



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 5.1.2004
COM(2003) 844 final

REPORT FROM THE COMMISSION

**GENERAL REPORT
ON PRE-ACCESSION ASSISTANCE
(PHARE – ISPA – SAPARD)
IN 2002**

[SEC(2003) 1477]

TABLE OF CONTENTS

1.	Background	5
2.	PHARE Summary	6
3.	ISPA Summary.....	8
4.	SAPARD Summary	10
5.	Overall description of mechanics of the pre-accession instruments	11
5.1.	Commitments and transfer of funds.....	11
5.2.	Implementation structures in candidate countries.....	14
5.3.	Decentralisation of implementation under Article 12 of the Co-ordination Regulation	15
6.	Monitoring and Evaluation	16
6.1	PHARE.....	16
6.2.	ISPA	17
6.3.	SAPARD	18
7.	Co-ordination	19
7.1.	General	19
7.2.	Co-ordination inside the Commission.....	20
7.3.	Co-ordination in the candidate countries	21
7.4.	Co-ordination with the EIB and International Financial Institutions.....	21

SUMMARY

This is the third report by the Commission 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.¹ This Co-ordination Regulation sets out the division of labour between the three pre-accession instruments:

PHARE addresses priority measures concerning the adoption of the *acquis communautaire*, whether through improving administrative capacity or supporting related investment. This instrument also has an element for Economic and Social Cohesion. In this context, concurrently with ISPA, it may also support measures in the fields of the environment and transport if they constitute a secondary but essential component of integrated programmes for regional development or industrial restructuring (€ 1.699 million);

ISPA finances large infrastructure projects in the transport and environment sectors (€ 1,107.4 million);

SAPARD finances measures to support agriculture and rural development (€ 554.5 million).

SAPARD follows a **programming approach** similar to the one used in Member States' agricultural and rural development programmes, while ISPA follows an approach similar to that of the Cohesion Fund, operating in the fields of environment and transport. The PHARE programme does not have any direct counterpart in the Community's Structural Funds, given its focus on the adoption of the *acquis communautaire*. However, the component of the PHARE programme on Economic and Social Cohesion is designed to support similar projects to those supported under the European Regional Development Fund and the European Social Fund. In the same vein, the Cross-Border Co-operation Programme mirrors the Community's INTERREG III Programme.

All three instruments are programmed on the basis of the Accession Partnerships and the National Programmes for the Adoption of the Acquis developed with the candidate countries for accession. SAPARD operates on the basis of a multi-annual programme covering the period 2000-2006 while ISPA and PHARE have an annual programme that is approved by the Commission on the proposal of the candidate countries. For PHARE and ISPA, projects are also approved by the Commission (Delegation or Headquarters) before they are implemented.

All three programmes are **implemented by the candidate countries**. For PHARE and ISPA, the Commission checks in advance the procurement and contracting documents. The Commission confers management for SAPARD measures on Implementing Agencies in the beneficiary countries and is not involved in the management of SAPARD in the beneficiary countries, the execution of projects being subject to ex post controls only. This approach is made possible by Article 12 of the Co-ordination Regulation. On the same legal basis, PHARE and ISPA are in the process of introducing an Extended Decentralised Implementation System (EDIS), in which procurement and contracting by applicant countries will only be subject to ex post controls by the date of accession.

¹ Council Regulation (EC) No 1266/1999 of 21 June 1999 on coordinating aid to the applicant countries in the framework of the pre-accession strategy and amending Regulation (EEC) No 3906/89, (OJ L 161, 26 of June 1999, p. 68).

The year 2002 was the third operational year for SAPARD and ISPA. All SAPARD programmes had already been approved in 2000; one of them (Latvia) was modified in 2001, nine of them (all but Slovenia) in 2002. Bilateral Multi-Annual and Annual Financing Agreements were negotiated and concluded, and annual allocations for 2001 were committed. The establishment of SAPARD Implementing Agencies progressed substantially with all ten-candidate countries having received conferral of management for their respective SAPARD Agencies resulting in SAPARD funds being transferred to them in 2002.

With the financing decisions taken in 2002, the Commission allocated already 75% of the ISPA funds foreseen for the period between 2000 and 2006.

For PHARE, the aid to the applicant countries was provided in accordance with the revised guidelines adopted in 1999 that retain the focus of the programme on preparing for accession, while taking into account the other two pre-accession instruments. Approximately 30 per cent of the aid aims to support Institution Building, the main instrument of which was Twinning (secondment of experts from Member States' administrations to candidate countries) and approximately 70 per cent went on investments designed to improve the regulatory framework and Economic and Social Cohesion, thereby facilitating the adoption of the *acquis*.

The **co-ordination of the three instruments** is ensured by a clear division of responsibilities between the instruments, by a common basis for programming and regular contacts between the different parties involved. A committee at Directorate level ensures co-ordination between the Commission services concerned. A General Assistance Document covering all three instruments was presented in April 2002 to the PHARE Management Committee, the body which assists the Commission in co-ordinating the instruments. At the country level, and in line with the objective of decentralisation, the Commission strongly encourages the applicant countries to enhance inter-ministerial co-ordination, which is a key pre-condition for the candidate countries' successful future management of the Structural Funds.

The Commission also maintained regular contact with the EIB and other International Financial Institutions, in particular the EBRD, with a view to ensuring maximum complementarity of project and programme funding. In particular, ISPA, given its emphasis on large-scale infrastructure projects, offers good opportunities for co-operation with other sources of finance.

The year 2002 was the third year when all three pre-accession instruments came on stream. In line with accession negotiations that culminated in a positive outcome at the end of the year, 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 in 2004. The co-operation between the different Commission services was stepped up and further developed in line with the Co-ordinating Regulation. Putting structures in place for the pre-accession instruments in the candidate countries also provided an important exercise in Institution Building and helped prepare the candidate countries build up the administrative capacity required to absorb future Structural and Cohesion Funds upon membership.

