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**GENERAL REPORT
ON PRE-ACCESSION ASSISTANCE
(PHARE – ISPA – SAPARD)
IN 2001**

[SEC(2003)656]

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SUMMARY

This is the second 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 assistance¹. 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. It may 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 (€ 1,634 million);

ISPA finances large infrastructure projects in the transport and environment sectors (€ 1,109 million);

SAPARD finances measures to support agriculture and rural development (€ 539.6 million).

SAPARD follows a **programming approach** similar to the one used in Member States' agriculture 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 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 plan to introduce an extended decentralised implementation system (EDIS) in which procurement 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 2001 was the second operational year for SAPARD and ISPA. All SAPARD programmes had already been approved in 2000; one of them (Latvia) was modified in 2001. Bilateral multiannual and annual financing agreements were negotiated and concluded (with the exception of Romania) and annual allocations for 2000 were committed. The establishment of SAPARD implementing agencies progressed substantially and five candidate countries have received conferral of management for their respective SAPARD agency and hence SAPARD funds were transferred to them in 2001.

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% of the aid supported Institution Building, the main instrument of which was Twinning (secondment of experts from Member States' administrations to candidate countries) and 70% 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 to the Phare Management Committee that 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 contacts with the EIB and other International Financial Institutions 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 2001 was the second year when all three pre-accession instruments came on stream. Much progress was achieved in setting up and implementing the new instruments of ISPA and SAPARD. The Phare programme had to be adapted in order to take into account the new instruments and more emphasis was put on Economic and Social Cohesion. The co-operation between the different Commission services was stepped up and further developed in line with the Co-ordinating Regulation. Setting up of the structures for the pre-accession instruments in the candidate countries also provided an important exercise in Institution Building and started to prepare the candidate countries for the Structural Funds.

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 States 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 has 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 2001 was as follows: €1,634 million for Phare, €1,109 million for ISPA and €539.6 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 own efforts to take on the full *acquis* in a few years time 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 thereof.

In 2001, accession negotiations were underway with the first 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. The Laeken European Council in December 2001 confirmed the Union's determination "to bring closer the accession negotiations with the candidate countries that are ready to a successful conclusion by the end of 2002, so that those countries can take part in the European Parliament elections in 2004 as members".

This Report covers the calendar year 2001, which was the second operational year for both ISPA and SAPARD. It provides information about financial allocations for each country and per instrument and 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 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(), ISPA Report: COM(2002) 596 final, SAPARD Report: COM(2002) 434 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 1998 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 2001 amounted to €1,634 million. The operations financed were:

- **national programmes: €1,091 million, of which:**
 - Bulgaria : €83 million
 - Czech Republic: €65 million
 - Estonia : €26 million
 - Hungary : 90 million
 - Latvia : €31 million
 - Lithuania : €46 million
 - Poland : €411 million
 - Romania : €274 million
 - Slovakia : €44 million
 - Slovenia : €21 million
- **Special nuclear decommissioning programme €168 million**
- **cross-border co-operation : €163 million**
- **regional and horizontal programmes : €212 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.

As older Phare programmes were completed and new programmes initiated, projects implemented in 2001 were increasingly based on the accession-driven approach set out in the 1998 new orientations for Phare³. They are 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

³ The 'Guidelines for Phare programme implementation in candidate countries, 1998-1999' were adopted in June 1998 and cover the Phare budgets for 1998 and 1999 [SEC (1998) 1012].

building programmes (in some cases the CFCU also manages investment activities). The other Implementing Agencies are precursors to the administrative structures that will be needed to implement the Structural Funds after accession.

The new implementation mechanisms reflect the lessons learned from implementation of the Phare Programme in previous years and, in particular, the need to ensure that a limited number of 'centres of excellence' be responsible for handling EU funds. This is an essential precondition for full transfer of responsibility for tendering and contracting from the Commission to the candidate country (extended decentralisation).

The accession-driven focus that underpins the new orientations of Phare implies an increasing emphasis on National Programmes designed to address the specific weaknesses identified in the Regular Reports that the Commission prepares on each candidate country. The corollary is a reduction in the importance of Multi-Country Programmes. Previously these were very useful in raising awareness of issues - especially those relating to the *acquis* - of common interest to several candidate countries. The stage of awareness raising is past and the need now is to help the countries put in place the capacity on the ground to implement the *acquis*.

