

EN

EN

EN



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 9.11.2007  
COM(2007) 692 final

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

**GENERAL REPORT  
ON PRE-ACCESSION ASSISTANCE  
(PHARE – ISPA – SAPARD)  
IN 2006**

{SEC(2007) 1468}

## 1. SUMMARY

This is the seventh report to the European Parliament and the Council covering activities financed by the three pre-accession instruments, Phare, ISPA and SAPARD in 2006. The Report focuses on the coordination between these instruments in accordance with Article 13 of the ‘Council Regulation on the co-ordination of pre-accession assistance’ (EC) No 1266/99<sup>1</sup> (in the following "Coordination Regulation"). In line with the positive accession negotiations in Copenhagen 2002, an increased emphasis was 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.

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. 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 Framework Agreement; (2) a Commission Decision, in order to be committed into the Budget and; (3) a 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 at Annex 1.1.

### 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

---

<sup>1</sup> Published in the OJ L 161, 26.06.1999, p. 68.

the funds from the National Fund<sup>2</sup>. 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 Regulation<sup>3</sup>**

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

For Phare and ISPA, this process was mostly governed in 2006 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.

Croatia submitted a request to the Commission for accreditation of its DIS system for Phare and ISPA in the second quarter of 2005. Subsequently, the Commission audit services (of DG ELARG and REGIO) assessed the national and sectoral programme/project management capacity, financial control procedures and structures regarding public finance in Croatia. Based on this assessment, the Commission decided in February 2006 to confer the management of Phare<sup>4</sup> and ISPA on a partially decentralised basis to the designated Croatian body in the Ministry of Finance.

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.

Delegation of DIS and EDIS 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.

Further progress to move to EDIS in Bulgaria and Romania on the basis of the Co-ordination Regulation was made in 2006. As a result ISPA EDIS accreditation was awarded to Romania in November 2006 for the country's two Transport implementing agencies. However, EDIS accreditation was not awarded to the environmental implementing agency due to capacity weakness and poor performance. Future audits are to decide on the accreditation of the environmental implementing agency in Bulgaria. In the meantime the DIS system of ex-ante controls remains in place.

---

<sup>2</sup> Unless the National Fund acts as a paying agent on behalf of the Implementing Agency

<sup>3</sup> 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”

<sup>4</sup> As well as the decentralisation to the CFCU of most of the remaining CARDS projects

All the ISPA implementing agencies in Romania were EDIS accredited in June 2006 following a Commission audit. No moves have yet been made in Croatia to obtain ISPA EDIS accreditation since the implementation of ISPA is still at a relatively early stage.

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.

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 (JMC) in each country is supported by Sectoral Monitoring Sub-Committees (SMSC) which meet twice a year.

In the new Member States, the JMC system is governed by a revised JMC, with the key purpose of further reinforcing the monitoring function of the JMC as well as related reporting obligations to the Commission. Accordingly, all new Member States presented to the JMCs their Implementation Status Reports on Phare assistance, which consolidated the findings of monitoring and interim evaluation reports as well as financial reporting. In both Bulgaria and Romania the JMC played an active role in 2006 considering the challenges that their respective administrations had to cope with in the final preparatory phase before accession. In Croatia, the system of JMC/SMSC pilot-tested in 2005 was set up during 2006. The JMC meetings for Croatia covered Phare programmes as well as decentralised CARDS projects.

The monitoring and interim evaluation system involves successive decentralisation of the responsibilities for monitoring and interim evaluation to the Candidate Countries, in conjunction with the accreditations to DIS and EDIS. All the new Member States had their decentralised monitoring and interim evaluation (IE) functions set up since 2005. Whilst the responsibility for monitoring was decentralised to Bulgaria and Romania in 2001, the IE function has remained centralised until the day of accession. It is expected that decentralised interim evaluation will be set up by the Bulgarian and Romanian authorities in early 2007. Croatia was granted DIS on February 2006 including their responsibility to set up a monitoring function.

In 2006, DG Enlargement centralised IE function generated 24 individual country, sectoral, ad-hoc or thematic reports on Phare support to Bulgaria and Romania.

