



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 1.12.2005
COM(2005) 612 final

REPORT FROM THE COMMISSION

**ANNUAL REPORT OF THE INSTRUMENT FOR STRUCTURAL POLICY FOR
PRE-ACCESSION (ISPA)**
2004

{SEC(2005) 1552}

TABLE OF CONTENTS

1.	Introduction	3
2.	ISPA budget	3
3.	Project funding	4
3.1.	New ISPA projects	4
3.2.	Projects funded during 2000-2004	4
3.3.	Payments	5
4.	Technical assistance	5
4.1.	Technical assistance on the initiative of the beneficiary country	5
4.2.	Technical assistance on the initiative of the Commission	6
5.	Management and implementation	7
5.1.	Project monitoring	7
5.2.	Financial management and control	7
5.3.	EDIS	8
6.	Risk assessment	8
6.1.	European Court of Auditors findings	8
6.2.	Co-financing partners – EIB and EBRD	9
7.	Contribution to Community policies	9
7.1.	Public procurement	9
7.2.	Environment policy	9
7.3.	Transport policy: from TINA towards new TEN-T guidelines	9
8.	Co-ordination among pre-accession instruments	10

Foreword

This annual report on the activities of the Instrument for structural policy for pre-accession (ISPA) covers the calendar year 2004.

It provides information on the fifth year of implementing ISPA.

The reporting format reflects the requirements of article 12 of the ISPA Regulation¹. It has been adapted to take account of the comments made by the European Parliament, the European Economic and Social Committee and the Committee of the Regions.

It is hoped that the report will also serve as a useful reference document for everyone interested in the promotion, prior to accession, of economic and social cohesion in the EU candidate countries.

1. INTRODUCTION

As a result of accession, ISPA beneficiary countries decreased from 10 to two in number, leaving only Bulgaria and Romania to benefit from new ISPA financial assistance in 2004. For this reason, the report is restricted to the activities of ISPA in these latter countries, whereas implementation of the former ISPA projects in the new Member states are dealt with in the Cohesion Fund 2004 Annual Report.

2. ISPA BUDGET

For 2004, €453.3 million was allocated from the Commission budget to the ISPA instrument. The appropriations covered all expenses for co-financing projects (measures) in the beneficiary countries in the environment and transport domains, as well as for providing technical assistance (TA), irrespective whether the TA measures were initiated by the beneficiary country or by the Commission.

Table 1: ISPA budget in 2004 – in euro

Budget line	Commitment appropriations	Commitments implemented	Payments implemented
Functional budget line B 13.01.04.02	2.100.000	1.890.000	1.696.088
Operational budget line B 13.05.01.01	451.200.000	449.469.968	132.162.924
Total	453.300.000	451.359.968	133.859.012

¹

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

3. PROJECT FUNDING

3.1. New ISPA projects

In 2004, the Commission approved 11 new ISPA measures concerning 9 investments in the environment field and 2 in the transport sector, including one technical assistance (TA) measure. The total ISPA contribution in that year amounted to €452 million, representing an average grant rate of 58.3% of the total eligible project cost of €775 million. Commitments totalling €449 million were used for new projects (€303 million) as well as for ongoing projects adopted in the previous years.

About 56.5% of the ISPA contribution was awarded to environmental protection projects, predominantly to sewage collection and wastewater treatment projects, but also to a desulphurisation plant. In the transport sector the grant to a combined rail/road bridge over the Danube is noteworthy.

Table 2: New projects approved in 2004 – in euro

Sector	Projects n°	Eligible cost	ISPA contribution	Grant rate %	Commitments
Environment	9	397.780.000	268.246.300	67.4	178.311.258
Transport	2	377.452.452	183.734.500	48.7	124.960.302
Total	11	775.232.452	451.980.800	58.3	303.271.560

3.2. Projects funded during 2000-2004

Between 2000 and 2004, the Commission grant assisted 72 projects on the basis of proposals submitted by Bulgaria and Romania: 53 in the environment sector, 17 in the transport sector, and one TA measure in each of the two countries for achieving decentralised implementation (EDIS). These projects represent a total eligible investment cost of €3.74 billion, of which €2.51 billion or 67% is financed by ISPA. Since the launch of ISPA, some 84% of the ISPA funds set aside for the two beneficiary countries for the period 2000 to 2006 has been allocated and, from these allocations, 75% has been committed.

Table 3: Projects approved in 2000-2004 –in euro

Sector	Project decisions n°	Eligible cost	ISPA contribution	Average grant rate %	Commitments
Environment	53	1.631.154.563	1.182.478.353	72.5	921.558.749
Transport	17	2.112.247.242	1.326.144.338	62.8	956.777.621
EDIS	2	1.482.308	1.482.308	100.0	1.303.797
Total	72	3.744.884.113	2.510.104.999	67.0	1.879.640.167

Commitments were distributed in a balanced manner between the environment and transport sectors, the ratio between the respective sectors amounting to 49.1 to 50.9.

