updating the technological environment of the Financial Intelligence Agency**

This project, which involves Technical Assistance and investment, aims to improve the functioning of the Bulgarian financial intelligence unit as key institution for Bulgaria involved in counteracting money laundering according to the anti-money laundering acquis, by providing a modern, consistent, secured and practical information system accompanied with automatic tools. It focuses on:

- re-structuring the Information System and introducing analytical tools;
- full deployment of analytical tools for all divisions;
- enabling the IT-capacity and information infrastructure of FIA to meet the challenges of modernization of the financial system and the new methods of payment.

**BG2004/006-070.05.01: Ethnic minorities labour market integration**

This project, which involves Technical Assistance and a grant scheme, aims to contribute to the social and economic integration of disadvantaged minority communities in Bulgaria by implementing targeted active labour market policies in selected areas with ethnically mixed population. It also aims to assist the implementation of the measures under the chapter “Employment” of the Framework Programme for Equal Integration of the Roma in Bulgarian Society. It focuses on creating long term employment opportunities for disadvantaged minority groups in the selected geographical areas through implementing targeted vocational training scheme and targeted business support activities.
Lessons Learned

Experience with the implementation of Phare programmes in previous years and evaluation have led to a number of general lessons being learned. These lessons are reflected in the design and implementation of the 2004 National Programme. The most important lessons relate to constraints on Bulgarian administrative capacity both across the board in many line Ministries and agencies and more specifically in Ministries acting as Implementing Agencies. Medium to long term efforts to reinforce this capacity are already under way and will be supplemented in Phare 2004, but in the meantime additional measures have been put in place to assist. These include efforts to support horizontal public administration reform, limiting the number of grant schemes as these place extra burdens on administrative capacity, restricting the number of Implementing Agencies, avoiding complex multi-phase contracting and building in an unallocated reserve for institution building. Another key lesson is that the success of Phare projects, especially institution building, depends on continuity of key senior and working level personnel. In addition to conditionality in project agreements, this issue is being addressed in the context of public sector reform and strengthening, e.g. by developing civil service contracts and conditions to avoid politically motivated staff transfers.

More specific lessons relating to individual sectors, Ministries or project types have also been learned and are reflected in individual project documents.

Overall programme conditionalities

Before the Financing Memorandum between the Commission and the Government of Bulgaria is signed, the National Aid Coordinator will satisfy the Commission that it is taking adequate steps to staff and resource adequately the National Fund, CFCU, Ministry of Regional Development and Public Works, other Implementing Agencies and project management units involved in implementing this programme.

Before the Financing Memorandum between the Commission and the Government of Bulgaria is signed, the National Aid Coordinator will confirm the availability of the national co-financing indicated in each project fiche, and the modalities for combining Phare and national co-financing when projects are contracted.

Any project involving the supply of equipment and works requires national co-financing as shown in the relevant project fiche. If the total cost of such equipment or works is less than the amount envisaged in the fiche, the amount of Phare support will be reduced to maintain unchanged the relative proportions of Phare support and national co-financing shown in the fiche. If the total cost is greater than the amount envisaged in the fiche, the extra support required will be provided by additional national co-financing.

Before the Financing Memorandum between the Commission and the Government of Bulgaria is signed, the National Aid Coordinator will satisfy the Commission that draft twinning covenants, terms of reference and technical specifications have been prepared, as appropriate, to allow each project to be launched immediately.

For any project delivered partly or wholly by twinning, a draft twinning covenant shall be presented to the Commission Delegation for approval within four months of notification of selection of the twinning partner.
If no draft covenant is presented within this period, the Commission may re-circulate the project to Member States for selection of a new twinning partner, tender the project for commercial technical assistance, or cancel the project.

Projects to be implemented through twinning or twinning light require the full commitment and participation of the senior management of the beneficiary institution. In addition to providing the twinning partner with adequate staff and other resources to operate effectively, the senior management must be fully involved in the development and implementation of the policies and institutional change required to deliver the project results.

For projects involving more than one Bulgarian Ministry or agency, the National Aid Co-ordinator will ensure that effective mechanisms for co-operation and co-ordination between such Ministries or agencies are in place.

Further project-specific conditionalities are described in each project fiche.