The key messages derived from the Bulgaria and Romania evaluations are the following:

- On the whole the evaluation results concluded that the performance of Phare has improved over time but remains mixed;

- The implementation of Phare remains a challenge with widespread contracting delays;
- Outputs have generally been delivered adequately, if later than planned;
- Twinning has been particularly effective for institution building, increasing absorption capacity of beneficiaries;
- Sectoral performance of Phare displayed great variation. In Romania Environment and Internal Market are sectors with the highest rating. By contrast the lowest rated sectors are Economic and Social Cohesion and Energy and Transport. In Bulgaria Environment is the sector with the highest rating. The lowest rated sectors are Economic and Social Cohesion, Social and Energy and Transport;
- Phare support was crucially needed to initiate reforms to public administration and the judiciary but only inadequate progress has been made;
- Phare has had limited effect in preparing beneficiaries to the Structural Funds. The acceleration in preparations for Structural Funds was mainly due to the own efforts by the authorities in the view of the imminence of accession;
- Phare did not contribute enough to ensuring that national co-ordinating structures and procedures were in place;

Sustainability of Phare assistance is building up as Phare has strengthened the legal, organisational and administrative systems in many sectors.

### **3.2 ISPA**

All ISPA projects are subject to the ISPA Regulation and the Financing Memorandum 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. No projects had been completed in Romania or Croatia by the end of 2006. However, although some projects in Bulgaria were largely completed by the end of 2006, no investment project has yet been wound up. No *ex-post* evaluation was therefore launched in that year.

### **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 2006 each of the Monitoring Committees met at least once. The Commission continued working closely with the beneficiary countries on adapting and running the monitoring and evaluation systems. The Monitoring Committee meetings held in 2006 provided a useful opportunity to discuss and decide on: (i) monitoring the implementation of the programmes (ii) approval of

modifications necessary regarding the closure of the programmes and improving the absorption capacity of the programmes (BG, RO) as well as (iii) approval of the annual reports on progress achieved in relation to the implementation of the Sapard programmes, before their official submission to the Commission.

## **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.

The Commission's *Co-ordination Committee* for the 3 pre-accession instruments, set at Directors level, has not officially convened during 2006, although an important number of meetings have taken place notably in view of creation of the new Instrument for Pre-Accession (IPA) and its relevant components<sup>5</sup>.

---

<sup>5</sup> Of the proposed 6 external relations instruments that are due to apply in the period 2007-2013, one is the new instrument for pre-accession assistance, IPA. At the junction between external assistance and internal policies, the IPA intends to facilitate the entry into the Union of candidate countries (Turkey, Croatia and former Yugoslav Republic of Macedonia) and potential candidate countries. IPA will be an accession driven instrument, fulfilling all the requirements stemming from the accession process,

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.

---

notably in terms of priorities, monitoring and evaluation. IPA will replace the current pre accession instruments notably: Phare, the scope of which is support for the implementation of the *acquis communautaire* in the form of institution building and related investments, investments in economic and social cohesion and cross-border cooperation; ISPA, which is the precursor of the Cohesion Fund and deals with environment and transport infrastructure; SAPARD, the precursor of Rural Development plans, dealing with Common Agricultural Policy acquis and Rural development; Turkey pre-accession, with the same scope as Phare; CARDS, which covers the Western Balkans.

### **4.3. Co-ordination in the Candidate countries**

The Commission strongly encourages the candidate countries to enhance inter-ministerial co-ordination, which is a key pre-condition for the candidate countries' successful future management of the Structural Funds and, in the short term, for implementing Phare ESC. Although significant progress was noted, such inter-ministerial co-ordination still needs further improvement. As decentralised management is either provided for from the outset (for SAPARD), or will gradually increase (for Phare and ISPA), the responsibility of the candidate country for the proper co-ordination of operations receiving pre-accession support, and for avoiding overlaps, must be developed accordingly.

Therefore, the Commission requires the countries to take the necessary steps for effective and efficient co-ordination. The checklist transmitted to the candidate countries and Commission Delegations, which allows the latter to verify that the IA is capable of managing a Phare ESC 'scheme' in a sound and efficient manner, states that an assessment must be made to show that the established co-ordination mechanisms are adequate, and that appropriate mechanisms are in place, in order to ensure no overlap occurs between the other Community instruments, notably Phare CBC, SAPARD and ISPA.

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

The Commission consults the international financial institutions ("IFIs") and bilateral donors regularly throughout the programming cycle, to identify the scope for joint activities and complementary approaches to addressing pre-accession priorities.

The cooperation and co-financing of projects with the EIB and other IFIs, in particular the European Bank for Reconstruction and Development ("EBRD"), the World Bank and the Council of Europe Development Bank ("CEB"; in association with the German Kreditanstalt für Wiederaufbau "KfW"), is organized under the amended Memorandum of Understanding between the European Commission and participating IFIs for the enlargement countries of 26 April 2006.