A technical document, which is presented as an annex to this report, contains sections on programming and implementation of the pre-accession instruments in each of the beneficiary countries.

1. BACKGROUND

At the Summit in Luxembourg in December 1998, the European Council endorsed a new strategy for the preparation of applicant countries for enlargement. It made available substantial additional financial resources to assist membership. On 26 March 1999, at the Berlin European Council, the Heads of Government or State concluded a political agreement on Agenda 2000. Agenda 2000 objectives were to strengthen Community policies and to give the European Union a new financial framework for the period 2000-2006 with a view to Enlargement.

In line with the conclusions of the Berlin European Council, the Community more than doubled its pre-accession assistance to the candidate countries of Central and Eastern Europe since the year 2000: as proposed by the European Commission in Agenda 2000, € 3,174 million (2001 figures) were made available annually between 2000 and 2006 through the PHARE Programme and the two other pre-accession instruments, ISPA and SAPARD, which were introduced in 2000. The breakdown of the Community pre-accession assistance in 2002 was as follows: € 1,699 million for PHARE, € 1,107.4 million for ISPA and € 554.5 million for SAPARD.

Following the Nice Summit which led to an acceleration of the accession negotiation process, an optimal use of pre-accession assistance for helping the candidate countries in their efforts to take on the full *acquis* by the date of membership is of utmost importance. Taking into account the magnitude of the task ahead, it is vital to ensure that Community assistance can be used in the most effective manner. Co-ordination between the three instruments is clearly an important element of this process.

In 2001, accession negotiations were underway with the twelve countries, and the objective affirmed at the European Council in Göteborg was to complete them by the end of 2002 with those countries that are ready to join, so that they can take part as members in the European Parliament's elections of 2004. This was successfully achieved for Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Estonia, Lithuania, Latvia, Malta and Cyprus at the Copenhagen Summit in December 2002. . As a result 2003 will be the last programming year for pre-accession aid in the countries due to accede in 2004 (final disbursements should run till December 2006 at the latest) but increased aid will be given to the remaining candidate countries in negotiation, namely Romania and Bulgaria, in order to improve administrative and judicial structures, and their capacity to implement the *acquis*.

This Report covers the calendar year 2002, which was also the third operational year for both ISPA and SAPARD. It provides information about financial allocations for each country and per instrument, as well as their implementation mechanisms. Finally, it focuses on co-ordination between the three pre-accession instruments, an in-depth description of each of the pre-accession instruments being available in the respective Annual Reports². It is hoped that this Report, combined with its annexes, will serve as a useful documentation of the essential role that pre-accession assistance plays in preparing the candidate countries for membership.

² PHARE Report - COM(2003) 497 final; ISPA Report - COM(2003) 655 final; SAPARD Report - COM(2003) 582 final.

2. PHARE SUMMARY

Introduced in 1989 to assist Poland and Hungary, and later other countries of Central and Eastern Europe, PHARE's exclusive "pre-accession" focus was put in place in 1997 in response to the Luxembourg European Council's launching of the present enlargement process. PHARE's general orientations were adjusted in 1999 to reflect the coming on stream of SAPARD in agriculture and rural development and of ISPA in transport and environment infrastructure.

The total PHARE commitments for 2002 amounted to € 1,699 million. The operations financed were:

- **national programmes:** € 1,168 million, of which:
 - Bulgaria : € 95 million
 - Czech Republic: € 85 million
 - Estonia : € 30 million
 - Hungary : € 112 million
 - Latvia : € 32 million
 - Lithuania : € 62 million
 - Poland : € 394 million
 - Romania : € 266 million
 - Slovakia : € 57 million
 - Slovenia : € 35 million
- **Nuclear Safety: € 108 million**
- **cross-border co-operation : € 163 million**
- **regional and horizontal programmes : € 260 million**

The European Commission has increasingly transferred responsibility for the management and implementation of PHARE programmes to the authorities in the candidate countries. This is part of the process of helping them to prepare for accession to the European Union and their subsequent management of cohesion and structural funds.

Projects in 2002 were managed through the National Fund and a limited number of Implementing Agencies in each country. A key role is played by the Central Finance and Contracts Unit (CFCU) in each candidate country that manages all institution building programmes (in some cases the CFCU also manages investment activities). The other Implementing Agencies, and in particular those managing the Economic and Social cohesion investments, are precursors to the administrative structures that will be needed to implement the Structural Funds after accession.

A major focus in early 2002 was the establishment of Action Plans by the Candidate Countries in response to specific problems in the adoption of the *acquis* identified in the Commission's Strategy Reports 2001 and 2002, and at implementing specific measures (principally administrative and judicial reforms) aimed at resolving them in order to fulfil all the criteria necessary for accession. The main instruments of this remained Twinning (secondment of experts from Member State governments and agencies to the candidate countries to help develop the capacity to implement a specific part of the *acquis*) and Twinning Light (a shorter scale version of Twinning introduced in 2001, as recommended in the PHARE Review of 2000³.) The balance of assistance went on investments designed to improve the regulatory framework (thereby facilitating adoption of the *acquis*), and to support economic and social cohesion.

As a result, the adoption of National Programmes within Candidate Countries was somewhat delayed yet remained a vital element of accession planning.

In addition to National Programmes, PHARE funding was made available for several multi-country or horizontal programmes in 2002. A major focus of the multi-country programmes was the finance facilities implemented in co-operation with participating IFIs, namely the SME Finance Facility, the Municipal Finance Facility, and the Municipal Infrastructure Facility. For details, please see section 7.4 "Co-ordination with the EIB and International Financial Institutions".

