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**REPORT FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN  
PARLIAMENT AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE**

**2008 ANNUAL REPORT ON PHARE, TURKEY PRE-ACCESSION INSTRUMENTS,  
CARDS AND TRANSITION FACILITY**

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## 1. INTRODUCTION

This report and the associated background document cover the implementation of Phare<sup>1</sup>, Turkey pre-accession instrument<sup>2</sup>, CARDS<sup>3</sup> and Transition Facility<sup>4</sup> programmes during the year 2008, with a cut-off date of 31 December 2008. It should be noted that as 2006 was the final programming year under Phare, the Turkey pre-accession instrument and CARDS, no new programmes under these instruments were launched in 2008<sup>5</sup>.

The objectives of Phare pre-accession assistance have been to assist candidate and acceding countries in their efforts to strengthen their public administrations and institutions to function effectively inside the European Union; to promote convergence with the European Community's legislation; to reduce the need for transition periods; and to promote Economic and Social Cohesion (ESC).

The objective of the CARDS programme has been to support the participation of Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Kosovo<sup>6</sup>, in the Stabilisation and Association process (SAP). This process seeks to promote stability within the region whilst also facilitating closer association with the European Union.

This report also contains information on the Transition Facility for new Member States which was introduced to allow for the continuation of institution building support with a view to strengthening and consolidating institutional and administrative capacity to implement the *acquis*.

Since 2007, EU pre-accession funding has been channelled through a single instrument, the Instrument for Pre-accession Assistance (IPA), designed to deliver focused support to both candidate and potential candidate countries. IPA replaces five previous EU financial instruments - Phare, ISPA<sup>7</sup>, SAPARD<sup>8</sup>, the Turkey pre-accession instrument and CARDS. Since 2008, the Commission prepares an Annual Report on the implementation of the Instrument for Pre-accession Assistance.

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<sup>1</sup> Phare, Council Regulation (EEC) No 3906/89 of 18 December 1989

<sup>2</sup> Council Regulation (EC) No 2500/2001 of 17 December 2001

<sup>3</sup> Community Assistance for Reconstruction, Development and Stabilisation (Council Regulation (EC) No 2666/2000 of 5 December 2000)

<sup>4</sup> Article 31 of the Bulgaria and Romania Accession Treaty

<sup>5</sup> The 2008 programming for candidate and potential candidates took place under the new instrument IPA, and it will be reported on through the 2008 annual IPA report, as foreseen in the IPA regulation 1085/2006 (Art. 13(6)).

<sup>6</sup> under United Nations Security Council Resolution 1244/99

<sup>7</sup> Instrument for Structural Policies for Pre-Accession (Council Regulation (EC) No 1267/1999 of 21 June 1999)

<sup>8</sup> Special Accession Programme for Agriculture and Rural Development (Council Regulation (EC) No 1268/1999 of 21 June 1999)

## **2. THE YEAR IN REVIEW**

### **2.1. Main evolutions of the Enlargement Process in 2008**

The results achieved in 2008 with respect to the candidate countries<sup>9</sup> and the potential candidates<sup>10</sup> and in relation to the Stabilisation and Association process were presented in the November 2008 enlargement package. The Communication on the enlargement strategy and main challenges 2008-09 developed the existing approach of the European Union, based on the renewed consensus on enlargement agreed by the December 2006 European Council. The Communication outlined the Commission's approach to future enlargement challenges and identified the measures to help countries on their way to membership. It was accompanied by progress reports on candidate countries and potential candidates, which assessed the progress each country had made towards fulfilling the Copenhagen membership criteria. This enlargement package was broadly welcomed by the Council<sup>11</sup> and it was well received in the enlargement countries.

## **3. PROGRAMMING AND IMPLEMENTATION OF THE PROGRAMMES: GENERAL OVERVIEW**

### **3.1. Phare, Turkey pre-accession and CARDS**

With the introduction of IPA in 2007, there were no new commitments after 2006 under Phare, the Turkey Pre-Accession Instrument or CARDS. The focus is on implementation of previous years' programmes, including the reduction of backlogs where necessary.

