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 Poland, 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 31 May 1990 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 PL9903 to PL9910.
Title Poland National Programme 1999
Duration Until 30 September 2001

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 213.5 MEUR 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 September 2001 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 September 2002 with the exception of the infrastructure project PL9908.02 (A4 Motorway) where the deadline for disbursement is 31 December 2002. 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 in Poland
Al. Ujazdowskie 12
PL-00478 Warsaw
Poland
Fax: (+48-22) 625 04 30

for THE RECIPIENT:

Office of the Committee for European Integration
Al. Ujazdowskie 9
PL-00918
Warsaw
Fax: (+48-22) 694 71 94

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 Warsaw Date: 31 DECEMBER 1995
for THE RECIPIENT

Pawel Samecki

Done at Warsaw Date: 31 DECEMBER 1999
for THE COMMUNITY

Mr. B. Dethomas
Head of the Delegation of the European Commission in Poland

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

Special Provisions

1. Strategy

In Agenda 2000, the European Commission outlined a reinforced pre-accession strategy for the candidate countries including a re-orientation of the Phare programme from demand-driven to accession-driven. Based on this document and after consultation with the Polish authorities, an Accession Partnership was adopted to help guide the preparations for membership by determining priority areas. In order to implement the priorities set out in the Accession Partnership, the Polish authorities have elaborated a National Programme for the Adoption of the Acquis.

The 1999 Phare programme has been elaborated on the basis of the overall priorities outlined in the Accession Partnership, in particular the short term priorities, to ensure that assistance would be provided in those areas which have the greatest needs in view of preparing for EU membership.

Besides investment in transport infrastructure and environmental projects, which are integrated parts of long term development programmes, Phare is focusing in 1999 on institution building in areas of special importance, notably strengthening of the administrative capacity and legislative alignment in agriculture, environment, transport, third pillar, internal market, finance, labour, internal market and economy. In view of the need to reinforce this capacity, this focus will be further extended in future programmes. An integrated regional development programme to alleviate the social costs from coal and steel restructuring has also been included.

It was decided not to allocate additional funding to Accession Partnership priority areas in which projects, financed by the 1997 and 1998 Phare programmes, are still on-going. Furthermore, the Commission has examined all projects proposed by Poland for 1999 funding to see whether they were relevant to the priorities of the Accession Partnership, whether they would have an impact on Poland’s alignment or implementation of the acquis, whether they were cost-effective, technically and institutionally ready and whether conditionalities and implementation arrangements were clear.

As a result, a country programme has been prepared, amounting to 213.5 million EUR. This is articulated mainly around the short term priorities identified in the Accession Partnership, related to the following objectives:

Objective 1: Economic reform and industrial restructuring
Objective 2: Strengthen institutional and administrative capacity
Objective 3: Internal market
Objective 4: Agriculture
Objective 5: Environment
Objective 6: Transport
Objective 7: Regional policy and cohesion
Objective 8: Participation in Community and other programmes

A separate financing proposal will cover Tempus II (5 million EUR) and the participation of Poland in Community programmes (12 million EUR). The total Phare budget for Poland in 1999 under the national programme will therefore amount to 230.5 million EUR. Funding for cross border cooperation will be the subject of a separate financing proposal.
2. Objectives and project description

Objective 1: Economic reform and industrial restructuring (PL9903)

Project 9903.01: Alleviation of social costs from coal and steel restructuring and regional development in Silesia

This project will be implemented in Poland at the regional and local level. The regional development measures will be implemented in the new Silesia Voivodship, as a priority region for industrial restructuring. Activities resulting from the restructuring of the coal and steel sectors will be implemented in the Silesia Voivodship and in those selected areas of Poland, where coal mines and steel works under restructuring are located.

The objectives of the project are:

• to introduce the criteria and methods of EU regional development and cohesion policies into the practice of socio-economic development policy and programming in Poland;
• to facilitate the restructuring of the coal and steel sectors in Poland.

This will be realised through:

• Implementation of pilot local investment projects, targeting selected infrastructure of special relevance in view of the Silesia regional development operational programme, and in an appropriate mix of alternative job creation, SME development, innovation and technology transfer, education and labour market, environment, transport, and business facilities - in particular addressing the needs of coal mining and steel dependent municipalities.
• Alleviation of the social costs from coal and steel restructuring, notably through a training and counselling programme, vocational education incentives (temporary income support), and alternative job creation through SME development. These measures will be addressed to coal and steel workers laid off as a result of coal and steel restructuring in Poland. In this respect, this project will be a continuation of the project funded by Phare in 1998.

Conditionalities:

The Phare funding foreseen for alleviation of social costs regarding steel restructuring (10 million EUR) will not start until:

• The revised steel restructuring plan, to be prepared by the Polish authorities and promised by 15 September 1999, has been received and evaluated by the Commission and been presented to the Council.
• All individual viability plans of Polish steel companies have been received and evaluated by the Commission.
• Complete information regarding the audited accounts for 1996, 1997 and 1998 has been provided by the Polish authorities to the Commission in order to enable it to assess state aids in the steel sector.
• The Polish legal instruments related to the social package for the steel sector have been adopted by the Polish Government.

