



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 4.11.2003
COM(2003) 655 final

REPORT FROM THE COMMISSION

**ANNUAL REPORT OF THE INSTRUMENT FOR STRUCTURAL POLICY FOR
PRE-ACCESSION (ISPA)
2002**

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Foreword

The present report on the implementation of the Instrument for Structural Policy for Pre-Accession (ISPA) for the year 2002 has been compiled in accordance with Article 12 of the ISPA Regulation¹.

The report has been adapted to take account of the comments made by the European Parliament, the Economic and Social Committee and the Committee of the Regions regarding the previous annual reports.

The goals of ISPA

By supporting infrastructure in Community priority fields of transport and environment, ISPA contributes to the preparation of Central and East European applicant countries² for accession in a twofold manner:

- (i) accelerating the improvement up to EU standards of the infrastructure in both sectors, and thereby supporting beneficiary countries to comply with and implement relevant Community legislation, and
- (ii) getting acquainted with EU procedures for the efficient and transparent management of the Cohesion and Structural Funds after accession.

Through ISPA, the Community provides financial assistance to those environmental aspects for which the investment needs are the largest, namely for water supply, wastewater treatment and waste management. In addition, ISPA helps candidate countries to strengthen their capacity to implement key environmental legislation.

As regards transport, ISPA assists the building and rehabilitation of transport infrastructure and its integration into the EU transport networks with a view to enhance economic development in the candidate countries.

Beyond these primary goals, to which yearly € 1 040 million (at 1999 prices) are assigned, the provision of quality utility services with the help of ISPA has contributed to enhancing the standard of living and the social and health conditions of large segments of the population in the acceding and candidate countries.

In order to avoid overlapping with the two other pre-accession instruments PHARE and SAPARD , ISPA focuses on supporting large investments. However, this does not prevent it from funding groups of smaller-scale projects when the constituting projects pursue a same functional, geographic or economic objective.

¹ Council Regulation (EC) 1267/1999 of 21 June 1999

² Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia

Executive summary

The present report is compiled in accordance with Article 12 of the ISPA Regulation (EC) No 1267/1999 and covers the year 2002.

Only a few months ahead of accession, the role of ISPA in preparing the new Member states for the Community cohesion policy appears even more important, in particular because ISPA is to assist the acceding countries in the smooth transition to the Cohesion Fund and to familiarise administrations and beneficiaries with the Commission procedures for structural measures. This is why the report attempts to strike a balance of 3 years of ISPA implementation and focuses, among others, on technical assistance measures, tendering and contracting and audits undertaken.

KEY MESSAGES FOR 2002

Assisting ISPA beneficiary countries in upgrading environmental infrastructure and policy and in strengthening European transport links

Through ISPA, the Community has continued to provide financial assistance to environmental projects that require large infrastructure investments, namely for water supply, wastewater treatment and 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 the transport sector, the role of ISPA is to contribute to the development of the future trans-European transport network and to support the interconnection and interoperability within national networks as well as between these networks and the Union's network. As in previous years, ISPA funds spent in this sector in 2002 focused on upgrading and extending the TINA (Transport Infrastructure Needs Assessment) network.

Since 2000, a total of € 74.3 million for 49 technical assistance measures was made available from ISPA to assist in the preparation of projects and applications, and to enhance the administrative capacity of implementing bodies, including for decentralised implementation. This included 14 new measures approved in 2002 to prepare new projects for 2003 and beyond, that is, for the Cohesion Fund.

In 2002, 80 new projects were decided by the Commission. ISPA funds for these projects amounted to € 1.55 billion representing 64.9% of a total eligible investment cost of € 2.4 billion. With the decisions taken between 2000 and 2002, the Commission approved a total of 249 ISPA measures, amounting to € 8.8 billion of eligible cost, of which the EU is financing € 5.65 billion (64.5%). As a result, the Commission already allocated about 75% of the funds foreseen for the entire period 2000 to 2006 to priority projects in the environment and transport sectors.

Commitments in 2002 were divided equally between the environment and transport sectors, increasing the total commitments for the period 2000-2002 to € 3.2 billion. Since 2000, 49% of the commitments were allotted to environmental projects and 51% to transport projects.

More than half of the commitments in the transport sector were allocated to rail infrastructure, which reflects the Commission's objective to favour environment-friendly transport modes.

With the signing of several works and many services contracts in 2002, effective implementation on the ground has progressed importantly compared to the previous year, notably as a result of the improved capacity of the applicant countries to deal with tendering and contracting.

ISPA payments in 2002 totalled € 388.5 million, which is the double of the payments made in 2001. This shows that considerable progress in implementing ISPA measures has been made compared to the previous year, which is reflected by an increase in the number of second advance and intermediate payments.

Enhancing administrative and institutional capacity for project management and policy implementation

As in previous years, the Commission provided technical assistance through ISPA to enhance the capacity of national bodies with respect to environmental policy implementation and public procurement, as candidate countries still experience difficulties to implement the required standards.

Two multilateral seminars were organised by the Commission on the Water Framework Directive in order to assist candidate countries in drafting new water management policies and in preparing future ISPA and Cohesion Fund projects according to the requirements of this Directive, notably as regards the integrated management of river basins.

Furthermore, a series of seminars were organised to train beneficiary countries' officials in drafting tender documents, evaluating tenders and supervising contracts.

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

Moving towards adequate financial management and control systems

In the framework of shifting from ex-ante control of tendering and contracting by the Commission to decentralised management of procurement by the beneficiary countries (EDIS), all but one country completed the first stage system's 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 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.

ISPA budget in 2002

The budget for the ISPA instrument is provided for by two budget lines, B7-020 and B7-020A. The first line contains the means for co-financing projects (measures) in the candidate countries in the environment and transport domains as well as for providing technical assistance (TA) to identify and prepare the best projects. Measures to assist the candidate countries in moving towards fully decentralised management (EDIS) are funded from this line too. Line B7-020A foresees funding for actions at the Commission's initiative.

For 2002, € 1 109 million was allocated from the Commission budget to the ISPA instrument. Initially, the B7-020 (project) budget line received € 1 089.2 million. This amount was then increased by € 18.25 million, which was transferred from line B7-020A. As a result, € 1 107 million was available to assist projects presented at the initiative of the beneficiary countries. From the original B7-020A budget (€ 19.8 million), € 1.55 million was committed for activities at the Commission's initiative.

Table 1: ISPA budget in 2002

Budget line	Budget commitment appropriations	Commitment appropriations incl. Transfer A to B-7020	Commitment implemented	Payments implemented
B7-020A	19 800 000	1 550 000	1 550 000	4 829 218
B7-020 for projects	1 089 200 000	1 107 450 000	1 107 436 035	393 556 479
Total	1 109 000 000	1 109 000 000	1 108 986 035	389 385 697

Project funding

1. NEW ISPA PROJECTS

In 2002, the Commission adopted 80 new ISPA measures concerning 23 investments in transport infrastructure, 51 in environment infrastructure and 1 for a combined environment/transport investment. Among these projects, the Commission approved 9 new technical assistance (TA) measures for project preparation, 6 of which were for preparing transport projects and 3 for preparing environment projects, whereas 5 new measures related to decentralised implementation.³ As a result, the total ISPA contribution to projects funded in 2002 amounted to € 1.55 billion, representing an average grant rate of 64.9% of the total eligible project cost of € 2.39 billion, the remainder being financed by the applicant countries from national sources at central, regional, and/or local level, as well as by international financial institutions (IFIs).

Table 2: New ISPA project decisions in 2002

	Project decisions n°	Total eligible cost €	ISPA contribution (Decisions) €	Grant rate %	Commitments €
Environment	51	1 150 434 034	768 148 970	66.8	479 558 669
Transport	23	1 200 376 606	747 923 824	62.3	217 086 377
Combined flood relief	1	35 294 118	30 000 000	85.0	24 000 000
EDIS	5	4 187 455	4 187 455	100.0	3 349 964
Total	80	2 390 292 213	1 550 260 239	64.9	723 995 010

Note: Decision amounts reflect the total ISPA contribution awarded to projects, while commitment amounts give the total of what is yearly committed from the budget (2002 in this case).

Commitments in 2002 totalled € 1 107 million and were used for the new projects decided in that year (€ 724 million) and for ongoing projects adopted in the previous years.

2. COMMITMENTS FOR ENVIRONMENT

About 43% of the budgetary commitments in the environment sector for the year 2002 were dedicated to projects combining the provision of drinking water with the collection of sewage water, whereas one third was devoted to projects for sewage collection and treatment systems, focussing essentially on the renewal, repair or extension of sewerage networks and the erection of new or the refurbishment/upgrading of existing wastewater treatment plants. Approximately 4% of funding was assigned to projects in the drinking water sector (supply and/or treatment), whereas some 18.4% benefited to solid waste management projects,

³ TA for decentralised implementation (EDIS) is dealt with in more detail in the chapter "Technical assistance".

consisting primarily of closing down old and creating new landfills, often associated with the introduction of selective waste collection and treatment/recycling systems.

Table 3: Commitments in 2002 – Environment by sub-sector⁴

Sub-Sector	€	%
Drinking water pipes/plant	21 597 600	4.0
Drinking and sewage water	232 339 187	43.0
Drinking water, sewage and solid waste	4 208 000	0.8
Sewage network and treatment plant	182 775 121	33.8
Solid waste collection system	99 408 065	18.4
Total environment sector	540 327 973	100.0

Flood relief project (Combined environment/transport project)

In August 2002, the Western part of the Czech Republic was struck by a flooding which was the worst in the modern history of the regions comprising Bohemia and Prague. The rapid repair of affected transport and environment infrastructure was considered to limit the social and economic effects of the flood damages and to facilitate repairs to be carried out in other sectors. This is why the Czech government and the Commission agreed to redirecting € 24 million of the country's allocation from the 2002 ISPA budget to finance repair and reconstruction works in these sectors.

With regard to *rail transport*, services were interrupted on 23 lines following the flooding. Reopening of these routes require mostly repair works. In *road transport*, damage ranges from the washing away or disturbance of bridges, landslides, undercutting of road edges, cracks in pavements and silting of drainage tunnels.

In environment, especially *wastewater treatment plants* and *sewerage systems* situated in the river basins of Vltava and Labe (Elbe tributaries) have been affected. Most of the electrical installations and electrical/mechanical fittings of 29 plants required repair. In addition, environmental damage has occurred to *civil structures built on the rivers*, such as dams or river banks.

In the light of the exceptional circumstances, the following *particular provisions* apply for this measure:

- The rate of ISPA assistance is increased to 85% ,
- Procurement contracts may be awarded by Negotiated Procedure, where appropriate, in accordance with the provisions of to the PRAG (Practical Guide to PHARE, ISPA and SAPARD contract procedures).
- A single advance payment is made of 40% of the maximum ISPA assistance upon signature of the Financing Memorandum.
- Identification, appraisal and supervision of the projects will be carried out by the beneficiaries' staff and supplemented by technical assistance contracted by the Commission at its initiative.

3. COMMITMENTS FOR TRANSPORT

As in the previous years, ISPA assistance in the transport sector was dedicated to the extension and improvement of the TINA (Transport Infrastructure Needs

⁴ This includes commitments for projects decided in 2002 as well as tranches committed for projects decided in previous years.

Assessment) network, in order to facilitate the connections between the European Union and the candidate countries within the framework of the future trans-European transport network (TEN-T). About 54% of the budgetary commitments in this sector in 2002 benefited to rail projects, involving primarily the rehabilitation and upgrading of existing infrastructure to EU standards. About 46% of the funding was assigned to road projects including new construction and upgrading to meet EU capacity and safety standards.