During 2008 most of the countries receiving CARDS assistance continued with the contracting of the remaining 2005 and 2006 budget allocations, although contracting rates differed amongst countries. In Albania and the former Yugoslav Republic of Macedonia the effort on contracting the remaining funds under 2005 CARDS before the contracting deadline led to rather limited contracting for the 2006 CARDS programmes. On the other hand, in Bosnia-Herzegovina and Kosovo, CARDS programmes until 2005 were fully contracted by year end while the contacting of CARDS 2006 was well on track.

As of 21 December 2007 the European Commission Delegation in Croatia temporarily suspended the endorsement of contracts under Phare 2006 until the Commission was satisfied with performance improvements by Croatia under decentralised implementation. After the restoration of the endorsement of contracts in July 2008, Croatia managed to contract 84.7 % of the 2006 Phare allocation before the contracting deadline on 30 November 2008.

Three programmes under the Turkey pre-accession instrument were under implementation in 2008 including the national programme 2006 for which contracting was still on-going. The deadlines established by the Joint Monitoring Committee for the submission of tender documents for the European Commission (EC) *ex ante* control under the national programme 2006 led to some acceleration of the procurement process compared with the previous

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<sup>9</sup> Croatia, Turkey and the former Yugoslav Republic of Macedonia  
<sup>10</sup> Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo  
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[http://www.eu2008.fr/webdav/site/PFUE/shared/import/1208\\_CAGRE/Council\\_conclusions\\_on%20Enlargement\\_EN.pdf](http://www.eu2008.fr/webdav/site/PFUE/shared/import/1208_CAGRE/Council_conclusions_on%20Enlargement_EN.pdf)

programmes. The contracting rate for the national programme 2006 at the end of 2008 was 78.38%.

During 2008 Bulgaria and Romania carried on with the contracting and implementation of the 2006 Phare national programmes. At the end of the contracting period on 30 November 2008, only 17.38% of the programmes in Bulgaria had been contracted. The low percentage of contracting was due partly to the suspension of funding as well as to the cancellation of a significant number of contracts by the Bulgarian authorities for which no time and resources were available. For Romania, at the end of the contracting period for the 2006 Phare national programme, 78.01% of the programmes had been contracted.

More detailed information on the implementation of Phare, Turkey Pre-accession financial assistance and CARDS can be found in Part I of the background document to this report.

### **3.2. Transition Facility**

The Transition Facility for Bulgaria and Romania has been established by article 31 of the Act of Accession to fund certain Institution Building (IB) actions to address the continued need for strengthening institutional capacity in certain areas through actions which cannot be financed by the Structural funds or by the Rural Development Fund. As such, this is an extension of the assistance provided until accession under the Phare programme. The implementation of EU assistance available under the Transition Facility is governed by the Memorandum of Understanding on the Implementation of the Transition Facility signed between the Bulgarian authorities and the European Commission on 21 June 2007 and between the Romanian authorities and the European Commission on 5 September 2007.

During 2008, Bulgaria and Romania carried on with the contracting and implementation of the 2007 Transition Facility programme allocated to both countries. The contracting deadline expires on 15 December 2009.

During 2008, the ten countries which are benefiting since 2004 from the special Transition Facility for institution building created by article 34 of the Act of Accession continued the contracting of projects under the 2006 TF programme and the implementation under the 2005 TF programme respectively.

### **3.3. Moving towards an Extended Decentralised Implementation System (EDIS)**

The Commission's objective was to enable the recipient countries of Phare assistance to manage Community funds under the Extended Decentralised Implementation System (EDIS) in order to acquire before accession, sufficient practical experience in the management of a fully decentralised system, and thus prepare them to effectively manage structural funds upon accession (in a shared management environment).

The acceptance by the Commission of Phare implementing agencies operating under EDIS was given upon demonstration of having appropriate resources, structures and systems in place for the effective and timely management of Community assistance.