Furthermore:

• The project will be non-discriminatory, i.e. all coal and steel workers of the region who are laid off from all companies will be able to benefit from the social protection package.
• Adherence to the implementation schedule of individual restructuring plans regarding the social measures and layoffs.
• State aid rules under the provisions of the Europe Agreement will be respected.
Commitment and effective participation by the Government in the SME development component.

Effective cofinancing by the Government and the industry as proposed and effective monitoring and reporting by the agencies concerned.

**Objective 2: Strengthen institutional and administrative capacity (PL9904)**

*Project PL9904.01: Strengthening of the customs administration*

The overall objective of this project is to further prepare Poland for a full adoption of the Community acquis and improve the efficiency of the customs administration. Specific immediate objectives are (a) to develop and apply an integrated training programme for the customs staff on the basis of the "blueprint" exercise and Member State's best practice; (b) to develop a strategy for the implementation of a computerised customs entry processing system within the customs administration; (c) to create a customs information centre for both customs staff and international trade interests and (d) to further develop the technical infrastructure of the customs administration in order to ensure rapid and reliable nation-wide communication at EU Member States standards. The Institution Building part of this project will be the subject of twinning.

*Project PL9904.02: Establishment of a financial control capacity*

The general objective of this project is to ensure effective financial control over public spending with a particular emphasis on the EU funds. The immediate objectives are (a) to develop a model of an internal system of effective control over public funds in compliance with EU requirements relating to the control of EU funds and (b) to implement this model which is to aim at strengthening the system of *ex-ante* financial control and at establishing mechanisms for monitoring and evaluation of public funds’ management on the basis of *ex-post* financial control. The Ministry of Finance will ensure that an EC compatible basic legislation on public finances and its implementing regulations will be put in place by March 2000. The Institution Building part of this project will be the subject of twinning.

*Project PL9904.03: Improved tax administration*

The main objective of this project is to support further law approximation in the area of VAT, excise duties and personal/business income tax and to create and strengthen the tax administration and tax gathering capacities. Immediate objectives will be (a) to harmonise the legal framework of the Polish system for indirect and direct taxes and its implementing regulations with Community requirements; (b) to strengthen the tax administration through the development of a strategy for the modernisation of the tax sector and through the development and implementation of a training system in order to improve the tax collection capacities; (c) eventually in a second stage to establish a "wide area network" for the POLTAX information technology system. The Ministry of Finance will ensure that the equipment component (c) will be based on the overall strategy for the tax administration (b) and the outcome of a currently on-going feasibility study. The Institution Building part of this project will be the subject of twinning.

*Project PL9904.04: Reinforcement of home affairs administration and border management*

In keeping with the implementation of projects to gradually raise the level of the Eastern border management to the Schengen standard and the bringing into operation of the twinning project for developing the capacity of the police and border guard, the allocation in 1999 is to place the focus on a comprehensive co-ordinated programme for the fight against organised crime. The Polish government has established a co-ordination body led by the Ministry of the
Interior which, in tandem with the organised crime department of the Ministry of Justice, is provided with the means of developing a comprehensive strategy. The Police are currently putting into place the centralised automated fingerprinting identification service in Warsaw and the allocation under this programme is for extending this to the 16 new Voivodships next year. In recognition of the influx of border related crime from the Eastern border, an allocation is provided again for raising the level of the border management, including a specific provision for visas and the processing of aliens. Since it has become clear during the 1998 exercise that substantial 'know-how' input is required in this area for Schengen, the Institution Building allocation is substantial and will be the subject of twinning.

Conditionalities: Regarding coordination of border services (of customs, police, border guards, sanitary inspectors), a national strategy should be prepared in 1999 that provides for such coordination especially regarding upgrading of border posts. This should also indicate the budgetary efforts that Poland will make in the next three years. It is generally recognized that the strengthening of the Eastern Border of Poland to achieve the Schengen standard by accession will require relatively large financial resources. The Commission may continue to provide support in this respect on condition that the Polish national budget contributes increasingly significant amounts in co-financing and this should already be reflected in the national budget for the year 2000.

Project PL9904.05: Development of a horizontal anti-fraud structure Phase I

The progressive increase in funds provided to Poland during the pre-accession phase and the increasing transit goods traffic urgently require the setting up of an anti-fraud capacity in Poland which can swiftly be brought up to Community requirements well in advance of the actual accession itself. The Customs Inspectorate (CI) under the Ministry of Finance has been identified as having both the statutory powers and the mandate to combat fraud (both will be a sine qua non prerequisite for implementation of the project) throughout Poland. However the capacity of the CI is extremely limited and can only be developed within a short time-scale by the setting up of a core team of EU trained and experienced anti-fraud officers. This project, which represents the first Phase of a multi-annual development, provides for the installation in Poland for an initial period of 24 months of a core team of four experts with the support services and necessary equipment. The Polish side has confirmed its commitment to the project by pledging the complementary support staff.

Project PL9904.06: Occupational Safety and Health administration and enforcement

The objective of this twinning project is the further alignment of labour and health and safety legislation (H&S) and development of enforcement structures in Poland. This will be done through: (a) Transposition of Community directives (use of work equipment, use of personal protective equipment, manual handling of loads, safety and health signs, indicative values of harmful factors); (b) Implementation of these directives at enterprise level through implementing legislation and enforcement; (c) Training of all actors (employers, trade unions, workers’ representatives, H&S experts, inspectors from National Labour Inspection), and promotion of methods and tools supporting effective safety and health management systems in enterprises, the development of curricula and training materials on safety and health designed for the above mentioned groups, provision of information to employers of information regarding the requirements of these directives.