Programming in 2001 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 new ISPA and SAPARD Regulations that take 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). The guidelines provide for around 30% of the aid to be devoted to institution building. In fact, in 2001, the figure was about 40%, the main instruments of which were 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 2000⁵.) 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.

In addition, 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 (rather than having to send them back to Headquarters for approval). The Delegations also monitor the progress of the project execution in the candidate countries.

In its 2001 Strategy Paper, the European Commission identified the need for an adequate level of administrative and judicial capacity in the candidate countries for the proper enforcement of the *acquis*. The Commission, therefore, proposed to establish an action plan, which should analyse with each of the candidate countries their approach to implement their priorities and, if necessary, their intentions to reinforce efforts for institution building.

⁴ SEC (1999) 1596.

⁵ C (2000) 3103/2

3. ISPA SUMMARY

The “Instrument for Structural Policies for Pre-Accession”, ISPA, is the European Community’s financial instrument designed to assist the ten Central and Eastern European beneficiary countries 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.

Main achievements in 2001

Implementation of Community environmental policy and strengthening of European transport links

In 2001 ISPA commitment appropriations from budget line B7-020 were mainly used for the 94 new ISPA measures and second tranches⁶ for projects decided in 2000 (€1,109 million). Of this, €2.7 million was committed for technical assistance for EDIS, and €26.1 million for project preparation. A total of 94 new projects with a total project cost of €2.3 billion were decided on by the Commission, Community funding for these new projects is over €1.1 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 64% of project cost in 2001.

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.

51.92% of the ISPA budget this year went to environment projects. More than half of ISPA funding in the environmental sector for the year 2001 was dedicated to sewage treatment projects. Primarily the projects focused on sewerage works to extend, replace or repair current systems in the beneficiary countries. Approximately 26% of funding was assigned to drinking water projects, the majority in conjunction with waste water treatment projects. About 15% of the funding in this sector was applied to solid waste management, primarily to landfill projects.

⁶ 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.

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 spent in this sector in 2001, have been focused on further extending the TINA (Transport Infrastructure Needs Assessment) network. 57.5% of the transport sector funds have been allocated to road projects including new construction and improvements to meet EU capacity and safety standards. Around 40% have financed projects aiming at the rehabilitation and upgrading of existing rail infrastructure to EU standards.

Through ISPA, the Community provides financial assistance to those environmental projects that require particularly large infrastructure investments, namely for water supply and waste water treatment as well as waste management. 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.

In 2001, ISPA provided technical assistance to candidate countries with a view to enhancing, through training, their capacity for implementing key horizontal environmental legislation, notably the Environmental Impact Assessment Directives (85/337/EEC and 97/11/EC). By requesting an assessment of the potential effects of ISPA projects on environmentally sensitive areas, the Commission has facilitated the candidate countries understanding of the legislation protecting wild birds and habitats. Furthermore, additional guidance has been provided to help candidate countries avoiding irreversible damage to areas that might become part of a future Natura 2000 network.

In the transport sector, the role of ISPA has been to contribute to the building of the future trans-European transport network and to support the interconnection and interoperability within national networks and between those and the EU's network.

Enhancing the administrative capacity for project management

Projects to be financed through ISPA must be compatible with Community policies and comply with competition and public procurement rules. However, candidate countries experienced difficulties to implement these high standards for tendering and contracting, which led to delays in project implementation. To redress these deficiencies, the Commission undertook in 2001 various training seminars and other initiatives to provide assistance for improving the candidate countries' capacity for tendering and procurement, and ensuring compliance with Community rules. The activities will continue in 2002.

The Commission also decided technical assistance measures to make funds available for the preparation of high-quality projects. With decisions taken in 2000 and 2001, a total of €59.9 million for 30 technical assistance measures was allocated to strengthen the project pipeline for 2002 and beyond. These measures include support to prepare projects to be financed by the Cohesion Fund after accession.

Financial management and control systems

In 2001, the Commission undertook systems audits to assess the extent to which the candidate countries have established management and control systems that comply with the requirements defined in the ISPA Regulation⁷. These audits found that candidate countries made significant efforts in setting up management and control systems, but further steps need to be taken in some central areas. candidate countries are now addressing the observations and recommendations included in the audit reports. In 2002 the Commission audit services will follow up on these actions.