Table 4: Commitments in 2002 – Transport by sub-sector⁵

Sub-Sector	€	%
Road	246 597 624	45.7
Rail	283 974 857	52.7
Rail and road	7 360 000	1.4
Inland Waterway	1 200 000	0.2
Total transport sector	539 132 481	100.0

4. PROJECTS FUNDED DURING 2000-2002

Between 2000 and 2002, the European Commission adopted a total of 249 projects on the basis of proposals submitted by the candidate countries. Of these projects, 151 concern the environment sector (including one flood relief project), 87 the transport sector and 10 TA measures for achieving decentralised implementation. These interventions correspond to a total eligible investment cost of € 8.76 billion, of which € 5.65 billion or 64.5% is being financed by the EU from its B7-020 budget line. As a result, the Commission has allocated in the first three years of ISPA more than 75% of the funds set aside for ISPA for the period 2000 to 2006.

Table 5: Project decisions in 2000-2002

	Project decisions n°	Total eligible cost €	ISPA contribution €	Grant rate %	Commitments €
Environment	151	3 771 856 246	2 436 450 902	64.6	1 577 081 520
Transport	87	4 939 923 010	3 173 861 304	64.3	1 606 028 037
Combined Flood relief	1	35 294 118	30 000 000	85.0	24 000 000
EDIS	10	8 015 537	8 015 537	100.0	7 038 046
Total	249	8 755 088 911	5 648 327 743	64.5	3 214 147 603

First completed transport project (Lithuania)

During the year 2002, the first ISPA transport measure was completed. The measure constituted the first phase of a three phase road project to run until 2006 and aimed at upgrading the Lithuanian section of the pan-European IXB Helsinki-Crete Transport Corridor between Vilnius and Klaipeda. Phases 2 and 3 of the upgrading will comprise works to be implemented during 2003-2004 and 2005-

⁵ This includes commitments for projects decided in 2002 as well as tranches committed for projects decided in previous years.

2006 and are expected to benefit from Community assistance as well. The Lithuanian Corridor section, which constitutes the second priority of the National Transport Development Programme, requires

- an increase of the design strength of the pavement to EU standards, in particular to support axle loads of 11.5 tons,
- strengthening and widening of 87 km of existing motorway,
- pavement strengthening of the two carriageway road over its entire ca. 300 km, and
- implementation of traffic safety measures (barriers and illuminating equipment).

Built in the Communist era to facilitate access to the then military port of Klaipeda, the Lithuanian section represented a relatively high standard of road construction for the time and circumstances. However, the road is not adequate for modern requirements, which results in a rapidly deteriorating surface, damaging the vehicles using it and requiring frequent repair. In addition, the section between Vilnius and Kaunas (95 km) has narrow carriageways and limited or no hard shoulders, so it will be improved at the same time. As the road is the only realistic route between the three major cities (Vilnius, Kaunas and Klaipeda), the improvements as such are not expected to lead to an increase in traffic. However, it is expected that wear and tear of vehicles as well as maintenance costs will be considerably reduced, while the Vilnius-Kaunas section will see a slight increase in average speeds.

The completed first phase of the upgrading of the section, namely 37.2 km of widening and strengthening and 135 km of strengthening only, received ISPA assistance in 2000 amounting to € 19.56 million (75% of the eligible investment cost), the remainder being financed by the Lithuanian Road Fund. Planning and design of the required works were started early 1999 and completed mid 2000, whereas the construction works commenced in Spring 2001 and were terminated end 2002.

5. PAYMENTS

Payments for each ISPA project consist of two advance payments of 10% each of the ISPA contribution -one upon signature of the Financing Memorandum and the other after the signature of the first works contract- as well of intermediate payments up to 80% (90% in exceptional circumstances) of the contribution, the balance being released after approval of the final project report. As a result, payments in 2002 comprised:

- first advance payments for projects adopted in 2002 and in 2001,
- second advance payments for projects adopted in 2001 and in 2000, and
- intermediate reimbursements for expenditure incurred on projects adopted in 2001 and in 2000.

Most of the first advance payments are made in the year following the year of the ISPA decision to grant assistance, because the bulk of the ISPA measures are decided in the autumn of each year and account has to be taken of a time-lag for the authorities of the beneficiary countries to countersign these decisions. This is illustrated by the fact that, for projects decided in 2002, payments accounted for only 8% of the corresponding commitments, whereas for projects decided in 2000 they accounted for more than 30% of the corresponding commitments.

In contrast with this, overall ISPA payments (including for decentralisation) totalled € 388.5 million in 2002, which is the double of the payments made in 2001 (€ 197 million). This confirms that significant progress in implementing ISPA

measures has been achieved in 2002, which is reflected by the substantial number of second advance payments and the growing number of intermediate payments.

Table 6: Payments in 2002 (€)

	Projects committed in 2000	Projects committed in 2001	Projects committed in 2002	Total
Environment	16 742 170	69 779 026	22 871 154	109 392 350
Flood relief			12 000 000	12 000 000
Transport	108 205 157	139 968 628	23 060 009	265 234 787
EDIS		812 421	1 116 920	1 929 341
Total	124 947 327	204 561 075	59 048 076	388 556 478

Table 7: Project payments scale (2000-2002)

First Commission signature year	N° of projects	No payments or less than 10%	1 st advance	2 nd advance	Interim	Amount paid €
2000	75	4	42	11	18	301 837 918
2001	94	1	77	3	13	229 819 803
2002	80	56	18	2	4	59 048 076
Total	249	61	137	16	35	590 705 797

Why are there time lags in procurement ?

As for any infrastructure project, the essential element determining the lead time needed to launch the tendering of the works and indeed the works themselves is the quality of the preparation of the project. The better the project in all its constituents has been prepared -comprising the technical concept, feasibility studies and design, surveys and impact studies, consultation of the public and authorities concerned, permissions and licences, financial set-up, preparation of tender documents, etc.-, the quicker and the easier the contracts can be let. It is clear, however, that experience in this respect cannot be gained overnight and has to be built up progressively. Therefore, and in particular for the early ISPA projects and for the more complex environment projects, ISPA decisions contain in some cases conditions requiring additional surveys and investigations.

Provision has to be made too for the requirement for the Commission endorsing the tendering and contracting process and related documents for both services and works. This necessitates additional time for consulting the EC Delegations. Furthermore, and in particular for more complex construction works, recourse is often made to tenders according to performance-based 'Plant, design and build' FIDIC⁶ contract conditions, which require more time for the bidders to prepare the detailed design.

In these circumstances, it is not surprising that the time needed for tendering and contracting works can increase to 15 months (up to 6 months for services plus up to 9 months for works) from the date of the decision, not taking into account the time needed to draft or review the tender documents nor the time-lag -however reduced it may be- between the ISPA decision and the counter signature by the candidate country nor, in the event, of any time lost by a cancellation of the procurement procedure or of one of its components.

⁶ International Federation of Consulting Engineers. Being widely used for international contracting, FIDIC conditions of contract are also used for ISPA works contracts

Table 8: Projects decided in 2002 (€)

Sector	No of projects	Total cost	Total eligible cost	Total ISPA contribution	Commitment 2002	Payments 2002
Environment						
Solid waste collection system	11	267.597.427	251.484.771	165.264.705	99.061.852	1.100.482
Drinking water pipes/ plant	3	91.061.178	83.681.949	59.050.264	21.597.600	-
Drinking and Sewage water	17	547.332.566	516.052.158	359.893.353	248.439.016	13.236.597
Sewage network/ treatment plant	19	312.086.394	288.720.156	178.680.648	106.252.201	8.534.075
Drinking, sewage water and solid waste	1	16.036.100	10.520.000	5.260.000	4.208.000	-
Sector Total	51	1.234.103.665	1.150.434.034	768.148.970	479.558.669	22.871.154
Flooding relief	1	35.294.118	35.294.118	30.000.000	24.000.000	12.000.000
Transport						
Road	10	461.206.484	229.713.469	290.878.871	91.995.424	300.000
Rail	10	806.924.680	756.463.137	446.394.943	116.570.953	22.760.002
Road and rail	2	12.200.000	12.200.000	9.150.000	7.320.000	-
Inland waterway	1	2.000.000	2.000.000	1.500.000	1.200.000	
Sector Total	23	1.282.331.164	1.200.326.606	747.923.894	217.086.377	23.060.002
EDIS						
EDIS	5	4.187.455	4.187.455	4.187.455	3.349.964	1.116.920
TOTAL	80	1.555.916.402	2.390.292.213	1.550.260.239	723.995.010	59.283.076

Table 9: Projects decided during 2000-2002 (€)

Sub-Sector	No of projects	Total cost	Total eligible Cost	Total ISPA contribution	Commitments 2002	Payments 2002	Commitments 2000-2	Payments 2000-2
Environment								
Drinking water pipes/ plant	6	107.009.354	97.685.776	66.232.194	21.597.600	256.108	27.343.244	718.193
Drinking and sewage water	42	1.537.544.362	1.450.224.515	932.954.955	232.339.187	53.978.734	543.374.575	63.361.371
Solid waste collection system	34	653.715.866	589.641.247	387.015.713	99.408.065	23.733.833	280.506.596	26.130.387
Sewage network/ treatment plant	64	1.739.042.591	1.604989.208	1.030.891.790	182.775.121	82.772.354	709.689.205	97.904.891
Drinking, sewage water and solid Waste	5	34.831.200	29.325.000	29.356.250	4.208.000	2.619.103	16.167.500	3.713.114
Sector Total	151	4.072.223.273	3.771.856.246	2.436.450.902	540.327.973	165.756.686	1.577.081.520	189.431.402
Flooding relief	1	35.294.118	35.294.118	30.000.000	24.000.000	12.000.000	24.000.000	12.000.000
Transport								
Rail	41	2.934.446.802	2.750.959.763	1.656.142.514	283.974.857	141.183.310	267.683.307	207556716
Road	40	2.246.089.548	2.034.048.112	1.451.870.790	246.597.624	116.045.269	785.626.330	174.084.996
Road and rail	4	18.280.000	18.280.000	14.348.000	7.360.000	639.766	11.518.400	659.766
Airport	1	148.756.000	135.135.135	50.000.000	-	-	40.000.000	5.000.000
Inland waterway	1	2.000.000	2.000.000	1.500.000	1.200.000	-	1.200.000	-
Sector total	87	5.349.572.350	4.939.923.010	3.173.861.304	539.132.481	257.868.345	1.606.028.037	387.301.477
EDIS								
EDIS	10	8.015.537	8.015.537	8.015.537	3.975.580	1.814.275	7.038.096	1.972.917
TOTAL	249	9.465.005.278	8.755.088.911	5.648.327.793	1.107.936.034	425.439.306	3.219.197.603	590.705.797

Technical assistance

6. FORMS AND DELIVERY OF TECHNICAL ASSISTANCE

The recourse to technical assistance measures under ISPA remains an essential element for ensuring successful programming and implementation. Whereas in general TA under ISPA focuses on project preparation, project implementation and accompanying institutional strengthening, recently the need arose to address as well problems linked to the structural (re)organisation of certain utilities, thereby enhancing sustainability of project implementation.

Two types of TA activities can be distinguished: (1) those that are directly related to project funding, i.e. project identification/preparation and decentralisation and which are financed from budget line B 7-020 and (2) those that are carried out at the initiative of the Commission -mostly let via framework contracts- and which are funded from budget line B 7-020A. For the activities of the first strand, the ceilings of the ISPA contribution are usually those applicable to project funding, whereas the cost of the activities of the second strand are entirely borne by ISPA. (*Note*: these activities do not encompass the TA and works supervision components which form part of each individual ISPA project measure and which contribute to strengthening the implementing and operational capacities of the final beneficiary). The next table summarizes these different delivery mechanisms.

Additionally, the implementation of ISPA measures benefits directly and indirectly from TA and other forms of assistance that are provided in the framework of other Community instruments and policies, in particular through PHARE (Strands 'Institutional building and public administration reform' and 'Moving to Structural Funds').

