COMMISSION DECISION

C(2005) 2830 of 26/07/2005

on the financial contribution of Transition Facility for strengthening institutional capacity to the CZECH REPUBLIC

(only the Czech text is authentic)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to the Act of Accession 2003, in particular Article 34 thereof,

Whereas:

(1) Article 34 of the Act of Accession provides the possibility of granting a temporary financial assistance, the Transition Facility to the new Member States to address the continued need for strengthening institutional capacity in certain areas through actions which cannot be financed by the Structural Funds.

(2) The actions funded by this Decision in the areas of internal market, environment, justice and home affairs and strengthening public administration are eligible for funding according to Article 34(2) of the Act of Accession. In addition, several needs have been identified in the Commission’s comprehensive monitoring report, which are not covered by Structural Funds. The actions funded by this Decision in relation to those needs, in the areas of employment, social affairs and health as well as administrative capacity, are therefore also eligible for funding under Article 34(2) of the Act of Accession.

(3) Pursuant to Article 34(4) of the Act of Accession, the Transition Facility is implemented in accordance with Article 53(1)(b) of Council Regulation (EC) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities.

(4) Implementing Agencies should be designated complying with the criteria set out in Article 164 of the Financial Regulation and having adequate staff resources. The Commission has satisfied itself in the context of preparation for conferral of management of aid provided under Phare, as well as through a number of other checks, that those criteria are fulfilled by the Central Finance and Contracts Unit (CFCU) and Nadace Rozvoje Obcanske Spolecnosti (NROS).

(5) The measures provided for by this Decision are in accordance with the opinion of the Committee on Aid for Economic Restructuring in certain countries in Central and Eastern Europe, rendered on 7 July, 2005,
HAS ADOPTED THIS DECISION:

Article 1

The Commission approves a financial contribution of € 11,800,000 as Transition Facility to the Czech Republic to finance the projects set out in point 4 of the Annex.

Article 2

1. This Decision shall be implemented on a decentralised basis, in accordance with the Memorandum of Understanding on the Implementation of the Transition Facility, signed with the Czech Republic on 27 September 2004.

2. The CFCU and NROS shall be Implementing Agencies for the Programme.

Article 3

1. Contracts covered by the financial contribution shall be signed no later than 15 December 2007.

2. The deadline for execution of contracts shall be 15 December 2008.

Article 4

This Decision is addressed to the Czech Republic.

Done at Brussels,

For the Commission

Olli Rehn
Member of the Commission
FINANCING PROPOSAL ON THE IMPLEMENTATION OF THE TRANSITION
FACILITY IN THE CZECH REPUBLIC FOR 2005

1. Identification

Beneficiary: The Czech Republic
Programme: Transition Facility National Programme 2005
CRIS-Number: 2005/017/518
Year: 2005
Cost: € 11,800,000
Implementing Agencies: Central Finance and Contracting Authority\(^1\) (CFCU) and Nadace Rozvoje Obcanske Spolecnosti (NROS)\(^2\)
Expiry Dates: Contracting: 15 December 2007
Execution of contracts: 15 December 2008
Sector Codes (DAC): Objective 1 – Political Criteria (15050)
Objective 2 – Internal Market and Economic Criteria (24010)
Objective 3 – Environment (41010)
Objective 4 – Justice and Home Affairs (15030)
Objective 5 – Employment, Social Affairs and Health (12110)
Objective 6 – Administrative Capacity (15040)
Budget Line: 22 03 01
Commission Task Manager: C. Camaiani - Financial Assistance Follow-up Unit-DG Enlargement

2. SUMMARY

The accession negotiations with the Czech Republic were concluded at the European Council in Copenhagen in December 2002 and the Accession Treaty was signed in Athens on 16 April 2003. The Czech Republic acceded to the EU on 1 May 2004.

\(^1\) The Central Finance and Contracting Unit (CFCU) is the main Implementing Agency for Phare Institution Building projects. It will also be the main Implementing Agency for most TF projects

\(^2\) Nadace Rozvoje Obcanske Spolecnosti (NROS - Civil Society Development Foundation) is a Czech Non-Governmental Organisation (NGO) which is the main Implementing Agency for Phare grant schemes in the NGO and human rights sectors
For the period 2004-2006, the Transition Facility (TF) has been established by Article 34 of the Act of Accession to provide temporary assistance to the new Member States to develop and strengthen their administrative capacity to implement and enforce Community legislation, and to foster the exchange of best practice among peers. The TF is thus mainly a continuation of assistance provided under Phare to fund institution building activities according to the same principles.

