



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 02.05.2005
COM(2005) 178 final

**REPORT FROM THE COMMISSION TO
THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**GENERAL REPORT ON PRE-ACCESSION ASSISTANCE
(PHARE – ISPA – SAPARD) IN 2003**

{SEC(2005)558}

1. SUMMARY

This is the fourth report to the European Parliament and the Council on the three pre-accession instruments and their co-ordination in accordance with Article 13 of the ‘Council Regulation on the co-ordination of pre-accession assistance’(EC) No 1266/99¹ (in the following "Coordination Regulation"). In line with the positive accession negotiations in Copenhagen 2002, an increased emphasis was in 2003 put on creating the administrative capacity required for a successful implementation of the *acquis* and participation in present or future European Community programmes as of membership.

Phare addresses priority measures concerning the adoption of the *acquis communautaire*, whether through improving administrative capacity or supporting related investment. It also has an element for Economic and Social Cohesion.

ISPA (Instrument for Structural Policies for Pre-Accession) finances major environmental and transport infrastructure projects.

SAPARD (Special Accession Programme for Agriculture and Rural Development) finances agricultural and rural development.

Detailed information on the activities in 2003 under each pre-accession instrument can be found in the relevant annual PHARE², ISPA³ and SAPARD⁴ reports.

For financial figures on the pre-accession instruments, see section 5 “Financial Overview”.

The **co-ordination of the three instruments** is ensured by a division of responsibilities between the instruments. A committee at Directorate level ensures co-ordination between the Commission services concerned. A ‘General Assistance Document’ covering all instruments was presented in April 2003 to the Phare Management Committee, the body assisting the Commission in co-ordinating the instruments. At country level, the Commission encouraged the applicant countries to enhance inter-ministerial co-ordination, which is seen as a key pre-condition for the successful future management of the Structural Funds.

2. OVERALL DESCRIPTION OF MECHANISMS OF THE PRE-ACCESSION INSTRUMENTS

2.1 Commitments and transfer of funds

Before EU funds can be transferred, they require: (1) a Commission Decision, in order to be committed into the Budget; (2) a Framework Agreement; and (3) an annual bilateral Financing Agreement or Memorandum determining the financial commitment of the Community for the measure concerned towards the recipient country, i.e. fixing rights and obligations for both parties. However, the procedures leading to decision making and commitment of funds are different for each instrument. Detailed information on the procedures leading to funding under each instrument can be found in the annex 1.1.

¹ Published in the OJ L 161, 21.06.1999, p.68

² COM(2005) 64 final

³ COM(2004) 735 final

⁴ COM(2004) 851 final

2.2 Implementation structures in Candidate countries

Funds from the pre-accession instruments are channelled through the National Fund, established in the Ministry of Finance in each country, under the responsibility of the National Authorising Officer. The concrete implementation of Phare and ISPA is carried out in Implementing Agencies (such as the Central Finance and Contracts Unit, CFCU) that receive the funds from the National Fund⁵. For SAPARD, the implementation is carried out by the dedicated SAPARD Agency that receives the funds from the National Fund.

2.3 Decentralisation of implementation under Article 12 of the Co-ordination Regulation⁶

Decentralisation is the process by which management of EU funds is devolved to candidate country administrations.

For Phare and ISPA, this process was governed in 2003 by the Decentralised Implementation System (DIS). DIS means that the procedures for managing measures or projects financed by ISPA and Phare require *ex ante* control, i.e. decisions concerning procurement and award of contracts are taken by the contracting authority and referred to the EC Delegation in the beneficiary country for endorsement. Thus the EC Delegations are responsible for endorsing procurement documents before tenders are launched or contracts signed.

On the other hand, SAPARD is implemented on a fully decentralised basis (EDIS = Extended Decentralisation Implementation System). EDIS stands for full decentralisation of EU support, meaning the process by which management of EU pre-accession funds is devolved to candidate country administrations, where the Commission exercises no systematic ex-ante control over individual transactions, but is limited to an ex-post control, whilst it retains the final responsibility for general budget execution.

Such delegation of management responsibility requires each country to set up adequate management and control systems to be approved at national level by the National Authorising Officer. Once these conditions are met, the Commission carries out the compliance verification prior to the Decision by the Commission conferring financial management.

Whilst Phare and ISPA continued to be implemented through the DIS in 2003, significant progress to move to EDIS on the basis of the Co-ordination Regulation was noted in the acceding and Candidate countries. Preparations for EDIS were accelerated in all Candidate countries. For Phare and ISPA, the move to EDIS is done through 4 stages described in the Commission Working document “Preparing for Extended Decentralisation” and the document “Roadmap to EDIS for ISPA and Phare”. The Roadmap sets out the procedural stages leading to an EDIS decision. Stages 1 to 3 are the responsibility of the Candidate countries and contain a Gap assessment, a Gap Plugging and a Compliance assessment of the management and control systems. Stage 4 is the preparation for Commission decision and is the responsibility of the Commission. This decision is taken following an in depth review, including a verification audit on-the-spot, of the management and control systems as described in the EDIS application submitted to the Commission by the National Authorising Officer.