Table 10: Delivery of capacity building

	TA measure (Budget line B7-020)	TA at the initiative of the Commission (Budget line B7-020A)	TA and works supervision in project measures
Project preparation	Preparation of project pipeline and applications for ISPA and Cohesion Fund	Framework contracts for technical, financial and legal advisory services, project appraisal and PPP set-up	
Project implementation	Assistance to implementing agencies on implementation issues (training, expert advise)	Advice and training on tendering & contracting, PPP, other advisory services Assistance to EC Delegations (ISPA project and task managers)	Elaboration of works tender documents Technical surveys Works supervision Capacity building at final beneficiary level
Project monitoring		Assistance to ISPA Monitoring Committees and EC Delegations	Supervision engineer liaising with final beneficiary
Horizontal policy		Joint training programmes on key policy issues (e.g. EIA, WFD,...) Policy studies (e.g. Via Baltica)	
Sector reform	Strengthening of water companies (e.g. Slovakia, Romania)	Sector studies PPP studies	Strengthening of final beneficiary

7. PROJECT-RELATED TECHNICAL ASSISTANCE

Project preparation

In 2002, the Commission decided on 10 TA measures for project preparation representing a total eligible cost of € 35.1 million. Several of these measures included the restructuring of the local utility (final beneficiary) up to modern standards in terms of management and operation which is a pre-condition for considering possible ISPA funding. The total number of TA measures for project preparation approved since 2000 now stands at 39, representing a total eligible cost of € 74.3 million of which ISPA contributed 66%.

TA measures for project preparation are to ensure that quality projects -particularly in terms of preparation, management and operation- are presented to the Commission for ISPA funding. In addition, these measures should facilitate the development of a quality project pipeline which is a warrant for the Commission to identify and receive a sufficient number of suitable projects in time. Disposing of a strong project pipeline is not only essential for ISPA, but also for the Cohesion Fund, in particular as regards those ISPA beneficiary countries that will join the EU in 2004. It is worth

noting that several candidate countries are already using ISPA TA funds to finance preparatory studies for projects that will be submitted for funding from the Cohesion Fund in the future.

Decentralisation

The importance of EDIS (Extended Decentralised Implementation System)

The setting up of satisfactory financial management and control systems for ISPA is a significant step in the preparation for future Cohesion Fund and Structural Funds management. This is given a further dimension by the procedure envisaged for the candidate countries to move toward an “extended decentralised implementation system” (EDIS) for ISPA, under which the Commission can waive the current requirement for ex-ante approval of the tendering and contracting of projects which is exercised by the EC Delegations in the beneficiary countries. The conferral of EDIS is subject to a benchmarking exercise whereby the Commission verifies compliance with specific conditions and criteria which relate principally to sound financial management and control, encompassing effective internal control, an independent audit function, an effective accounting and financial reporting system, adequate staffing arrangements and respect of the principle of separation of functions.

A “Roadmap to EDIS for ISPA and PHARE” drawn up in 2001 contains details of the 4 procedural stages leading to EDIS: gap assessment / gap filling / compliance assessment and /accreditation. As regards achieving EDIS under ISPA, technical assistance is available for the first 3 stages of the Roadmap.

Whilst the candidate countries are strongly encouraged to move towards EDIS and are supported by the Commission in this process, it should be recalled that they remain in any event responsible for the setting up of adequate management and financial control systems by virtue of article 9(1) of the ISPA Regulation.

During 2002, the Commission has continued to support progress for the different stages of the Roadmap for EDIS. It has provided technical assistance funding to the remaining 5 candidate countries to enable them to contract outside experts for the “gap assessment”, “gap filling”, and “compliance assessment” phases, as well as giving feedback and advice where appropriate on the results of each stage. Further guidance was provided on the Compliance Assessment Report to ensure high quality audit work and presentation of the audit results according to a common format, which will facilitate the Commission’s task in stage 4. The Commission also recommended that, as soon as an implementing agency and related bodies concerned with the management of ISPA are ready, a separate application for EDIS should be made. Also, in order to speed up the verification under stage 4, a partial application for the National Fund in advance of a complete EDIS application for an implementing agency, was presented as a possibility.

By the end of 2002, decisions to grant technical assistance support totalling about € 8 million had been taken for all the candidate countries, whereas for all but one country the report on the first stage gap assessment had been submitted to the Commission. In the case of one country (Estonia), the Compliance Assessment Report of the third stage was received in December 2002, accompanied by a formal application for EDIS, confirming that the minimum criteria and conditions stipulated for granting EDIS had been met.

Table 11: Project-related technical assistance measures 2000-2002 (€)

Technical assistance sub-sector	No of projects	Total cost	Total eligible cost	Total ISPA contribution	Commitments 2002	Payments 2002	Commitments 2000-2	Payments 2000-2
Environment								
Drinking, sewage water and solid waste	4	18.795.000	18.795.000	14.096.250	-	3.311.113	11.959.500	3.713.114
Drinking water pipes/plant	1	380.000	380.000	285.000	-	-	228.000	28.500
Sewage network/treatment plant	4	5.746.200	5.646.200	4.234.650	-	928.365	3.387.720	1.243.830
Drinking and sewage water	5	6.121.760	6.121.760	4.591.320	2.434.764	678.792	4.007.820	878.556
Sector total	14	31.042.960	30.942.960	23.207.220	2.434.764	4.927.271	19.583.040	5.864.000
Transport								
Rail	12	30.675.091	29.715.091	17.221.318	4.131.000	2.106.552	14.299.818	2.718.711
Road	8	13.218.333	13.278.333	20.012.519	18.995.272	1.289.635	35.208.490	1.494.635
Road and rail	4	18.280.000	18.280.000	14.348.000	7.360.000	639.766	11.518.400	659.766
Inland waterway	1	2.000.000	2.000.000	1.500.000	1.200.000	-	1.200.000	-
Sector total	25	65.173.424	63.213.929	43.081.837	18.1495.272	4.035.953	35.708.490	4.873.112
EDIS								
EDIS	10	8.015.537	8.015.537	8.015.537	3.975.580	1.929.341	7.038.046	1.972.917
TOTAL	49	103.991.921	102.931.921	70.419.613	20.604.616	10.752.584	58.690.576	12.710.029

8. TECHNICAL ASSISTANCE AT THE INITIATIVE OF THE COMMISSION

For the year 2002, the allocation for this strand of technical assistance amounted to € 19.8 million, of which the Commission committed € 1.55 million for activities to be launched in the same year (essentially for reinforcing Delegations, see below). As in previous years, the funds that were not committed (€ 18.25 million) were transferred from budget line B7-020A to budget line B7-020 and thus made available for project funding.

Most of the activities carried out in 2002 at the initiative of the Commission were undertaken in the framework of the “TA Action Programme 2001” which comprises activities which are spread over a period of three years, with disbursements foreseen until end of 2004. As a pre-commitment of € 12 million for this action programme was already entered into the 2001 budget, individual legal commitments are concluded over the three years period ending 2003. The priorities addressed through this Action Programme cover the following areas:

- improve the quality of project selection, preparation and appraisal,
- facilitate project implementation,
- launch and assist the decentralisation process,
- elaborate on financial engineering, and
- strengthen information and communication.

As regards the activities carried out under the Programme during 2002, these were the following:

Support for Monitoring Committees

According to Article 11 (2) of the Co-ordination Regulation⁷ governing the co-ordination of pre-accession aid, expenditure related to monitoring shall be eligible for assistance from the Community budget. Consequently, the Commission concluded Financing Memoranda with the national authorities in ISPA Beneficiary countries to provide financial assistance for certain organisational expenditures of Monitoring Committees. Eligible expenditures include interpretation and translation, leasing of rooms, necessary electronic equipment, travel expenditure for participants coming from outside the location of scheduled meetings, support for the elaboration of monitoring guidelines, and other expenditures necessary for ensuring the smooth operation of the ISPA Monitoring Committees.

Supplementary support to EC Delegations

Under the TA Action Programme, resources were made available for small-scale technical assistance (SSTA) and short-term expertise managed by the Heads of Delegations. This technical assistance serves to assist the Commission services with

⁷ Council Regulation (EC)1266/99 of 21 June 1999 on co-ordinating aid to the applicant countries in the framework of the pre-accession strategy

extra muros support for a broad range of technical expertise including verification of tender documents, supervision of tendering and evaluation procedures, contract preparation, supervision and control of implementation, ad-hoc and small-scale training of the implementing authorities in the beneficiary countries, and country specific information/communication activities related to ISPA.

Framework contract for public-private partnership

A public-private partnership (PPP) advisory contract was concluded in 2001 which enables, on a case by case basis, to mobilise appropriate human resources and expertise for assisting in the identification, appraisal, implementation and monitoring of PPP-projects.

Under this contract, various activities were undertaken, including a series of missions to ISPA beneficiary countries to appraise and advise on PPP structures. Moreover, the consultant was charged to prepare “Guidelines for successful public-private-partnerships”. These guidelines are a practical tool to assist public officials, financial institutions and the private sector in structuring PPP schemes while integrating grant financing. They do not attempt to provide a complete methodology or to define current or future policy but are to be regarded as a guide to the identification and development of key issues affecting the development of successful PPP schemes.

To discuss the draft guidelines in a wider forum, DG Regional Policy organised a workshop in July 2002 with Member States, candidate countries, EIB, EBRD and other Commission services concerned. Meanwhile, the guidelines were published in March 2003 and appropriate dissemination seminars were organised in Prague (for the Czech Republic and Slovakia), Warsaw (for the Baltic States and Poland), Budapest (for Hungary and Slovenia) and Sofia (for Bulgaria and Romania).

Public-private partnership

Recent years have seen a marked increase in co-operation between the public and private sectors for the development and operation of infrastructure for a wide range of economic activities. Such public-private partnership (PPP) arrangements were driven by limitations in public funds to cover investment needs, by efforts to increase the quality and efficiency of public services and by the ability to speed up infrastructure development. In this context, four principal roles for the private sector in PPP schemes can be identified, namely the provision of additional capital, of alternative management and implementation skills, of value added to the consumer and the public at large, and of better identification of needs and optimal use of resources.

The positive characteristics of PPP arrangements in developing infrastructure appear particularly attractive for the candidate countries, given the important financing requirements, the need for efficient public services, growing market stability and privatisation trends creating a favourable environment for private investment. For these reasons, the efforts of the accession countries to reform and upgrade infrastructure and services could potentially benefit from these partnership arrangements.

However, while the partnerships can present a number of advantages for the public sector to exploit, it must be remembered that they are also complex to design, implement and manage. Therefore, they are by no means the only or preferred option and should only be considered if it can be demonstrated that they will achieve additional value compared to other approaches, if there is an effective implementation structure and if the objectives of all parties can be met within the partnership. Accordingly, PPP arrangements come in many forms and are still an evolving concept which must be adapted to the individual needs and characteristics of each project and project partners. Furthermore, successful PPPs require an effective legislative and control framework to be in place, the absence of which constitutes a risk that contractual PPP arrangements are either not concluded in a transparent and fair manner, or biased in favour of the private partner or give rise to conflicts between the partners that cannot be properly arbitrated.

In the framework of ISPA, the Commission has expressed its willingness to assist in the development and implementation of PPP projects and use ISPA grants to leverage such arrangements. However, it has also a particular interest in PPPs because these partnerships impose constraints on projects, given the Commission's overriding requirements to protect the public interest and to integrate grant financing while also respecting EU and, in the event, candidate countries' legislation. It follows, that when the Commission assesses an ISPA project that is embedding a PPP structure, it will, in the same way as the project designer should do, pay particular attention to

- ensuring open market access and fair competition,
- protecting the public interest and maximising value added,
- defining the optimal level of grant financing both to realise a viable and sustainable project but also to avoid any opportunity for windfall profits from the grant, and
- assessing the proposed PPP on its effectiveness.

Seminars and training sessions

ISPA Partner Meeting

In January 2002, DG Regional Policy invited beneficiary countries' national authorities responsible for ISPA to an "ISPA Partner Meeting" to take stock of the experience gained during the first two years of ISPA and to define near-term priorities for ISPA programming and implementation, and in particular as regards financial management and control.