Project PL9904.07: Human resources development

The overall objective of this project is to improve the performance and capability of the public service at national and sub-national level with a view to the further law approximation and enforcement process. Immediate objectives will be (a) to improve the effectiveness and professionalism of the civil service and ensure the proper functioning of the new Civil Service
law in Poland; (b) to train the public administration at sub-national level which is carrying out
public functions relating to EU issues including the use of EU funds and (c) strengthen the
capability of the Polish Government Centre of Strategic Studies (GCSS) to assess and report
economic development in Poland. The Institution Building part of this project will be the
subject of twinning.

Objective 3: Internal market (PL9905)

Project PL9905.01: Certification and standards

The wider objective of the project is to enhance Poland's ability to adopt and implement the
Community acquis in the fields of standards, certification and technical regulation. This will
address the short and medium-term priorities identified in the Accession Partnership in the
areas of the adjustment of legislative measures in line with the European Conformity
Assessment Agreement, and of developing the capabilities and capacities of institutions
dealing with certification and standardisation within the developing conformity assessment
system. The harmonisation with EU regulations will allow Poland to eliminate significant
trade barriers and meet EU single market requirements.

The institution building part of this project will be the subject of twinning. The project has
two phases. Phase 1 is the development of an overall strategy for the adoption of the acquis
which will cover the three main elements of the system: legislation, quality infrastructure and
the participation of economic operators. Phase 2, which will only commence once phase one
has been completed and all the relevant conditionalities met (see below), foresees capital
investment and staff training in five specific institutions so as to bring their equipment and
personnel up to the standards necessary to implement the acquis.

Given the importance of this aspect of the acquis for the internal market, the priorities of the
accession partnership and the difficulties identified in the progress report the commencement
and continuation of the project are subject to a series of strict conditions:

- The commencement of phase 1 will take place only once the Law on Testing and
  Certification has been amended in accordance with the Protocol on European Conformity
  Assessment agreement and these amendment have come into force. This should happen in
  1999. This includes the implementation of all the decisions relating to product lists and
  mutual recognition as set out in the PECAA.
- The pre-accession adviser should be administratively located in the monitoring body
  which the Council of Ministers of Poland, in the position paper on the free movement of
  goods, have decided to create to monitor the implementation of the acquis in this field.
- The commencement of phase two within the overall Project will be conditional on:
  - The completion of phase 1 to the satisfaction of the Polish authorities and the
    European Commission. Criteria for completion will be the development of the
    inventory, implementation strategy and verified Action Plan under the terms of the
    first phase.
  - The implementation of the framework legislation, Law on conformity assessment, law
    on Producer liability and the law on General product safety, necessary for the
    adoption of the new approach. In addition the Regulation of the Minister of
    Communications will need to be amended in relation to the obligation of applying
    Polish norms and branch norms.
  - Drafts of the specific legislation relating to the sectors concerned in phase 2 having
    been approved by the Council of Ministers. Regular reviews will be held with the
    Commission on regulatory issues and transposition measures in the field of directives
    directly linked to the sub-projects, so that Phase 2 activities advance in line with
    progress achieved.
Project PL9905.02: Liberalisation of capital movements

The overall objective of this project is the preparation of the Polish market for the implementation of Community regulations concerning the operation of the internal market and the liberalisation of capital movements according to articles 73B to G of the Treaty. The project aims at building up the institutions of the Ministry of Finance for the introduction of full convertibility of the Polish zloty; strengthening the Polish Securities and Exchange Commission and developing of the institutional and legal structures for the detection and prevention of money laundering through the development of the newly created General Inspector of Financial Information. The Institution Building part of this project will be the subject of twinning.

Project PL9905.03: Telecommunications regulatory authority

The new telecommunications legislation is just beginning its progress through the Polish Parliament and is expected to be passed in mid-autumn. In parallel, the privatisation of the national operator TPSA was launched last year. In this context, the setting up of a national regulatory authority provided by the legislation is now mandatory both from the internal national viewpoint and from the accession perspective since it will be necessary for the implementation of further telecommunications 'acquis' to have the structures functioning efficiently well in advance of the accession date. The necessary 'know-how' within Poland for the establishment of such an authority is currently insufficient and of necessity must be provided by EU practitioners by twinning, which is the objective of this project.

The funding to be provided is conditional upon some immediate actions and also certain key milestones taking place. Regarding immediate actions, it is necessary to amend the existing law to create an independent National Regulatory Authority (NRA) having the minister's present powers over TPSA and other actors in the sector, and to promulgate an amended ordinance on interconnection harmonising its provisions more thoroughly with the requirements of Community Directives. It will also be necessary to create an adequately funded and empowered special task force to prepare for the creation of the NRA and, during the period before it is created, carry out the NRA's functions in respect of preparing secondary legislation. The key milestones should be: Parliament should finish consideration of the new law by 1st December 1999, and the implementation programme should be redesigned to ensure that the expected delay (grace period) in bringing the new law into effect once it has been passed by Parliament is no greater than six months. The drafting of TPSA's licence and other secondary legislation should proceed in parallel with the passage of the new law so that there need be no delay in issuing it after the law comes into effect. This will ensure that TPSA is operating under a licence before employee shares become tradeable in November 2000.