Other areas funded via multi-country or horizontal programmes were Taiex operations, Participation in Community Agencies, Nuclear Safety, Small Projects Programme, Statistical co-operation project, Environment, Steel Reconstructing, SIGMA, Anti-Fraud Measures, Information and communication and preparation for EDIS (see also section 5.3 "Decentralisation of implementation under Article 12 of the Co-ordination Regulation").

A renewed emphasis has been placed on cross-border co-operation programmes at the Candidate Countries' borders with member states and at borders between candidate countries, implemented on the basis of Joint Programming Documents established in 2001 by authorities on both sides of the border. As regards future EU external borders, Candidate countries were encouraged (through the revised PHARE Guidelines adopted on 6 September 2002) to make use of their PHARE national funds to support social and economic activities of a cross-border nature. In order to underpin such a move, it has been decided that in 2003 around €30 million of PHARE funds will be allocated for CBC-type actions at the candidate countries external borders (External Border Initiative 2003).

Programming in 2002 was based on the revised Guidelines for PHARE approved by the Commission in 1999⁴. These guidelines build on the changes decided in 1998 and take account of the ISPA and SAPARD Regulations that took effect from 2000. They also emphasise the need to use PHARE to help the candidate countries prepare to benefit from the Structural Funds after accession (economic and social cohesion). Institution Building in 2002 accounted for 40% of commitments within national programmes. When combined with associated Investment, this accounted for 71% of the PHARE budget, reflecting the priority placed in the 2001 and 2002 Strategy Reports on establishing an adequate level of administrative and judicial capacity in the candidate countries for the proper enforcement of the *acquis*, and participating successfully in future EU programmes.

³ C(2000) 310382.

⁴ SEC(1999) 1596.

Economic and Social Cohesion remained another important aim of PHARE assistance and, as in previous years, in 2002 it was based on preliminary National Development Plans (pNDPs). ESC investment is increasingly being used to pilot test the types of activities that will be financed from Structural Funds on accession. In 2002, DG Regional Policy and DG Enlargement pursued the “Roadmaps” for moving from pNDPs to Structural Funds programming documents. ESC investment in 2002 accounted for 29% of commitments.

The Commission has revised and strengthened the internal arrangements within its Delegations for overseeing the tendering and contracting carried out by the authorities of the candidate countries. This has allowed the Commission to approve tendering and contracting of PHARE in-country by its Delegation. The Delegations also monitor the progress of the project execution in the candidate countries, which are presently moving towards a system of Extended Decentralisation, as Delegations will be phased out in acceding countries from the date of accession.

3. ISPA SUMMARY

The “Instrument for Structural Policies for Pre-Accession”, ISPA, is the European Union’s financial instrument designed to assist the ten Central and Eastern European beneficiary countries to meet the requirements of the *acquis communautaire* in the fields of environment and transport.

ISPA is guided by the Accession Partnerships and the National Programmes for the Adoption of the *acquis*, and follows an approach similar to that of the Cohesion Fund, operating in the fields of environment and transport. Thus the experience gained through the programming for the implementation of ISPA provides also for a smooth transition to Cohesion Funds and for familiarising the candidate countries with the procedures for the Community’s structural support.

Main achievements in 2002

Implementation of Community environmental policy and strengthening of European transport links

In 2002 ISPA commitment appropriations from budget line B7-020 were mainly used for the 80 new ISPA measures and tranches⁵ for projects decided in 2000 and 2001 (€ 1,107 million). Of this, € 4.2 million was committed for technical assistance for EDIS, and € 35.1 million for project preparation. A total of 80 new projects with a total eligible project cost of € 2.4 billion were decided on by the Commission, Community funding for these new projects is over € 1.5 billion. The remainder is to be co-financed by the beneficiary states (national sources at central, regional, and local level), and international financial institutions (IFIs). The average Community grant rate stood at 65 % of project cost in 2002.

With the decisions taken between 2000 and 2002, the Commission approved a total of 249 ISPA measures, amounting to € 8.75 billion of investment, of which the EU is financing € 5.65 billion. With these decisions, the Commission already allocated about 75% of the funds foreseen for the entire period 2000-6.

⁵ ISPA measures are committed in annual tranches, i.e. committed are spread at least over two years. Consequently, commitments for the budget year 2001 also include second tranches for some projects already decided in 2000.

Commitments in 2002 were divided equally between the environmental and transport sectors; since 2000, 49 % was allocated to environmental projects and 50 % to transport (1 % is made available for TA to prepare for EDIS and for flood relief).

In the field of **environment**, support from ISPA is intended to contribute to the implementation of Community environment policy. In order to maximise the impact of Community assistance on achieving the objectives of the environmental legislation, ISPA concentrates, in the first instance, on the investment-heavy environmental Directives i.e. the Directives that will be most costly to implement. These concern the following four sectors:

- drinking water supply
- waste water treatment
- management of solid waste and hazardous waste, and
- Air quality improvement.

As in earlier years, projects focused primarily on sewerage works to extend, replace or repair current systems in the beneficiary countries. About 18% of the funding in this sector were applied to solid waste management, primarily to landfill projects.

Through ISPA, the Community provides financial assistance to those environmental projects that require particularly large infrastructure investments, namely for water supply and wastewater treatment, as well as waste management and covering the whole life-cycle of the project investments. Furthermore, ISPA has proved to be a successful instrument to help candidate countries to strengthen their understanding and their administrative capacity to implement key environmental legislation.