Water Framework Directive Seminars

Together with DG Environment, DG Regional Policy organised two multilateral seminars, one for the northern ISPA beneficiary countries in Riga in April 2002 and one in Prague in May 2002 for the southern countries. The seminars aimed at bringing together national ISPA experts and officials of the water sector responsible for implementing the relevant Community *acquis* in order to discuss the possibilities for using ISPA funds -and upon accession, funds from the Cohesion Fund- for preparatory work required by the newly adopted Water Framework Directive. Accordingly, the seminars focussed on the ways and means to link the approach of integrated river basin management required by the Directive to the allocation of ISPA funds for the improvement the water quality in the candidate countries.

FIDIC Seminars

In 2002, a series of special FIDIC seminars of two days each were contracted to a consulting firm. The purpose of these seminars was, *inter alia*, to provide assistance for the drafting of tender document using FIDIC conditions of contract for “Plant, design and build” contracts and the Commission’s PRAG procurement rules⁸, as well as for tender evaluation and contract supervision. The seminars took place in Warsaw (for the Baltic States and Poland), Bucharest (for Romania and Bulgaria) and Budapest (for the remaining beneficiary countries). The seminars, which were assisted and supervised by the staff of DG Regional Policy, were complementary to the training activities that DG Regional Policy carried out previously in candidate countries with its own staff.

Information/communication

In the context of the expertise contracted by DG Regional Policy for communication activities relating to the EU cohesion policy, ISPA part-financed this expertise from its TA funds for activities related to ISPA. This included the preparation of printed material, project summaries and topical papers as well as web-site updates.

IT Contracts

Similar to the communication activities, ISPA TA funds part-financed DG Regional Policy’s expenditures for the development and maintenance of its computer-based information tools for financial management and control.

In addition to the above activities under the “TA Action Programme 2001”, the following activities started up in 2000 were continued in 2002:

Local technical assistance (i.e. de-concentrated activities in favour of EC Delegations)

Under the TA measures started in 2000 for reinforcing EC Delegations, resources were made available to recruit additional technical staff and to cover related

⁸ Practical Guide to PHARE, ISPA & SAPARD Contract Procedures. The PRAG respects the same four fundamentals on which the relevant EU procurement directives were built, namely: *transparency, equal treatment, non-discrimination and proportionality*. It was recently revised to comply with the new Financial Regulation. The reviewed version is applicable from 1st June 2003.

administrative costs (€ 7 million). These resources were initially planned to cover a period of 3 years. However, due to a change in the rules on the management of BA lines in 2002, requiring the Commission to conclude legal commitments in the same year as the year of the budgetary commitment, the commitment of € 7 million under the 2000 budget could no longer be used to sign new contracts for ALATs/Local agents and related overhead costs in 2002. Consequently, a fresh commitment of € 1.55 million had to be entered into the 2002 budget, whereas the unused amounts of the 2000 and 2002 commitments will be de-committed in 2003.

The de-concentrated activities will last until April 2004 for the 8 ISPA beneficiary countries that will accede in 2004 and beyond that date for Bulgaria and Romania. So far, more than 40 specialised technical staff were recruited to reinforce the Delegations' implementation, procurement and supervision capacity.

Framework contracts for specific technical tasks

Two framework contracts with international consulting firms were signed in 2000 and funds committed from the 2000 Community budget. In addition, a contract with the European Investment Bank (EIB) was entered into in 2000, securing access to the expertise of the Bank's technical staff for a duration of six years. These framework contracts are ongoing.

Table 12 : Budgetary allocation and payments for the TA Action Programme 2001

Activity	Type of contract/ beneficiary	Indicative allocation (€)	Allocated in 2001 (€)	Allocated in 2002 (€)	Allocations 2001-2002 (€)	Payments authorised in 2002 (€)
<i>Implementation</i>		5 000 000			5 592 500	
Monitoring Committee	Grant financing NIC/NAO		1 000 000			375 000
Supplementary support to ECD (SSTA)	Sub-delegation/ EC Delegations		3 500 000			613 493
Supplementary support to ECD (SSTA)	Sub-delegation/ ECD			92 500		
Supplementary support to ECD. (SSTA)	Sub-delegation/ ECD					
<i>Quality Improvement</i>		2 150 000			222 113	
Strategic analysis of the Via Baltica	Contract/ under tendering					
Improvement of public service	Grant financing					
ISPA Partner Meeting 2002	bon de commande			94 060		94 060
Riga WFD Seminar	bon de commande			35 160		34 516
Prague WFD Seminar	bon de commande			50 231		50 231
FIDIC Seminars	Contract/ European Construction Ventures			42 662		12 500
ISPA Partner Meeting 2003	bon de commande					
Training Public Procurement	Contract/ under tendering					
<i>Decentralisation</i>		800 000				
<i>Financial Engineering</i>		3 100 000			3 100 000	
Public-private partnership	Multiple framework-contract/Parsons &Brinckerof Cowi, Agriconsulting Deloitte & Touche		3 100 000			215 612
<i>Information/Communication</i>		950 000			324 517	
Information activities	4 Contracts Aeidl, European Dynamics, OPOCE (2)			181 017		
IT System	5 Contracts Intrasoft (2), Serco, EC_Doc (2)			143 500		
Total Action Programme		12 000 000				
TOTAL			7 600 000	639 130	9 239 1309	1 395 412

**Table 13: Budgetary allocation and payments for TA outside the TA Action Programme
2001**

Company	Type of contract	Area	Committed amount 2000 (€)	Committed amount 2002 (€)	Payments in 2002 (€)	Total Payments 2000-2002 (€)
10 EC Delegations	Sub-delegation	Recruitment of personnel	7 000 000		1 834 405	2 268 337
10 EC Delegations	Sub-delegation	Recruitment of personnel		1 550 000	1 064 383	1 064 383
Kampsax	Framework	Transport	2 000 000		177 405	493 716
Brown & Root	Framework	Transport				
Tractebel	Framework	Environment	2 000 000		305 325	621 343
Halcrow	Framework	Environment				
EIB	Framework	Project appraisal	210 000		33 000	63 000
TA for EIA seminars*	Contract	Environment	45 956		4 627	35 172
TA for environmental guidelines*	Contract	Environment	47 831		23 915	47 831
		TOTAL	11 303 787	1 550 000	3433 806	4 593 782

(*) These activities were carried out in previous years, however payments (recoveries) were still made in 2002.

Management and implementation

9. PROJECT MONITORING

Overall monitoring and evaluation of the progress and effectiveness of the implementation is supported by regular meetings in the EC Delegation offices, monitoring reports by the implementing bodies, site visits by Commission staff and formal monitoring through the twice yearly ISPA Monitoring Committee meetings in each beneficiary country.

The key finding of the Committee meetings of 2002 is that, on average a clear improvement has taken place in moving from the approval stage of projects to effective implementation. This demonstrates that the various actions of the Commission in support of the programming and implementing authorities in the beneficiary countries is progressively bearing its fruits.

However, a series of weaknesses have been identified as well, namely:

- some applicant countries still need to allocate additional financial and human resources for the planning, preparation and management of ISPA measures, in particular in the environment sector,
- qualification of staff is not always in proportion to the skills required to manage the complexity of major infrastructure projects, in particular as tendering and contracting is concerned,
- as regards tendering and contracting, the insufficient quality of the tender documents is often a major reason of delaying the procurement process, especially for works contracts,
- in a few cases, contracts were to be re-launched.

Within the remit of the Commission's responsibilities, the staff of the Delegations of the Commission in the candidate countries plays an important role in supervising the daily management, implementation and monitoring of ISPA measures. Apart from exerting the Commission powers for endorsing tendering and contracting, it is best placed to ensure progress on the ground and liaise with national authorities and final beneficiaries on any problem that may arise.

Enhancing institutional capacity

Since the beginning of ISPA, TA activities at the initiative of the Commission have been concentrated importantly on enhancing the candidate countries' capacity to prepare, appraise and implement ISPA projects in accordance with the high standards required for the management of Community funds. The experience of 2002 suggests that these activities need to be continued and to focus on strengthening institutional capacity in a number priority areas. As a result, new TA activities, at the initiative of the Commission in the framework of the 2001 Action Programme will be implemented in 2003. One of the priority areas in this respect concerns the *strengthening of public procurement systems and procedure* to which € 1.75 million will be allocated. This activity will provide for training on specific procurement issues as well as for the preparation of practical tools (guides) to carry out tendering and contracting in accordance with national law harmonized according to EC standards (e.g. standard clauses for contracts, standardised templates, guidance documents for national implementing bodies tailored to the particular conditions in each country). This should lead to better drafted tender documents, to more consistent contracts, as well as to a more professional management and supervision of works during the implementation phase. As the national conditions differ, the activity will include individual lots for each country.

10. FINANCIAL MANAGEMENT AND CONTROL

Under ISPA, the principal requirements for both financial management and control and the treatment of irregularities follow closely those applicable to the Cohesion Fund and the Structural Funds. The key elements relate to internal financial controls which ensure the accuracy of declared expenditure, adequate internal audit capability, a sufficient audit trail and appropriate treatment of irregularities.

In 2002, the Commission completed the audit work started the previous year by carrying out a second cycle of systems audits in the ISPA countries to assess the adequacy of the systems established for management of ISPA funds and their compliance with the Community requirements in accordance with the provisions of the ISPA Regulation and of Annex III of the Financing Memoranda, as applicable under the regime of ex-ante control by the Commission. By following up on previous audits and completing the coverage of the implementing bodies and systems, it was assured that the candidate countries were fully aware of the standards applicable for managing Community funds and it was verified that the key elements of the management and control systems were in place. Recommendations were made for the correction of outstanding deficiencies within a set time where these were identified, whereas audits aimed at providing reasonable assurance on the legality and regularity of expenditure made in the beneficiary countries will be started up in the course of 2003 together with a further follow up on the previous actions. In collaboration with OLAF⁹, guidance has been provided on the treatment of irregularities to ensure a clear understanding of the procedures which should be applied. In this respect also, sharing the concern of the Parliament to reinforce the conditions to combat fraud and irregularities which are already foreseen in Annex III.4 of the Financing Memorandum, the Commission has revised this annex in 2002 to align it more closely with the provisions of the Commission Regulation (EC) No. 1386/2002 of 29 July 2002 laying down detailed rules as regards the management and control system for assistance granted from the Cohesion Fund and the procedure for making financial corrections to such assistance. After having consulted the ISPA

⁹ The European Anti-Fraud Office

Management Committee, the Commission requested the beneficiary countries to adopt the proposed revision of the Financing Memoranda. With these modifications being effectively introduced in 2003, the Commission will again facilitate the transition from ISPA to the Cohesion and Structural Funds upon accession.

Furthermore, the Commission completed in 2002 the cycle of seminars - which included a workshop devoted to financial control issues- organised in the candidate countries to assist them in preparation for setting up the systems and procedures for future financial management and control of the Cohesion and Structural Funds. Further advice and information has been provided on a formal and informal basis to the authorities responsible in the candidate countries, e.g. on setting up a management information system by proposing an example of a database.

11. COURT OF AUDITORS REPORT ON ISPA

Early 2002, the Court of Auditors has assessed the effectiveness of PHARE and ISPA aid to the environment sector in the Candidate Countries. This was the Court's second audit of ISPA, the findings of which can be summarised as follows:

Major positive observations

- the efforts undertaken not to set all grants at the ceiling of 75% and to seek alternative financial sources,
- hence, the establishment of effective co-operation with the major lending institutions, the availability of ISPA funds enabling Banks and IFIs to finance projects which would otherwise not have gone ahead,
- the increased focus on institutional building ensuring that environment are implemented more effectively and efficiently,
- the high level of work put in to generate income for projects,
- the acknowledgement of the potential of public-private partnerships, enabling further funding to be found in the private sector to lower ISPA grant levels and broaden the project base.

