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

**GENERAL REPORT  
ON PRE-ACCESSION ASSISTANCE  
(PHARE – ISPA – SAPARD)  
IN 2005**

{SEC(2006)1546}

## 1. SUMMARY

This is the sixth report to the European Parliament and the Council covering activities financed by the three pre-accession instruments, Phare, ISPA and SAPARD in 2005. The Report focuses on the coordination between these instruments in accordance with Article 13 of the ‘Council Regulation on the co-ordination of pre-accession assistance’ (EC) No 1266/99<sup>1</sup> (in the following "Coordination Regulation"). In line with the positive accession negotiations in Copenhagen 2002, an increased emphasis was put on creating the administrative capacity required for a successful implementation of the *acquis* and participation in present or future European Community programmes as of membership.

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

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

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

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

The **co-ordination of the three instruments** is ensured by a division of responsibilities between the instruments. A committee at Directorate level ensures co-ordination between the Commission services concerned. A ‘General Assistance Document’ covering all instruments was presented in May 2006 to the Phare Management Committee, the body assisting the Commission in co-ordinating the instruments. At country level, the Commission encouraged the applicant countries to enhance inter-ministerial co-ordination, which is seen as a key pre-condition for the successful future management of the Structural Funds.

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

### 2.1 Commitments and transfer of funds

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

### 2.2 Implementation structures in Candidate countries

Funds from the pre-accession instruments are channelled through the National Fund, established in the Ministry of Finance in each country, under the responsibility of the National

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<sup>1</sup> Published in the OJ L 161, 21.06.1999, p.68

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<sup>2</sup>. For SAPARD, the implementation is carried out by the dedicated SAPARD Agency that receives the funds from the National Fund.

### **2.3 Decentralisation of implementation under Article 12 of the Co-ordination Regulation<sup>3</sup>**

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

For Phare and ISPA, this process was governed in 2005 by the Decentralised Implementation System (DIS), except for Croatia. DIS means that the procedures for managing measures or projects financed by ISPA and Phare require *ex ante* control, i.e. decisions concerning procurement and award of contracts are taken by the contracting authority and referred to the EC Delegation in the beneficiary country for endorsement. Thus the EC Delegations are responsible for endorsing procurement documents before tenders are launched or contracts signed.

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

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

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

Whilst Phare and ISPA continued to be implemented through the DIS in 2005 in Bulgaria and Romania, further progress to move to EDIS on the basis of the Co-ordination Regulation was noted in these countries, with the target set for EDIS accreditation being Summer 2006. For Phare and ISPA, the move to EDIS is done through 4 stages described in the Commission Working document “Preparing for Extended Decentralisation” and the document “Roadmap to EDIS for ISPA and Phare”. The Roadmap sets out the procedural stages leading to an EDIS

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

<sup>3</sup> Article 12 of the Co-ordination Regulation provides the legal basis to “waive the Commission’s *ex ante* approval for project selection, tendering and contracting by applicant countries”

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

decision. Stages 1 to 3 are the responsibility of the Candidate countries and contain a Gap assessment, a Gap Plugging and a Compliance assessment of the management and control systems. Stage 4 is the preparation for Commission decision and is the responsibility of the Commission. This decision is taken following an in depth review, including a verification audit on-the-spot, of the management and control systems as described in the EDIS application submitted to the Commission by the National Authorising Officer.

For more information on EDIS, see Annex 1.2

### **3. MONITORING AND EVALUATION**

#### **3.1 PHARE**

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

In the new Member States, the JMC system is governed by a revised JMC mandate that came into force in May 2004, with the key purpose of further reinforcing the monitoring function of the JMC as well as related reporting obligations to the Commission. Accordingly, in 2005, all new Member States presented to the JMCs their Implementation Status Reports on Phare assistance, which consolidated the findings of monitoring and interim evaluation reports as well as financial reporting. In Bulgaria and Romania, the system of JMC/SMSC has been well established since 2001. In Croatia, the system of JMC/SMSC was pilot-tested in 2005 and the meetings covered decentralised CARDS projects.

The monitoring and interim evaluation system involves successive decentralisation of the responsibilities for monitoring and interim evaluation to the Candidate Countries, in conjunction with the accreditations to DIS and EDIS. In 2005, all new Member States had set up their decentralised monitoring and interim evaluation (IE) functions. In Bulgaria and Romania, whilst the responsibility for monitoring was decentralised in 2001, the IE function remained centralised. As a preparation for decentralising the IE function, both countries started in 2005 to draft their Action Plans on decentralised monitoring and interim evaluation. Croatia started to prepare for decentralisation of monitoring.

In 2005, DG Enlargement centralised IE function generated 27 individual country, sectoral, ad-hoc or thematic reports on Phare support to Bulgaria and Romania. The key messages derived from these reports are the following:

- Objectives are too ambitious/vague/unclear, and require subsequent reformulation to become operational;
- There is insufficient capacity for, and preparation of, multi-annual programming/project fiche design;
- Effectiveness of multi-annual programming is reduced as a result of cumulative implementation delays;
- Sustainability is at risk due to limited institutional absorption capacity as well as lack of progress with public administration reform;

- Phare has had limited effect to date in preparing beneficiaries to the Structural Funds;
- On the whole, effectiveness of Twinnings is satisfactory.

### **3.2 ISPA**

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

Requirements for *ex-post evaluation* are stipulated in Section XIII of the annex to the Financing Memorandum, which is concluded for each project between the Commission and the ISPA beneficiary state. This section states that after the completion of a project, the Commission and the beneficiary countries will evaluate the project's impact and the manner in which the project has been carried out. As no project had been completed by end 2005, no ex-post evaluation was launched in that year.