Project PL9905.04: State aids control

The objective of this project is to align Polish legislation to Community state aid acquis so that a transparent system is established and implemented in Poland of ex ante state aid control and ex post reporting. The Council of Ministers in Poland has adopted the draft law to this effect on 16 February 1999 and this is now on the fast track for adoption by Parliament in 1999. The Office for Competition and Consumer Protection (OCCP) has been entrusted with the functions of the state aids monitoring authority in Poland providing for ex ante control and ex post reporting.

The project will provide expert support and legal advise to the OCCP, the Ministry of Economy and the Ministry of Finance to help establish and develop the system, train the staff of OCCP, of the judiciary and officials of the central and local administration, help draft
secondary legislation, help establish a system of registration and monitoring of all state aids, including the set up of an inventory on existing aid and the submission to the Commission of the annual report on aid granted in Poland, and help raise the awareness of beneficiaries and market operators in Poland. The Institution Building part of this project will be the subject of twinning.

Conditionalities:

- Adoption of the state aids law by the Polish Parliament before end 1999
- Adoption of the state aids law before the start of the project
- Recruitment by the OCCP, financed by the Polish Government budget, of 30 officials as foreseen in the initial phase, before the start of the project
- Adoption in 2000 of implementing legislation thus achieving further compliance with Community legislation in the field of competition policy (antitrust and state aid);
- Set up of inventory on existing aid before July 2000.

Objective 4: Agriculture (PL9906)

Project PL9906.01: Phytosanitary administration for future external borders

The general objective of this project is to harmonize Polish legislation and enforcement with Community standards and to provide a reliable phytosanitary control. The immediate objectives are: (a) to harmonise border control procedures and diagnostic standards of plant materials originating from third countries; (b) to elaborate and implement regulations to limit the distribution of harmful plant organisms and prevent their entry into the EU; (c) to harmonise sampling, diagnostics and laboratory practices; (d) to elaborate and implement a registration system of producers, importers and distributors in line with Community practice; (e) to strengthen the Plant Protection Inspection Service and their border posts to take on the tasks mentioned above. The Institution Building part of this project will be the subject of twinning, including training of inspectors and border personnel. In addition, the project will finance technical infrastructure and computer equipment for the registration system at a number of border posts.

Conditionalities:

- Presentation by the Ministry of Agriculture of a coherent plan for the upgrading and equipment of selected border stations for this project and for the next three years, before the start of the project, which will be coordinated with the same plan for the veterinary sector. This should include a national laboratory plan for testing and diagnostic facilities throughout Poland.
- Provision of secure premises and any necessary infrastructure works by the Polish Government
- Employment of new inspectors at border stations as proposed before the delivery of the equipment
- Maintenance of the equipment by the Polish Government.

Project PL9906.02: Veterinary administration at future external borders

The general objective of this project is to harmonize Polish legislation and enforcement with Community standards and to provide a reliable veterinary control at Poland's borders with a particular emphasis on the Eastern border. The immediate objectives are: (a) Upgrading of border inspection posts; (b) Establishment of sanitary controls in line with Community standards at border stations; (c) Establishment of a computerized information system enabling
exchange of information in line with Community standards. The Institution Building part of this project will be the subject of twinning.

Conditionalities:

- Presentation by the Ministry of Agriculture of a coherent plan for the upgrading and equipment of selected border stations for this project and for the next three years, before the start of the project, which will be coordinated with the same plan for the phytosanitary sector. This should include a national laboratory plan for testing and diagnostic facilities throughout Poland.
- Provision of secure premises and any necessary infrastructure works by the Polish Government
- Maintenance of the equipment by the Polish Government.

*Project PL9906.03: Joint Phare/EBRD dairy facility*

The objective of the Polish Dairy Facility is to modernise 10 to 15 dairies in Poland to significantly upgrade their production facilities to EC standards. The Facility combines loans (EUR 24m provided by the EBRD) and grants (EUR 8m provided by Phare) directed at investment projects meeting a set of eligibility criteria. Eligible projects consist of capital investments whose exclusive objective is to upgrade a large volume of milk products of the beneficiaries to EC standards. An amount of 50% minimum is requested to improve the liquid milk production and collection, but the beneficiaries will be dairies only, responsible for preparing the quality improvement plan and organising its implementation at all levels.