The present Financing Proposal represents the 2005 Transition Facility National Programme for the Czech Republic.

The 2005 Transition Facility National Programme for the Czech Republic will focus on the main following objectives: Political Criteria, Internal Market and Economic Criteria, Environment, Justice and Home Affairs, Employment, Social Affairs and Health and Administrative Capacity.

The financial and administrative structures and procedures for the implementation of the Transition Facility are laid down in a Memorandum of Understanding signed between the Commission and the Czech Republic. This Memorandum is based closely on the existing Phare Memorandum of Understanding on the Establishment of the National Fund, updated to take account of the fact of the accession of the Czech Republic and the application of the Financial Regulation. The present programme will be implemented by the Implementing Agencies, the Central Finance and Contracting Authority (CFCU) at the Ministry of Finance, and Nadace Rozvoje Obcanske Spolecnosti (NROS), a Non-Governmental Organisation.

3. **STRATEGY**

*Programming priorities*

The TF should focus on those areas where weaknesses in administrative and institutional capacity have been found to remain. The key indicator for these weaknesses is the Comprehensive Monitoring Report on the Czech Republic’s preparations for membership (CMR) issued by the Commission in November 2003, reflecting the situation at the end of September 2003. In addition to the CMR, other findings and recommendations from the overall monitoring process (SIGMA Reports, peer-reviews, Commission missions, etc.) were also taken into account when setting up this programme.

*Project selection and lessons learned*

On the basis of the priorities outlined in the above-mentioned documents, and in line with the principle of ownership, the Czech authorities submitted a number of project proposals for funding under the Transition Facility. These projects have been discussed in detail with the relevant Commission Services. The final selection of projects for this Financing Proposal was based on the overall quality of the individual proposals, taking into account inter alia the strategic framework of the projects, their expected impact, and their implementation arrangements.

In designing the 2005 Transition Facility programme, careful account has also been taken of the results of projects programmed in the context of the Phare programmes in previous years. Lessons learnt are usually drawn on a case by case basis, building upon relevant experience in the implementation of previous projects in a specific area. Provision of necessary background documentation supporting the various project proposals has been emphasised during the programming process. Relevant information on lessons learnt and on the supporting
background documentation is provided in each project fiche. Also included are the provision of appropriate and timely co-financing where required, and strict respect of conditionalities as concerns the prior adoption of any relevant legislation or related strategic decisions.

Attention was also paid to avoiding overlaps with other EU assistance instruments that came into force in 2004, in particular the Structural and Cohesion Funds.

Maximum synergies between all sources of financing have been considered.

4. OBJECTIVES AND DESCRIPTION

Objective 1 – Political Criteria (DAC Code: 15050)

Project 2005/017/518.01.01-Support to the Implementation of the Anti-discrimination Act and Anti-discrimination Acquis by Civil Society Organisations (CSOs):

This grant scheme project addresses a CMR priority and aims at strengthening advocacy and monitoring capacity of CSOs active in the implementation of the Anti-Discrimination Act, as well as other Anti-discrimination legislation. In particular, special attention will be paid to the implementation of two important EU directives: the Racial Equality Directive 2000/43/EC, which covers discrimination on the grounds of race and ethnic origin, and Employment Equality Directive 2000/78/EC which covers discrimination on the grounds of religion or belief, disability, age or sexual orientation. The activities, that are particularly targeted, include: strengthening independent monitoring actions in the area of anti-discrimination; providing advice, mediation and training to vulnerable groups, especially Roma and members of other minorities; and raising awareness in the general public with information campaigns.

The minimum TF contribution to any grant will be € 30,000, the maximum TF contribution will be € 50,000. In addition, final beneficiaries are required to provide co-financing from other sources for a minimum of 20% of the project cost. Up to 7% of the grant scheme allocation could be used to cover the management costs incurred by the Implementation Agency (NROS) in the management of the scheme.