⁵ Unless the National Fund acts as a paying agent on behalf of the Implementing Agency

⁶ Article 12 of the Co-ordination Regulation provides the legal basis to “waive the Commission’s ex ante approval for project selection, tendering and contracting by applicant countries”

The obligation for the acceding countries to have EDIS in place by accession was announced in 2002 and subsequently inserted in the Act of Accession signed in 2003 as a legal requirement. As regards Bulgaria and Romania the Commission encourages moving to EDIS by the end of 2005/beginning of 2006. For more information on EDIS, see Annex 1.2.

3. MONITORING AND EVALUATION

3.1 PHARE

Execution of the Phare programmes is subject to a structured monitoring and evaluation process. A Joint Monitoring Committee in each country is supported by Sectoral Monitoring sub-Committees which meet twice a year.

Concerning evaluation, an *ex-ante evaluation* report was conducted in 2003, which revealed needs for more strategic programming, increase of resources for project design and the introduction of a more systematic quality control.

In 2003, the 123 *interim evaluation* reports issued together with the comprehensive ex-post evaluation indicated that Phare programming, in general, generated projects whose priorities were in line with those of the Accession Partnerships.

Overall, evaluation results concluded satisfactory Phare performance. Good progress was made in meeting objectives in cross border co-operation, environment, justice and home affairs, public administration/finance, transport and the social domain. Outcomes were more mixed in agriculture, economic and social cohesion/regional policy. Results in the SME and in the internal market sectors have been uneven but improving.

3.2 ISPA

All ISPA projects are subject to the ISPA Regulation and the Financing Agreement provisions of both monitoring and evaluation. Implementation progress is reviewed systematically twice a year and periodically by Commission services, in particular through the Monitoring Committees.

Requirements for *ex-post evaluation* are stipulated in Section XIII of the annex to the Financing Memorandum, which is concluded for each project between the Commission and the ISPA beneficiary state. This section states that after the completion of a project, the Commission and the beneficiary countries will evaluate the project's impact and the manner in which the project has been carried out. Given the early stage of ISPA implementation, no ex-post evaluation was launched in 2003.

3.3 SAPARD

Implementation of SAPARD programmes is subject to the provisions of the 'Multi Annual Financing Agreements' in respect of both monitoring and evaluation. In 2003 each of the Monitoring Committees met at least once. Annex 1.5 provides a list of subjects dealt with in Committee meetings.

The Commission continued working closely with the beneficiary countries on adapting and running the monitoring and evaluation systems. Meetings provided a useful opportunity to reinforce Commission Guidelines on the mid-term evaluation; to ensure that the evaluation

exercise would be undertaken in a comprehensive and timely fashion; and to address specific queries which the evaluators wished to raise in the early stages of their work.

The Commission also organised a seminar on the theme 'Developing and promoting local initiatives in the Candidate Countries (Pardubice, Czech Republic, 8-11 May) aiming to provide a forum for the exchange of views on the implementation of the SAPARD programme.

4. CO-ORDINATION

4.1 General

As required by the Coordination Regulation, the Commission ensures close co-ordination between the three pre-accession instruments. The Regulation carefully specifies the field to which each instrument provides assistance, thereby minimising potential overlaps between the different instruments.

The Accession Partnerships set the general framework for assistance under the three pre-accession instruments. They are complemented, in the case of Phare, by the National Development Plans, and in the case of ISPA, by the national strategies for the environment and transport. SAPARD projects are selected on the basis of the Rural Development Programmes for 2000-2006, prepared on the basis of the Candidate countries' plans and approved for each of the countries by the Commission in 2000.

The *Phare Management Committee* plays a key role in general co-ordination. According to Article 9 of the Co-ordination Regulation, the Committee should assist the Commission in co-ordinating operations under the 3 instruments and the Commission should inform the Committee about the indicative financial allocations for each country and per pre-accession instrument about action it has taken as regards co-ordination with the EIB, other Community instruments and IFIs.

4.2 Co-ordination inside the Commission

The Phare programme and the co-ordination of the instruments come under the responsibility of DG Enlargement, supported by the Phare Management Committee. ISPA is under the responsibility of DG Regional Policy, and SAPARD under the responsibility of DG Agriculture.

Programming is co-ordinated through extended inter-service consultations. In addition, a Co-ordination Committee at Directors level for the pre-accession instruments has been set up in the various Commission services involved. It pays particular attention to the preparation of EDIS of Phare and ISPA.

To avoid duplication, the Commission has clarified the interface between Phare and SAPARD, taking into account the provisions of the Co-ordination Regulation. As regards project monitoring, co-ordination takes the form of the JMC. The JMC is, where possible, supported by the ISPA Monitoring Committees and the relevant Phare sub-committees.

