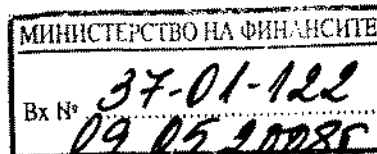




EUROPEAN COMMISSION
Enlargement Directorate-General

The Director-General



Brussels, 08 MAI 2008
ELARG/D(2008) REG 102172

Dear Mr Ivanovski,

Thank you for your letter of 31 March 2008. We have carefully assessed the information you provided in response to the 25 corrective actions listed in my letter of 28 February.

We recognise that you have started to take a number of actions in response to the concerns raised. Moreover, we welcome the appointment of the new Deputy Prime Minister, Ms Plugchieva, responsible for the coordination and control of EU funds. I had a constructive meeting with Ms Plugchieva yesterday and had the opportunity to explain to her the Commission's concerns.

The steps taken to date do not fully address the points raised in my letter of 28 February. They do not provide the Commission with a sufficient basis to determine that the PHARE and Transition Facility contracts concluded by the CFCU and Ministry of Regional Development and Public Works (MRDPW) are legal, regular and in conformity with the applicable rules.

There are four main areas of concern. First, the National Authorising Officer (NAO) must have full authority to manage the implementation of the Phare programme and the Transition Facility in Bulgaria and to make any changes to the systems that are necessary to ensure sound financial management. Secondly, the NAO needs to strengthen the functioning of the systems designed to detect and respond to irregularities. It is essential that the NAO ensure that adequate follow-up action is rapidly taken in any cases where irregularities are detected. For each case, he must put in place an action plan of remedial measures, including a clear timetable. Thirdly, the NAO needs to increase the number and quality of staff responsible for controlling and monitoring the programmes in the Implementing Agencies. Lastly, the NAO must improve the quality and frequency of reporting to the Commission. In annex, we have provided a detailed list of measures on which further action is required in each of these four areas.

The Commission will maintain the suspension of payments to the two implementing agencies concerned until its concerns have been adequately addressed. Nonetheless, in the absence of any indication of irregularities with respect to the twinning contracts, these are not subject to this suspension. We recall that the continuing suspension of payments from the Commission does not give a justification for the Bulgarian authorities to breach their own contractual obligations on payments related to existing contracts they have concluded

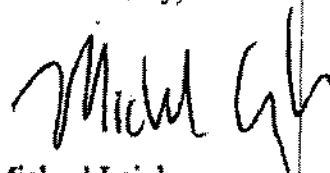
Mr. Dimitar Ivanovski,
National Authorising Officer
Ministry of Finance

with contractors or beneficiaries. However, I would suggest that you take stringent measures to ensure the legality and regularity of any further contracts concluded by these two agencies before they are signed.

In my letter of 28 February 2008, I indicated that if the corrective actions stipulated in the annex to my letter had not been taken by 31 March, I would be obliged to consider whether to reverse the decision to confer management of aid on the two implementing agencies concerned and to regard as ineligible for EC support the contracts concluded since the Commission Decision of 29 June 2007 in order to protect the financial interests of the Community. The corrective measures taken to date are insufficient. I am, therefore, preparing a recommendation that the Decision of 29 June 2007 on conferral of management under the extended decentralised implementation system (EDIS) be repealed. Repealing the Decision would mean that any transactions by the two agencies concerned (CFCU and Ministry of Regional Development and Public Works) would not be considered eligible for financial assistance under the PHARE programme or the Transition Facility. Moreover, contracts already concluded under EDIS, whose legality or regularity are in doubt, would require financial corrections.

In light of the political will expressed by Ms Plugchieva in my meeting with her yesterday, I would invite the Bulgarian authorities to take the necessary corrective actions set out in the annex to this letter and to ensure full cooperation with the European Anti-Fraud Office. I should be grateful if, by 16 June, you would provide me with a report containing evidence that all these areas of concern are being addressed. This report will provide a basis for determining whether to proceed with a recommendation to repeal the EDIS Decision for these two agencies.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michael Leigh', written in a cursive style.

Michael Leigh