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 LITHUANIA, 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 of November 1991 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: LT 0002 – LT 0009
Title: 2000 LITHUANIA Phare National Programme
Duration: Until 30/09/2002

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of € 38,3 million 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 30/09/2002 subject to the provisions of his 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 30/09/2003. 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. 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
Naugarduko 10
2001 Vilnius, Lithuania
Tel.: +370-2-31 31 91
Fax: +370-2-31 31 92

for THE RECIPIENT:

Mr. Antanas Valionis, National Aid Co-ordinator
Minister of Foreign Affairs
J. Tumo-Vaizganto 2
2600 Vilnius, Lithuania
Tel.: +370-2-36 24 01
Fax: +370-2-31 30 90

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 Vilnius,
Date... 2000.12.14

for THE RECIPIENT
Minister of Foreign Affairs
Antanas Valionis

for THE COMMUNITY
Acting Head of EC Delegation in Lithuania
Dieter Thiel

Annex 1  Framework Agreement (Annexes A & B)
Annex 2  Special Provisions (Annex C)
Annex 3  Visibility and Publicity
National Phare Programme - Republic of Lithuania

1. IDENTIFICATION

Beneficiary Country Republic of Lithuania
Programme National Programme
Year 2000
Cost 38,3 MEUR
Implementing Authority Ministry of Foreign Affairs of the Republic of Lithuania
Expiry Date Contracting: 30 September 2002
Disbursement: 30 September 2003
Sector AA
Group C
Budget Line B7-030
Programming Andreas Herdina, Country Co-ordinator
Implementation Dieter THIEL, EC Delegation, Lithuania

2. SUMMARY

In line with Lithuania’s accession priorities, agreed with the European Commission, the 2000 National Programme focuses on the need to successfully achieve the priorities identified in the December 1999 Accession Partnership (hereafter the AP) and the corresponding sections of the May 1999 National Programme for the Adoption of the Acquis (hereafter the NPAA).

It takes, in addition, into account the analysis made in the Commission’s Regular Report on the progress made by Lithuania towards membership, which was adopted by the Commission on 13 October 1999. Against this background, the 2000 Phare programme has been designed to address the areas in which the greatest needs for preparing for EU-membership have been identified.

The 2000 National Programme allocation to the Republic of Lithuania presented under this Financing Proposal addresses 8 priority areas, selected on the basis of the 1999 AP and NPAA:

Objective 1: Economic criteria
Objective 2: Internal Market
Objective 3: Agriculture and Fisheries
Objective 4: Transport
Objective 5: Employment, Social Affairs and Health
Objective 6: Justice and Home Affairs
Objective 7: Reinforcement of the institutional and administrative capacity
Objective 8: Economic and Social Cohesion

Within the overall Objectives mentioned above, the following projects have been identified for support:

- Promotion of Competitiveness / Enforcement of Financial Discipline for Enterprises;
- Strengthening Administrative and Technical Capacity to Promote the Free Movement of Goods;
- Strengthening Customs Procedures and Operations in the Lithuanian Customs Department and the Regional Customs Administrations;
• Support for the Establishment of the Communications Regulatory Authority in the Republic of Lithuania with Associated Investment for the Modernisation of its Technical and Radio Monitoring Basis;
• Further Harmonisation of Statistical Data and Methods with Eurostat Requirements;
• Strengthening the Capacity of the Ministry of Agriculture and Related Institutions to Manage and Administer the EC Acquis for Agriculture (CAP) and Rural Development;
• Strengthening and Enforcement of Food Control System: Phase III Completion of Modernisation of Veterinary and Phyto-Sanitary Border Inspection Posts (BIPs);
• Strengthening Lithuania’s Capacity to Manage and Administer the Common Fishery Policy;
• Implementation of the Acquis in the Maritime Safety Sector;
• Preparation for Participation in the European Employment Strategy;
• Strengthening capabilities to reduce the demand and supply of Illicit Drug Demand and Supply Reduction;
• Budget Management and Financial Control;
• National-Regional Development in the Target Region Western Lithuania (Klaipeda-Taurage Counties);
• National-Regional Development in the Target Region Marijampole County;
• National-Regional Development in the Target Region Utena County.

In line with the revised Phare Guidelines (2000-2006), approximately 40% of the Phare resources under the 2000 programme are dedicated to institution building and 60% to investment which is divided between investment in EU compliance and investment in economic and social cohesion. The selection of the target regions (Klaipeda-Taurage, Marijampole, Utena) has been justified in the Preliminary National Development Plan. It will also ensure the coordination with the two other pre-accession instruments, ISPA and SAPARD.

For the Institution Building components, the Government recognises that institutional partnerships with EU Member States’ administrations, through ‘twinning’, will be an important mechanism leading to the strengthening of Lithuania’s public service capacities, and for the reinforcement of professional ties between Lithuania’s and the EU Member States’ administrative services.