The Facility will be operated as a wholesale instrument through three Polish commercial banks to be selected by the EBRD on the basis of objective criteria, notably creditworthiness, experience with the sector, and acceptance of EBRD terms and conditions. The role of the banks is to identify potential beneficiaries meeting the eligibility criteria, conduct credit appraisal and eventually extend finance, taking full credit exposure. Beneficiaries will receive a financial "package" of between EUR 1 and 3 million made of loans from banks, priced commercially, and non-interest bearing non-repayable grants at a ratio of 75% loan money and 25% grant money. The tenure of the package will be of minimum 3 years. The EBRD will assume the full commercial risk towards participating banks and plans to issue fixed interest rate, fully commercial, zloty loans to each of the participating banks. Beneficiaries are expected to finance 20% of the project from their own resources to this effect. The grant element provided by Phare will be disbursed by the Agency for Restructuring and Modernisation of Agriculture ("ARMA") to the beneficiaries through the banks. The grant will become effective only when the beneficiaries have fulfilled all their obligations. There will be an independent Advisor, selected competitively, to assist in (i) assessing the projects' compliance with the objectives of the Facility (ii) confirming the completion and commissioning of the projects and (iii) advising on procurement of equipment by the Beneficiaries. No sub-loan will be extended unless it has been approved in writing by the EBRD, on the recommendation of the Advisor. For this purpose, the Advisor will seek the opinion of the veterinary inspection and the Ministry of Agriculture, but will formulate his own assessment in the form of an appraisal memorandum which represents the independent opinion of the Advisor. The Phare grant shall be drawn down by the participating banks from the Polish Government's designated paying agent to coincide with the sub-loans disbursements and passed on immediately to the beneficiaries. Procurement of goods and equipment by the dairies, as a result of the proceeds of the loan and the grant, shall follow EBRD normal practice.

*Project PL9906.04: Preparation for implementation of the CAP*

The general objective of this project is to prepare and commence reform of the institutions (ministry, public agencies) to create the capacity for implementation of the CAP. The
immediate objective is to prepare and commence reform of the Agricultural Market Agency (AMA), the Agency for the Modernisation of Agriculture (ARMA) and Poland's farmer advisory services to administrate CAP mechanisms. The Institution Building part of this project will be the subject of twinning. Support for the advisory services will be given by technical assistance and training. The equipment and software will only be delivered once the reform plans for the two agencies are ready.

**Objective 5: Environment (PL9907)**

*Project PL9907.01: Environmental inspectorate*

The general objective of this twinning project is to strengthen Poland's environmental administration through the development of strategic planning and management capacities related to the monitoring and enforcement of legislation adopted and implemented, fulfilling the requirements of Community directives in the field of environment. The immediate objective is to assist the Ministry of Environment in the creation of appropriate conditions and the institutional framework for local and regional authorities and the Inspectorates for Environmental Protection in their efforts to monitor and enforce the environmental legislation. This objective is to be accomplished by the following tasks:

- strengthening the local, regional and central administration by analysing the existing organisational structures in relation to the requirements of EC Directives.
- strengthening the institution building capacities of the institutions responsible for the enforcement of Community directives by developing specific recommendations (statutes, organisation, mandates of inspectors) on enhancement of the efficiency of the administration.
- defining, programming and carrying out the training modules for the environmental administration involved in all stages of environmental management: monitoring, permits, enforcement and reporting.

These tasks will be achieved through twinning, including comparative study of the EU member countries experience in environmental management systems including examples of best practice of licensing and enforcement of directives in EU member states.

*Project PL9907.02: Bytom Waste Water Treatment Plant*

This is an investment project. The wider objective of the project is improvement of wastewater treatment in Poland in line with Community directives. The overall expected output is an extended and enhanced WWTP at Bytom, bringing it into line with the requirements of the directives, thereby achieving both the strategic objective (compliance with NPAA) and immediate objectives for improving WWT in the town.

The immediate technical purpose of the project is the reduction of communal waste coming out of the treatment plant in Bytom. This objective will be accomplished by closing down the inefficient old treatment plant in Bytom Central and by launching the operation of a wastewater treatment plant in Bytom Radzionków as well as the construction of an intercepting sewer for transfer of wastewater to the Bytom-Radzionków treatment plant, with a simultaneous adaptation of the treatment process to Community standards.

This project and also the other environmental investment projects mentioned below are conditional on the preparation of a national master plan for environmental investment in 1999 that sets out the priorities for investment in this sector in the coming years, and the establishment and development of a project preparation unit in the Ministry of Environment.
Project PL9907.03: Tomaszow Waste Water Treatment Plant

This is an investment project. The overall expected output is an extended and enhanced WWTP at Tomaszow Mazowiecki, bringing it into line with the requirements of the Community directives.

The immediate objective of the project is to comply with Community standards in the quality of discharged wastewater and surface water, to increase the throughput capacity of the existing wastewater treatment plant in the basin of the Pilica river, a main tributary of the Vistula river flowing into the Baltic Sea, and the elimination of pollutant load into the Sulejow reservoir. The modernisation of the wastewater treatment plant will provide an increase in its throughput capacity from 15,000 m$^3$/d to 51,000 m$^3$/d and will serve a population of up to 250,000 people.

Conditionalities:

- Co-financing from the Municipal budget (the municipality of Tomaszow Mazowiecki, Sulejow, other Municipalities) and other sources as in the project assumptions, and the completion of the project according to the schedule (by the end of 2001).
- Proper price policy towards the town inhabitants who generate wastewater, established in the municipality of Tomaszow Mazowiecki, ensuring the sustainability and renewal of the investment in the long term.
- Further development of the strategy for approximation of legislation and implementation in the water management sector.

Project PL9907.04: Reduction of air pollution in Wroclaw

This project of air quality improvement will help eliminate low level emission in the city of Wroclaw. The implementation of the project will also result in significant energy conservation, which is recognised as one of the most efficient means of implementing the Community air quality directive (directive 96/62).