In the Phare context, the possibilities of IFI co-financing for investment projects at national programme level are limited, since the programming mechanisms for Phare and the loan allocation mechanisms are quite different in timing. However, a close co-operation is maintained with the IFIs to ensure that a sound and sustainable framework is defined permitting loan financing, wherever this is more appropriate than funds financing so ensuring additionality between the two financing modes.

Concerning horizontal programmes financed under Phare, the ten Phare countries were eligible before 2005. The new programmes launched since 2005 cover only 4 countries: Romania, Bulgaria, Croatia and Turkey<sup>6</sup>. The technical nature and the multi-country approach of the successive horizontal finance facilities required the involvement of highly-specialised financial institutions, with a long track record in international finance, SME and Municipal sector development. The preference was for financial institutions with the status of international public-law bodies, which shared the values of the EU, in particular, in relation to enlargement and had similar public policy objectives, rather than private-sector financial institutions looking for commercial investment terms.

---

<sup>6</sup> Turkey is covered by Pre-accession financial assistance for Turkey.

The first facility programme was launched in 1999 with the EBRD. The CEB, which implements the programme in association with KfW, and the EIB have joined the Facility programmes in the following years. Since 1999, 32 Facility programmes have been initiated by the Commission.

- 18 SME Finance Facilities comprising in total €376 million of EU incentives and €2,328.25 million of credit lines from the IFIs. As at mid-February 2007, €287.6 million of EU incentives are already earmarked into projects.
- 11 Municipal Finance Facilities comprising a total of €17.8 million of EU incentives and €89 million of loans from the IFIs. As at mid-February 2007; €41.3 million of EU incentives are already earmarked into projects.
- 3 Energy Efficiency Finance Facilities for the first time in 2006 and comprising €3 million of EU incentives and €12 million of loans from the IFIs. The implementation will start in April 2007.

The SME Finance Facility is a multi-beneficiary programme which aims to strengthen the capacities of financial intermediaries (i.e. banks, leasing companies) in the beneficiary countries (New Member States and the Candidate Countries), to expand and sustain their financing operations to SMEs.

The mechanism of the Municipal Finance Facility is similar to the SME Finance Facility mechanism. Loan and risk-sharing instruments from resources of IFIs are combined with non-reimbursable financial incentives for local financial intermediaries. It is also foreseen that a limited amount of technical assistance for municipalities will be funded by Phare to strengthen the demand side of the municipal credit market.

The Energy Efficiency Facility was launched in 2006 in response to the Energy Efficiency Green Paper and the Directive on Energy Performance of Buildings. It aims at stimulating the energy efficiency investments in all kind of buildings and in the industry sector by making appropriate financing available to the end-borrowers. The programme combines IFI credit lines extended to financial intermediaries with incentives to improve the cost effectiveness of the equipment and make the energy investment more attractive, and fees to the benefit of local financial intermediaries in order to encourage them to lend for the purpose of energy efficiency financing.

The EIB and the Commission have established a facility at border regions, as requested by the Nice European Council, and as outlined in the Commission Communication on Border Regions of 25 July 2001. The project concentrates on the implementation of small municipal infrastructure in border regions to promote integration with current EU regions: It consists of 2 Municipal Infrastructure programmes comprising a total of €40 million of EU incentives and €200 million of loans from the EIB. This programme is only implemented with the EIB in border regions and is still in the process of implementation. The EU contribution has been reduced from €50 to €40 million in 2006 in order to commensurate the size of the programme with potential projects.

## 5. FINANCIAL OVERVIEW

Allocations per country for PHARE<sup>7</sup>, ISPA and SAPARD in 2006 (in €million)

	<b>PHARE</b>	<b>SAPARD</b>	<b>ISPA</b>	<b>TOTAL</b>
Bulgaria	305.3	82.4	167.8	<b>555.5</b>
Romania	544.3	192.4	377.9	<b>1114.6</b>
Croatia	78.2	25.0	34.4	<b>137.6</b>
<b>Total</b>	<b>927.8</b>	<b>299.8</b>	<b>580.1</b>	<b>1807.7</b>

---

<sup>7</sup> Phare figures are approximate as they include the BG/RO Roadmap and Croatia contributions to multi-country programmes which cannot accurately be split by country. A breakdown of the roadmap by type of programme can be found in the country annexes. The figure for Bulgaria includes the KIDS programme for Nuclear Decommissioning. All figures exclude support expenditure.