2. **Budget**

2.1 **Budget Table**

<table>
<thead>
<tr>
<th>No</th>
<th>DAC/CRS Code</th>
<th>OBJECTIVE</th>
<th>IB</th>
<th>INV</th>
<th>Total Phare (in M€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>16110</td>
<td>Employment, Social policy and Education</td>
<td>0.700</td>
<td>1.725</td>
<td>2.425</td>
</tr>
<tr>
<td>02</td>
<td>23010</td>
<td>Energy</td>
<td>0.750</td>
<td>0.250</td>
<td>1.000</td>
</tr>
<tr>
<td>03</td>
<td>15030</td>
<td>Justice and Home affairs</td>
<td>1.200</td>
<td>5.750</td>
<td>6.950</td>
</tr>
<tr>
<td>04</td>
<td>24010</td>
<td>Customs and Finance</td>
<td>0.034</td>
<td>0.363</td>
<td>0.397</td>
</tr>
<tr>
<td>05</td>
<td>25010</td>
<td>Economic and Social cohesion</td>
<td>0.200</td>
<td>2.000</td>
<td>2.200</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>2.884</strong></td>
<td><strong>10.088</strong></td>
<td><strong>12.972</strong></td>
</tr>
</tbody>
</table>

(The distribution of figures between the budget lines is indicative within the limits of Art. 5 MoU NF)

2.2 **Principle of Co-Financing**

In accordance with the Phare Guidelines, all investment projects supported by Phare must receive co-financing from national public funds.

The Community contribution may amount to up to 75% of the total eligible public expenditure. Taxes are not an element eligible for co-financing.

Co-financing for Institution Building projects is provided by the Beneficiary Country bearing certain infrastructure and operational implementation costs, through financing the human and other resources required for effective and efficient absorption of Phare assistance.
3. IMPLEMENTING AGENCIES

Implementing Agencies will be responsible for sub-programmes as follows:

The Central Finance and Contracting Unit (CFCU) of the Ministry of Finance will be the Implementing Agency for all programmes and sub-programmes with the following exceptions:

- Ministry of Labour and Social Policy: BG2004/006-070.01.01 Development of an adult training centre network and
- BG2004/006-070.05.01 Ethnic minorities labour market integration.

4. IMPLEMENTATION ARRANGEMENTS

4.1. Method of Implementation

Implementation of the programme will follow Art. 53 (1) b (second alternative) of the Financial Regulation\(^2\). Prior to the accreditation of Implementing Agencies foreseen by Art. 12 (2) of Regulation 1266/1999\(^3\), project selection, tendering and contracting by the Beneficiary Country will be subject to ex-ante approval by the Commission.

4.2. Procurement

Procurement shall follow the provisions of Part 2, Title V of the Financial Regulation and Title 5 of its Implementing Rules\(^4\), as well as the Commission Decision SEC (2003) 387/2\(^5\).

The Contracting Authorities shall also use the procedural guidelines and standard templates and models provided for in the “Practical Guide to contract procedures financed from the general EC budget in the context of external actions” as published on the EuropeAid website\(^6\) at the date of the initiation of the procurement or grant award procedure.

In line with Art. 164 of the Financial Regulation, the Commission may decide to allow the Contracting Authorities entrusted with decentralised management responsibilities to execute procurement in accordance with procedures and guidelines transposing the European Union Public Procurement Directives.

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\(^5\) Commission Decision SEC (2003) 387/2 on the general regulations for service, supply and works contracts financed from the general budget of the European Communities in the course of co-operation with third countries, adopted on March 25, 2003
\(^6\) current address: http://europa.eu.int/comm/europeaid/tender/gestion/index_en.htm
4.3. Procurement Principles for Grant Schemes

For grant schemes in the field of economic and social cohesion, the precise implementation arrangements will be specified in the relevant project fiches in line with the following principles:

The procedures and formats to be used in the implementation of the schemes and award of the grants will follow the rules for External Actions. In particular, due care will be given to the selection process of the projects.

Grants will be awarded in conformity with the provisions of chapter 6 of the Practical Guide, and following the principles of Phare decentralised management. Prior to EDIS accreditation, the ex-ante approval of the Commission Delegation in Sofia will be required.