Objective 2 – Internal Market and Economic Criteria (DAC Code: 24010)

Project 2005/017/518.02.01- Strengthening the Role of Public Internal Financial Control (PIFC):

This Institution Building (Twinning and Technical Assistance) project aims at increasing the efficiency and effectiveness of the Public Internal Financial Control (PIFC) systems in the Czech State Administration. This priority is highlighted in the Comprehensive Monitoring Report. At present the functioning of financial and managerial control (FMC), as well as of the internal audit (IA) within the relevant State administration entities is ensured in legal terms, however it is still necessary to improve the management of public funds, in particular as regards the existing communication, reporting and training systems and also the development of financial management and internal audit methodologies. The project will mainly provide assistance for drafting guidelines and unified PIFC manuals for the staff of the Ministry of Finance and the relevant line Ministries as well as it will contribute to the analysis of the existing training and communication systems, including monitoring and reporting, among all the relevant bodies of the Czech public administration and to the definition and introduction of the most efficient ones. In view of the necessity to develop a harmonised approach for all public funds, the assistance shall support the role of the Central Harmonisation Unit within the Ministry of Finance as the
responsible body for co-ordinating and harmonising FMC and independent IA functions at all levels of public administration.

Project 2005/017/518.02.02 -Reinforcement of implementation of regulatory and supervisory functions in areas of financial markets
This Institution Building (Twinning) project aims at ensuring the efficient functioning of financial markets; the correct implementation of legislation adopted and in particular at strengthening the supervisory functions in the areas of capital markets and insurance. The need of legislative progress in the capital market and in the insurance sector and the importance of the full independence of the insurance regulator are mentioned in the CMR. The assistance will thus be focused on two main components: capital markets and insurance. The project should mainly result in a reinforcement of the capital markets and insurance’s supervisory structures and in the development of co-operation with other EC regulators, in view of the ever increasing integration of financial markets.

Project 2005/017/518.02.03-The Construction of the State Treasury System –2nd Phase:
This Institution Building (Twinning and Technical Assistance) project aims at supporting the reform of public finance management and control, by establishing a functioning State Treasury system. The importance of undertaking steps towards the consolidation of public finance is a priority mentioned in CMR. The project should result in increased efficiency and transparency of the budgetary process, allowing for adequate management of debt services and cash flows, which should thus reduce both size and frequency of public budget deficits. The project builds on the CZ0204.02 “Design and Establishment of State Treasury” project and is the second phase in the process of building a comprehensive State Treasury system. The first phase has been supported by TF 2004 and the third phase should be implemented under TF programme 2006.

Project 2005/017/518.02.04 - Implementation of Public Private Partnership (PPP) concept in the Czech Republic:
This Institution Building (Twinning and Technical Assistance) project aims at increasing the efficiency of public investments in the infrastructure and at improving the operation and management of public services, as part of the Czech Republic public finance reform. The CMR stressed in its recommendation in the field of economic development the necessity to sustain macroeconomic stability and to consolidate the public finances. Changes in the Czech legislation are also introducing a new system of monitoring of future public expenditures to strengthen the transparency in public spending, in line with EC recommendations. The introduction and implementation of PPP policy, supported in this project, aim at transferring the qualifications and efficiency of the private sector in to the Czech public services. The project will mainly help the Ministry of Finance to prepare the necessary PPP methodological documentation, such as manuals, which will be used by all entities of the Czech public sector as well as to support the necessary transfer of know-how and human resources development through specific training.

Project 2005/017/518.02.05 - Strengthening of expert capacity in the State Institute for Drug Control:
This Institution Building (Twinning) project addresses a CMR priority and aims at ensuring the correct implementation of the Community legislation related to the regulation of medicinal products for human use, human cells and tissues and medical devices. The European Court of Justice ruling, relevant for all the areas covered by the project, will also be studied and reflected in the State Institute for Drug Control’s decisions.
Indeed the final beneficiary of the project is the State Institute for Drug Control, which is an authority of the Czech Ministry of Health and has the responsibility for the regulation of human medicinal products from the point of view of quality, safety and efficacy, including market surveillance and for issuing relevant authorizations and certificates. This project will strengthen the Institute’s expert capacity in three areas: pre-clinical and clinical assessment; supervision of quality and safety of human tissues and cells; and operation of a vigilance system for medical devices and for monitoring clinical trials of medical devices:

**Project 2005/017/518.02.06 - Support to Enforcement of Intellectual Property Rights:**
This Institution Building (Technical Assistance) and IB-related Investment project addresses a CMR priority and aims at improving the enforcement of intellectual property rights (IPR) in the Czech Republic, by training the staff of the enforcement bodies and upgrading the IT system.