The ten new Member States of the 5<sup>th</sup> Enlargement<sup>12</sup> operate under EDIS since 2005.

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<sup>12</sup> Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

With regard to Phare and Transition Facility assistance, Bulgaria operates under EDIS since July 2007. This implies that contracting and implementation of assistance has been under the full responsibility of the Bulgarian authorities. The assistance under implementation is managed by four accredited Implementing Agencies<sup>13</sup>.

Though the system as such has been set up and accredited on the basis of commitments taken by the Bulgarian authorities, shortcomings in terms of practical implementation and handling of the assistance remained to be addressed in 2008. Substantial amount of Phare payments remain suspended since February 2008 pending the implementation of corrective measures by Bulgaria. The main critical issue during 2008 was the withdrawal of the accreditation for two Implementing Agencies (Central Finance and Contracts Unit and the Implementing Agency at the Ministry of Regional Development and Public Works) in Bulgaria on 23 July 2008 which led to ineligibility for EU support of most of the Phare 2006 programme in Bulgaria.

Romania operates also under EDIS since the end of 2006 for two agencies and April 2007 for the third agency, which means that is fully responsible for both tendering and implementation of the financial assistance programmes. The three accredited Implementing Agencies<sup>14</sup> are managing the Phare 2006 and the Transition Facility. The Commission has expressed some concerns in 2007 over the capacity of Romanian agencies to ensure a sound management of EU funds, but during 2008 significant improvements have been witnessed. Nevertheless, there were delays in contracting Phare 2006 and implementation of on-going programmes is sometime delayed because of objective reasons which are not entirely attributable to Romanian authorities. In general, cooperation with the Romanian authorities is adequate and problems are tackled jointly, leading to measurable improvements in the management of funds.

The Commission is closely monitoring the operation under EDIS as to ensure that implementation of the projects is done in a timely and efficient manner and results are effectively achieved.

### **3.4. Co-ordination of the Community Pre-accession Assistance**

- The Special Accession Programme for Agriculture and Rural Development (SAPARD)<sup>15</sup> aims to help candidate countries deal with the problems of the structural adjustment in their agricultural sectors and rural areas, as well as in implementing the *acquis* concerning the Common Agricultural Policy (CAP) and related legislation.
- The Instrument for Structural Policies for Pre-accession (ISPA)<sup>16</sup> is directed mainly towards aligning the applicant countries on Community infrastructure standards. It finances major environmental and transport infrastructure.

Coordination between the different pre-accession instruments was carried out at the programming phase. The last programming exercise for SAPARD and ISPA instruments took place in 2006. As of 2007, all former pre-accession instruments have been replaced by IPA.

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<sup>13</sup> CFCU, Ministry for Regional Development and Public Works, the Ministry for Labour and Social Policy, the Ministry of Economy and Energy

<sup>14</sup> CFCU, Ministry of European Integration, Ministry of Labour

<sup>15</sup> For general information on SAPARD, we refer to the website of DG Agriculture

<sup>16</sup> For general information on ISPA, we refer to the website of DG Regional policy

#### 4. CO-OPERATION WITH THE EIB AND INTERNATIONAL FINANCIAL INSTITUTIONS

The co-operation with the European Investment Bank (EIB) and other International Financial Institutions (IFI), in particular the European Bank for Reconstruction and Development (EBRD), and the Council of Europe Development Bank (CEB) in association with Kreditanstalt für Wiederaufbau (KfW), is organised under the amended Memorandum of Understanding of 26 April 2006 between the European Commission and participating IFIs for the enlargement countries.

Implementation of horizontal programmes has offered wide possibilities of IFI co-operation by allowing the extension of IFI loans combined with EU grants. These horizontal programmes have complemented the investment projects financed by national programmes.

Four types of programmes have been developed as follows.