The orientation for the ISPA **transport** component is to build the future Trans-European Transport Network (Decision 1692/96 of the European Parliament and of the Council of 23 July 1996), as defined in the TINA (Transport Infrastructure Needs Assessment) Report, which will cover the beneficiary countries of Central Europe. Along the TINA Network, priority should be given to the integrated development of the 10 Pan-European Transport Corridors which were endorsed by the third Pan-European Transport conference in Helsinki in June 1997.

ISPA funds allocated to this sector in 2002 have again been focused on upgrading and extending the TINA network. With 45.7 %, a substantial share of the transport sector funds has been allocated to road projects including new construction and improvements to meet EU capacity and safety standards. However, more than 50% of the transport sector funds are financing projects aimed at the rehabilitation and upgrading of existing rail infrastructure to EU standards, thus demonstrating the priority given to the development of environmental-friendly transport.

Enhancing administrative and institutional capacity for project management and policy implementation

As regards the implementation of the transport component of the ISPA programme a number of difficulties have been encountered. These difficulties notably relate to delays in land acquisition, problems of forecasting traffic flows and assessing environmental impact, as well as managing tendering procedures. In some cases this resulted in delays of project

implementation and insufficient quality of the tenders. For more details on the problems encountered, please see the Annual ISPA Report 2002⁶.

As in previous years, the Commission provided technical assistance through ISPA for enhancing the administrative and institutional capacity of national bodies in the fields of environmental policy implementation, where weaknesses still exist, as well as public procurement. A series of seminars were organised aimed at training officials in the beneficiary countries in the drafting of tender documents, as well as in tender evaluation and contract supervision.

The Commission promoted a better understanding of the opportunities and risks regarding public-private partnerships for utility services and the ways to structure such partnerships while integrating grant financing. A broad multilateral forum and several dissemination seminars were organised and, in March 2003, guidelines were due to being published.

4. SAPARD SUMMARY

Using financial support from the Community budget amounting to over half a billion Euro per year in the period 2000 to 2006, SAPARD's main priorities, as set out in the SAPARD Regulation⁷, are to contribute to the implementation of the *acquis* concerning the Common Agricultural Policy and related policies, and to solve priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the applicant countries. In addition to primary agricultural production, projects to improve product processing, marketing and quality are eligible for support, as are more general rural development measures.

Support under SAPARD is granted on the basis of a single agricultural and rural development programme per applicant country covering the period 2000-2006. The content of each programme reflects priorities established by the National Authorities, depending on the particular circumstances and needs of their country, within limits set under the SAPARD Regulation.

SAPARD programmes are to a large extent comparable with Member States' agricultural and rural development programmes. The programming exercise was an entirely new concept for the candidate country administrations that had to draw up those programmes. Nonetheless, the programmes for all 10 countries were ready and approved by the Commission in the autumn of 2000, one of them (Latvia) was modified in 2001, and nine of them (all but Slovenia) were modified in 2002, mostly to take into account the work associated with the conferral of management to the SAPARD agency, consequently becoming the first outcome of the implementation on the ground.

Another implication flowing from the programme approach applied under SAPARD is that, unlike the other two pre-accession instruments, PHARE and ISPA, where some key elements are subject to *ex-ante* control by the Commission, with SAPARD the Commission is not involved in the management, not even project selection. For SAPARD an alternative approach was chosen, whereby the National Authorities in the applicant countries would assume entire

⁶ ISPA Report - COM(2003) 655 final.

⁷ Council Regulation (EC) No. 1268/1999 of 21 June 1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of central and eastern Europe in the pre-accession period (OJ L 161 of 26 June 1999, p.87)

responsibility through fully “decentralised management”. This was done to enable the underlying objectives of the SAPARD instrument to be realised. One is to implement numerous small-scale projects, in principle, throughout the rural areas of each country and the other to create structures, which will be capable also of applying the *acquis* immediately upon accession. However, this approach required two major exercises to be accomplished before aid could be granted.

The first exercise was essentially regulatory. Because of the novelty of the instrument, new Community legislation needed to be introduced. It was also necessary to negotiate with the applicant countries an appropriate set of provisions covering all aspects relevant to the proper use, control and accountability of funds which was laid down in a Multi-Annual Financing Agreements (MAFA) with each of them. By the end of 2001 these negotiations had been completed and all bilateral MAFAs were negotiated and concluded (with the exception of Romania), and annual allocations 2000 were committed. In 2002, the MAFA and Annual Financing Agreement 2000 (AFA) were concluded with Romania, and the AFAs 2001 were negotiated and concluded with all countries, with the exception of the Czech Republic and Estonia. The Commission Decision authorising the signing of the AFA 2002 was taken on 22 October 2002.

The other exercise required the establishment in each applicant country of an agency capable of implementing SAPARD in a manner consistent with the legal provisions concluded in the MAFAs. By the end of 2002, the conferral of management to the National Authorities was decided by the Commission for all candidate countries; therefore, in addition to € 30.5 million transferred to these countries in 2001, € 123.8 million was transferred to these countries in 2002: € 109.212 million as payments on account, and € 14.547 as interim payments (reimbursements)⁸.

5. OVERALL DESCRIPTION OF MECHANICS OF THE PRE-ACCESSION INSTRUMENTS

5.1. Commitments and transfer of funds

Before funds from all three instruments can be actually transferred to the countries, they require:

- a Commission Decision, in order to be committed into the Budget,
- a Framework Agreement (existing PHARE framework agreements, extended to ISPA, and a new Multi-Annual Financing Agreement for SAPARD), and
- 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, procedures leading to decision making and commitment of funds are different for each instrument, and the different steps are summarised below. In addition, in order to guarantee the efficient protection of the Communities’ financial interests and to combat fraud and irregularities, the financing decisions and the agreements and contracts adopted under

⁸ The reimbursement payment for Bulgaria (€ 411,153) was made in February 2002 after receiving information concerning changes in the SAPARD Agency staff requested by the Commission.

these foresee for all pre-accession instruments supervision and financial control by the Commission (OLAF) and the Court of Auditors, including the possibility to conduct on-the-spot checks.