The competent PAO for the programme under which the grant scheme is financed has to retain his/her contractual and financial responsibility for the implementation of the schemes. In particular, the PAO has to formally approve the call for proposals, application forms, evaluation criteria, as well as the selection process and results. The PAO also has to sign the grant contracts with the beneficiaries and to ensure adequate monitoring and financial control under his/her authority and responsibility. With this reservation, the management can be decentralised from the PAO to the appropriate bodies at sectoral or regional level.

The implementation of selected projects through provision of works, supplies and services, which are sub-contracted by the final beneficiaries of the individual grants shall be subject to the procurement rules in use for External Actions at the time of implementation. Following a positive assessment of the Implementing Agency’s capacity to operationally and financially manage the schemes in a sound and efficient manner, the Commission Delegation may decide to waive its ex-ante approval of sub-contracting carried out by the final beneficiaries of the individual grants. The detailed provisions governing the role of the Delegation in the above-mentioned sub-contracting phase will be specified, as appropriate, in the Exchange of Letters between the Delegation and the national authorities following the above-mentioned assessment exercise.

Grant schemes will not involve projects for which the Phare contribution is below € 50,000 or above € 2 million. This lower limit may be waived as a result of the above-mentioned assessment of the Implementing Agency’s capacity of giving assurance of sound financial management. The lower limit is not applicable in the case of NGOs.

The financial commitments in Phare terms will be effected at the date of signature of the grants contract by the competent PAO. The projects should be fully implemented before the expiry date for contract execution of the corresponding Financing Memorandum.

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7 see section 11 and Annex 4 of the 2004 Phare Programming Guide
4.4 Implementation Principles for Twinning Projects

The amounts foreseen for Twinning projects will cover the eligible costs (as set down in the rules applicable for Twinning) for implementing the work plan agreed between the Twinning partners.

The eligible costs may include costs incurred by the selected Partner State during the preparation of the Twinning covenant in the period between signature of the Financing Memorandum and the final notification of the financing approval of the covenant.

5. MANAGEMENT OF ASSISTANCE

5.1. Project Management

5.1.1. Responsibilities

The national Aid Co-ordinator (NAC) will have overall responsibility for programming and monitoring of Phare programmes.

The National Authorising Officer (NAO) and the NAC shall be jointly responsible for the co-ordination between Phare (including Phare CBC), ISPA and SAPARD, as well as the Structural and Cohesion Funds.

The NAO and the Project Authorising Officer (PAO) will ensure that the programmes are implemented in line with the procedures laid down in the instructions of the Commission. They will also ensure that all contracts required to implement the Financing Memorandum are awarded using the procedures and standard documents for External Actions in force at the time of implementation, and that EU state aid rules are respected.

5.1.2. Project Size

All projects will be greater than 2 M €, except those in the following areas:

a) projects focused primarily on institution building where the Bulgarian Ministry/agency concerned has limited absorptive capacity and cannot utilise as much as € 2 million

and

b) focused investments constituting part of a multi-annual package of support.

5.1.3. Deadline for contracting and execution of contracts, programming deadline

(1) All contracts must be concluded by no later than November 30, 2006.

(2) All contracts must be executed by no later than November 30, 2007.

In the cases of the following more complex project in an underdeveloped sector, however, contracts must be executed by no later than 30 November 2008. Further justification is provided in the project fiche:
(3) Under DIS, a complete tender dossier must be submitted to the Delegation for approval by no later than 31 May 2006. In case of non-compliance, the Beneficiary Country will inform the JMC, which may recommend reallocation of funds in accordance with Art. 5 of the MoU on the National Fund.

5.1.4. Environmental Impact Assessment and Nature Conservation

The procedures for environmental impact assessment as set down in the EIA-directive are fully applicable for all investment projects under Phare. If the EIA-directive has not yet been fully transposed, the procedures should be similar to the ones established in the above-mentioned directive. If a project would fall within the scope of annex 1 or annex 2 of the EIA-directive, the carrying out of the EIA-procedure must be documented.

If a project is likely to affect sites of nature conservation importance, an appropriate assessment according to Art. 6 of the Habitats-directive must be documented.

All investments shall be carried out in compliance with the relevant community environmental legislation. The project fiches will contain specific clauses on compliance with the relevant EU-legislation in the field of the environment according to the type of activity carried out under each investment project.