It should be noted that in addition to the 38.3 MEUR covered under this Financing Proposal, 2.7 MEUR is also being proposed, under separate Financing Proposals, supporting Lithuania’s participation in Community Programmes including the 5th Framework Programme. In addition, Lithuania’s participation in the Cross Border Co-operation programme (separate Financing proposal) will bring the total annual Phare allocation for Lithuania in 2000 to 43 MEUR.

3. STRATEGY

The AP contains a series of priorities, which the Commission considers, should be addressed by Lithuania in the short- and the medium-term, as the basis for preparing for accession to the EU. The NPAA lays down Lithuania’s corresponding strategy for accession and meeting of these priorities. Detailed discussions between the Lithuanian authorities and the Commission regarding the 2000 National Programme have been based on the need to fully address the short-term priorities included in the 1999 AP, plus a limited number of medium-term priorities. The availability of clear sectoral strategies and the readiness of projects were two further principal considerations.

Specifically, the 2000 National Programme addresses the following AP priorities (mainly short-term):
• Economic Criteria:
  - promote competitiveness, improve bankruptcy procedures. Assistance will strengthen the capacity of the actors in charge of the enforcement of bankruptcy procedures and enterprise restructuring, simplify business legislation, help the Government develop instruments for implementing enterprises and supporting innovation.
• Internal Market:
- Free movement of goods: accelerate alignment of the sectoral legislation on industrial products; develop the conformity assessment system and a coherent strategy on market surveillance. The assistance will focus on strengthening of the range of horizontal and sectoral agencies and laboratories to adopt and enforce the EC acquis relevant to the free movement of goods, in particular with relevance to market surveillance and conformity assessment structures in key sectors identified as priorities for Lithuania.

- Telecommunications: establish an independent regulatory authority. The objectives include the preparation of secondary legislation on licensing rules and procedures, interconnection, tariffs regulation, leased lines and quality of service in compliance with the Community law. Support to establish the Communications Regulatory Authority (CRA), providing training of its staff and modernisation of market surveillance and enforcement facilities will also be included.

- Customs: continue alignment of legislation and reinforce fight against fraud and corruption, develop efficient border posts, apply simplified procedures and reinforce administrative and operational capacity. The assistance will help with approximation of legislation to EU requirements and it will also include the review, reorganisation and training of regional administration of the Lithuanian Customs Department.

- Agriculture and Fisheries:
  - Veterinary and phyto-sanitary sector: continue alignment and upgrade inspection arrangements, in particular at the future external borders. The assistance will upgrade inspection arrangements, in particular at the future external borders with non-applicant states and continue the adoption and implementation of the veterinary and phyto-sanitary requirements of the acquis.
  - Reinforce Common Agricultural Policy management mechanisms and administrative structures. Assistance will support the alignment of Lithuanian legislation with the acquis in the agricultural sector, particularly to strengthen the capacity to effectively implement and administer basic Common Agricultural Policy management mechanisms and administrative structures for monitoring agricultural markets and implementing structural and rural development measures.
  - Develop the capacity to implement and enforce the common fisheries policy. The assistance will help Lithuania to prepare a medium-term strategy and action plan as the basis for modernisation of the fisheries industry within the context of alignment and enforcement of the acquis in the fisheries sector.

- Transport:
  - align legislation on maritime safety. The assistance will develop the infrastructure of Port Information System (PIS) necessary for effective implementation of the acquis in the Maritime safety sector.

- Employment and Social Affairs:
  - prepare a national employment strategy with a view to later participation in the European Employment. The assistance will support Lithuania’s participation in the European Employment Strategy, in particular its harmonisation with European Employment Guidelines and practices and will assist in the preparation for European Social Fund (ESF).

- Justice and Home Affairs:
  - upgrade law enforcement bodies to continue the fight against organised crime, including drug trafficking. The main objectives are to strengthen the inter-ministerial co-ordination of drugs policy and information management, to prepare a national drug policy strategy and to reinforce law enforcement co-ordination and co-operation. There will also be extensive training for health professionals and drug experts on Drug Demand Reduction.

- Reinforcement of Institutional and Administrative Capacity:
  - financial control: introduce "functional independence" for national internal controllers/auditors at both central and decentralised levels and "ex-ante" financial control. The assistance will introduce Performance Control and Internal Audit at Regional and Local Administration Levels in municipalities in the selected target regions.
  - strengthen statistical capacities. The assistance will help improving regional, business, agriculture, price statistics and social indicators and will assist in preparing a comprehensive agricultural census to
be carried out in 2002. The institutional strengthening will be supported by improving training facilities and training the staff.