As regards the enforcement of IPR, the necessary structures are in place in the Czech Republic but need to be strengthened, in particular to combat media piracy. Further training and better co-ordination between the relevant enforcement bodies (customs, police and judiciary) is still a priority, as well as the control of cross-border trade in counterfeit goods and the speed and efficiency of court procedures in this area.

The project proposed is primarily aimed at the elaboration and improvement of methodology and procedures for the enforcement of intellectual property rights and at further training of 1000 employees of specific and well defined enforcement bodies. As a necessary technical complement, the existing IT network will be updated and upgraded through national co-financing, so that the information will be spread and also its accessibility for end users will be improved.

**Objective 3 – Environment (DAC Code: 41010)**

**Project 2005/017/518.03.01 Improvement of soil protection by strengthening laboratory control of sewage sludge application on soil:**
This Institution Building (Twinning Light) and IB-related Investment project aims at ensuring full compliance with the principles of the Council Directive 91/271/EC concerning urban waste-water treatment and with the European Parliament resolution on Soil Thematic Strategy. Its purpose is to improve soil protection, by strengthening laboratory control of sewage sludge application on soil.

The Institution Building component of the project will improve the laboratory work of the Central Institute for Supervising and Testing in Agriculture, which is the main beneficiary of the project, by supporting various training in specific areas, including eco-toxicological testing of sewage sludge application. The new equipment, which will be supplied, will ensure detection of potential hazardous substances which cannot be detected by chemical analysis.

**Objective 4 – Justice and Home Affairs (DAC Code: 15030)**

**Project 2005/017/518. 04.01 - Strengthening the Capacity of the Financial Police:**
This Institution Building (Twinning) and IB-related Investment project aims at strengthening the capabilities of the Financial Police dealing with international investigation of financial flows of suspects, detection of legitimized proceeds of crime and accounts intended to be used or already used to commit general crime, tax crime or to finance terrorism. It also aims at ensuring compliance with *acquis* in the fight against terrorism financing and money laundering and at improving ability to prevent and investigate serious tax evasions in assistance with other EU member states.
The IB component of the project proposed will mainly focus on the preparation of a comprehensive strategy for combating money laundering and terrorism financing and will include specific training in these subjects for the relevant staff working in the enforcement bodies involved in combating financial criminality. As a necessary technical complement, specialised equipment will be supplied to the Financial Police in order to provide the necessary conditions for using modern methods of investigation.

**Project 2005/017/518.04.02 - Reinforcement of the Czech Police capacity in combating Corruption and Economic Crime:**
This Institution Building (Twinning and Technical Assistance) and IB-related Investment project addresses a CMR priority.

It aims in particular at improving the capacity of the Czech Police in combating corruption and economic crime and thus at ensuring most effective and successful investigation in these areas by the use of new methods and operative techniques, common in other Member States. Among the main activities, the project will provide training for at least 200 specialists in anti-corruption techniques, will support the development of new technical equipment for police investigators and will contribute to the supply of specialised equipment in order to reinforce the capacity of the Police Units involved in revealing and prosecuting corruption and serious economic crimes.

**Objective 5 – Employment, Social Affairs and Health (DAC Code: 12110)**

**Project 2005/017/518.05.01 - Audit on Functionality and Security of Social Insurance Information Systems**
This Institution Building (Twinning Light and Technical Assistance) and IB-related Investment project addresses a CMR priority, concerning in particular the strengthening of the administrative capacity with regard to co-ordination of EU social security systems. This cooperation among Member States is necessary to guarantee to EU citizens appropriate implementation of their social security rights, including the possibility of cumulating or transferring social security rights.