5.2. Financial Management

5.2.1. Principles and Responsibilities

The National Fund in the Ministry of Finance, headed by the NAO, will supervise the financial management of the programme, and will be responsible for reporting to the European Commission. The NAO shall have the overall responsibility for financial management of the Phare funds, and the full accountability for the Phare funds of a programme until the closure of that programme.

The NAO shall ensure that the Phare rules, regulations and procedures pertaining to reporting and financial management are respected, and that a reporting and project information system is functioning.

The Commission will make payments to the NF in accordance with the Memorandum of Understanding signed between the Commission and the Republic of Bulgaria in December 1998.

Payments will be made following requests from the NAO onto a separate bank account, denominated in €, which will be opened and managed by the National Fund in the Central Bank. In principle, all bank accounts will be interest bearing. Interest will be reinvested in the programme.

8 DIR 85/337/EEC; OJ L 175/40; 5.7.1985, as amended
9 in Annex EIA to the corresponding investment project fiche.
10 In Annex Nature Conservation to the corresponding investment project fiche
5.2.2. Payments to the National Fund

A first payment\(^{11}\) of up to 20% of the funds to be managed locally\(^{12}\), will be sent to the NF following signature of the Financing Memorandum and the Financing Agreements (FAs) between the NF and the Implementing Agencies (IAs)/Central Finance and Contracts Unit (CFCU). Furthermore, the NAO must submit to the Commission the designation of the PAOs and a description of the system put in place, highlighting the flow of information between the NF and the IA/CFCU and the manner in which the payment function between them will be carried out.

Two further payments\(^{13}\) of up to 30% of the funds to be managed locally\(^{14}\) will be made. The second payment will be triggered when 5% of the total budget in force\(^{15}\) has been disbursed by the IAs and the CFCU. The third payment may be requested when 35% of the total budget in force\(^{16}\) has been disbursed.

A final fourth payment will be made when 70% of the total budget in force\(^{17}\) has been disbursed and all contracts have been signed.

Exceptionally the NAO may request more than the percentage agreed where it can be demonstrated by a cash-flow projection that the cash-flow requirements in the subsequent period will exceed such percentage. In cases where the aggregate of the funds deposited in the NF, CFCU and IAs accounts exceeds 15% of the total budget in force for the programme the Commission may exceptionally authorise a payment, if the NAO provides duly substantiated evidence that contractual obligations cannot be met with the funds available.

5.2.3. Payments from the National Fund to the Implementing Agency

The National Fund will make payments to IAs, including the CFCU, in accordance with Financing Agreements signed between the NF and the IAs/CFCUs. Bank accounts for sub-programmes shall be opened in the name of the relevant Implementing Agency/CFCU in charge of financial management of the sub-programme in line with Art. 13 of the MoU on the National Fund.

As long as implementation follows DIS, each individual FA must be endorsed in advance by the European Commission. In cases where the NF is itself the paying agent for the CFCU/IA there will be no payments from the NF to the CFCU. The CFCU and the IAs must 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 operations carried out by the relevant CFCU/IA.

\(^{11}\) representing pre-financing as defined in Art. 105 (1) of the Implementing Rules to the Financial Regulation

\(^{12}\) excluding the amount foreseen for Community Programmes

\(^{13}\) representing pre-financing as defined in Art. 105 (1) of the Implementing Rules to the Financial Regulation

\(^{14}\) excluding the amount for Community Programmes

\(^{15}\) excluding the amount for Community Programmes

\(^{16}\) excluding the amount for Community Programmes

\(^{17}\) excluding the amount for Community Programmes
5.2.4. Payments to the National Fund for Participation in Community Programmes and Agencies

A single payment to the National Fund will be made, covering the full amount of the Phare part of the financial contribution for participation in Community programmes and agencies. This payment will be made following signature of the Financing Memorandum and upon request from the National Fund.

This payment is separate from the payments made for the rest of the programme. The Phare contribution for each programme will, however, only be transferred when the Association Council Decision or Memorandum of Understanding establishing the terms and conditions for participation in that programme is in force.

If there is a delay in the entry into force of some of the Memoranda of Understanding, the payment to the National Fund may be divided into two or more instalments, so that 100% of the funds necessary for the programmes in force can be paid immediately. The National Fund is responsible for transferring the funds back to the Commission, following the call for funds of the Commission service responsible for the programmes concerned and within the deadlines requested.