### **3.3 SAPARD**

Implementation of SAPARD programmes is subject to the provisions of the 'Multi Annual Financing Agreements' in respect of both monitoring and evaluation. In 2004 each of the Monitoring Committees met at least once. The Commission continued working closely with the beneficiary countries on adapting and running the monitoring and evaluation systems. The 14 Monitoring Committee meetings held in 2005 provided a useful opportunity to discuss and decide on: (i) monitoring the implementation of the programmes (ii) approval of modifications necessary regarding the closure of the programme and improving the absorption capacity of the programmes (BG, RO) as well as (iii) approval of the annual reports on progress achieved in relation to the implementation of the Sapard programmes, before their official submission to the Commission.

## **4. CO-ORDINATION**

### **4.1. General**

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

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

The *Phare Management Committee* plays a key role in general co-ordination. According to Article 9 of the Co-ordination Regulation, the Committee should assist the Commission in co-ordinating operations under the 3 instruments and the Commission should inform the Committee about the indicative financial allocations for each country and per pre-accession

instrument about action it has taken as regards co-ordination with the EIB, other Community instruments and IFIs.

#### 4.2 Co-ordination inside the Commission

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

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

The Commission's *Co-ordination Committee* for the 3 pre-accession instruments, set at Directors level, has not officially convened during 2005, although an important number of meetings have taken place notably in view of creation of the new Instrument for Pre-Accession (IPA) and its relevant components.<sup>5</sup>

A General Assistance Document, through which the Commission informed the Phare Management Committee of the co-ordination of pre-accession aid in 2005 and planned assistance for 2006, was presented to Member States at the Phare Management Committee on 19 May 2005. In particular, this document provided the indicative financial allocations for the year for each country in relation to the three instruments, information on co-ordination with EIB and IFIs and about progress and perspectives for decentralised management. A separate annual report on co-ordination of pre-accession assistance provides more detailed information on co-ordination between Phare, ISPA and SAPARD.

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

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<sup>5</sup> Of the proposed 6 external relations instruments that are due to apply in the period 2007-2013, one is the new instrument for pre-accession assistance, IPA. At the junction between external assistance and internal policies, the IPA intends to facilitate the entry into the Union of candidate countries (Turkey, Croatia and former Yugoslav Republic of Macedonia) and potential candidate countries. IPA will be an accession driven instrument, fulfilling all the requirements stemming from the accession process, notably in terms of priorities, monitoring and evaluation. IPA will replace the current pre accession instruments notably: Phare, the scope of which is support for the implementation of the *acquis communautaire* in the form of institution building and related investments, investments in economic and social cohesion and cross-border cooperation; ISPA, which is the precursor of the Cohesion Fund and deals with environment and transport infrastructure; SAPARD, the precursor of Rural Development plans, dealing with Common Agricultural Policy acquis and Rural development; Turkey pre-accession, with the same scope as Phare; CARDS, which covers the Western Balkans.

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

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

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

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

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

The cooperation and co-financing of projects with the EIB and other IFIs, in particular the European Bank for Reconstruction and Development ("EBRD"), the World Bank and the Council of Europe Development Bank ("CEB"; in cooperation with the German Kreditanstalt für Wiederaufbau "KfW"), is organized under the amended Memorandum of Understanding between the European Commission and participating IFIs for the enlargement countries of 20 May 2003.

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

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

The first facility programme was launched in 1999 with the EBRD. The CEB, which implements the programme in co-operation with KfW, and the EIB have joined the Facility programmes in the following years. Since 1999, 23 Facility programmes have been initiated by the Commission.

- 14 SME Finance Facilities comprising in total €323 million of EU incentives and €2,039.25 million of credit lines from the IFIs. As of end-February 2006, €267 million of EU incentives are already earmarked into projects.

- 9 Municipal Finance Facilities comprising a total of €100 million of EU incentives and €500 million of loans from the IFIs. As of end-February 2006 €37.5 million of EU incentives are already earmarked into projects.

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

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

The EIB and the Commission have established a facility at border regions, as requested by the Nice European Council, and as outlined in the Commission Communication on Border Regions of 25 July 2001. The project concentrates on the implementation of small municipal infrastructure in border regions to promote integration with current EU regions: It consists of 2 Municipal Infrastructure programmes comprising a total of €50 million of EU incentives and €250 million of loans from the EIB. This programme is only implemented with the EIB in border regions and is still in the process of implementation.



## 5. FINANCIAL OVERVIEW

Allocations for PHARE, ISPA and SAPARD in 2005 (in € million)

	<b>PHARE<sup>6</sup></b>	<b>SAPARD</b>	<b>ISPA</b>	<b>TOTAL</b>
Bulgaria /Romania Roadmap (plus Kozloduy)	751.0	250.3	500.7	<b>1502.0</b>
Kozloduy Decommissioning	50.0			<b>50.0</b>
Croatia	80.0	NA	25.0	<b>105.0</b>
<b>Total</b>	<b>881.0</b>	<b>250.3</b>	<b>525.7</b>	<b>1653.4</b>

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<sup>6</sup> These amounts indicate the global allocations for each pre-accession instrument and so include national programmes, CBC programmes, the KIDS programme for Nuclear Decommissioning and support expenditure as well as contributions to multi-country programmes, including TAIEX. They represent original allocations and so do not include additional funds for floods allocated to Romania and Bulgaria during the course of the year. These additional amounts were 12.3 MEUR for Bulgaria and 24.6 MEUR for Romania.