The proposed project aims at setting up a technically and methodologically adequate internal audit system at the Czech Social Security Administration (CSSA), which is a governmental body directed by the Ministry of Labour and Social Affairs, with competence in the sphere of pension insurance, sickness insurance, etc., and is the final beneficiary of this project. The introduction of the proposed audit system would guarantee correctness and security of the information held in the relevant databases as well their functionality, necessary for adequate EU co-ordination. More specifically, it would enable the internal auditors of the CSSA to secure and eliminate any risks of disturbing this database, especially risks of disturbing accessibility, reliability, confidentiality and integrity of the data related to social insurance.

**Project 2005/017/518.05.02 - Strengthening of Labour Inspection Administration:**
This Institution Building (Twinning) and IB-related Investment project addresses a CMR priority in the area of health and social safety at work, where the need of strengthening the Labour Inspection Administration was highlighted.

The project purpose is to assist the Czech Occupational Safety Office (COSO) in its preparation for enforcement the extended responsibilities resulting from the new harmonised legislation. Indeed, according to the new Act on Labour Inspection, currently under adoption, several responsibilities in the area health and social safety at work will be transferred from the Labour Offices to the Czech Occupational Safety Office. This transfer of responsibility will have to be reflected in the increase of the number of inspectors at the COSO and will require
adequate trainings and technical equipment of the new offices. The project will therefore support training of the present 250 inspectors in the field of labour law and 100 new inspectors in the field of labour inspection and labour law as well. As a necessary technical complement, equipment essential for inspections will also be provided at the Czech Occupational Safety Office.

Project 2005/017/518.05.03 - Development of national coding standards within the Czech DRG system
This Institution Building (Twinning and Technical Assistance) project aims at improving the health care system management, especially as regards the reimbursement of healthcare costs. Indeed, the project aims at the introduction of the Diagnosis Related Group (DRG) system in several hospitals. The proposed system will support the reform of the health care system, through a more efficient control of the costs and settlement of debts of the main health care facilities. The DRG system is considered as one of the tools which can help to fulfil the aim of the reform of public finances, allowing a clear classification of how much was spent by an individual hospital on a particular treatment.

The proposed project will firstly support the development of Czech national coding standards for clinical and economic data. Secondly, it will assist the elaboration of the methodology for coding procedures in hospitals and it will provide support in training the trainers for proper coding and in developing the methodology for revision of coding. The project purpose will consequently lead to a significant improvement in the objectivity of information about the real production of the hospitals and finally it will help to achieve a long-term fiscal stability of the health care sector.

Objective 6 – Administrative Capacity (DAC Code: 15040)

Project 2005/017/518.06.01 - Unallocated Institution Building Envelope:
A maximum of 1.5 M€ will be reserved to cover any ad hoc Institution Building needs. Sectors that could benefit from this support are, inter alia, Justice and Home Affairs, Internal Market, Agriculture and any other acquis-related projects in sectors relevant to the objectives of the Transition Facility. The use of these funds is subject to prior approval of the European Commission.
5. BUDGET (M€)

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<tr>
<th>Objective/Project</th>
<th>Transition Facility Funding</th>
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<tr>
<td></td>
<td>Institution Building (IB)</td>
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<td>Objective 1: POLITICAL CRITERIA</td>
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<td>Project 2005/017.518.02.03-The Construction of the State Treasury System (2nd Phase)</td>
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<td>Project 2005/017.518.02.06-Support to Enforcement of Intellectual Property Rights</td>
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<td>Objective 3: ENVIRONMENT</td>
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<td>Objective 4: JUSTICE AND HOME AFFAIRS</td>
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<td>Project 2005/017.518.04.02-Reinforcement of the Czech Police capacity in combating Corruption and Economic Crime</td>
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<td>Objective 5: EMPLOYMENT, SOCIAL AFFAIRS AND HEALTH</td>
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<td>Project 2005/017.518.05.03-Development of national coding standards within the Czech DRG system</td>
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<td>Objective 6: ADMINISTRATIVE CAPACITY</td>
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<td>11.350</td>
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Co-financing for Institution Building projects is provided by the beneficiary bearing certain infrastructure and operational implementation costs, through financing the human and other resources, required for effective and efficient absorption of Transition Facility assistance. Investments in small equipment must receive co-financing from national public funds. The Community contribution may amount to up to 75% of the total eligible\(^3\) public expenditure.

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6. **Special Conditions**

In the event that agreed commitments are not met for reasons which are within the control of the Government of the Czech Republic, 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 Transition Facility.