The *SME Finance Facility* (SMEFF) aimed at strengthening the capacities of financial intermediaries (i.e. banks, leasing companies) in beneficiary countries to expand and sustain their financing operations to Small and Medium sized Enterprises (SMEs). The SMEFF projects include the provision of loans, loan guarantees, and leases for local financial intermediaries in combination with non-reimbursable financial incentives. In turn, financial intermediaries on-lend or lease to individual micro-enterprises or SMEs. Since 2005, the only eligible countries have been Bulgaria, Croatia, Romania and Turkey. At the end of December 2008, the total amount of EU incentives earmarked for projects was about €65 million.

The *Municipal Finance Facility* (MFF) intended to encourage local financial intermediaries to extend loans to municipalities. The mechanism of the programme is similar to this one of the SMEFF. In 2008, the overall pace of development and signature of new projects continued to be relatively slow owing to the high administrative costs, the delays in regulatory reforms in some countries, and the inexperience of the municipalities to prepare credit files. At the end of December 2008, the total amount of EU incentives committed into projects was about €75 million.

As requested by the Nice European Council 2002, the European Investment Bank (EIB) and the Commission established a *Municipal Infrastructure Facility* (MIF). The objective of the MIF was to contribute towards the social and economic development of border regions of the EU-15 Member States. To this end, the MIF combines loans from EIB resources with non-reimbursable Phare support to accelerate the completion of small local infrastructure investments. By the end of 2008 about €40 million had been disbursed for 24 projects.

The *Energy Efficiency Finance Facility* (EEFF) was launched in 2006 to tackle the Climate Change issue. It aimed at stimulating the energy efficiency investments in all types of building and in the industry sector by making appropriate financing available to the end-borrowers. The overall results of the programme are savings in energy and a significant reduction of CO<sub>2</sub> emissions.

The EEFF combines IFI credit lines extended to financial intermediaries with incentives to improve the cost effectiveness of equipment and make the energy investment more attractive, and fees to the benefit of local financial intermediaries to encourage them to lend for the purpose of energy efficiency financing. By the end of 2008, €3 million were contracted in three Contribution Agreements and projects for a total amount of incentives of around €3 million were approved.

The programmes were amended in 2008 in order to introduce an energy efficiency component and to extend the contracting date between the participating financial intermediaries and the IFIs, as well as the termination date of the contracts until end 2015, in order to fully utilise the available funds.

## **5. MONITORING AND EVALUATION**

The monitoring and evaluation functions at project level aim at monitoring and evaluating the financial support to the beneficiary countries in achieving pre-accession objectives by assessing the programme performance and deriving lessons learned. It also provides accountability with respect to the value of money and the use of pre-accession funds. Another objective is to support the development of local monitoring and evaluation capacity in beneficiary countries as a means to strengthen their capacity to manage and control pre-accession aid. Headquarters evaluation functions at strategic programme level providing evaluation support to decision-making and assessing the impact of the assistance.

### **5.1. Monitoring and Interim Evaluation**

In 2008 the Results-Oriented Monitoring (ROM) was used as a tool to provide to the European Commission and the Beneficiaries clear, objective and consistent overview (monitoring) information on projects being implemented and information on best practices/common mistakes, recommendations for improvement, and performance of the portfolio of CARDS projects directly managed by the European Commission.

In addition, in 2008, sector, thematic and ad-hoc reports were carried out as part of the interim evaluation scheme for Phare and CARDS programmes in Croatia as well as of pre-accession financial instrument for Turkey. These evaluations are management tools which provide programme managers with a regular performance assessment of the activities in all sectors. Recommendations are systematically put forward in the reports for improving management and delivery of evaluated programmes/projects and discussed at debriefing and Joint Monitoring Committee (JMC) meetings for follow-up actions. Moreover, thematic, country and consolidated interim evaluations provide recommendations on the design of future programmes.

### **5.2. Ex post evaluation**

In 2008 ad-hoc evaluations were completed on CARDS programmes (2001-2006) in Albania, Bosnia and Herzegovina, and the Regional Programmes in the Western Balkans. A summary of the findings and recommendations of these three reports can be found in section 23.2 of the background document. Similar evaluations were also launched in the former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia to be completed in 2009.