5.2.5. Payments in Case of Contractual Retention Clauses

For those contracts with contractual retention clauses (e.g. funds retained for a warranty period), the overall total of funds related to those contracts (as calculated by the PAO and established by the Commission) will be paid to the IA before the deadline for execution of contracts. The Implementing Agency assumes full responsibility for depositing the funds until final payment is due, as well as for ensuring that the said funds will only be used to make payments related to the retention clauses.

The IA further assumes full responsibility towards the contractors for fulfilling the obligations related to the retention clauses. Funds not paid out to the contractors after final payments have been settled shall be reimbursed to the Commission.

5.2.6. Closure of Expenditure and Clearance of Accounts

No later than eight months after the end of execution of contracts, the NF will submit a final declaration of expenditure and an attestation regarding the regularity, accuracy and veracity of the accounts transmitted. The final certified expenditure should at this point equal the original value of the contracts minus any deductions and savings agreed with contractors in the course of implementation. This should also equal payments made plus any sums outstanding on account of contractual retention.

If the payments received from the Commission exceed the final certified expenditure, the NF shall return the excess to the Commission at the time of submitting the final declaration. If there are any outstanding payments (with the exception of contractual retention funds), the NF should provide an explanation and a forecast when payment will be finalised. The NF shall report on progress on contractual retention funds and outstanding payments on a quarterly basis. If they are not paid to the contractor, they shall be returned to the Commission.
After evaluation of the final declaration, the Commission will state its view on any expenditure to be excluded from Community funding, where it finds that expenditure has not been executed in compliance with Community rules.

The results of the Commission’s checks and its conclusions to exclude expenditure from financing will be notified in writing to the NF, which shall be given one month to transmit its reply in writing.

If no agreement is reached within one month of receipt of the NF’s written reply, the Commission shall decide and establish the amounts to be excluded, having regard in particular to the degree of non-compliance found, the nature and gravity of the infringement as well as the financial loss suffered by the Community.

Following the decision about amounts to be excluded, all ineligible expenditure will be recovered without prejudice to the treatment of irregularities and subsequent financial compensation in accordance with Community rules.

6. MONITORING AND EVALUATION

Project implementation will be monitored through the Joint Monitoring Committee (JMC). It includes the NAO, the NAC and the Commission services. 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 reallocation of Phare funds. Furthermore, the JMC will review the progress of all pre-accession EU-funded assistance programmes once a year (Phare, ISPA, SAPARD).

For the Phare programme, the JMC will be assisted by Sectoral Monitoring Sub-Committees (SMSC), which will include the NAC, the PAO of each Implementing Agency (and the CFCU where applicable) and the Commission Services. The SMSC will review in detail the progress of each programme, including its components and contracts, assembled by the JMC into suitable monitoring sectors. Each sector will be supervised by one SMSC on the basis of regular monitoring reports produced by the Implementing Agency, and interim evaluations undertaken by independent evaluators. The SMSC will put forward recommendations on aspects of management and design, ensuring that these are effected. The SMSC will report to the JMC, to which it will submit overall detailed opinions on all Phare financed programmes in its sector.

The Commission services shall ensure that an ex-post evaluation is carried out after completion of the programme.
7. Audit, Financial Control, Anti-Fraud Measures, Preventive and Corrective Actions

7.1. Supervision and Financial Control by the Commission and the European Court of Auditors

All Financing Memoranda as well as all resulting contracts are subject to supervision and financial control by the Commission (including the European Anti-Fraud Office) and audits by the Court of Auditors. As long as EDIS is not yet applicable to the Implementing Agencies in the Beneficiary Country, this includes measures such as ex-ante verification of tendering and contracting carried out by the Delegation in the Beneficiary Country.

In order to ensure the efficient protection of the financial interests of the Community, the Commission (including the European Anti-Fraud Office) may conduct on-the-spot checks and inspections in accordance with the procedures foreseen in Council Regulation (EC, Euratom) 2185/96.\(^\text{18}\)

The controls and audits described above are applicable to all contractors and subcontractors who have received Community funds. Without prejudice to the responsibilities of the Commission and the European Court of Auditors\(^\text{19}\), the accounts and operations of the National Fund and, where applicable, the CF CU and all relevant Implementing Agencies may be checked at the Commission’s discretion by the Commission itself or by an outside auditor contracted by the Commission.