The concept of the project is based on modernisation of the heat distribution network – establishing a modern heating system resulting in increasing energy efficiency and applying demand side management for heat supply. This investment project will fund replacement of approximately 170 km of heat distribution network, replacement and retrofitting of pipe insulation and casing, comprehensive modernisation of the heat exchangers units and phasing out of about 50 local boiler houses.

Conditionalities:

- Co-financing from the National Fund and other sources and the completion of the project according to the schedule (by the end of 2001).
- Relevant price policy towards the heat recipients ensuring the durability and resumption of the investment in the long term.
- Further development of the strategy for approximation of legislation and implementation in the ambient air protection sector.

Project PL9907.05: Reduction of air pollution in Sochaczew

The investment air quality improvement project in Sochaczew will contribute to substantial energy savings in the town and thus result in an improvement of the environment. The existing district heating system in Sochaczew supplies heat to residential, service and
industrial buildings and is based on individual small local boilers and furnaces. There are 77
different boiler houses equipped with 180 boiler units in the city of Sochaczew. The majority
of existing boiler rooms are equipped with obsolete, low efficiency boilers fuelled by lump
coal boilers.

The concept of improving this system, resulting in improvement of air quality, is based on
closure of 48 small local boiler rooms and modernization of 11 big boiler houses. This will be
achieved by switching from solid fossil fuel to low sulphur heating oil for selected sites and
converting a number of boilers enabling coal to be burned in a more environmentally friendly
way.

Conditionalities:

- Financial support from the municipal budget as envisaged and the completion of the
  project in accordance with the schedule by the end of 2000
- Further development of the strategy of adaptation of legislation and implementation
  thereof in the air quality sector
- Proper price policy and cost recovery by the municipal budget.

Objective 6: Transport (PL9908)

Project PL9908.01: Establishment of the Road Inspectorate

The general objective of this twinning project is the preparation of a legal basis
(approximation of Polish legislation to Community legislation) and establishment of the Road
Transport Inspection in Poland. Completion of the project will result in implementation of the
Community legislation and its credible enforcement of performing road transport control in
Poland. Establishing the Road Transport Inspection will allow the implementation of an
efficient control in terms of monitoring the road transport law and governing rules and
standards. This will result in the elimination of transport market protection and distortion of
competition, improved environment protection through reduction of emissions, protection of
roads and road infrastructure, improved social conditions in road transport, and, not least,
road traffic safety both inside and outside Poland.

Project PL9908.02: Cofinancing of the A4 motorway

The A-4 Motorway Wroclaw-Katowice-Krakow is part of the Crete Corridor III, out of which
already 126 km between Wroclaw and Nogawczyce is under construction utilising financial
resources provided by Phare, the EIB and the Polish Government budget.

This project will finance the construction of the extension of the A-4 Motorway to Gliwice on
the section Nogawczyce-Lany-Kleszczow to be implemented in two selected sub-projects:
1) Extension of the A-4 Motorway on the Nogawczyce-Lany section (8.85 km long)
2) Extension of the A-4 Motorway on the Lany-Kleszczow section (7.77 km long)

The cofinancing of the Nogawczyce-Lany-Kleszczow section project is under initial discussion
with the European Investment Bank.

Conditionalities:

- Cofinancing from the Government and EIB as proposed
- Maintenance ensured by the Polish Government
- Assurance by the Polish Government of temporary duty free importation of equipment in
case of tender award to foreign contractors and respecting payments in EUR.
• Preparation of national transport priority investment plan and establishment of a sustainable project preparation unit in the Ministry of Transport in 1999.

Project PL9908.03: Cofinancing of the E30 Railway line

The E-30 railway line is part of the international link Dresden-Gorlitz-Zgorzelec-Wroclaw-Opole-Katowice-Krakow-Przemysl-Lvov-Kiev (Crete Corridor III). The project concerns the rehabilitation and modernizing of the railway of the 159 km long section Legnica-Wroclaw-Opole on the area that was the most affected by the dramatic flooding in 1997.

The project is divided in three sub-sections:
1) Opole Groszowice–Borki Opolskie–Jelcz Miloszyce-Siechnice length 31.9 km
2) Opole-Wroclaw Brochow length 71.5 km
3) Wroclaw-Muchobor-Legnica length 55.7 km

The Phare 38 million EUR grant component will consist of the supply of rail and turnouts, supporting the construction of catenary system, reconstruction of bridges and viaducts and modernisation of two railway stations: Opole Zachodnie and Lewin Brzeski.

Cofinancing has been secured from the European Investment Bank and the Phare contribution will not exceed 25% of the total cost of the project.

Project PL9908.04: Construction of a bridge over the Bug river

The border crossing Dorohusk/Jagodin is located on the international transport route Baltic Sea - Black Sea. The main objectives of this infrastructure project are the following: (i) promotion of trade, social and political relations between Poland and Ukraine, (ii) improvement of border crossing conditions on the Polish eastern border (shortening of waiting time), (iii) improvement of traffic bottlenecks in the transport corridor Baltic - Black Sea, (iv) reduction of impact of through traffic on the environment. The construction of the border bridge over the Bug river in Dorohusk/Jagodin is included in the Agreement signed between the Governments of Poland and Ukraine.