PHARE

- Framework agreement signed between the Commission and each country (has existed for each country for several years)
- Annual programming by priorities identified in the Regular Reports and the Accession Partnerships
- Candidate countries prepare draft programmes and project fiches for comments and final decision by the Commission
- Financing proposals for annual National Programmes prepared by DG Enlargement; consultations with other Commission services, and presentation to the PHARE Management Committee for an opinion
- Commission Decision
- Commitment of funds
- Signature of annual financing memorandum by the candidate country and the Commission; exchange of letters on project fiches
- First transfer of funds (advance payment of 20%) upon request from the National Fund.

ISPA

- Existing framework agreements for PHARE are extended to ISPA
- National ISPA strategies for transport and environment prepared by the countries, other Commission services are consulted, and the strategies are approved by the Commission (they will be updated when needed to ensure that priority projects financed through ISPA remain focused on policy objectives)
- Identification and preparation of projects by the countries
- Project application on standard form, acceptance (i.e. check whether all documents are included) and appraisal
- Financing proposal for each project prepared by DG Regional Policy, put into inter-service consultation, and presented to the ISPA Management Committee for an opinion
- Commission Decision (for each project)
- Commitment of funds (one project may receive commitments from different years, e.g. 2000 and 2001 ISPA programmes)
- Signature of Financing Memorandum (for each project)

- First transfer of funds (10%)
- Second transfer of pre-financing (10%) once first works contract has been signed (for investment projects), and subject to certain conditions stipulated in the Financing Memorandum
- Intermediate payments for reimbursement of actual payments to contractors on the ground and subject to certain conditions in the Financing Memorandum
- Payment of final balance upon fulfilment of conditions stipulated in the Financing Memorandum.

SAPARD

- Submission to the Commission of a draft agriculture and rural development plan (RDP) for 2000-2006 by each country before the end of 1999
- Inter-service consultations with Commission services and consultations with each country
- Agreement with the country on the plan
- Final inter-service consultation with Commission services
- Submission of the plan to and opinion by the STAR (Management) Committee
- Formal adoption by the Commission of a programme for agriculture and rural development
- Commission Decision to authorise the signature of the Multi-Annual Financing Agreement and the Annual Financing Agreement
- Signature of the Multi-Annual Financing Agreement and the Annual Financing Agreement
- Commitment of the annual SAPARD appropriation
- Conclusion of the Multi-Annual Financing Agreement and the Annual Financing Agreement
- Formal decision by the Commission conferring management of aid on the Implementing Agencies
- First payment to the country (max 49% of the first annual allocation)
- Reimbursement of incurred expenditures

5.2. Implementation structures in candidate countries

Funds from each of the three 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 Fund (unless the National Fund acts as a paying agent). The EC Delegations are responsible for endorsing procurement documents before tenders are launched or contracts signed. In order to strengthen the capacity of the Delegations to undertake these ex-ante controls, € 1.55 million was made available at the Commission's initiative from budget line B7-020A for the recruitment of specialised staff (ALAT).

The projects that ISPA finances are large infrastructure projects that are implemented over several years. Actual implementation progress on the ground requires, as with any major public infrastructure investment, very detailed preparations, including tender dossiers, and procedures (with the strict application of Community procurement rules). The first substantial payments were made in 2001, which totalled around € 200 million in that year, as the first ISPA projects were decided not much before the end of 2000. Payments accelerated in 2002 when almost € 390 million was disbursed. At present, the procedures for managing measures 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.

Unlike PHARE and ISPA, which make maximum use of the existing agreements and structures set up under the PHARE Decentralised Implementation System (DIS), SAPARD is implemented on a fully decentralised basis from the outset, provided all the necessary conditions indicated under section 4 are fulfilled.

Such delegation of management responsibility requires each candidate country to set up the relevant management and control systems to be approved at national level by the National Authorising Office. Once these conditions are met, the Commission services carry out the compliance verification prior to the Decision by the Commission conferring financial management. The Commission Regulation 2222/2000⁹ as modified by the Commission Regulation 2252/2001¹⁰ sets out the detailed financial rules for this conferral of management. The countries are all engaged in preparing the required institutional set-up for managing SAPARD. All candidate countries managed to receive decision on conferral of management by the end of 2002. However, these decisions are not related to the whole scope of measures covered by the SAPARD programmes and work is on going to complete this process.

⁹ Commission Regulation (EC) N° 2222/2000 of 7 June 2000 laying down financial rules for the application of Council Regulation (EC) N° 1268/1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of central and eastern Europe in the pre-accession period.

¹⁰ Commission Regulation (EC) N° 2252/2001 of 20 November 2001, amending Commission Regulation (EC) N° 2222/2000 of 7 June 2000, laying down financial rules for the application of Council Regulation (EC) N° 1268/1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of central and eastern Europe in the pre-accession period.

5.3. Decentralisation of implementation under Article 12 of the Co-ordination Regulation

In 2002, PHARE and ISPA continued to be implemented through the Decentralised Implementation System (DIS), introduced for PHARE in 1990 and revised in 1998. However, serious progress to move to Extended Decentralised Implementation System (EDIS) on the basis of the Co-ordination Regulation was noted in 2002 in the acceding and candidate countries. 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” (Article 12).