7.2. Obligations of the Beneficiary Country

7.2.1. Audit and Financial Control

In order to ensure sound financial management of the Phare funds, the Beneficiary Country must have a system for management and control of assistance in accordance with generally accepted principles and standards in place. This system shall fulfil the requirements set out in Art. 164 of the Financial Regulation, and in particular provide adequate assurance of the correctness, regularity and eligibility of claims on Community assistance.

The Beneficiary Country’s management and control systems shall provide a sufficient audit trail, as defined in Art. 7 (2) of Commission Regulation 438/2001.\(^\text{20}\)

The competent national financial control authority shall carry out appropriate financial controls of all actors involved in the implementation of the programme.

Each year an audit plan and a summary of the findings and main recommendations of the audits carried out and an outline of the follow-up given to past audit recommendations shall be sent to the Commission. Audit reports shall be at the disposal of the Commission.

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\(^{19}\) as referred to in the General Conditions relating to the Financing Memorandum" attached to the Framework Agreement

7.2.2. Preventive Measures

The Beneficiary Country shall take any appropriate measure to prevent and counter active and passive corruption\(^{21}\) practises at any stage of the procurement procedure or grant award procedure, as well as during the implementation of the programme.

7.2.3. Anti-Fraud Measures and Corrective Actions

Beneficiary Countries shall, in the first instance, bear the responsibility to ensure investigation and satisfactory treatment of suspected or actual cases of fraud and irregularities following national or Community controls.

The national authorities shall ensure the functioning of a control and reporting mechanism equivalent to the one foreseen in Commission Regulation 1681/94\(^{22}\).

In particular, all suspected or actual cases of fraud\(^{23}\) and irregularity\(^{24}\) as well as all measures related thereto taken by the national authority must be reported to the Commission services without delay. Should there be no suspected or actual cases of fraud or irregularity to report, the Beneficiary Country shall inform the Commission of this fact within two months following the end of each quarter.

In case of irregularity or fraud, the Beneficiary Country shall make the necessary financial corrections required in connection with the individual irregularity. The corrections made by the Beneficiary Country shall consist in cancelling all or part of the Community contribution. The Community funds released in this way may be re-used by the NF for the purpose of the programme, in compliance with Art. 5 of the MoU on the National Fund.

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\(^{21}\) Active corruption is defined as the deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official for himself or for a third party for him to act or to refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties in a way which damages or is likely to damage the European Communities' financial interests.

Passive corruption is defined as the deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or a third party, or accepts a promise of such advantage, to act or to refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties in a way which damages or is likely to damage the European Communities' financial interests.

\(^{22}\) Commission Regulation (EC) 1681/94 of 11. July 1994; 12.7.94; p. 43

\(^{23}\) Fraud shall mean any intentional act or omission relating to: the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities; non disclosure of information in violation of a specific obligation with the same effect; the misapplication of such funds for purposes other than those for which they are originally granted.

\(^{24}\) Irregularity shall mean any infringement of a provision of national or Community law, this Financing Memorandum or ensuing contracts, resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, by an unjustified item of expenditure. The term "Community law" in this context shall be defined as the entirety of Community rules applicable between the Parties of the Financing Memorandum (e.g. the Europe Agreements, Framework Agreements, the MoU on the Establishment of the National Fund etc.)
7.3. Recovery of Funds in Case of Irregularity or Fraud

Any proven irregularity\(^{25}\) or fraud\(^{26}\) discovered at any time during the implementation of the programme or as the result of an audit will lead to the recovery of funds by the Commission.

If, after completing the necessary verifications, the Commission concludes that:

(a) the Beneficiary Country has not complied with the obligations to prevent, detect, and correct irregularities or

(b) the implementation of a project appears not to justify either part or the whole of the assistance allocated or

(c) there are serious failings in the management or control systems which could lead to irregularities,

the Commission may suspend further financing of the programme in question, and, stating its reasons, request that the Beneficiary Country submit comments and, where appropriate, carry out any corrections within a specified period of time.