This project will finance the construction of the bridge with the total length of 188 m, wide 13.47 m and the access road: 0.8 km long and 7.0 m wide carriageway with two hard shoulders 2x2.0 m. The project is co-financed by the Polish Government and for the part of the bridge on Ukrainian side cofinancing is granted by the TACIS programme.

Objective 7: Regional policy and cohesion (PL9909)

Project PL9909.01: Regional development in Mazury and Podkarpacie regions

The objective of this project is to introduce into the process of socio-economic policy and programmes in Poland the criteria, methodology and objectives of national regional structural policy, with integrated elements of regional development and cohesion, and rural development, in line with EU principles under the Structural Funds. As such this project is the continuation of SPP funded in 1998.

The objective will be attained through the selective implementation of pilot projects from integrated regional development Operational Programmes in the chosen Voivodships, which are already elaborating their Operational Programmes under the SPP programme; through pilot regional and local actions testing rural development measures, through technical assistance provided to two additional Voivodships in the preparation of their Operational Programmes and the targeted human resources development (training and awareness building) activities included in the project.
Objective 8: Participation in Community and other programmes (PL9910)

Project PL9910.01: College of Europe at Natolin

This project will assist the development of the Natolin campus of the College of Europe as a centre of excellence in the teaching of European studies in keeping with the provisions of Article 76 of the Europe Agreement and consistent with the institution building priorities of Poland’s pre-accession strategy. It will facilitate the strengthening and development of academic, administrative and managerial capacity and competence within the Natolin campus of the College of Europe. It will assist the campus at Natolin extend its academic programme of advanced postgraduate education in European studies during the initial phase of expanding from 60 to 120 students and will facilitate measures to integrate its academic and administrative operations with Bruges as a second campus of a fully integrated College of Europe.

The project will assist the College develop and the broaden existing curricula by offering 120 students a wider range of interdisciplinary and specialised courses, compact seminars, workshops and conferences eventually leading to the introduction of three departments (public administration, law and economics). The expansion of the academic programmes will draw on the College’s expertise and networks to include teacher training and curricula development programmes targeted to meet the special needs of the universities and institutions within the countries of Central and Eastern Europe.

It will also enable the College to realise plans for the future growth plans for its Natolin campus, which include quadrupling the student intake to 250 by 2003-4 and achieving greater financial independence. This project also includes measures to ensure the maintenance of sound financial management, and reform of its governing bodies following the establishment of the College of Europe as a legal entity in Poland.

The project will consist of an investment component (0.1 m EUR) and a series of elements (4.1 m EUR) comprising an institution building component. The investment component will co-fund the purchase of some necessary furniture and equipment for the expansion of the College. The Institution Building component will co-finance the re-structuring of the academic programmes, college administration and facilities to handle the doubling of student numbers.

The granting of this funding is conditional upon the fulfilment of the following commitments agreed in the Exchange of Letters of 11 February 1999 between the European Commission and the Polish Government, notably:

• The establishment of a legal entity for the College of Europe under Polish law, with statutes assuring transparency of governance, effective financial controls, material and academic independence.

• The formalisation of a new Framework Agreement effective at the time of the implementation of this funding proposal between the Polish Government and the College guaranteeing the long term use of the infrastructure on the Natolin site by the College of Europe.

• The College of Europe comprising two campuses shall work under the authority of one Administrative Council, one Executive Committee and one Academic Council and, within this framework, under the authority of the Executive Board of the Foundation College of Europe under Polish law for the campus of Natolin. The College of Europe will assure the full application of its regulations, and guarantee the same high academic standards at both campuses.
• The College of Europe will co-operate with EU Member States and the private sector in order to create a sustainable long-term financial basis for the Natolin campus and to progressively decrease the European Commission’s proportional share.

• Phare funding is also conditional on the operation of sound financial and general management practices at the College of Europe’s Natolin Campus which will be subject of audit by services appointed by the European Commission. In addition, annual reports will be provided by the College of Europe to the European Commission regarding the implementation of these measures and progress towards a greater financial independence of its Natolin campus with the perspectives as outlined above.
### 3. Budget (million EUR)