- **Economic and Social Cohesion:**
  - develop national policy for economic and social cohesion in preparing for the implementation of a regional development programme and Community initiatives; improving the administrative structures, in particular clarifying allocation of responsibilities on regional policy issues; organising the budgetary system and its procedures according to structural funds standards, including appraisal and evaluation;
  - all measures were drawn up on the basis of the Preliminary National Development Plan, with the involvement of three target regions (Klaipeda-Taurage, Utena, Marijampole).

4. **OBJECTIVES AND DESCRIPTION**

The 2000 Phare National Programme takes full account of the Regulation on co-ordinating pre-accession assistance (Council Regulation N°1266/1999) which sets out a clear division of measures to be financed respectively by Phare, Ispa and Sapard.

The 2000 Phare National Programme consists of the following Priorities and Projects:

**Objective 1: ECONOMIC CRITERIA**

*LT0002-01 Promotion of Competitiveness / Enforcement of Financial Discipline for Enterprises*

In the area of financial discipline for enterprises, the enforcement of bankruptcy procedures has improved but needs to be sustained further, notably through the implementation of the new bankruptcy legislation. The Government also needs to further develop the framework conditions necessary for increasing the competitiveness of enterprises.

Support will be therefore provided to:

1. strengthen the capacity of different actors (Ministry of Economy; business administrators; judges; enterprise managers etc.) to effectively and efficiently enforce bankruptcy procedures and enterprise restructuring, on the basis of the promotion of best-practice in corporate governance; to streamline legislation and regulations relating to enterprise registration, administration and licensing, and to adapt existing Government policy and delivery mechanisms to bring the provision of state co-financing support for enterprise development in line with EC requirements (competition, state aid, environmental impact etc.) and the development of Structural Funds’ type mechanisms.

2. To involve Phare support to potential leading-edge SMEs operating in the area of high-tech innovation, supporting enterprises to develop appropriate business and investment plans and management procedures for the commercialisation and utilisation of innovative technology, to be achieved via training in R&D, product evaluation and marketing, market research, management, financial evaluation etc..

The project is envisaged to be implemented as a Twinning & Training Package with a separate component on business consultancy services subject to tender.

The effective implementation of the various components shall not start before the following is ensured:

- Entry into force of bankruptcy and restructuring laws; involvement of the Ministry of Justice to ensure implementation of efficient court procedures; and co-ordination with the Lithuanian Judicial Training Centre.
- Involvement of the Department of Science and Study of the Ministry of education and Science, the Lithuanian Development Agency, the SME Development Agency and business associations.
- Identification of a responsible department that will become the government’s ‘better regulation unit’ for business; Setting up of working groups involving business representatives and representatives of the LDA and the SME Development Agency; and Establishment of Legal entity registers based on hypotec information system;
Establishment of a regular co-ordination mechanism with Ministry of Public Administration Reform and Local Authorities to avoid duplication with SPP programme and the Social and Economic Cohesion Projects in the 2000 Phare programme.

Objective 2: INTERNAL MARKET

LT0003-01: Strengthening Administrative and Technical Capacity to Promote the Free Movement of Goods

The Project will involve Phare support

1. to finalise the transposition of EC acquis in the area of the free movement of goods (including the development of implementing regulations/guidelines), plus, in particular with relevance to market surveillance and conformity assessment structures, the strengthening of administrative, organisational, financial management and technical capacities of the range of horizontal and sectoral agencies and laboratories relevant to the removal of technical barriers to trade;
2. to purchase equipment relating to national measurement standards and calibration, proficiency testing, reference materials, core testing equipment and management information systems for market surveillance and conformity assessment, metrology and accreditation.

The project is envisaged to be implemented as a Twinning & Training Package. The investment component will be subject to tender.

The main conditionalities are:

- Prior to the start of the project, the appointment of a responsible body for market surveillance, plus designation of the Lithuanian counterpart/long-term expert responsible for market surveillance.
- Equipment procurement is conditional and should be based on the Twinning adviser’s needs assessment.

LT0003-02: Strengthening Customs Procedures and Operations in the Lithuanian Customs Department and the Regional Customs Administrations

As Lithuania should continue alignment of legislation and reinforce fight against fraud and corruption, in particular by ensuring the proper enforcement of customs procedures, support will be provided to

1. strengthen the operations (regulatory, procedural, administrative, personnel capacities) of the Lithuanian Customs Department (LCD), with a particular focus on its regional administration, in order to mirror best-practice of the EU Member States, promoting co-operation between LCD and other government agencies and with economic partners and actors.
2. improve the efficiency of physical customs examination at the border and inland customs posts to be achieved by co-financing support for the procurement of modern customs inspection equipment to be identified in co-operation with the Twinning Team.

The project is envisaged to be implemented as a Twinning & Training Package. The investment component will be subject to tender.

The main conditionality to be applied prior to the project implementation:

- A clear administrative and management structure for the Project should be established with appropriate number of staff within the Department of Customs/Customs administration, involving regular reporting on activities and achievement of targets, to both senior management and to the Commission.