3.3. Payments

Overall ISPA payments (including for decentralisation) totalled €132.2 million, which represented an increase of no less than 280% in comparison with the payments made in 2003 (€45.9 million).

By the end of the period 2000-2004, €329.8 million had been paid out, representing 17.5% of the budgetary commitments implemented in that period.

Table 4: Payments – in euro

Sector	2000-2003	2004	Total
Environment	77.964.300	67.584.714	145.549.014
Transport	119.173.044	64.191.648	183.364.692
EDIS	537.962	386.562	924.524
Total	197.675.306	132.162.924	329.838.230

4. TECHNICAL ASSISTANCE

4.1. Technical assistance on the initiative of the beneficiary country

TA measures for *project preparation* have to ensure that beneficiary countries are presenting a sufficient number of quality projects in time to the Commission for ISPA funding. Similarly, TA measures for *institutional strengthening* aim at enhancing the capacity of the beneficiary's administration to manage and monitor the implementation of large-scale infrastructure investment.

In 2004, one application combining project preparation and institutional strengthening in the environment sector was approved.

**Table 5: Technical assistance on the initiative of the beneficiary country 2000-2004
(in euro)**

Sector	Nº of projects	Eligible cost	ISPA contribution
Environment	6	42.481.000	34.948.500
Transport	4	9.786.060	7.927.545
EDIS	2	1.482.308	1.482.308
Total	12	53.749.368	44.358.353

4.2. Technical assistance on the initiative of the Commission

Technical assistance activities on the initiative or on behalf of the Commission have been concentrated importantly on enhancing the beneficiary countries' capacity to prepare, appraise and implement ISPA projects in accordance with the standards required for the management of Community funds.

A. Technical assistance activities financed under the “TA Action Programme 2001”

Initially foreseen to cover TA activities for the 10 ISPA beneficiary countries during the period 2001-2003, only those activities of the Programme which were spilling over into 2004 were contractually continued that year, i.e. until the end of April 2004 for the 8 acceding countries and until the end of 2004 for Bulgaria and Romania. In general, the activities were financed from the commitments allocated during the period 2001-2003 which amounted to €11 860 864 and were not entirely taken up by end 2003. They concerned the provision of support to Monitoring Committees, as well as the delivery of advisory services on public-private partnerships.

B. Technical assistance activities financed under the “TA Action Programme 2004-2006”

This Programme is a follow-up of the above *TA Action Programme 2001*, albeit focussing only Bulgaria and Romania, and most of its activity areas are of a similar nature as those in the 2001 Programme. In 2004, the Programme notably encompassed support to improve the quality of projects throughout the project cycle, and assistance for the appraisal and quality control of project applications.

C. Technical assistance activities undertaken outside the “TA Action Programme 2001” and the “TA Action Programme 2004-2006”

In 2004, the areas of activity concerned included payment of salaries and overhead for ISPA staff (local agents) employed by the Delegations -incl. the 8 acceding countries until 30 April 2004-, and assistance for the appraisal and quality control of project applications.

Table 6: Technical assistance on the initiative of the Commission 2000-2004 – in euro

Activity	Indicative allocations	Commitments	Payments
Action Programme 2001(*)	12 000 000	11 860 864	6 514 699
Action Programme 2004-2006	5 185 000	1 529 950	21 270
Activities outside the Action Programmes	17 800 000	17 800 000	10 258 355
Total	34 985 000	31 190 814	16 794 324

(*) Including ISPA-10

5. MANAGEMENT AND IMPLEMENTATION

5.1. Project monitoring

As regards effective implementation of ISPA projects during 2004, the beneficiary countries continued to make further progress in terms of hands-on capacity. However, the impression remains that there is still scope for them to take effective ownership of the different stages of the project cycle and to enhance co-ordination between the various project stakeholders. A correlated area of concern is the lack of adequate financial and human resources devoted to the planning, preparation and management of ISPA measures, in particular in the environment sector, as well as the persistent high turnover of staff.

5.2. Financial management and control

During 2004, the Commission carried out a fourth cycle of system audits in the beneficiary countries to assess the adequacy of the systems and procedures established for the management and control of ISPA funds and their compliance with requirements which are close to those applicable to the Cohesion Fund and the Structural Funds. Conclusions of this audit cycle suggest that progress has been made, but that improvements in essential areas such as internal control, internal audit and compliance with public procurement rules are still required.

In the case of Romania, the system's audits disclosed material shortcomings, the extent and nature of which prompted the Commission to interrupt payments in December 2003 and February 2004 for CFR (Railways Agency) and in December 2004 for all implementing agencies. A reservation concerning the management and control system of ISPA in Romania was introduced in DG Regional Policy Annual Activity Report for the year 2004. As a consequence, the Romanian authorities have been requested to implement corrective actions by specific deadlines.