Technical assistance was made available to prepare candidate countries for the Extended Decentralised Implementation System (EDIS). The preparation of EDIS focuses on achieving compliance of the financial management and control systems with requisite standards as well as the adequacy of procedures for tendering and contracting.

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 Regulation⁸, 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 to be granted on the basis of a single agriculture 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' agriculture and rural development programmes. The exercise of programming was entirely new 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, and one of them (Latvia) was modified in 2001, mostly to take into account the work associated with the conferral of management to the SAPARD agency.

Another implication flowing from the programme approach applied under SAPARD is that, unlike the other pre-accession instruments Phare and ISPA, where at least some key elements are managed 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 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

⁷ EC n° 1267/1999, as amended.

⁸ 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)

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 multi-annual financing agreements with each of them. By the end of 2001 these negotiations had been completed and all bilateral multiannual financing agreements and annual financing agreements were negotiated and concluded (with the exception of Romania) and annual allocations 2000 were committed.

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 multi-annual financing agreements. By the end of 2001 a considerable amount of work was accomplished by the applicant countries to build their SAPARD agencies, and conferral of management to the national authorities was decided by the Commission for 5 out of 10 countries; therefore about €30.5 million were transferred to these countries by that time: €30.47 million as accounts and €21,570 as interim payments (reimbursements) to Estonia relating to third quarter of 2001⁹.

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 will 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 multiannual 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 can be summarised as follows:

⁹ The reimbursement payment for Bulgaria (€411,153) was made in February 2002 after reception of information concerning changes in the SAPARD Agency staff requested by the Commission.

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

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 interservice 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%)

In 2001 ISPA commitment appropriations from budget line B7-020 were mainly used for the 94 new ISPA measures and second tranches for projects decided in 2000 (€1,109 million). The amounts committed from the 2001 B7-020 budget were divided fairly equally between environmental (52%) and transport sectors (48%).

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)

In order to guarantee the efficient protection of the financial interests and to combat fraud and other irregularities, the financing decisions and the agreements and contracts adopted under these foresee for all pre-accession instruments a monitoring and financial control by the Commission and the Court of Auditors, if necessary on the spot.

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. 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 total around €200 million in that year, as the first ISPA projects were decided not much before the end of 2000. These payments include 21% of the amounts committed in 2000. At present, the procedures for managing measures financed by the ISPA and Phare fund 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 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 are fulfilled.

Such delegation of management responsibility requires that each candidate country sets 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 2222/2000¹⁰ as modified by the Commission Regulation 2252/2001¹¹ 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. Five candidate countries managed to receive decision on conferral of management by the end of 2001. However these decision are not related to the whole scope of measures covered by the SAPARD programmes and work is on going to complete this process.

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

In 2001, Phare and ISPA were implemented through the Decentralised Implementation System (DIS), introduced for Phare in 1990 and revised in 1998. In the light of the conclusions of the Nice European Summit, the Commission and the candidate countries will step up their efforts towards further transferring management responsibilities to the candidate countries. The objective of the Commission is that candidate countries likely to join the EU in 2004 will move to the final stage of the Extended Decentralisation Implementation System (EDIS) in the course of 2003.

The Coordination Regulation therefore provides a legal basis to “waive the Commission’s ex ante approval for project selection, tendering and contracting by applicant countries” (Article 12). The situation after waiving the Commission's ex ante approval is hereafter called the Extended Decentralised Implementation System (termed EDIS). The progress 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. During 2001 the candidate countries launched preparatory activities and some countries initiated stage I.

¹⁰ 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

¹¹ 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

6. MONITORING AND EVALUATION

6.1. Phare

Ex Ante Evaluation

Since the 2003 Phare programming cycle is the last for the "Laeken Group" of candidate countries, it will herald a step-change in the scope of Phare's operations, and Phare's mechanisms will require adaptation to a new set of needs.

On this basis, the first steps were taken in 2001 to prepare an ex ante evaluation, to be launched in 2002, of programming mechanisms for Phare in 2004 and beyond. The evaluation will aim to do this based on an assessment of lessons learned from the current method of Phare programming and an examination of programming mechanisms in comparable interventions.