LT0003-03: Support for the Establishment of the Communications Regulatory Authority in the Republic of Lithuania with Associated Investment for the Modernisation of its Technical and Radio Monitoring Basis
As further progress needs to be made with the harmonisation of the legal acts, in particular technical rules, and the establishment of the Communications Regulation Service, support will be provided:

1. to strengthen the operational functioning of the independent Communications Regulatory Authority (CRA) to be established in year 2000. This will cover legislative transposition, drafting acts of secondary legislation and extensive support for the development of a transparent telecommunications regulatory and licensing regime system (licensing rules and procedures, interconnection, tariffs regulation, leased lines, service quality, market liberalisation, CRA management and information procedures and systems, personnel capacities etc.).

2. to create the technical basis for spectrum monitoring and market surveillance activities, via the purchase of technical equipment for database management for fixed and mobile monitoring, conformity testing and on-site inspection.

The project is envisaged to be implemented as a Twinning & Training Package with a separate technical assistance component subject to tender. The investment component will be subject to tender.

The main conditionalities to be applied for the project implementation are that, as a prerequisite:

- The institutional framework should be completed with the establishment of CRA by the 1 July 2000 at the latest and that when established it shall provide adequate support agreed with the Commission in organising logistics of staff training and twinning package.
- Lithuania undertakes in writing to review the fees charged for licences and other administrative activities before the end of the first year of the project and as a conditionality for its termination so as to ensure that they recover the full cost of running the regulatory body.

**LT 0003-04: Further Harmonisation of Statistical Data and Methods with Eurostat Requirements**

In order to further align Lithuania’s statistics, support will be provided:

1. to strengthen Lithuania’s capacity to provide quantitative, qualitative and accurate statistical data in accordance with EC requirements and Eurostat methodology. In particular support will focus on the improvement of regional, business, agriculture and price statistics and social indicators, essential for participation in the EC’s agricultural and regional policies, plus institutional strengthening and the enhancement of personnel capacities including extensive training for Eurostat methodology.

2. to co-finance the modernisation of information processing and management systems, via the purchase of additional nodes, processors, servers for the security of the WAN, computer equipment for the up-grading and establishment of additional working places, high speed printers, specialised cluster and data software, plus client access and software licenses etc.

The project is envisaged to be implemented as a Twinning & Training Package. The investment component will be subject to tender.

The conditionality to be applied for the project start is that:

- the Lithuanian Government undertakes in writing to conduct the Agricultural census within the life span of this project or as a logical sequence of it.

**Objective 3: AGRICULTURE AND FISHERIES**

**LT0004-01: Strengthening the Capacity of the Ministry of Agriculture and Related Institutions to Manage and Administer the EC Acquis for Agriculture (CAP) and Rural Development**

As substantial adaptation of the existing agricultural administrative structure is required, the Project will support:

1. further development of administrative, managerial and information systems and capacities, in order to achieve compatibility with the acquis and best-practice in the application of EU Common Market

2. co-financing of computer hardware and software for the proper functioning of necessary institutions and systems (Market Regulation Agency, Paying Agency, Internal Audit, etc.) at national and regional levels, as well as specialist software packages meeting EC requirements such as CAP administration (Quality monitoring unit for Grain, Dairy and Meat), IACS parcel identification register, and the Market Information System.

The project is envisaged to be implemented as a Twinning & Training Package. The investment component will be subject to tender.

The conditionality to be applied for the project start is that:

- This project should build upon the 1999 Phare National Programme to the Ministry of Agriculture Twinning project “Modernisation of Rural Administrative System”;
- For the investment component, the project will build up on and need to take account of progress made by the TA and Twinning projects funded by PHARE under the 1997, 1998 and 1999 National Programme that will develop Technical Specifications.

LT0004-02: Strengthening and Enforcement of Food Control System: Phase III Completion of Modernisation of Veterinary and Phyto-Sanitary Border Inspection Posts (BIPs)

To further improve veterinary and phytosanitary control the Project will provide support:

1. to strengthen the institutional and administrative capacities in both the State Veterinary and Plant Protection Services, in particular with a focus on further developing personnel capacities to effectively implement EC food quality control systems: the propagation and planting of ornamental fruits, vegetables, and plants material, specialist training for toxicologists and eco-toxicologist dealing with pesticide registration, training of border inspectors etc..

2. to co-finance modernisation to EC standards of the remaining Border Inspection Posts (Phare support has been provided from 1997-1999, for which the 2000 allocation represents the completion of modernisation): phyto-sanitary posts at Medininkai and Lavoriškes (both on the border with Belarus) and veterinary posts at Vaidotu-Kenos (Belarus border) and Panemunes–Pagegiai (Russian enclave of Kaliningrad border), plus the associated Klaipeda County Veterinary Laboratory.