The advancement towards EDIS is laid down in the documents entitled “Preparing for Extended Decentralised Implementation System of the PHARE and ISPA programmes” sent to acceding countries in December 2000 and the “Roadmap to EDIS for ISPA and PHARE” sent to acceding countries in October 2001. The Roadmap sets out the procedural stages leading to an EDIS decision. Stages I, II and III are the responsibility of the candidate countries and contain Gap assessment, Gap Plugging and Compliance assessment. The fourth stage is preparation for Commission decision and is the responsibility of the Commission. In a meeting in Brussels with the National Aid Co-ordinators of all acceding and candidate countries, the Commission indicated the necessity to move to EDIS for the PHARE programme prior to accession. For the acceding countries the deadline is 1 May 2004 and for Bulgaria and Romania the Commission strongly encourages moving to EDIS by end 2004.

During 2002 the acceding and candidate countries embarked on the gap assessment, which was completed in some countries.

For PHARE, the Commission also established High Level Working Groups on EDIS in all PHARE countries to supervise and guide the progress on EDIS for the PHARE programme. In 2002, a Multi-Country Programme of €5.9 million was allocated on a needs’ basis to help candidate countries with their preparations for EDIS.

For ISPA, all but one country completed the first stage systems gap assessment in 2002. One country already applied for the waiving of ex ante control, confirming that the minimum criteria and conditions stipulated for granting EDIS had been met.

New systems audits that were undertaken by the Commission in 2002 to assess the management and control systems in the candidate countries indicate that there has been significant progress towards meeting the requirements in this respect of the ISPA Regulation.

6. MONITORING AND EVALUATION

6.1 PHARE

Monitoring

The PHARE monitoring and Interim Evaluation Scheme adopts a participatory approach to providing the parties involved in programme management with a regular, reliable assessment of the implementation of on-going measures.

- Monitoring Reports are drafted by the implementing agencies
- Interim Evaluation Reports give the independent view of the external evaluators.
- The Sectoral Monitoring Subcommittees (SMC) and the Joint Monitoring Committee (JMC) for each Candidate Country discuss and decide on remedial actions to improve programme implementations based on the reports above.

The JMC meets annually and may propose remedial actions to improve the programme management and design of future projects and may also recommend to re-allocate funds within each of the pre-accession programmes from any unsatisfactorily performing activities. As regards the SMSC, each of these meet in principle twice a year and address specific sectoral issues within the given candidate country and may likewise make recommendations for future Interim Evaluation Reports.

Interim and Ex-Post Evaluation

During 2002, some 125 sectoral and thematic interim evaluation reports were issued, covering all sectors of PHARE assistance. Findings indicate that PHARE programming, on the whole, generates projects whose priorities are in line with those of the Accession Partnerships and take into account Regular Reports and Action Plans. The evaluators' view is that the implementation process of the PHARE programme is highly successful yet more needs to be done in order to improve project design. The evaluators noted a substantial improvement in administrative capacity, yet still noted some difficulties with financial and time management, as well as the difficulty of recruiting and retraining specialists.

The Interim Evaluation system was revised in 2002 to help ensure the sound financial management of PHARE measures. The revision included improvements in methodology and formats, and a faster, more differentiated reporting system with clearer targeting of specific audiences. A monitoring template was also introduced: this enables a more user-friendly synoptic and analytic presentation of relevant information.

A large ex-post evaluation of PHARE country support to the “Laeken Group” of pre-accession country partner states was delivered in 2002/2003 and is currently published on the DG Enlargement public website.¹¹ The evaluated sample was the PHARE support due for completion at the end of 2001, that is, the National PHARE programmes launched in 1997/98 for Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovakia and Slovenia.

¹¹ http://europa.eu.int/comm/enlargement/phare_evaluation_reports_2.htm

In organisational terms, the ex-post evaluation process involves:

- The formal nomination of a country evaluator by the National Aid Co-ordinator.
- The approval of each country's separate terms of reference by this national evaluation representative.
- The appointment of local "external" evaluators in each country to provide country-level evaluation reporting under the supervision of the selected evaluation contractor.

6.2. ISPA

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

Statistical data to monitor the physical and financial progress serves as useful indicators with which to assess the effectiveness of implementation, and in addition to offer an evaluation of the broader economic and social impacts of ISPA. The National ISPA Co-ordinator (NIC) is responsible for the organisation of the Monitoring Committees.

The main responsibilities of the Committee include:

- monitoring the overall implementation of ISPA projects in the country;
- monitoring the implementation of each ISPA project in the beneficiary country; this monitoring shall use financial and physical indicators;
- examining progress reports, and approving the annual progress reports;
- proposing (for submission to the Commission) any adjustments in terms of amounts and conditions which may be required on the basis of the outcome of the monitoring;
- deciding, with the agreement of the Commission, any additional responsibilities for the Committee.

Two rounds of Monitoring Committees were organised in 2002 in all candidate countries. Summaries from these meetings are communicated to the ISPA Management Committee.

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 manner, including the efficient and effective use of resources, in which it has been carried out. The evaluation will also cover the actual impact of their implementation in order to assess whether the original objectives have been achieved. This evaluation will, inter alia, address the contribution made by measures to the implementation of Community policies on the environment or its contribution to extended Trans-European networks and common transport policies. They will also assess the environmental impact of the measures.

Ex-post analysis should normally not take place immediately after closure of an investment project since a sufficiently long period of running-in, testing and normal operation is required before an extensive technical and economical ex-post analysis is carried out. The Commission reckons that the adequate time to undertake a fully-fledged ex-post analysis is between two to four years after provisional reception of works. Consequently - given the early stage of ISPA implementation - no ex-post evaluation has been launched.