A key input to this evaluation will be a report on programming and project design prepared in 2001 by the contractor responsible for preparing monitoring and assessment reports from 1996 to 2001, covering projects financed from 1990 to 1999. The contractor concluded that these projects had often had poorly specified objectives, technically weak logical frameworks (logframes), and inadequate indicators.

Remedial measures involving the systematic checking of these features at the project formulation stage is introduced in 2002.

Monitoring and Interim Evaluation

Following the re-orientation of Phare towards a pre-accession strategy and the decentralisation of implementation responsibilities, the previously centralised Phare Monitoring and Assessment System was replaced in September 2000 by a Decentralised Monitoring System and an Interim Evaluation Scheme. The revision is based on the candidate countries assuming responsibility for monitoring the progress of Phare measures while the Commission keeps responsibility for assessing progress through regular sectoral Interim Evaluations performed by independent evaluators.

New monitoring structures — a Joint Monitoring Committee (JMC) and Sectoral Monitoring Sub-Committees (SMSC) — have been established in each candidate country. The Phare Monitoring Committee also acts as Joint Monitoring Committee for the three accession instruments. Annual reports of each instrument's Monitoring Committee are submitted to this Joint Monitoring Committee for its consideration.

A new contractor has undertaken the Interim Evaluations since July 2001 through operating offices staffed with EU and local evaluators in Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The Brussels-based central office is also responsible for monitoring and evaluating multi-country and multi-beneficiary programmes.

The Phare Monitoring and Interim Evaluation scheme provides the parties involved in programme management with a regular, reliable assessment of the implementation of all on-going measures by two means: firstly, through monitoring reports drafted by the implementing agencies that provide the stakeholders' view; and secondly, through Interim Evaluation reports providing the independent view of the evaluators.

During 2001, 42 Monitoring and Assessment reports based on the old monitoring and assessment scheme were issued, covering all sectors of Phare assistance. Furthermore, 25 sectoral Interim Evaluation reports were produced based on sectoral monitoring reports drafted by the implementing agencies and data collection and interviews carried out by the evaluators.

Findings indicated 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.

However, an appreciable number are poorly designed or prepared, with vague aims, imprecise indicators, poor take-up of lessons learnt, and no feasibility studies. The evaluators' view is that Phare's achievements owe more to the ability of those implementing the programme "to get something done" than to good project design. The evaluators also note that while projects' administrative capacity has improved, financial and time management remain weak, and specialists are difficult to recruit and retain.

Interim Evaluation itself is accepted by almost all candidate country beneficiaries as an integral part of the project management cycle. Reports receive serious attention, generate healthy debate among stakeholders, and lead to sustained consideration of the recommendations they contain. Following through on evaluation findings and recommendations has a cascade of beneficial effects. These include institutional changes within implementing agencies; better coordination within and between ministries and donors; improvements in project design; re-allocation of resources; gaining of additional co-financing; and more attention paid to sustaining the results of projects after completion. Following up recommendations is also leading to the diffusion of an evaluation culture that promotes accountability and, in turn, sound financial management; to improvements in monitoring and thus management capacity; and the development of a real participatory approach to evaluation on the part of all stakeholders. In this regard, the strong involvement of Delegations has a considerable impact on the quality of the outcome of interim evaluations.

The Interim Evaluation system is further adapted in 2002 to help ensure the sound financial management of Phare measures. A new Interim Evaluation guide is issued in mid-2002. It is anticipated that the Interim Evaluation team will publish about 70 reports during 2002 on Phare assistance in the 10 candidate countries receiving Phare funds. The evaluation team will also assist in setting up evaluation schemes for the other three candidate countries, namely Cyprus, Malta and Turkey.

Ex Post Evaluation

During the second half of 2001, DG-Enlargement prepared, carried out the procurement process for and launched the ex post evaluation of a €1 million sample of Phare support. The contract is set to start in January 2002. The sample selected for evaluation is the Phare support due for completion at the end of 2001 and given to the "Laeken Group" of candidate countries, that is, the national programmes launched in 1997/1998 for Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

This exercise differs from earlier ex post evaluations (carried out by EuropeAid) by being cross-sectoral and organised on a country basis. It is effectively ten separate country-level ex post evaluations within the same envelope.