3. to co-finance (a) the establishment of a modern incineration plant to destroy contaminated plant products such as planting material, seeds, cut flowers etc. (these facilities would be used by the Lithuanian State Plant Protection Service Central Laboratory and its Vilnius region BIPs), plus (b) establish a capacity to perform pesticides quality analyses and identification to international standards (such data is necessary for settling court cases between pesticides dealers and their users, plus post-registration inspection purposes), to be located within the Agrochemical Research Centre of the Institute of Agriculture. The project is envisaged to be implemented as a Twinning & Training Package. The investment component will be subject to tender.

The conditionality to be applied for the project implementation is that:

- The Food Law is to be approved by the Parliament;
- The Draft Government Decree on “Upgrading of Border Control Posts for Veterinary Control” submitted to the Government is signed;
- Government funds are committed prior to investment procedures begin;
- Environmental and economic impact studies of the border control post construction produced and included in the tender documents necessary for the project tendering procedures;
- Any land ownership issues on which projected BIPs are to be constructed are resolved; and
- Verification of the design of the phyto-sanitary incinerator, detailed feasibility study and environmental impact assessment to be prepared and operation license and conditions approved prior to the building of the facilities.
LT0004-03: Strengthening Lithuania’s Capacity to Manage and Administer the Common Fishery Policy (CFP)

In order to support the development of Lithuania’s capacity to implement and enforce the common fisheries policy, the Project will contribute:
1. to Lithuania’s preparation of a medium-term strategy and action plan as the basis for alignment with and enforcement of the EC acquis in the fisheries sector: institutional, administrative and information/reporting structures for the operation of CFP, the Common Organisation of the Market (COM) and a price support system/intervention and compensation mechanisms; the adaptation/preparation of delivery mechanisms promoting industrial restructuring, development of producers’ organisations, participation in FIFG; modernisation of the fisheries industry;
2. to support to co-finance (a) the development of an integrated information database system on the utilisation of fish resources (fish catch quotas, fishing licenses, fish catches and landings, sales notes, data from fishing vessels register); (b) strengthening the fisheries monitoring centre (FMC) for vessels operating in the Baltic Sea (to follow up vessel movements by means of satellite-tracking devices on board fishing vessels); (c) modernisation of the Klaipeda Fisheries Scientific Research Laboratory (equipment for scientific analysis and data processing etc.).

The project is envisaged to be implemented as a Twinning&Training Package. The investment component will be subject to tender.

The conditionality to be applied for the project to start implementation is that a: co-ordinating committee is established, involving all the relevant Ministries and associated bodies and chaired at a sufficiently high level to ensure progress on CFP installation and enforcement in Lithuania.

Objective 4: TRANSPORT

LT0005-01: Implementation of the Acquis in the Maritime Safety Sector

The Project will provide support:
1. To the development of the infrastructure and administrative operations for the Klaipeda sea-port Port Information System (PIS), necessary for effective implementation of the acquis in the Maritime safety sector.
2. To the co-financing of the installation of PIS for port state control, plus for PIS reporting on the flow of passengers and dangerous and polluting goods (servers, PCs, specialist software.

The project is envisaged to be implemented as a Twinning&Training Package. The investment component will be subject to tender.

The conditionalities to be applied for the project implementation are that the:
• Institutional framework should be completed with the establishment of Lithuanian Safe Shipping Administration from 1 January 2001.
• Lithuanian Safe Shipping Administration when established shall provide necessary support in organising logistics of staff training and twinning package before any project financing on these subjects are granted.

Objective 5: EMPLOYMENT, SOCIAL AFFAIRS AND HEALTH

LT0006-01: Preparation for Participation in the European Employment Strategy

The Project will provide support:
1. to further develop Lithuania’s National Employment Action Plan, focused on the strengthening of employment/labour-market/training policy-making and implementing capacities at all national, regional and local levels, in particular relating to the development of suitable administrative capacities, delivery mechanisms and controls for participation in ESF and the promotion of life-long learning and labour-market flexibility.
2. to co-finance the development of labour market information systems within Lithuania (hardware and software procurement to improve the management and exchange of information between district labour-market offices/training centres, regarding local employment conditions and opportunities) and to ensure the exchange of information on the free movement of labour through establishing a connection to the EURES network. 

The project is envisaged to be implemented as a Twinning & Training Package. The investment component will be subject to tender.

The conditionalities to be applied before the project start are that:

- Inter-ministerial Steering Committees, comprising of representatives from the Ministry of Social Security and Labour, Ministry of Economy, Ministry of Public Administration Reforms and Local Authorities, Ministry of Education and Science and Ministry of Finance, be established.
- Necessary co-financing in implementing local employment initiatives as well as in procurement of equipment is guaranteed from Lithuanian side.