<table>
<thead>
<tr>
<th>No</th>
<th>Title</th>
<th>Total Phare budget</th>
<th>Institution building (indicative)</th>
<th>Investment (indicative)</th>
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<tbody>
<tr>
<td>PL9903</td>
<td>Objective 1: Economic reform and industrial restructuring</td>
<td>31</td>
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<td></td>
<td>01 Alleviation of social costs from coal and steel restructuring and</td>
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<td></td>
<td>regional development in Silesia</td>
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<tr>
<td>PL9904</td>
<td>Objective 2: Strengthen institutional and administrative capacity</td>
<td>38</td>
<td>21.515</td>
<td>16.485</td>
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<td></td>
<td>01 Strengthening of the customs administration</td>
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<td>02 Establishment of a financial control capacity</td>
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<td></td>
<td>03 Improved tax administration</td>
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<td>04 Reinforcement of home affairs administration and border management</td>
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<td>05 Development of a horizontal anti-fraud structure</td>
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<td>06 Occupational safety and health administration and enforcement</td>
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<td>07 Human resources development</td>
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<td>PL9905</td>
<td>Objective 3: Internal Market</td>
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<td>01 Certification and Standards</td>
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<td></td>
<td>02 Liberalisation of capital movements</td>
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<td>03 Telecommunications regulatory authority</td>
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<td>04 State aids control</td>
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<td>PL9906</td>
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<td>01 Phytosanitary administration for future external borders</td>
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<td>02 Veterinary administration at future external borders</td>
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<td>03 Joint Phare/EBRD dairy facility</td>
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<td>04 Preparation for implementation of the CAP</td>
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<tr>
<td>PL9907</td>
<td>Objective 5: Environment</td>
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<td>01 Environmental inspectorate</td>
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<td>02 Bytom waste water treatment plant</td>
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<td></td>
<td>03 Tomaszow waste water treatment plant</td>
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<td>04 Reduction of air pollution in Wroclaw</td>
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<td></td>
<td>05 Reduction of air pollution in Sochaczew</td>
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<td>PL9908</td>
<td>Objective 6: Transport</td>
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<td>01 Establishment of the road inspectorate</td>
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<td>02 Cofinancing of the A4 Motorway</td>
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<td>03 Cofinancing of the E30 railway line</td>
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<td>04 Construction of a bridge over the Bug river</td>
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<td>PL9909</td>
<td>Objective 7: Regional policy and cohesion</td>
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<td>01 Regional development in Mazury and Podkarpacie regions</td>
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<td>PL9910</td>
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<td>01 College of Europe in Natolin</td>
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<td></td>
<td>Total Phare contribution (million EUR)</td>
<td>213.5</td>
<td>43.433</td>
<td>170.067</td>
</tr>
</tbody>
</table>

The total Phare contribution under this programme will therefore not exceed 213.5 million EUR.
An environmental impact assessment will be carried out for all investment projects.

4. Implementation Arrangements

The programme will be managed in accordance with the Phare Decentralised Implementation System (DIS) Procedures. The National Aid Coordinator (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 reporting to the European Commission. Appropriate financial control shall be carried out by the competent national financial control authority with respect to the implementation of the programme.

The Commission will transfer funds to the NF in accordance with the Memorandum of Understanding signed between the Commission and Poland on 24 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 Agreements (FAs) between the NF and the Implementing Agencies (IAs)/Central Finance and Contracts 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 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 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 and the CFCU. The second replenishment may be requested when 30% of the total budget in force has been disbursed. The trigger point for the third replenishment is 50%, and for the final fourth instalment when 70% is disbursed. Save for 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 IAs exceeds 10% of the total budget in force of the commitment. Exceptionally the NAO may request an advance payment of more than 20% in accordance with the procedures laid down in the aforesaid Memorandum of Understanding.

Implementing Agencies will be responsible for projects as follows:

- **Central Finance and Contracts Unit (CFCU):** Projects PL9904.01 to 03, PL9904.06 to 07, PL9905.01 to 04, PL9906.01 to 04, PL9907.01, PL9908.01, and PL9910.01
- **SME Foundation:** Projects PL9903.01 and PL9909.01
- **Ministry of Internal Affairs:** Project PL9904.04
- **National Fund for Environmental Protection:** Projects PL9907.02 to 05
- **Ministry of Transport:** Projects PL9908.02 to 04

Project PL9904.05 will be contracted directly by the Commission.

The National Fund will transfer funds to Implementing Agencies (IAs), including the Central Finance and Contracts Unit (CFCU), in accordance with Financing Agreements (FAs) signed between the NFs and the IAs/CFCU 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/IAs there will be no transfer of funds from the NF to the CFCU/IAs. 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 the operations carried out by the relevant CFCU/IA.
A separate bank account, denominated in EUR will be opened and managed by the NF in a separate accounting system in the Central Bank. In principle, all bank accounts will be interest bearing. 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 are prepared in accordance with the procedures set out in the DIS Manual, except for twinning arrangements for which separate measures have been defined by the Commission.

All contracts must be concluded by 30 September 2001. All disbursements must be made by 30 September 2002. In the case of the infrastructure project PL.9908.02 (A4 Motorway) disbursements must be made by 31 December 2002. All contracts must be greater than 2 million EUR unless otherwise agreed by the Commission.

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

For those contracts with funds retained for a warranty period extending beyond the end of the disbursement period of the programme, the overall total of funds related to those contracts, as calculated by the PAO and established by the Commission, will be paid to the Implementing Agency before the official closure of the programme. The Implementing Agency assumes full responsibility of depositing the funds until final payment is due and for ensuring that said funds will only be used to make payments related to the retention clauses. The Implementing Agency further assumes full responsibility towards the contractors for fulfilling the obligations related to the retention clauses. Interests accrued on the funds deposited will be paid to the Commission after final payment to the contractors. Funds not paid out to the contractors after final payments have been settled shall be reimbursed to the Commission. An overview of the use of funds deposited on warranty accounts and notably of the payments made out of them and of interests accrued will annually be provided by the NAO to the Commission.

5. Monitoring and Assessment

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

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

6. Audit and Evaluation

The accounts and operations of the National Fund, 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 Court of Auditors as referred to in the General Conditions relating to the Financing Memorandum attached to the Framework Agreement.

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

7. Visibility/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.

8. Special conditions

In the event that agreed commitments are not met for reasons which are within the control of the Government of Poland, 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 global Phare programme.