Organisational aspects included the formal nomination of a country evaluator by the National Aid Coordinator; the approval of each country's terms of reference by this national evaluation representative; and the appointment of local "external" evaluators in each country to provide country-level evaluation reporting under the supervision of the selected evaluation contractor. There is a built-in component of local evaluation capacity-building based on a learning-by-doing philosophy supported by training workshops and an e-learning package.

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.

The first two rounds of Monitoring Committees were organised in 2001 in all candidate countries. Summaries from these meetings are communicated to the ISPA Management Committee.

Requirement for ex-post 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 have 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 2001. 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.

On the same way two seminars were held, each involving the participation of representatives of five candidate countries, on evaluation of the SAPARD programmes.

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. It may 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 shall assist the Commission for co-ordinating operations under the three instruments and the Commission shall 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 2001. Moreover, the Committee will be 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 eventual overlaps between operations receiving support from SAPARD or Phare (in particular Phare ESC and Phare CBC, for which a more programmatic approach will be followed, including the establishment of 'schemes'), 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, CBC), 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-ordinating committee for the pre-accession instruments has been set up in the various Commission departments involved. This committee pays particular attention to the preparation of the extended decentralisation (EDIS) of Phare and ISPA.

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 whom 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 country

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 implementing Phare ESC. In several countries such interministerial coordination needs further improvement.

As decentralised management is provided for from the outset (for SAPARD), or will gradually increase (for Phare and ISPA), the responsibility of the candidate country for proper coordination 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.

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

Pre-accession aid can play its full role when it mobilizes funds from the international financial institutions (IFIs). With this in mind, 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 cooperation 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. 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 IFIs in the spirit of the Memorandum of Understanding.

Since 2000, the new accession instrument ISPA for transport and environment is the main facility for co-financing infrastructure projects with the EIB and other IFIs. In 2001, the main co-financing instrument in Phare was again the SME Facility, where the Commission works together with the EBRD, the Council of Europe Development Bank and the Kreditanstalt für

Wiederaufbau. The Commission also started discussions with the EIB on a Facility to finance local municipalities in border regions, as outlined in the Commission Communication on Border Regions.¹²

The Commission services organise periodical meetings with the EIB and the EBRD 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.

As regards ISPA, a Co-operation Agreement was 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 of the Agreement is to maximise the leverage effect of the EC grants and to restrict EC budget support to that which is strictly necessary.

The results of the first two years of co-operation between ISPA and the EIB are very positive. Several co-ordination meetings were held during the first two years of implementation of ISPA in order to set up the working framework and make the Co-operation Agreement operational. 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.

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 resulted in the joint co-financing of several projects in 2001.

The Commission continued its good working relationships with the European Bank for Reconstruction and Development (EBRD) and the Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO). Several co-financed projects were identified with these IFIs.

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. The Commission had known since 2000 that it was necessary to modify the ISPA Regulation to enable expenditure financed by the EBRD to be considered as matching eligible expenditure. This modification was completed in December 2001 ensuring that projects could be financed by combinations of ISPA and loan finance from the EBRD.

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.

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.

¹² COM(2001) 437 final of 25 July 2001.

ANNEX

The allocations per country for Phare, ISPA and SAPARD in 2001

	Phare	SAPARD	ISPA	Total
	€million	€million	€million	€million
Bulgaria	185.3	54.1	106.8	346.2
Czech Republic	86.6	22.9	66.9	176.4
Estonia	29.3	12.6	29.9	71.8
Hungary	109.85	39.5	90.8	240.15
Latvia	36.2	22.7	48.1	107
Lithuania	106.2	30.9	50.5	187.6
Poland	468.45	175.1	406.6	1,050.15
Romania	289.14	156.3	245.6	691.04
Slovakia	80.5	19	48.1	147.6
Slovenia	28.45	6.6	16	51.05
Other ¹³	221.09			
Total	1,641	539.6¹⁴	1,109.3	3289.9

¹³ Horizontal, regional and part of the nuclear safety programmes

¹⁴ Total of commitments following annual financing agreement 2001; the figures presented for each beneficiary country have been rounded.