6.3. SAPARD

Implementation of SAPARD programmes is subject to the provisions of the Multi-annual Financing Agreement in respect of both monitoring and evaluation. According to these provisions a Monitoring Committee has been established for each SAPARD programme and each of the Monitoring Committees has met at least once and sometimes twice during 2002. During their initial work the committees have discussed and taken decisions on topics as required by Article 7, Section B of the Multi-Annual Financing Agreement, such as the rules of procedure, selection and ranking criteria, monitoring indicators, preparation for mid-term evaluation and modifications to their Programmes.

Moreover the Commission services have worked closely with the beneficiary countries to prepare the monitoring and evaluation systems. A seminar was held to train the countries in monitoring techniques used in Member States and the Commission has elaborated a set of minimum monitoring indicators that the SAPARD beneficiary countries have been advised to apply. On this basis all countries have established their monitoring arrangements which have been discussed and approved by the monitoring committees. The arrangements include a set of monitoring indicators described in the programmes and a set of monitoring tables to be completed and updated for monitoring committee meetings.

In the same way two seminars on the evaluation of SAPARD were held, each involving the participation of representatives of five candidate countries. Afterwards, the specific details for mid-term evaluation were discussed in another seminar (held on Brussels on 17-18 June 2002) on “*Aspects of management and implementation of the SAPARD Programmes*”. During this seminar, special attention was given to the organisational and methodological aspects of the mid-term evaluation. Draft “*Guidelines for the mid-term evaluation of rural development programmes supported by SAPARD*” were presented and discussed with the candidate countries who were reminded of their obligations to send the evaluation report to the Commission by 31 December 2003. In August 2002, after revision of the document, the Commission sent an official letter, including the Guidelines, to the candidate countries in order to initiate the first steps of the process of mid-term evaluation, and to give guidance on this. These Guidelines were also presented for information purposes to all Member States in the STAR Committee, and are available on the Commission’s Directorate-General for Enlargement web-site.¹²

¹²

http://europa.eu.int/comm/agriculture/external/enlarge/index_en.htm

7. CO-ORDINATION

7.1. General

As required by Council Regulation (EC) No 1266/99, 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:

- PHARE deals with priority measures concerning the adoption of the *acquis communautaire*, whether through improving administrative capacity or supporting related investment. This instrument also has an element for Economic and Social Cohesion. In this context, concurrently with ISPA, it may also support measures in the fields of the environment and transport if they constitute a secondary but essential component of integrated programmes for regional development or industrial restructuring;
- ISPA finances large infrastructure projects in the transport and environment sectors;
- SAPARD finances measures to support agriculture and rural development.

The PHARE Management Committee plays a key role in general co-ordination. Pursuant to Article 9 of the Co-ordinating Regulation, the Committee should assist the Commission for co-ordinating operations under the three 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. This information is provided to the Committee in the General Assistance Document 2002. Moreover, the Committee is informed about decisions whereby the Commission confers on implementing agencies in applicant countries management of aid on a decentralised basis in accordance with Article 12 of the Co-ordinating Regulation.

At programming level, the Accession Partnerships, one for each of the ten candidate countries, as adopted by the Council on 13 November 2001, remain the general framework for assistance under the three pre-accession instruments. They are supplemented, 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, as prepared on the basis of the candidate countries' plans and approved for each of these countries by the Commission in 2000.

In order to avoid possible overlaps between operations receiving support from SAPARD or PHARE (in particular PHARE Economic & Social Cohesion and PHARE Cross-Border Co-operation), appropriate provisions are being included in relevant programming documents and agreements:

- For PHARE, any Financing Decision and Financing proposal provides, as from 2001, that ‘the National Aid Co-ordinator and the National Authorising Officer shall be jointly responsible for co-ordination between PHARE (including PHARE Cross-Border Co-operation), ISPA and SAPARD.
- For SAPARD, the multi-annual financing agreements which have been signed with all 10 candidate countries provide, under section C, Article 1 that the Commission and the applicant country shall ensure co-ordination of assistance between the Programme, ISPA, PHARE and assistance from the EIB and other international financial instruments; the country shall ensure in particular that where a SAPARD project, due to its nature, could also be potentially eligible in full or in part for assistance under the other above mentioned instruments, any risk of expenditure being aided more than once shall be avoided (notably by means of ‘stamping ‘invoices).

7.2. Co-ordination inside the Commission

The PHARE programme comes under the responsibility of the Enlargement Directorate General, which also assumes the overall co-ordination between the three instruments, supported by the PHARE Management Committee. The ISPA programme is under the responsibility of the Regional Policy Directorate General, and the SAPARD programme is under the responsibility of the Agriculture Directorate General.

In practice, 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 (DGs Agriculture, Regional Policy, Enlargement, Budget and Legal Service) involved. This committee pays particular attention to the preparation of the extended decentralisation (EDIS) of PHARE and ISPA. The agenda for the meetings in 2002 included issues such as a stock-take on the progress towards EDIS and the Accession Treaty clause on pre-accession funds.

In the case of project monitoring, co-ordination takes the form of the Joint Monitoring Committee (JMC), supported, where possible, by the ISPA Monitoring Committees and the relevant PHARE sub-committees.

To avoid duplication, the Commission has clarified the interface between PHARE and SAPARD, taking into account the provisions of the Co-ordination Regulation. This was needed particularly for investments in the veterinary area. The demarcation is that PHARE may support investments if they concern public works carried out by national authorities or other public authorities to which the competence has been sub-delegated by the national authorities. Investments are eligible under SAPARD if they relate to private activities (for example, in-house laboratories for processing plants, or upgrading of farm equipment). SAPARD programmes may also include investments to improve small, local public structures for quality, veterinary and plant health controls, for food quality and for consumer protection. In addition, PHARE will continue to provide institution building support, notably for SAPARD agencies.