Requirements for improvement (the position of the Commission is put in brackets)

- the majority of candidate countries did not have fully functioning structures for managing ISPA which was reflected by the poor quality of some of the national ISPA strategies. (Since 2000, various initiatives were taken by the Commission to strengthen the administrative capacities also for project preparation and the development of sound financing strategies),
- contracting of ISPA measures was considerably delayed in comparison to the timetables set out in the Financing Memoranda. (The preparation of quality tender documents requires a high level of expertise which can only be built up gradually in the beneficiary countries),
- due to the institutional weaknesses, candidate countries have faced problems relating to the project cycle management and in preparing projects of an

adequate standard. (Since the beginning of ISPA, various initiatives -such as framework contracts for project appraisal with the EIB and specialised consulting firms as well as the provision of TA for project preparation- were taken to overcome these weaknesses the acceleration of payments demonstrates that these efforts bear fruit).

12. CO-FINANCING PARTNERS - EIB AND EBRD

As in previous years, the EIB and the EBRD remained the privileged partners for providing loan financing to ISPA projects in 2002. Given their expertise in project preparation and implementation, the Commission regularly met these lending institutions, both at horizontal level to co-ordinate policy and methodological issues related to programming and implementation, and at country level. The Banks' specialist skills in structuring grant/loan combinations of funding, including public-private partnership arrangements, continued to be useful in preparing projects supported by ISPA. Where possible, joint project identification and appraisal missions were organised for projects for which loan financing was sought. Representatives from the Banks have participated at the meetings of the ISPA Management Committee and, when appropriate, of the ISPA Monitoring Committees. The Commission also collaborated with them for the preparation of the PPP Guidelines.

Within the framework contract concluded with *EIB*, the Bank has provided specific technical input to the appraisal of a number of ISPA projects. The significant volume of co-financing with the EIB in most of the candidate countries and in both the environment and transport sectors is illustrated in the following table:

Table 14: Projects co-financed by the EIB in 2002

Country	Transport Projects	Environmental Projects
Czech Republic	- Optimisation of Zabreh Namorave – Krasikov railway section	None
Estonia	- TA for transport sector: project preparation and management - E20 Tallinn-Narva road: reconstruction Kukruse-Jõhvi	- Valga water and sewerage network
Hungary	- Rehabilitation of Budapest Lokoshaza railway - Road rehabilitation programme: phase 2 trunk roads	- North-East of Pest County: municipal solid waste collection system - Homokhatsag: regional communal solid waste collection system - West-Batalon and Zala valley: regional solid waste collection system - South-Batalon and Sio valley: regional municipal solid waste collection system
Poland	- Roads infrastructure construction of 16 bypasses, total length 130km, located along roads of national and international importance. - Urban highway between Katowice and Gliwice	None
Romania	None	- Satu Mare water treatment and supply, sewerage and WWTP - Buzau water supply, sewerage and WWTP - Piatra Neamt water supply, sewerage and WWTP
Slovakia	- Modernisation of rail track Raca - Senkvice - Motorway project D61	None

As regards the *EBRD*, the Bank can lend directly to municipalities and utility companies without a sovereign guarantee which adds an element of flexibility to the co-operation with ISPA. However, the number of jointly funded projects with the EBRD differing greatly from sector to sector, from country to country and from year to year, there have been substantially less jointly funded projects in 2002 than in the previous years.

Table 15: Projects co-financed by the EBRD in 2002

Country	Transport Projects	Environmental Projects
Lithuania	IXB Rail - structures and sector 5	None
Romania	None	- Sibiu water treatment, sewerage and WWTP - Brasov water supply, treatment and sewerage

Contribution to Community Policies

13. ENVIRONMENTAL POLICY ISSUES

In the context of pre-accession assistance, all new investments should comply with the EU environmental *acquis*. This includes respect of the existing legislation in two fields of particular importance to ISPA, namely the field of nature conservation (Natura 2000¹⁰), governed by the Habitats¹¹ and Wild Birds¹² Directives, and the field of surface water quality management, governed by the Urban wastewater treatment Directive¹³. Candidate countries are in the process of preparing their lists of sites and areas of Community importance required by these Directives. These lists are to be submitted to the Commission by the date of accession. Until then, when no such sites or areas have been officially proposed or designated, an interim regime applies which is detailed hereunder for each of the two fields concerned.

Nature conservation

During the interim period, control of respect of the Habitats and Birds Directives is made on the basis of an interpretation of what should be considered as an “environmentally sensitive area” in the absence of national lists. Important bird areas are, besides areas of importance under international conventions (Ramsar, Bern) and nationally protected areas, clearly one category of sites, which are obvious candidates for the future Natura 2000 network. This interpretation was made to avoid areas of importance for nature conservation, likely to become part of the network, being affected by development projects executed without respect of provisions included in the relevant Directives. The interpretation also applies when the Commission assesses (transport) projects co-financed by ISPA. Control of the location is primarily made by the national competent authorities for nature conservation, declarations of which concerning the sensitivity of the area and the potential environmental impact of the project are to be included in the ISPA application and being controlled by the Commission’s services. Besides, the Commission can also use the relevant and scientific-based information already available. In the case of respect of the Wild Birds Directive, the list of important bird areas (IBA) elaborated by BirdLife International is considered as a valid document for checking and control these areas.

Surface water quality management

The ISPA beneficiary countries are currently transposing the Urban wastewater treatment Directive and, concomitantly, designating their sensitive areas. Certain countries have already declared the totality of their territory as sensitive according to the terms of the Directive (Estonia, Latvia, Lithuania, Poland, Slovakia and the Czech Republic), whereas others have also established their list of sensitive areas

¹⁰ The Community network for nature conservation policy

¹¹ Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora.

¹² Council Directive 79/409/EEC of 2 April 1979 on the conservation of wild birds.

¹³ Council Directive 91/271/EEC of 21 May 1991 concerning urban wastewater treatment

(Hungary and Slovenia). However, in the absence of a formal designation of the sensitive areas, the Commission applies a case-by-case approach which takes account, on the hand, of existing scientific data concerning the risk of eutrophication of the receiving maritime waters of the river basins concerned (and recognised in the framework of international conventions which have been signed by these countries: Helcom for the Baltic sea, Oskar for the North sea, Barcelona for the Mediterranean sea, Danube and Black sea Conventions for the Black sea) and, on the other hand, of the location and characteristics of the ISPA projects. In practice, this means the following:

- for projects situated in a river basin on the Baltic sea, tertiary treatment (for the treatment of nitrogen and phosphorus) is required for all agglomerations of more than 10 000 population-equivalent. If, for reasons of economic and financial viability, tertiary treatment is to be built in a later phase, the ISPA assisted infrastructure has to be conceived in such a manner so as to avoid excessive additional costs when it is being upgraded, by making provision in advance for the land, the hydraulic connections to the future extension of the plant, etc. The same approach applies to projects situated in a river basin on the Adriatic sea concerning a small part of Slovenia;
- for projects situated in a river basin on the Black sea, is required, as a rule, to have at the minimum secondary treatment, enabling upgrading to tertiary treatment without excessive costs, such as described above, at a later stage.

Water Framework Directive

The EU Water Framework Directive¹⁴ establishes clear environmental objectives that will have considerable long-term implications for all waters. For the first time, the Directive sets ecological criteria for water quality, requires the development of water pricing policies that ensure that the polluter pays and provides for an integrated management on the basis of river basins –the natural geographical and hydrological unit- rather than on administrative or political boundaries. For each river basin district - some of which will traverse national frontiers - a "river basin management plan" will need to be established and updated every six years, and this will provide the context for the a series of co-ordination requirements including on cross-border co-operation. The implementation of the Directive relies on the participation of all stakeholders, including NGOs and local communities, who are to form partnerships to guide and ensure effective and coherent implementation. This process is supported through a common implementation strategy which is to assist stakeholders in the stepwise achievement of the Directive's ambitious goal of waters meeting "good status" by 2015. Candidate countries are associated in this process and acceding countries in particular will have to have their national and regional water laws adapted to the Directive upon accession. For this reason, ISPA is already promoting the river basin management approach through the grouping of projects, for example.

¹⁴ Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy.

Revision of the ISPA application

ISPA application forms were revised, in particular to accommodate the difficulties that candidate countries experienced in complying with the provisions of the EIA Directive¹⁵.

The new forms now include more details concerning the kind of information that should be submitted for those projects subject to a full EIA. Although continuous checks are still necessary, this guidance should help applicants to meet the specific requirements set out by the EIA procedure, namely in terms of the information to be included in the non-technical summary and the consultations with the competent environmental authorities and the public.

The new version of the application forms has also been updated as regards nature protection and Natura 2000, with a view to substantiate statements required from the environmental authorities.

14. TRANSPORT POLICY: FROM TINA TOWARDS TEN-T

The agreed transport networks in the East and Central European candidate countries in accordance with TINA (Transport Infrastructure Needs Assessment) are constructed around the framework of the Pan-European Corridors. These begin or end, with one exception (Corridor VI), within the territory of the EU-15 and include branches running across the territory of all candidate countries except Cyprus and Malta, for which, as islands, the network focus is on sea routes, ports and airports. These networks are already being used as the planning basis for the national transport strategies for ISPA purposes -and will be for future Cohesion Fund purposes as well- thereby fulfilling the same core function in the candidate countries' National Development Plans, which are the programming tool for the use of Structural funds from 2004 onwards.

In 2002, bilateral meetings between the Commission services and the accession countries continued in order finalise the alignment of the future TEN-T (Trans-European transport network) networks, taking into account the principles laid down in the Commission's White Paper on Transport of October 2001¹⁶. The relevant maps were submitted by the candidate countries to the Council which adopted them in November 2002 and form part of the Accession Treaties signed in April 2003 which amended the TEN-T Guidelines¹⁷ to accommodate the extension of the TEN-T network to the acceding countries. As a consequence, upon accession in May 2004, the new Member States will not be dependent on the progress of the overall revision of the TEN-T Guidelines but will be immediately eligible for Community funding, in particular for TEN-T funds and the Cohesion Fund.

¹⁵ Council Directive 97/11/EC of 3 March 1997 amending Directive 85/337/EEC of 27 June 1985 on the assessment of the effects of certain public and private projects on the environment.

¹⁶ COM(2001)0370 "European transport policy for 2010 : time to decide".

¹⁷ Decision 1692/96/EC.

From ISPA to the Cohesion Fund

As the set-up of ISPA has been closely based on the Cohesion Fund, these instruments share a large number of common features such as a project-based approach, high rates of assistance, a focus on transport and environment, the whole territory of a Member state, indicative allocations per country, and similar project applications, appraisal and monitoring procedures. Therefore, it is expected that, from a procedural point of view, transition from one instrument to the other should be relatively straightforward.

For the acceding ISPA beneficiary countries, ISPA will cease end 2003 and Cohesion Fund will apply as from 2004 onwards, implying that ongoing ISPA projects will be completed under Cohesion Fund rules –unless otherwise foreseen- and be considered as Cohesion Fund projects. As a result, ISPA commitments distributed over the period 2004-2006 for projects decided before 2004 will become Cohesion Fund commitments.

However, under the Cohesion Fund, the yearly allocations¹⁸ will rise to € 2.8 billion -or € 38 per capita- per year for the period 2004-2006 compared to €1.04 billion -or € 11 per capita- under ISPA so far. Whilst it is true that a substantial part of the increased budget can be accounted for by commitments to known projects –i.e. decided ISPA projects and projects to be approved under ISPA in 2003-, additional efforts are required from the acceding ISPA beneficiary countries to identify and prepare new investments in order to create a project pipeline which enables the effective absorption of the Cohesion Fund budget. Similar efforts are needed by Bulgaria and Romania which, although not acceding in 2004, will also benefit from additional ISPA allocations following the December 2002 Copenhagen European Council.