If no agreement is reached by the end of the period set by the Commission and if the required corrections have not been made, the Commission may – taking into account any comments made by the Beneficiary Country – decide within three months to:

(a) reduce or cancel any payment for the programme in question, or

(b) make the financial corrections required by cancelling all or part of the assistance granted to the programme concerned.

The Commission shall, when deciding on the amount of a correction, take into account the principle of proportionality, the type of irregularity and the extent and financial implications of the shortcomings found in the management and control system of the Beneficiary Country.

In the absence of a decision to do either (a) or (b), further financing of the programme shall immediately resume.

The National Authorising Officer will ensure the reimbursement of any unused funds or any sum wrongly paid within sixty calendar days of the date of the notification. If the NAO does not repay the amount due to the Community, the Beneficiary Country shall refund this amount to the Commission. Interest on account of late payment shall be charged on sums not repaid by applying the rules specified in the Financial Regulation.

\(^{25}\) see definition above

\(^{26}\) see definition above
8. **Visibility and Publicity**

The PAO in charge 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. Further details are set down in the Annex on Visibility and Publicity (*enclosed*).

9. **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 objectives of the Phare programme.
ANNEX D TO THE FINANCING MEMORANDUM

INFORMATION AND PUBLICITY FOR THE PHARE, ISPA AND SAPARD PROGRAMMES OF THE EUROPEAN COMMUNITIES

1. Objective and scope

Information and publicity measures concerning assistance from the European Community Phare Programme are intended to increase public awareness and transparency of EU action and to create a consistent image of the measures concerned in all applicant countries. Information and publicity shall concern measures receiving a contribution from the Phare Programme.

2. General principles

The appropriate Programme Authorising Officer in charge of the implementation of Financing Memoranda, and other forms of assistance shall be responsible for publicity on the spot. Publicity shall be carried out in co-operation with the EC Delegations, which shall be informed of measures taken for this purpose.

The competent national and regional authorities shall take all the appropriate administrative steps to ensure the effective application of these arrangements and to collaborate with the EC Delegations on the spot.

The information and publicity measures described below are based on the provisions of the regulations and decisions applicable to the Structural Funds. They are:


Specific provisions concerning ISPA are included in:


Information and publicity measures must comply with the provisions of the above mentioned regulation and decision. A manual on compliance is available to national, regional and local authorities from the EC Delegation in the country concerned.

3. Information and publicity concerning Phare programmes

Information and publicity shall be the subject of a coherent set of measures defined by the competent national, regional and local authorities in collaboration with the EC Delegations for the duration of the Financing Memorandum and shall concern both programmes and other forms of assistance.
The costs of information and publicity relating to individual projects shall be met from the budget for those projects.

When Phare programmes are implemented, the measures set out at (a) and (b) below shall apply:

(a) The competent authorities of the applicant countries shall publish the content of programmes and other forms of assistance in the most appropriate form. They shall ensure that such documents are appropriately disseminated and shall hold them available for interested parties. They shall ensure the consistent presentation throughout the territory of the applicant country of information and publicity material produced.

(b) Information and publicity measures on the spot shall include the following:

(i) In the case of infrastructure investments with a cost exceeding EUR 1 million:

- billboards erected on the sites, to be installed in accordance with the provisions of the regulation and decision mentioned in paragraph 2 above, and the technical specifications of the manual to be provided by the EC Delegation in the country concerned.

- permanent commemorative plaques for infrastructures accessible to the general public, to be installed in accordance with the provisions of the regulation and decision mentioned in paragraph 2 above, and the technical specifications of the manual to be provided by the EC Delegation in the country concerned.

(ii) In the case of productive investments, measures to develop local potential and all other measures receiving financial assistance from Phare, Ispa or Sapard:

- measures to make potential beneficiaries and the general public aware of Phare, Ispa or Sapard assistance, in accordance with the provisions cited at paragraph 3(b)(i) above.

- measures targeting applicants for public aids part-financed by Phare, ISPA or SAPARD in the form of an indication on the forms to be filled out by such applications, that part of the aid comes from the EU, and specifically, the Phare, ISPA or SAPARD Programmes in accordance with the provisions outlined above.

4. Visibility of EU assistance in business circles and among potential beneficiaries and the general public

4.1 Business circles

Business circles must be involved as closely as possible with the assistance, which concerns them most directly.