For ISPA, it should be noted that for projects in 2000, the first year of operation of this instrument, the feasibility and preliminary draft studies were financed from PHARE in 1998 and 1999. Furthermore, the implementation of PHARE and ISPA is monitored by the Delegations in the candidate countries.

7.3. Co-ordination in the candidate countries

At the country level and in line with the objective of decentralisation, 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 programming and implementing PHARE Economic & Social Cohesion. In several countries such interministerial coordination needs further improvement.

As decentralised management is provided for from the outset (for SAPARD), or will gradually increase through the implementation of EDIS (for PHARE and ISPA), the responsibility of the candidate country for proper co-ordination of operations receiving pre-accession support and avoiding overlaps must be developed accordingly. Taking into account the decentralised nature of SAPARD, only the countries themselves will be able to ensure full complementarity at project level.

Therefore, the Commission has requested from the countries that they 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 Economic & Social Cohesion '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 Cross-Border Co-operation, SAPARD and ISPA.

7.4. Co-ordination with the EIB and International Financial Institutions

Pre-accession aid can play its full role when it mobilises funds from the international financial institutions (IFIs). Therefore, co-operation with the EIB and other IFIs continued in 2002 under the framework of the "Memorandum of Understanding on co-operation in the pre-accession assistance"¹³.

Figures available for the years 2000 to 2002 show that the yearly operations of the IFIs is in excess of EUR 5 billion Euro in loans signed with the 10 enlargement countries. This is a significant amount also demonstrating the leverage effect of Community pre-accession assistance having itself been reinforced since 2000.

¹³ On 2 March 1998, the European Commission signed a Memorandum of Understanding on 2 March 1998 with the European Bank for Reconstruction and Development (EBRD) and the World Bank, to reinforce their co-operation and to facilitate co-financing under the PHARE programme. Four new partners joined this agreement in October 1998: the Nordic Environment Finance Corporation (NEFCO), the Nordic Investment Bank (NIB), the International Financial Corporation (IFC) and the Council of Europe Development Bank (CEB). In 2000, the Memorandum of Understanding was extended to cover the two other pre-accession instruments, ISPA and SAPARD. Though not a signatory to the Memorandum, the EIB works closely with the European Commission in serving the EU's policy objectives and collaborates with the other IFI's in the spirit of the Memorandum of Understanding.

The Commission has a good working relationship with all IFIs. At programme level, the Commission mainly co-operates with the EIB, the EBRD and to a lesser extent, the Council of Europe Development Bank (CEB) and the Kreditanstalt für Wiederaufbau (KfW).

The Commission services organise periodical meetings with these IFIs to co-ordinate issues related to programming and implementation, as well as procedural issues. If possible, joint missions to candidate countries are envisaged, which is an important component for ensuring co-operation on a project level to the benefit of the candidate countries.

The Commission organised with EBRD regular exchanges of information and co-ordination meetings, continued harmonisation of approaches to the appraisal of projects and also detailed discussions of methodological issues.

Commission Delegations also play an important role in the co-ordination of pre-accession instruments with the IFIs and bilateral donors by periodically organising donor meetings on the spot to exchange information about planned and on-going projects.

At the level of the individual pre-accession instruments, the co-operation in 2002 can be summarised as follows:

- For PHARE, the main co-financing instrument in 2002 was again the SME Finance Facility (commitments in 2002: € 50 million), where the Commission works together with the EBRD, the CEB and the KfW. This Facility involves the supply of finance and capacity building measures to local banks and equity funds, in order to expand their operations with SMEs in the region.

In addition, the Commission agreed with the EIB, the EBRD, and the CEB/ KfW on co-financing the Municipal Lending Facility (€ 44 million), which focuses on finance and capacity building measures to local banks in order to expand their lending operations to local municipalities.

The Commission also finalised discussions with the EIB on a Municipal Infrastructure Facility (€ 35 million), to finance local municipalities in border regions, as outlined in the Commission Communication on Border Regions.¹⁴

- In the area for transport and environment, the pre-accession instrument 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.

The 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 a very 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 2002.

¹⁴ COM(2001) 437 final of 25 July 2001.

Several periodic co-ordination meetings were held in order to set up the working framework and make operational improvements to the Co-operation Agreement (signed on 19 January 2000) 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 as well EBRD contributed to the preparation of Guidelines for successful public-private partnerships” which were prepared by DG Regional Policy and published early in 2003.

- For SAPARD, given its full decentralisation to candidate countries, the co-operation with IFIs mainly involves general consultations and exchange of information. This is carried out both in Brussels headquarters and in the candidate countries on the occasion of Monitoring Committees, with the view to deepening this co-operation. The Commission also began discussions with the EBRD in 2002 on how to better ensure access of beneficiaries of the SAPARD programme (and especially of farmers) to bank credit.

FINANCIAL OVERVIEW

The allocations per country for PHARE, ISPA and SAPARD in 2002

	PHARE	SAPARD	ISPA	TOTAL
	€ million	€ million	€ million	€ million
Bulgaria	122.9	55.6	104.6	283.1
Czech Republic	108.2	23.5	80.5	212.2
Estonia	33.4	12.9	30.4	76.7
Hungary	130.7	40.6	94.1	265.4
Latvia	36.3	23.3	46.5	106.1
Lithuania	147.6	31.8	61.2	240.6
Poland	451.7	179.9	362.8	994.4
Romania	278.5	160.6	256.6	695.7
Slovakia	79.1	19.5	54.1	152.7
Slovenia	41.9	6.8	16.6	65.3
Other ¹⁵	268.7			
Total	1699.0	¹⁶ 554.5	1107.4	3092.2

¹⁵ Horizontal, regional and part of the nuclear safety programmes.

¹⁶ Total of commitments following annual financing agreement 2002; the figures presented for each beneficiary country have been rounded.