**Objective 6: JUSTICE AND HOME AFFAIRS**

**LT 0007-01: Strengthening Illicit Drug Demand and Supply Reduction Capabilities**

The Project will support:

1. The strengthening of inter-ministerial co-ordination to reduce, in a balanced and integrated way, the demand and supply of illicit drugs along the lines of EU Drugs Strategy (2000-2004), including support for the development of a drug demand reduction strategy, setting up an operational National Focal Point, reinforecement of co-ordination between law enforcement and border control agencies as well as the demand reduction sector and an extensive personnel training programme covering health professionals/drug treatment.

2. The co-financing of equipment supply for the Permanent Drug Co-ordination Secretariat, the National Focal Point, the Drug Resource Centre, plus law enforcement bodies (detection equipment etc.).

The project is envisaged to be implemented as a Twinning & Training Package. The investment component will be subject to tender.

The conditionalities to be applied before the project start are that:

- The Drug coordination secretariat is established (Governmental Resolution No 970, 6th Sept 1999).
- The National Drug Information Focal Point is established at the Governmental Drug Control Commission is planned in the National Drug Programme (Governmental Resolution No 970).
- A National Drug Policy Strategy is established (Governmental Resolution 970).
- The start of a Law enforcement intelligence database as foreseen in the National Drug Programme.
- Sufficient resources are allocated for training (Governmental Resolution No 970).

**Objective 7: REINFORCEMENT OF INSTITUTIONAL AND ADMINISTRATIVE CAPACITY**

**LT0008-01: Budget Management and Financial Control**

The Project will provide support:

1. for the completion and roll-out to the counties/regions and districts/municipalities in the Economic and Social Cohesion target regions, of the Government's strategy for implementation of a budget planning/management and financial control system, in compliance with EC standards and EU best-practice. Based on the outputs of the 1998 and 1999 Twinning Projects, a key point of attention will be the provision of training inputs, to facilitate the transfer of skills and operational methodology across the public sector.
2. Co-financing, complimentary to the support above, to the procurement of necessary equipment and software to operate budget planning and financial control in the eighteen target municipal level authorities: servers, network and stand-alone PCs, plus software. The project is envisaged to be implemented as a Twinning & Training Package. The investment component will be subject to tender.

The conditionalities to be applied for the project implementation are that the:
- Government’s commitment to implement the "Programme for the establishment of Internal Control in the public sector", should build up on the Twinning Arrangement on "Performance Control and Internal Audit" under the Phare 99-programme, planned to start in 2nd Quarter of 2000;
- Plans and budgets for implementation of the "Programme for the establishment of Internal Control in the public sector" are established by July 2000;
- Memorandum of Understanding has been agreed and signed, before the first expenditure is committed, between the Government and the municipalities, stating that municipalities will adhere to the rules of financial control as applicable to Government institutions.

Objective 8: ECONOMIC AND SOCIAL COHESION

LT0009-01: National-Regional Development in the Target Region Western Lithuania (Klaipeda-Taurage Counties)

The Project will support:
1. Investment in Economic and Social Cohesion: Business Development Fund
2. Investment in Economic and Social Cohesion: Human Resource Development Fund

This will involve Phare support to co-finance national-regional development in the target region of Western Lithuania, promoting economic and social cohesion modelled on the broad principles and methodology for co-financing support under the EC’s Structural Funds. Investments in business development shall aim at promoting entrepreneurship and start-ups in the region, the promotion of company competitiveness and the improvement of business and investment related infrastructure and environment. Investments in human resource development shall aim at the provision of training for economic and social development, the establishment of distance training systems and the establishment of employment centres supporting women’s employment.

LT0009-02: National-Regional Development in the Target Region Marijampole County

The Project will support:
1. Investment in Economic and Social Cohesion: Business Development Fund
2. Investment in Economic and Social Cohesion: Human Resource Development Fund

This will involve Phare support to co-finance national-regional development in the target region of Marijampole County, promoting economic and social cohesion modelled on the broad principles and methodology for co-financing support under the EC’s Structural Funds. Investments in business development shall aim at promoting the development of a favourable climate for investment and innovation, plus the promotion of business advisory services and training. Investments in human resource development shall aim at the provision of training for economic and social development, the enhancement of public administration capacity, plus training systems initiatives.

LT0009-03: National-Regional Development in the Target Region Utena County

The Project will support:
1. Investment in Economic and Social Cohesion: Business Development Fund
2. Investment in Economic and Social Cohesion: Human Resource Development Fund
This will involve Phare support to co-finance national-regional development in the north-eastern target region of Utena County, promoting economic and social cohesion modelled on the broad principles and methodology for co-financing support under the EC’s Structural Funds.

Investments in business development shall aim at the promotion of business advisory services and training, the development of a favourable climate for investment and the development of innovation activities. Investments in human resource development shall aim at the provision of training for economic and social development, at the enhancement of public administration capacity, plus training systems initiatives.