15. PUBLIC PROCUREMENT

The fulfilment of legal requirements for sound, fair and transparent public procurement as enshrined in the PRAG manual has been one of the most difficult problems in the implementation of pre-accession aid. Ensuring compliance with EC procurement principles is leading in many cases to delays in the implementation of ISPA projects, as Commission services –especially the EC Delegations- have to intervene frequently, not only checking that procedures have been correctly applied but also rectifying errors, liaising with dissatisfied bidders, and explaining to implementing agencies how procedures should work. Regularly, the quality of the tender documents needs to be enhanced, evaluation of the bids to be repeated, while sometimes –the worst cases– tenders need to be cancelled and re-launched.

At present, implementation of ISPA is governed by the ex-ante approval of the tendering and contracting of projects: local recipients and final beneficiaries are in the role of Contracting Authority responsible for the project implementation whereas the Commission must endorse each step during the procurement process. It follows that, although the Commission is not a contracting partner, it bears shared responsibility for the procedural correctness of the procurement process (without the Commission's approval, contracts concluded between beneficiaries and contractors are not valid). This responsibility is entrusted to the EC Delegations in the beneficiary countries.

¹⁸ 1999 prices

Enhancing the administrative capacity for procurement

The correct and balanced application of procurement rules and procedures requires trained and experienced staff both with the Contracting Authorities and in the Delegations endorsing the documents. Starting in 2001, Delegations reinforced their capacity for endorsement by recruiting specialised staff paid from the ISPA budget whereas expertise in national authorities has gradually been build up through ISPA funded training measures in which Delegations' procuring staff usually participated as well. As a result, the quality of the tender documents has improved and the time needed for endorsement has been shortened.

The various initiatives undertaken since the beginning of ISPA by DG Regional Policy -either by itself or by contracted experts- to strengthen the procurement capacity in the candidate countries are the following:

One-day seminars on major aspects of the PRAG procurement rules in all candidate countries. The training was provided by DG Regional Policy experts and addressed to local implementing bodies and final beneficiaries.

Seminars and training courses by the EC Delegations at their initiative and by DG Regional Policy, paid from ISPA TA budgets. These seminars were addressed to various implementing bodies and to final beneficiaries, and focused on specific and urgent needs, e.g. on tender evaluation issues.

Regular meetings on procurement issues, held in Brussels, of DG Regional Policy with Delegations' staff responsible for ISPA implementation.

A series of specialised FIDIC seminars (two days each) contracted with a consulting firm in 2002. Main topics concerned the drafting of tender documents using FIDIC conditions of contract for "Plant, design and build" contracts and PRAG procurement rules, as well as the evaluation of tenders and the supervision of contracts.

ISPA TA funds for the Delegations for the recruitment of experts (engineers, procurement experts). At present, more than 40 of such experts are employed in the Delegations. Furthermore, TA funds were set aside for Delegations to contract short-term expertise for assistance during the evaluation process (e.g. independent evaluation observers) or to organise specialised training seminars.

Co-ordination among pre-accession instruments

As required by the Coordination Regulation¹⁹, the Commission ensures close co-ordination among the three pre-accession instruments, PHARE, SAPARD and ISPA. In line with the provisions of this Regulation, the PHARE Management Committee plays a special role in general co-ordination of the three pre-accession instruments.

Co-ordination with the (PHARE) Joint Monitoring Committee

The Joint Monitoring Committee is responsible for co-ordinating the monitoring of each pre-accession instrument and for assessing the overall progress of EU-funded assistance in the beneficiary countries. The Committee issues recommendations to the ISPA Committee or to the Commission when relevant.

Co-ordination within the Commission

Within the Commission, an inter-services Co-ordination Committee, including representatives from all relevant Commission services (DGs Enlargement, Agriculture, Regional Policy, Budget, Health and Consumer Protection, Legal Service) has met regularly during 2002. The agenda for the meetings in 2002 and early 2003 included financial control and management, stock-taking on moves towards EDIS, issues related to the transition towards the Cohesion and Structural Funds, procurement issues implications of the new Financial Regulation which came into force in January 2003²⁰, and allocations of pre-accession funds for Bulgaria and Romania post-2003.

Co-ordination with EC Delegations

Periodic meetings were organised by the Commission services (DGs Enlargement, External Relations and Regional Policy) with the experts in the Delegations responsible for Phare and ISPA to discuss programming and implementation issues, in particular those related to tendering and contracting.

¹⁹ Council Regulation (EC)N° 1266/1999 of 21 June 1999 on co-ordinating aid to the applicant countries in the framework of the pre-accession strategy.

²⁰ Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities

Communication Activities

The Commission services continued to participate in the *NGOs²¹ Dialogue project* which was started in mid-1999. The dialogue consists of meetings between Commission officials (predominantly from DG Environment) and representatives of environmental NGOs from Member States and candidate countries. Its objectives are to inform the NGOs of the enlargement process and to enable them to present their opinions on this process to the Commission. The dialogue meetings are organised and facilitated by the Regional Environmental Centre for Central and Eastern Europe (REC), which is partly funded by the Commission. The meetings held in 2002 focussed on the implementation of ISPA with particular attention to the transition to the Cohesion Fund and to post-accession.

The *website* was updated regularly with information sheets on projects signed by the Commission, new versions of the Financing Memoranda's annexes, new brochures on ISPA progress, and documentation on the ISPA Partner meeting.

Early in 2002, a *brochure* was published containing key information on ISPA projects and events in 2001. The brochure constituted a complement to the ISPA Annual Report of 2001.

Specific brochures were produced providing information about the state of play regarding ISPA in the different beneficiary countries.

In February 2002, a major *press conference* was held to brief journalists on the progress achieved during the first two years of ISPA programming and implementation. The conference was broadcasted by Europe by Satellite (EbS).

ISPA presence was ensured at the European Business Summit at the information stand of DG Enlargement. For this purpose, a *brochure* "Ispa and Business opportunities" was edited in order to inform the business community about ISPA funded projects and relating contract opportunities. The brochure was also disseminated in the different European Info Points in the Member States.

²¹ Non-Governmental Organisations

Country profiles

This chapter provides useful information on a country by country basis.

16. BULGARIA

In 2002, Bulgaria received a total ISPA commitment allocation of € 103.9 million. This was divided between the transport and environment sectors - € 52 million and € 51.9 million respectively. Technical assistance measures (preparation for EDIS) accounted for € 0.7 million of these commitments. The allocation for Bulgaria represented 9.44 % of the overall ISPA budget in 2002.

Programming

The Minister of Finance took over the role of National ISPA Co-ordinator during 2002 from the Minister for Regional Development and Public Works. The Ministry of Finance now manages all three pre-accession instruments through a newly created directorate. An ISPA co-ordination unit has been set up within this directorate.

A total of 6 environmental investment projects and 1 transport investment project were approved for funding by ISPA in 2002. In addition, one TA measure relating to the financing of the first stages of the EDIS exercise was approved.

The infrastructure projects approved were as follows:

- Ljulín Motorway: new construction of 19 km section of motorway on the main road corridor south from Sofia in the direction of Greece and the Former Yugoslav Republic of Macedonia.
- Construction of new wastewater treatment plants and associated investments in the sewerage systems in Sevlíevo, Montana, Popovo, Targoviste, Lovech and Bourgas.

Up to the end of 2002, total payments of ISPA grant in favour of projects in Bulgaria amounted to € 34.9 million representing the first instalments of the advances on approved projects. In 2002, payments amounted to € 19.2 million.

Implementation

Progress continued to be made during 2002 in preparing for the launch of tendering and contracting of ISPA projects. In the transport sector tenders were successfully concluded on the Sofia Airport redevelopment project (works contract signed December), and the technical assistance measure for the recruitment of the design consultants for the Danube Bridge project (contract signed in November 2002). In addition, a number of small technical assistance contracts were let to help the contracting authorities in the tendering process and general project preparation. In the environment sector works tenders were launched in 2002 for two major projects.

Monitoring and Evaluation

The ISPA Monitoring Committee met in Sofia in April and November 2002. Attention was drawn in the meetings to the slow progress in implementing ISPA projects and the limited capacities of some of the implementing agencies. The Commission stressed that the recommendations of audits carried out during the year would need to be carefully followed up.

EDIS

Progress has been made in planning for EDIS with the adoption in 2002 of a “concept paper” outlining the strategy and timetable. This was drawn up by the Ministry of Finance with the help of SIGMA²². The plan as outlined in the paper was to achieve EDIS for both PHARE and ISPA by the end of 2004. In addition, the Bulgarian authorities have set up a high-level working group of key ministries concerned with ISPA to review progress and ensure inter-ministerial co-ordination.

ISPA technical assistance to finance the first 3 stages of EDIS (gap assessment, gap plugging and compliance assessment) was approved in 2002 for a total of € 892 000.

Financial Management and Control

Further to the audit undertaken late 2001 by DG Regional Policy of the financial management and control systems of the ISPA implementing agencies, main findings were sent to the Bulgarian authorities early in 2002 together with recommendations on improvements needed to meet the requirements of Article 9 of the ISPA Regulation. A follow-up audit was carried out in October 2002.

²² « Support for Improvement in Government and Management in Central and Eastern European countries », a joint OECD/EU initiative.

17. CZECH REPUBLIC

In 2002, commitments amounting to € 80.5 million were made to the Czech Republic, which represented 7.26 % of the annual ISPA budget. Approximately € 31 million was committed to environment projects, € 25 million to transport projects and € 24 million to flooding relief (see below). In addition, a further € 136 000 was committed to support the introduction of EDIS for ISPA.

Programming

The main focus of the regular programming exercise in 2002 was on re-balancing the transport and environment sectors, which had as its consequence that 3 of the 4 new projects adopted in the course of the year were in the environmental sector.

A particular feature of the environment projects, which concentrated as in previous years on the waste water sector, was the increased recourse made to the grouping of projects. As the main needs in this area in the Czech Republic are in the smaller and medium-sized agglomerations, the Commission has encouraged applications which group together a number of agglomerations which are located on the same river basin and therefore can contribute as part of an overall approach to the reduction of pollution levels in these basins. Two grouped schemes approved in 2002 focus on the Dyje and Beca river basins.

One large scale rail transport project, which is part of the TINA network, was adopted in 2002.

The programming exercise was significantly marked by the major flooding which affected the Czech Republic, along with neighbouring countries, in August 2002. Following high-level discussions with the Czech authorities, € 24 million ISPA support from the 2002 budget (plus € 6 million from 2003) were allocated to reconstruction measures in transport and environment, as part of the Commission's overall response to the emergency.

Implementation

As regards tendering and contracting, a total of 4 services contracts for design, supervision and technical assistance in the transport sector were signed in 2002, as well as 5 works contracts (3 in the transport sector and 2 in the environment sector). In general the Commission is concerned at the length of time elapsing between project approval and the start of construction.

Technical assistance granted from the 2000 ISPA budget aimed at preparing new applications was not utilised by the Czech Republic in 2002. This measure elapsed in December 2002, which was the end date of the measure.

Implementation of the ISPA flood relief support was a success story in 2002. Emergency tendering procedures, in line with the Commission's rules, were applicable for this measure and by the end of the year a significant number of the sub-projects had been completed, particularly in the transport sector.

Monitoring and Evaluation

Two monitoring committee meetings were held in 2002, in Ostrava and Prague respectively. The Commission has paid close attention during these meetings to the progress in tendering and contracting procedures in order to identify cases where projects potentially might not commence within two years of adoption and to propose remedial action where necessary.

Co-financing with IFIs

The railway project adopted was also the subject of an EIB loan. Cooperation with the Bank was particularly intensified with a view to co-financing of new projects in 2003 and the preparation of Structural and Cohesion Funds for the period after enlargement. Regular contacts were also maintained with EBRD with a view to possible co-financing of future ISPA projects.