4.3 Co-ordination in the Candidate countries

In line with the objective of decentralisation, the Commission encourages Candidate countries to enhance inter-ministerial co-ordination as a key condition for successful future management of the Structural Funds, and in the short term for programming and implementing Phare Economic & Social Cohesion. In several countries, however, such inter-ministerial coordination needs further improvement.

As full decentralised management is provided for from the outset (for SAPARD), or has gradually been increased through the progress towards EDIS (for Phare and ISPA), the Candidate Countries' responsibility for proper co-ordination of operations receiving pre-accession support and avoiding overlaps is to be developed accordingly. Only the countries themselves will be able to ensure full implementation at project level. The Commission therefore requested that they take the necessary steps for effective and efficient co-ordination.

4.4 Co-ordination with the EIB and International Financial Institutions (IFIs)

Pre-accession aid can play its full role when it mobilises funds from the IFIs. Co-operation with the EIB and other IFIs in 2003 therefore continued under the framework of the "Memorandum of Understanding on co-operation in the pre-accession assistance".⁷

Figures available for the years 2000 to 2003 show that the yearly operations of the IFIs are in excess of 22.8 billion Euros in loans signed with the 10 enlargement countries. This amount also demonstrates the leverage effect of Community pre-accession assistance having been reinforced since 2000.

Given the fact that large infrastructure projects that commonly are subject to international co-financing are financed under ISPA; co-financing under Phare was in practice very limited.

The Commission organised meetings with these IFIs to co-ordinate issues related to programming and implementation, as well as procedural issues. If possible, joint missions are envisaged, which is an important component for ensuring that co-operation on a project level is to the benefit of the Candidate countries. Together with the EBRD, the Commission organised regular exchanges of information, co-ordination of meetings and detailed discussions of methodological issues which continued harmonisation of approaches to the appraisal of projects.

At the level of the individual pre-accession instruments, the co-operation can be summarised as follows:

- For Phare, the main co-financing instrument in 2003 was the SME Facility in which the EIB, the EBRD and the Council of Europe Development Bank / KfW participate. The objective is to continue the co-financing capacity building of the financial sector to develop financing for SMEs and municipalities. In December, the Commission approved two Phare programmes on SME Finance Facility 2003 which included for

⁷ In September the Commission signed a revised Memorandum of Understanding with the EIB, the European Bank for Reconstruction and Development, the Nordic Environment Finance Corporation, the Nordic Investment Bank, the Council of Europe Development Bank, the Black sea Trade Development Bank and the World Bank Group to reinforce their co-operation and to facilitate co-financing under the Phare, ISPA and SAPARD.

the first time a Rural Sub-Window allowing for a specific targeting of the development of the rural credit sector among local financial intermediaries. This will ensure a better access of SAPARD beneficiaries to the bank credit in the rural areas. The two IFIs involved are the EBRD and the CEB/KfW.

- ISPA is the main facility for co-financing large infrastructure projects that are commonly subject to international co-financing by the IFIs. Thus, DG Regional Policy is the major partner for co-financing with IFIs.
- Results of the co-operation between ISPA and participating IFIs, (mainly EIB and the EBRD) are very positive. At the project level, the exchange of information was carried out at an early stage in the procedure of project identification in order to identify possible proposals for co-financing. Collaboration with the EIB and EBRD resulted in the joint co-financing of several projects in 2003.
- Several periodic co-ordination meetings were held in order to set up the working framework and make operational improvements to the Co-operation Agreement between the Commission and the EIB on Community structural assistance, including ISPA, for the period 2000-2006. The main objective was to maximise the leverage effect of the EC grants and to especially target the EC budget resources towards those projects that require a larger grant contribution. Discussions regarding co-operation after accession once Candidate countries become eligible for the Cohesion and Structural Funds were also held. The EIB and the EBRD contributed to the preparation of 'Guidelines for successful public-private partnerships' which were prepared by DG Regional Policy and published early in 2003.
- As regards the implementation of SAPARD, one of the main constraints identified concerns the difficulties faced by the farmers and the rural businesses to gain access to the credit facilities for co-financing their projects. In 2003 the Commission continued consultations and exchanges of information with IFIs in order to find ways for co-operating on this issue, resulting in the aforementioned Phare rural sub-window.

5. FINANCIAL OVERVIEW

The allocations per country for PHARE, ISPA and SAPARD in 2003 (in € million)

	PHARE	SAPARD	ISPA	TOTAL
Bulgaria	99	56	113	268
Czech Republic	95	24	76	195
Estonia	40	13	31	84
Hungary	107	41	96	244
Latvia	46	24	54	124
Lithuania	67	32	53	152
Poland	403	182	378	963
Romania	272	162	261	695
Slovakia	57	20	51	128
Slovenia	38	7	15	60
Other ⁸	476	-	-	476
Total	1699.0	561	1128	3389

⁸ Horizontal, regional and part of nuclear programmes