Parallel project audits in the beneficiary countries confirmed that public procurement remains a very risky step in the whole project cycle as was revealed by the high rejection rate for the main tender documents and the lengthy process of awarding contracts.

5.3. EDIS

The process of setting up satisfactory financial management and control systems for ISPA has been given a further dimension in 2001 by the procedure for the beneficiary countries to move towards an *extended decentralised implementation system* (EDIS) for ISPA. The conferral of EDIS and, hence, the waiving of the *ex ante* approval of tendering and contracting by the Commission, are subject to a benchmarking exercise of 4 stages -starting with the stage *gap assessment*.

By May 2005, the progress made by the beneficiary countries in this exercise caused concern. In the case of Romania, the opinion of the stage 3 (*compliance assessment*) external auditors was that none of the bodies involved in ISPA implementation comply with the EDIS requirements. Regarding Bulgaria, considerable problems in the tendering process prevented the launching of stage 2 (*gap plugging*) until mid 2005.

In these circumstances, it is rather unlikely that Bulgaria and Romania will submit a request for EDIS accreditation for ISPA much before the middle of 2006, giving very little time for a stage 4 (*accreditation*) Commission decision before accession.

6. RISK ASSESSMENT

Under the system of *ex ante* approval, the audit strategy with respect to the beneficiary countries is largely focussed on prevention, ensuring that each country put in place sufficient control procedures regarding project implementation and payments. Successive audit rounds at all stages of EDIS aim at identifying the shortcomings in the set-up of the system, and at verifying whether the recommendations are implemented and the shortcomings resolved. However, based on the findings of the audits, ISPA implementation is confronted with a series of risks which are to be confined and remedied throughout the audit process.

6.1. European Court of Auditors findings

In its annual report concerning the financial year 2003, the Court of Auditors expressed the opinion that, the Commission did not take, in the past, sufficient measures to set up systems in the beneficiary countries that comply with the ISPA requirements, and which would have accelerated the removal of the Commission's *ex ante* control. For this reason, the Commission carried out additional system and project audits and agreed on an action plan with these countries in which appropriate recommendations of the Commission relating to identified system deficiencies are to be addressed according to a specific timetable.

In 2004, the Court also assessed the effectiveness of ISPA assistance in a number of beneficiary countries that have become a Member state. By extension, the findings of these audits are relevant for the current ISPA beneficiary countries as well. In the

Commission's view, most of the errors the Court pointed to did not have a financial impact and were of a formal nature.

6.2. Co-financing partners – EIB and EBRD

The EIB and the EBRD remained the privileged partners for providing loan financing to ISPA projects in 2004. The Banks' specialist skills in structuring grant/loan combinations of funding, including public-private partnership arrangements, continued to be useful for improving the quality of projects funded from ISPA.

7. CONTRIBUTION TO COMMUNITY POLICIES

7.1. Public procurement

The fulfilment of legal requirements for sound, fair and transparent public procurement as enshrined in the PRAG has proved to be a major challenge for the beneficiary countries. Training on specific procurement issues as well as practical tools (guides) are to warrant that tendering and contracting take place in accordance with national law harmonized according to EU standards.

7.2. Environment policy

By providing direct assistance to priority projects for environment, ISPA accelerates the implementation of environmental policy and the compliance with EU standards in the beneficiary countries. In particular, administrative capacity has been strengthened in regard to environmental investment planning and prioritization, and steady progress has also been made in proper implementation of the EIA directive, including aspects related to public consultation. However, problems in relation to the difficulties of environmental authorities in obtaining adequate funding and staffing as well as the lack of co-ordination between policy fields and of strategic planning need to be addressed as a matter of priority by these countries.

7.3. Transport policy: from TINA towards new TEN-T guidelines

The transport networks in the beneficiary countries, agreed in accordance with TINA (Transport Infrastructure Needs Assessment), were constructed around the framework of pan-European corridors. These networks are used as the planning basis for the national transport strategies for ISPA purposes, i.e. concern the construction or rehabilitation of a section, nodal point or access relating to the networks. Four of the fore-mentioned corridors run across the territory of Bulgaria and Romania. Under the new Community guidelines for the development of the trans-European transport network (TEN-T), three of the network's priority projects (PP7: *Motorway axis Igoumenitsa/Patra-Athina-Sofia-Budapest*, PP18: *Rhine/Meuse-Main-Danube* and PP22: *Railway axis Athina-Sofia-Budapest-Wien-Praha-Nürnberg/Dresden*) concern axes which include Bulgaria and Romania.

8. CO-ORDINATION AMONG PRE-ACCESSION INSTRUMENTS

The PHARE Management Committee ensures close co-ordination among the three pre-accession instruments, PHARE, SAPARD and ISPA. Further co-ordination is implemented through the (PHARE) Joint Monitoring Committee, the inter-services Co-ordination Committee and periodic meetings with the EC Delegations in the beneficiary countries.