EDIS

Stage I of the EDIS road map (Gap assessment) was completed in the course of 2002, but delays occurred in the commencement of Stages II and III, with the result that the original objective of completing EDIS by the end of 2002 proved unattainable. The Commission will monitor implementation of its technical assistance in this field closely in the course of 2003 in order to ensure that the Czech Republic is effectively able to manage EU funds from the Structural and Cohesion Funds under fully decentralised arrangements after enlargement.

Financial Management and Control

An audit to assess the adequacy of the financial management and control systems and to provide recommendations was carried out by DG Regional Policy in November 2002. As regards the systems in place at the National Fund and Implementing Agencies, the audit did not disclose any material shortcomings with regard to compliance with the key applicable provisions, subject to the implementation of the internal audit activities and the finalisation of the division of tasks and responsibilities in the environment sector.

18. ESTONIA

In 2002, Estonia received a total ISPA commitment allocation of € 30.4 million. This was divided between the transport and environment sectors - € 9.7 million and € 14.3 million respectively. TA measures for transport accounted for € 6.3 million. In addition, one TA measure concerned the preparation for EDIS for which € 87 000 was committed. The allocation for Estonia represented 2.74% of the overall ISPA budget in 2002.

Programming

In the environment sector, 4 investment projects were approved whereas the transport sector accounted for one investment project and two TA measures. Throughout the period 2000-2002, 13 environment projects -including two TA measures- and 7 transport projects -including 4 TA measures- were approved, as well as one TA measure for EDIS.

Implementation

As regards tendering and contracting, a total of 4 services contracts for design, supervision and technical assistance were signed in 2002 (1 in the transport sector, 1 in the environment sector and 2 for EDIS), as well as 2 works contracts (both in the environment sector).

Monitoring and Evaluation

The Monitoring Committee met in April and October 2002.

Co-financing with IFIs

Of the measures approved in 2002, one transport project, one TA measure in the transport sector and one project in the environment sector involve EIB financing. Since the start of ISPA, loan-financing by IFIs complemented some € 74 million of ISPA assistance, representing 61 % of the sum of ISPA grants decided. Besides enhancing the leverage of ISPA grants, the EIB, the Nordic Banks (NIB, NEFCO) and Nordic environmental protection agencies also play a substantial role in the provision of technical expertise to help prepare high quality ISPA applications.

EDIS

Estonia is well advanced in the EDIS process. In 2002, stages I to III of the Road Map to EDIS have been tendered, contracted and carried out. Subsequently, in December 2002, the National Authorising Officer has submitted a request for extended decentralisation under Article 12 of the ISPA Regulation.

Financial Management and Control

The main findings of the 2001 audit mission were sent to the Estonian authorities early in 2002 together with recommendations on the improvements needed to meet the requirements of Article 9 of the ISPA Regulation. A follow-up audit was carried out in July 2002 to assess the bodies not covered previously and to audit project expenditure where implementation has started. Again, the Estonian authorities were informed about the main findings and recommendations.

19. HUNGARY

In 2002, Hungary received a total commitment allocation of € 94.1 million. Of this, € 44.6 million was assigned to transport projects and € 49.1 million to environment projects. Commitments for technical assistance measures in both sectors accounted for € 432 000. The overall allocation for Hungary represented 8.50% of the total ISPA budget for the year.

Programming and Implementation

In 2002, 4 environment projects and 3 projects transport projects -including one TA measure- were approved. During the period 2000-2002, 19 environment projects -of which 4 TA measures were- and 10 transport projects -of which 4 again for technical assistance- were approved.

As regards tendering and contracting, a total of 13 services contracts for design, supervision and technical assistance were signed in 2002 (1 in the transport and 12 in the environment sector, mainly for project and tender preparation) as well as 3 works contracts in the transport sector.

By end 2002, payments made amounted to € 48.5 million.

Monitoring and Evaluation

The Monitoring Committee met in April and October 2002.

Co-financing with IFIs

All projects are co-financed by the European Investment Bank.

EDIS

The stage I -Gap Assessment was carried out by the Hungarian Government Control Office and its results were sent to the Commission in March 2002.

The stage II -Gap plugging was completed mid-March 2003. The submission to the Commission of the results of the stage III -'Compliance assessment' is planned for July 2003.

Financial Management and Control

The main findings of the audit by DG Regional Policy of the financial management and control systems of the ISPA Implementing Agencies were sent to the Hungarian authorities early 2002 together with recommendations on how to meet the requirements of Article 9 of the ISPA Regulation.

20. LATVIA

In 2002, Latvia received a total commitment allocation of € 46.5 million in ISPA assistance. Of this, € 31.2 million was assigned to transport projects, while € 15.3 million went to environment projects. The overall allocation for Latvia consisted of 4.20% of the total ISPA budget for the year.

Programming

In 2002, 2 environment projects, 2 transport projects and one technical assistance measure concerning the preparation of EDIS were approved. Throughout the period 2000-2002, a total of 21 projects were approved: 10 for environment, 10 for transport and one for EDIS.

The 'Via Baltica Road -Gauja-Lilaste' and a technical assistance project in the rail sector were completed in 2002. Several tenders for transport and environment measures were published in the same year.

While the whole of the available ISPA allocation was committed in 2002, payments made by the end of 2002 amounted to € 28 million, representing first and second advances as well as interim payments, and one final payment.

Implementation

As regards tendering and contracting, a total of 4 services contracts for design, supervision and technical assistance were signed in 2002 (2 in the transport and 2 in the environment sector).

Monitoring and Evaluation

Two ISPA Monitoring Committee meetings were held, one in April and one in October 2002. Attention was drawn to the slow progress in implementing projects, especially as regards tendering and contracting, and to the limited administrative capacity of the implementing agencies. As a result, the necessary steps were taken to reinforce the structures of the implementing agencies.

Co-financing with IFIs

So far, all approved environmental infrastructure measures are co-financed with IFIs: 5 measures with the EIB, 4 measures with the NIB, 5 measures with the NEFCO, one measure with the EBRD and one measure with the World Bank. In the transport sector, the EIB, the EBRD and the World Bank provide parallel co-financing for the ISPA projects.

EDIS

The first stage 'gap assessment' of EDIS was completed late 2002. The second stage 'gap plugging' started in April 2003. The target date for the implementation of EDIS for ISPA is end 2003.

Financial Management and Control

The main findings of the audit of the financial management and control systems were sent in April 2002 to the Latvian authorities with recommendations on improvements necessary to fulfil the criteria set out in Article 9 of the ISPA Regulation.

21. LITHUANIA

In 2002, Lithuania received a total commitment allocation of € 61.1 million. This was divided between the transport and environment sectors as follows: € 28.5 million and € 32.6 million respectively. The allocation for Lithuania represented 5.52% of the overall ISPA budget in 2002.

Programming

In the environment sector, regarding water and waste water improvements, an approach by river catchment/drainage area has been adopted and the first project applications prepared in this context were received in 2002.

In 2002, a total of 11 projects were approved. In addition, amendments were adopted for two environmental projects and the date extended for the transport TA measure. As a result, a total of 15 environment projects, 9 transport projects and 1 TA for EDIS were approved for funding by ISPA between 2000 and 2002.

The ISPA contribution to projects in 2002 was fully committed and payments made up to the end of the year amounted to € 53.23 million, representing the first advances on projects approved in 2000 and 2001 as well as second advances and intermediate payments for most of the transport projects and for one environment project (Rehabilitation and Extension of Water Supply and Sewage Collection Systems in Vilnius - Stages 1 and 2). Lithuania has achieved among the highest ratio of payments to commitments of the candidate countries.

Implementation

As regards tendering and contracting, a total of 16 services contracts for design, supervision and technical assistance were signed in 2002 (3 in the transport and 13 in the environment sector) as well as 6 works contracts (4 in the transport sector and 2 in the environment sector).

Monitoring and Evaluation

ISPA Monitoring Committee meetings were held in April and October 2002.

Co-financing with IFIs

The major rail project Corridor IXB Rail – Structures and Sector 5 – is co-financed with the EBRD. For other projects, Lithuania is moving towards self-financing or market loans since the sovereign guarantee often required by IFIs is considered incompatible with the policy on overall indebtedness of the country.

EDIS

Preparation for EDIS continued steadily and Lithuania is expected to be the second country to move into stage 3 ‘compliance assessment’ of the EDIS road map.

Financial Management and Control

The main findings of the audit of the financial management and control systems of the ISPA implementing agencies were sent to the Lithuanian authorities early in 2002 with recommendations on improvements needed to meet the requirements of Article 9 of the ISPA Regulation. A follow up of this audit will be carried out during 2003.

22. POLAND

In 2002, Poland received a commitment total of € 362.8 million. Of this, € 177.5 million was assigned to environment projects, while € 177.7 million went to transport projects. Technical assistance measures received € 10.8 million. One EDIS project was also funded in 2002, receiving € 0.3 million. The overall allocation for Poland consisted of 32.8% of the total ISPA budget for the year.

Programming

A total of 13 environment projects and 7 transport projects were approved for ISPA funding in 2002, including 4 transport project TA measures.

For transport, the focus remained on large scale projects on the major routes and particular effort was made to successfully achieve an appropriate balance between road and rail projects. Three road projects were approved: the upgrading of National Road No 50 Section: Grójec – Minsk Mazowieckie and two Technical Assistance measures, one for the A4 Motorway Krzywowa-Zgorzelec and one for the A2 Motorway Strykow-Konotopa. Four rail projects were approved: two Technical Assistance measures for the E75 Rail Baltica Warsaw-Trakiszki and for the remaining works on rail corridor II, the Siedlce-Terespol railway line, and the E30 railway line Weglinec-Zgorzelec/Dolna. With the approval of these projects the rail share has now reached 49% of the total of the transport allocation.

In the environment sector, ISPA funding in 2002 drinking water and waste water treatment accounted for the largest number of projects and received the largest allocation of assistance. As in previous years, assistance continued to be targeted on the largest population centres but there is a tendency towards also including smaller centres. The projects approved included combined drinking water and waste water projects in, Szczecin, (by major modification of an existing first phase), Opole, , Jelenia Gora and Czestochowa, a drinking water supply project in Elblag, waste water projects in , Brzeg, , Boleslawiec, Ruda Slaska, Lublin, Wloclawek and Mielec and finally two solid waste projects in Kalisz and Radom.

Implementation

While the preparation and approval of projects has been proceeding reasonably well - particularly for environment projects-, implementation in both sectors has been slow. However, there were strong signs of acceleration in implementation in the latter part of 2002 with an increasing number of works contracts approved. . The main reason for the slow progress of implementation has been the lack of experience of the Polish contracting authorities with tendering and contracting procedures. This was addressed with technical assistance measures over time which and this was beginning to show positive results in 2002.

Monitoring and Evaluation

ISPA Monitoring Committee meetings were held in April and October 2002.

Co-financing with IFIs

Active co-operation with the IFIs concerning the environment sector continued in 2002. The Commission has noticed that the beneficiaries engage in negotiations with the IFIs but do not finalise lending agreements until a grant from ISPA has been approved.

EDIS

Preparation for EDIS progressed satisfactorily and it is expected that Poland will reach stage 3 'compliance assessment' of the EDIS road map in the course of 2003.

Financial Management and Control

Further to the audit undertaken in 2001 by DG Regional Policy of the financial management and control systems of the ISPA implementing agencies, the main findings together with recommendations on improvements needed to meet the requirements of Article 9 of the ISPA Regulation were sent to the Polish authorities early in 2002. A follow-up audit was carried out in October 2002.

23. ROMANIA

In 2002, Romania received a total commitment of € 256.6 million of ISPA assistance. Of the 2002 allocation, € 124.4 million was assigned to transport projects and € 132.1 went to environment projects. Commitments for technical assistance measures in both sectors accounted for € 3.7 million. In addition, a commitment of € 0.484 million was made with respect to a measure to strengthen the implementation capacity of ISPA implementing agencies. The allocation for Romania represented 23.17% of the overall ISPA budget in 2002.

Programming

A total of 8 new projects were approved in 2002 for both sectors.