The conditionalities to be applied for implementation of each of the projects in regional development in the target regions are that the:

- Operational Guidelines for the fund mechanisms, Terms of Reference for each measure and other fund documentation (including grant application forms) drafted and approved by the Government and endorsed by the EC Delegation
- Co-financing from central and local government endorsed by the Government and verified by the EC Delegation
- The Managing Authority contracted in each target region with specific tasks delegated from the CFCU, subject to approval by the Commission
- Legal basis for the NRDC and RMCs drafted and approved by the Government
- Personnel appointed to the NRDC, RMCs and Managing Authorities in each target region
- Function of internal control and audit established.
- Submission of first 6-month programme for each of the fund mechanisms by the Managing Authority
- First and subsequent meetings of the NRDC and RMCs in each target region
- JMC and RDMSC meetings
- After one year of implementation, achievements of all regional funds will be assessed. Based on this assessment, reallocations may take place among the various measures and/or among the various funds.

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.
5. BUDGET

The total financial commitment under the **2000 Phare National Programme** in support of the Sub-Programmes and Projects described in section 4 above amounts to **38.3 MEUR**, as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Sub-Programme / Project</th>
<th>Allocation (MEUR)</th>
<th>Indicative Split INV/IB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>INV</td>
<td>IB</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total IB</td>
<td></td>
</tr>
<tr>
<td>LT0002</td>
<td>Economic Criteria&lt;br&gt;Promotion of Competitiveness / Enforcement of Financial Discipline for Enterprises</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>LT0003</td>
<td>Internal Market&lt;br&gt;Strengthening Administrative and Technical Capacity to Promote the Free Movement of Goods</td>
<td>10.15</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>-01 Promote the Free Movement of Goods&lt;br&gt;Strengthening Customs Procedures and Operations in the Lithuanian Customs Department and the Regional Customs Administrations</td>
<td>2.75</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>-02 Promote the Free Movement of Goods&lt;br&gt;Strengthening Customs Procedures and Operations in the Lithuanian Customs Department and the Regional Customs Administrations</td>
<td>2.0</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>-03 Promote the Free Movement of Goods&lt;br&gt;Strengthening Customs Procedures and Operations in the Lithuanian Customs Department and the Regional Customs Administrations</td>
<td>2.8</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>-04 Promote the Free Movement of Goods&lt;br&gt;Strengthening Customs Procedures and Operations in the Lithuanian Customs Department and the Regional Customs Administrations</td>
<td>2.6</td>
<td>0.5</td>
</tr>
<tr>
<td>LT0004</td>
<td>Agriculture and Fisheries&lt;br&gt;Strengthening the Capacity of the Ministry of Agriculture and Related Institutions to Manage and Administer the EC Acquis for Agriculture (CAP) and Rural Development</td>
<td>6.5</td>
<td>4.5</td>
</tr>
<tr>
<td></td>
<td>-01 Strengthening the Capacity of the Ministry of Agriculture and Related Institutions to Manage and Administer the EC Acquis for Agriculture (CAP) and Rural Development</td>
<td>2.0</td>
<td>1.15</td>
</tr>
<tr>
<td></td>
<td>-02 Strengthening the Capacity of the Ministry of Agriculture and Related Institutions to Manage and Administer the EC Acquis for Agriculture (CAP) and Rural Development</td>
<td>3.0</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>-03 Strengthening the Capacity of the Ministry of Agriculture and Related Institutions to Manage and Administer the EC Acquis for Agriculture (CAP) and Rural Development</td>
<td>1.5</td>
<td>0.65</td>
</tr>
<tr>
<td>LT0005</td>
<td>Transport&lt;br&gt;Implementation of the Acquis in the Maritime Safety Sector</td>
<td>1.0</td>
<td>0.3</td>
</tr>
<tr>
<td>LT0006</td>
<td>Employment, Social Affairs and Health&lt;br&gt;Preparation for Participation in the European Employment Strategy</td>
<td>2.15</td>
<td>0.4</td>
</tr>
<tr>
<td>LT0007</td>
<td>Justice and Home Affairs&lt;br&gt;Strengthening Illicit Drug Demand and Supply Reduction Capabilities</td>
<td>1.0</td>
<td>0.25</td>
</tr>
<tr>
<td>LT0008</td>
<td>Institutional and Administrative Capacity&lt;br&gt;Budget Management and Financial Control</td>
<td>1.5</td>
<td>1.0</td>
</tr>
<tr>
<td>LT0009</td>
<td>Economic and Social Cohesion</td>
<td>14.0</td>
<td>14.0</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------------------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>-01</td>
<td>National-Regional Development in the Target Region</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>Western Lithuania (Klaipeda-Taurage Counties)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-02</td>
<td>National-Regional Development in the Target Region</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>Marijampole County</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-03</td>
<td>National-Regional Development in the Target Region</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>Utena County</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>38.3</strong></td>
<td><strong>23.9</strong></td>
</tr>
</tbody>
</table>

Under separate Financing Proposals 2.7 MEUR will be proposed to the Management Committee, covering Lithuania’s participation in Community Programmes, including the 5th Framework Programme. The total 2000 allocation under the National Programme is including CBC - 43.0 MEUR.