The authorities responsible for implementing assistance shall ensure the existence of appropriate channels for disseminating information to potential beneficiaries, particularly SMEs. These should include an indication of the administrative procedures to be followed.
4.2 Other potential beneficiaries

The authorities responsible for implementing assistance shall ensure the existence of appropriate channels for disseminating information to all persons who benefit or could benefit from measures concerning training, employment or the development of human resources. To this end, they shall secure the co-operation of vocational training bodies involved in employment, business and groups of business, training centres and nongovernmental organisations.

Forms

Forms issued by national, regional or local authorities concerning the announcement of, application for and grant of assistance intended for final beneficiaries or any other person eligible for such assistance shall indicate that the EU, and specifically the Phare, Ispa or Sapard Programmes, is providing financial support. The notification of aid sent to beneficiaries shall mention the amount or percentage of the assistance financed by the Programme in question. If such documents bear the national or regional emblem, they shall also bear the EU logo of the same size.

4.3 The general public

The media

The competent authorities shall inform the media in the most appropriate manner about actions co-financed by the EU, and Phare, ISPA or SAPARD in particular. Such participation shall be fairly reflected in this information.

To this end, the launch of operations (once they have been adopted by the Commission) and important phases in their implementation shall be the subject of information measures, particularly in respect of regional media (press, radio and television). Appropriate collaboration must be ensured with the EC Delegation in the applicant country.

The principles laid down in the two preceding paragraphs shall apply to advertisements such as press releases or publicity communiqués.

Information events

The organisers of information events such as conferences, seminars, fairs and exhibitions in connection with the implementation of operations part-financed by the Phare, Ispa or Sapard Programmes shall undertake to make explicit the participation of the EU. The opportunity could be taken of displaying the European flags in meeting rooms and the EU logo upon documents depending on the circumstances. The EC Delegation in the applicant country shall assist, as necessary, in the preparation and implementation of such events.

Information material

Publications (such as brochures and pamphlets) about programmes or similar measures financed or co-financed by Phare, Ispa or Sapard should, on the title page, contain a clear indication of the EU participation as well as the EU logo where the national or regional emblem is used.
Where such publications include a preface, it should be signed by both the person responsible in the applicant country and, for the Commission, the Delegate of the Commission to ensure that EU participation is made clear.

Such publications shall refer to the national and regional bodies responsible for informing interested parties. The above-mentioned principles shall also apply to audio-visual material.

5. **Special arrangements concerning billboards, commemorative plaques and posters**

In order to ensure the visibility of measures part-financed by the Phare, Ispa or Sapard Programmes, applicant countries shall ensure that the following information and publicity measures are complied with:

**Billboards**

Billboards providing information on EU participation in the financing of the investment should be erected on the sites of all projects in which EU participation amounts to EUR 1 million or more. Even where the competent national or regional authorities do not erect a billboard announcing their own involvement in financing the EU assistance must nevertheless be announced on a special billboard. Billboards must be of a size which is appreciable to the scale of operation (taking into account the amount of co-financing from the EU) and should be prepared according to the instructions contained in the technical manual obtainable from EC Delegations, referred to above.

Billboards shall be removed not earlier than six months after completion of the work and replaced, wherever possible, by a commemorative plaque in accordance with the specifications outlined in the technical manual referred to above.

**Commemorative plaques**

Permanent commemorative plaques should be placed at sites accessible to the general public (congress centres, airports, stations, etc.). In addition to the EU logo, such plaques must mention the EU part financing together with a mention of the relevant Programme (Phare, Ispa or Sapard).

Where a national, regional or local authority or another final beneficiary decides to erect a billboard, place a commemorative plaque, display a poster or take any other step to provide information about projects with a cost of less than EUR 1 million, the EU participation must also be indicated.

6. **Final provisions**

The national, regional or local authorities concerned may, in any event, carry out additional measures if they deem this appropriate. They shall consult the EC Delegation and inform it of the initiatives they take so that the Delegation may participate appropriately in their realisation.

In order to facilitate the implementation of these provisions, the Commission, through its Delegations on the spot, shall provide technical assistance in the form of guidance on design requirements, where necessary. A manual will be prepared in the relevant national language, which will contain detailed design guidelines in electronic form and this will be available upon request.