In the environment sector, 7 projects were approved, including one technical assistance measure. Five projects concern the combined investment in the drinking and wastewater sectors in the cities of Brasov, Satu Mare, Buzau, Sibiu and Piatra Neamt, whereas one project relates to the management of the solid waste system of the city of Ramnicu Valcea. The technical assistance measure is providing support for the preparation of ISPA applications in the cities of Baia Mare, Botosani, Drobeta, Galati, Deva and Hunedoara.

In the environment sector, the TA component relating to works supervision and project management of projects approved in 2002 was in general greater than for the projects approved before as no internationally supported investment had taken place previously in the water and wastewater utilities of the selected cities, unlike for previously approved projects.

One technical assistance measure was approved in the transport sector for the preparation of a project improving the navigability of the Danube river.

Additionally, within the framework of EDIS, a technical assistance measure was approved to reinforce the implementation capacity of the Ministry of Finance.

Implementation

In 2002, the Commission provided appropriate technical assistance to the Ministry of Public Works, Transport and Housing and the Ministry of Waters and Environment Protection which are the line ministries acting as Implementing agencies, in order to ensure effective project management and implementation in line with EU requirements for tendering, contracting, monitoring and financial control.

As regards tendering and contracting, a total of 9 services contracts for design, supervision and technical assistance were signed in 2002 (1 in the transport sector and 8 in the environment sector), as well as 8 works contracts (4 in the transport sector and 4 in the environment sector).

While the whole of the available ISPA allocations were fully committed during 2000-2002, payments made till end 2002 to € 117.4 million, of which €51.8 million were made in 2002. In 2002, second advance payments were paid with respect to two

investment measures only, reflecting slow progress in contracting of works tenders and difficulties in complying with Art. 8 conditions of the Financing memoranda.

Monitoring and Evaluation

In 2002, the ISPA Monitoring Committee met twice, respectively in April and October.

Co-financing with IFIs

Co-operation with the IFIs is very important in Romania, in particular in the environment sector where most ISPA measures are co-financed with IFIs. These include 8 measures with the EIB (2 in 2000, i.e. Craiova and Braila, 3 in 2001, i.e. Cluj, Focsani and Pascani, and 3 in 2002, i.e. Satu Mare, Buzau and Piatra Neamt). A further 8 measures are co-financed with the EBRD (2 in 2000, i.e. Constanta and Iasi, 4 in 2001, i.e. Arad, Oradea, Timisoara and Targu Mures, and 2 in 2002, i.e. Brasov and Sibiu).

In the transport sector, the EIB and the EBRD finance parallel projects. In total, joint co-financed measures accounted for some € 494 million of ISPA assistance in the environment sector.

It is anticipated that this co-operation will continue throughout the whole ISPA programming period given that the level of investment needs stand well above the ISPA allocation.

EDIS

In November 2002, the National Authorising Officer confirmed that the report commissioned by the EC Delegation and finalised in January 2002 did constitute for the Romanian authorities the 'gap assessment' report, i.e. the first Stage of the EDIS Road map.

The Commission approved in 2002 an Technical Assistance measure to strengthen the capacity of Implementing agencies to implement ISPA measures under Stage II – 'gap plugging' of the Road map. This measure focuses indeed on the most urgent needs to be fulfilled via the provision of short-term technical assistance aimed in particular at speeding up tendering and contracting of approved ISPA measures by improving the quality of tender documents; as well as at establishing a manual of procedures and at training of staff.

Financial Management and Control

An audit of the financial management and control systems of the ISPA implementing agencies was undertaken only in early January 2002 by the DG Regional Policy. The main findings were sent in May 2002 to the Romanian authorities with recommendations on improvements needed to meet the requirements of Art. 9 of the ISPA Regulation. A follow-up of the audit will be carried in 2003 to cover more detailed assessment of public procurement procedures and the final beneficiaries in the environment sector.

24. SLOVAKIA

In 2002, Slovakia received a total commitment allocation of € 54.1 million. This was divided between the transport and environment sectors with € 28.7 million and € 23.9 million respectively. Technical assistance accounted for € 1.5 million. The allocation for Slovakia represented 4.89% of the overall ISPA budget in 2002.

Programming

Programming of measures made steady progress and allowed to establish an adequate project pipeline.

In the transport sector, one project was approved in 2002: the modernisation of the rail track Trnava – Piešťany (total cost: € 97.4 million, ISPA grant: € 46.7 million). With the adoption of this fourth transport project, ISPA programming was completed, as all funds available for transport in Slovakia within the financial perspective 2000 – 2006 were allocated. Accordingly, one major project, the motorway section Mengusovce – Jánovce, which was presented for funding in 2002, will be decided under the Cohesion Fund. Also, end of 2002, a financing memorandum was prepared for providing € 2.2million of Technical Assistance for the preparation of around 10 transport projects to be funded under the Cohesion Fund from 2004 onward.

Five environment projects of a total value of € 94 million were adopted, involving an ISPA contribution of € 57,2 million and a total 2002 commitment of 28,5 million €:

- Zilina Waste Water Treatment (total cost: € 19.6 mio, ISPA grant: € 9.8 mio)
- Liptovský Mikuláš sewage (total cost: € 10.5 mio, ISPA grant 5.2 mio)
- South East Zemplín sewage and drinking water (total cost: € 23.6 mio, ISPA grant: 16,5 mio)
- Považská Bystrica waste water treatment (total cost: € 12,3 mio, ISPA grant: € 6,1 mio)
- Veľký Krtíš drinking water (total cost: € 28 mio, ISPA grant: € 19,6 mio).

The adoption of these projects allowed the environment sector to absorb more than the foreseen mid range allocation and to cover the gap which existed because of poor programming performance in this sector in the first year of ISPA.

A major break through was achieved in the environment programming. Following several months of negotiation, a Memorandum of Understanding on the adaptation of ISPA environment programming to the transformation of the Slovak water management sector was signed in August 2002 between the National ISPA Co-ordinator and the Commission services. According to this strategy, the new municipality-owned regional water companies (which are successors of the previous state-owned companies) will become the final beneficiaries of most ongoing and all future ISPA projects. The transformation process will be supported by two technical assistance measures: one aimed at the technical, financial and managerial

modernisation of the regional water companies, another to assist these companies in the elaboration of suitable projects to be financed under the Cohesion Fund.

Implementation

The three Implementing Agencies responsible for rail, road and environment made some progress in the implementation of ISPA measures. However, the implementing structures continue to suffer from a lack of sufficient and adequate staff.

Implementation of tendering and contracting has continued to be unequal, in that the transport projects are being implemented more or less according to schedule whereas implementation of environment projects is too slow.

In the transport sector work progressed on the modernisation of the rail track between Rača and Šenkvice. A tender was launched for the works contract on the second rail project: Šenkvice – Cífer. The result was, however, not successful, and the tender will be re-launched. The tender for the motorway project in Bratislava (D 61) was launched and led to the signature of the works contract at the beginning of 2003.

In the environment field the preparation of tenders has been behind schedule, but lately there has been some progress: For the first project, Trenčín Wastewater Treatment, the contract was ready for signature. The preparation of the works tenders for the projects in Banská Bystrica and Komárno made substantial progress, but the tenders were not yet published. The Technical Assistance project for project preparation (total cost: € 1.45 million) has been almost fully implemented and the results in terms of the number of projects prepared is satisfactory.

The payments made up to the end of 2002 amounted to € 17.2 million and related to advance and intermediate payments of projects and technical assistance measures adopted between 2000 and 2002. As regards tendering and contracting, 1 works contracts was signed (in the transport sector only).

Monitoring and evaluation

Two ISPA Monitoring Committees were held, respectively on 18 April and 21 November 2002. The meetings were well organised, and the quality of the monitoring documentation has progressively improved. The project expenditure plans, however, were still needing substantial refinement.

Co-financing with EIB and IFIs

In the environment sector the co-operation with the EIB has continued. The global framework loan through a Slovak state guaranteed bank was put in place; however no credits were signed in this framework in 2002.

In the transport sector the final agreement was signed on the co-financing with the EIB of the motorway project in Bratislava, the EIB loan amounting to 40 million €. Though EIB loans are in principle also available for railway projects, for the time being, the Slovak Government has not decided to use this facility.

EDIS

Provisions for internal control and audit have been made within the Slovak Central Administration. In summer 2002, the National Fund initiated the preparation for EDIS accreditation of the entire administration involved in ISPA implementation. For this purpose, a technical assistance measure was launched under ISPA (€ 1.3 million grant). The preparation of EDIS accreditation is being hampered by the lack of adequate and sufficient human resources in the National Fund and in the Implementing Agencies, and substantial delays may be expected.

25. SLOVENIA

In 2002, Slovenia received a total ISPA allocation of € 16.6 million. This was divided between €0.6 million (3.3%) for technical assistance for EDIS, € 8.1 million (48.4%) for the transport sector and €8.0 million (48.3%) for the environment sector. The allocation for Slovenia represented 1.5 % of the overall ISPA budget in 2002.

Programming

The environment strategy was up-dated at the end of 2002 to extend the list of projects to be presented for ISPA and Cohesion Fund funding in the future. A similar exercise took place early 2003 for the transport strategy.

A total of 10 projects were approved in 2000 and 2001. In 2002, one transport project, one environment project and one TA measure for EDIS were approved, bringing the total of projects approved since 2002 on 13.

Preparation of tendering and contracting was satisfactory as 6 works contracts were signed since 2000.

All of the available ISPA allocations were committed in 2000 – 2002, whereas by the end of 2002 a total of €13.3 million was paid, representing 25.4% of the €52.3 million committed in this period.

Implementation

As regards tendering and contracting, a total of 3 services contracts for design, supervision and technical assistance were signed in 2002 (2 in the transport sector and 1 in the environment sector), as well as 3 works contracts in the environment sector.

Monitoring and Evaluation

Two ISPA Monitoring committee meetings were held in April and November 2002. The meetings coincided with the sectoral Monitoring sub-committees for environment and transport under PHARE.

Co-financing with IFIs

Slovenia continued discussions with the EIB on two framework loans for on-going and future ISPA projects. Following the signature of the corresponding loan agreements in 2003, €35 and €30 million of loan-financing will be made available for environment and transport projects respectively. This will contribute to the leverage of ISPA funds and enable a closer co-operation between the Bank and the Commission services in the appraisal of project proposals.

EDIS

At the end of 2002, the first stage ‘gap assessment’ of the EDIS Road map, was carried out by the Slovenian authorities using their own resources. A technical assistance measure to assist the authorities with their preparations for extended decentralisation covering Stage II ‘gap plugging’ and Stage III ‘compliance

assessment' was signed in October 2002. It is expected that EDIS will be put in place in the course of 2003.

Financial management and control

A second audit to assess the adequacy of the financial management and control systems and to provide recommendations on their improvement was carried out by DG Regional Policy in November 2002.

List of Abbreviations

EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDIS	Extended Decentralised Implementation System
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EU	European Union
ERDF	European Regional Development Fund
FIDIC	International Confederation of Consulting Engineers
IA	Implementing Agency
IFI	International Financial Institution
ISPA	Instrument for Structural Policy for Pre-Accession
NEFCO	Nordic Environment Finance Co-operation
NIB	Nordic Investment Bank
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
PPP	Public Private Partnership
PHARE	Community program for assistance for economic restructuring in the countries of Central and Eastern Europe
SAPARD	Special Accession Programme for Agriculture and Rural Development
TEN-T	Trans-European Transport Network
TINA	Transport Infrastructure Needs Assessment

Useful Information Sources

ISPA On-Line:

http://www.europa.eu.int/comm/regional_policy/funds/ispa/ispa_en.htm

DG Regional Policy On-Line:

http://www.europa.eu.int/comm/regional_policy/index_en.htm

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<http://europa.eu.int/comm/enlargement/index.htm>

The EBRD website:

www.ebrd.com

The EIB website:

www.eib.org