6. 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 EC. Appropriate financial control shall be carried out by the competent National Control Authority with respect to the implementation of the Programme.

The Commission will transfer funds to the NF in accordance with the Memorandum of Understanding signed between the Commission and the Government of the Republic of Lithuania on 10 December 1998. Funds will be transferred following requests from the NAO.

A payment of up to 20% of the funds to be managed locally will be transferred to the NF following signature of the Financing Memorandum and the Financing Agreement between the NF and the Implementing Agencies (IAs)/Central Finance and Contracting Unit (CFCU). The provisions foreseen in articles 2 and 13 of the MOU on the NF must also be met. Furthermore, the NAO must submit to the Commission the designation of he PAOs and a description of the system put place, highlighting the flow of information between the NF and the IA/CFCU and he manner in which the payment function will be carried out.

Four replenishments will be made of up to 20% of the funds to be managed locally 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/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 express prior authorisation from the Commission HQ, no replenishment request may be made if the aggregate of the funds deposited in the NF and the IA/CFCU 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.
IA’s will be responsible for sub-programmes as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Implementing Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>LT 0002-01</td>
<td>Promotion of Competitiveness / Enforcement of Financial Discipline for Enterprises</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0003-01</td>
<td>Strengthening Administrative and Technical Capacity to Promote the Free Movement of Goods</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0003-02</td>
<td>Strengthening Customs Procedures</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0003-03</td>
<td>Support for the Establishment of the Communications Regulatory</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0003-04</td>
<td>Further Harmonisation of Statistical Data and Methods with Eurostat Requirements</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0004-01</td>
<td>Strengthening the Capacity of the Ministry of Agriculture and Related Institutions to Manage and Administer the EC Acquis for Agriculture (CAP) and Rural Development</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0004-02</td>
<td>Strengthening and Enforcement of Food Control System: Phase III Completion of Modernisation of Veterinary and Phyto-Sanitary Border Inspection Posts (BIPs)</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0004-03</td>
<td>Strengthening Lithuania’s Capacity to Manage and Administer the Common Fishery Policy</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0005-01</td>
<td>Implementation of the Acquis in the Maritime Safety Sector</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0006-01</td>
<td>Preparation for Participation in the European Employment Strategy</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0007-01</td>
<td>Strengthening Illicit Drug Demand and Supply Reduction Capabilities</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0008-01</td>
<td>Budget Management and Financial Control</td>
<td>CFCU</td>
</tr>
<tr>
<td>Economic and Social Cohesion:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LT 0009-01</td>
<td>National-Regional Development in the Target Region Western Lithuania (Klaipeda-Taurage Counties)</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0009-02</td>
<td>National-Regional Development in the Target Region Marijampole County</td>
<td>CFCU</td>
</tr>
<tr>
<td>LT 0009-03</td>
<td>National-Regional Development in the Target Region Utena County</td>
<td>CFCU</td>
</tr>
</tbody>
</table>

The National Fund will transfer funds to IAs, including the Central Financing and Contracting Unit (CFCU), in accordance with Financing Agreements (FAs) signed between the NFs and the IAs/CFCU where applicable. Each individual FA will 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 transfer of funds from the NF to the CFCU/IA. 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 bank account, denominated in € million will be opened and managed by the NF in a separate accounting system in the Central Bank. 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 procedures will apply to any funds transferred to an IA or the CFCU.
The NAO and the PAOs will ensure that all contracts, except twinning, are being prepared in accordance with the procedures set out in the DIS Manual. All contracts will be greater than €2 million, except in the areas of fisheries, maritime safety, drugs and financial control which require smaller contracts due to the limited institution building needs to be covered.

All contracts must be concluded by 30 September 2002. All disbursements must be made by 30 September 2003. Any funds not used by the expiry date of the Programme will be recovered by the European 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 CFCU/IA before the official closure of the programme. The CFCU/IA 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 CFCU/IA 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.

7. 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 Financing Memoranda and the Accession Partnership. The JMC may recommend a change of priorities and/or the re-allocation of Phare funds.

The JMC will be assisted by Monitoring Sub-Committees (MSC) and will include the NAC, the PAO of each IA and of 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 consultant (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.

8. Audit and Evaluation

The accounts and operations of the National Fund, and, where applicable, 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.

9. Visibility/Publicity

The appropriate Programme Authorising Officer 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 ‘Visibility/Publicity’.

2000 Phare National Programme – Republic of Lithuania Page 15
10. Special conditions

In the event that agreed commitments are not met for reasons which are within the control of the Government of Lithuania, 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.