



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23.12.2005
COM(2005)701 final

REPORT FROM THE COMMISSION

**2004 REPORT ON PHARE, PRE-ACCESSION AND TRANSITION
INSTRUMENTS**

{SEC(2005)1773}

SUMMARY

Together with two other instruments financed by the European Communities, namely ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture and Rural Development), the Phare Programme aims to assist candidate and acceding countries in their preparations for joining the European Union. In 2004, following the accession of the 10 new Member States, Phare provided support to the remaining candidate countries Bulgaria and Romania. Turkey continued to receive support under its own pre-accession assistance instrument.

The objectives of Phare pre-accession assistance are to assist candidate and acceding countries in their efforts to strengthen their public administrations and institutions to function effectively inside the European Union, to promote convergence with the European Community's legislation, to reduce the need for transition periods and to promote Economic and Social Cohesion (ESC).

Programming was based on the Phare Guidelines that were revised in 2004 in order to accompany the further alignment of the *Cross Border Co-operation* (CBC) Regulation with INTERREG, to accommodate the unique approach required in the area of nuclear safety and to emphasise the transition to *Extended Decentralisation Implementation System* (EDIS).

The programming and implementation of pre-accession assistance for Turkey largely mirrored the procedures and content of Phare support. In order to prepare for the decentralised approach to programme management established under the Structural Funds, the European Commission has increasingly intensified the support to Bulgaria and Romania to allow for a further transfer of responsibility for the management and implementation of Phare programmes to the national authorities.

This report also contains information on the Transition Facility for new Member States which was introduced to allow for the continuation of institution building support with a view to strengthening and consolidating institutional and administrative capacity to implement the *acquis communautaire*. Programming is based on needs identified in the Commission's Comprehensive Monitoring Report (November 2003).

1. THE YEAR IN REVIEW

1.1. Main evolutions of the Enlargement Process in 2004

On 1 May 2004, the **Europe of 25** became a reality. The accession of 10 new Member States to the European Union was the biggest enlargement ever in the history of the Union.

Of course, the enlargement process continues. On 6 October 2004, the Commission adopted its **enlargement package** including regular reports for Bulgaria, Romania and Turkey, a strategy paper on enlargement and an impact assessment on issues arising from Turkey's membership perspective.

The accession negotiations were completed with **Bulgaria and Romania** to allow both countries to join the EU in 2007. The December European Council endorsed the closing of the negotiations with a view to signing the Accession Treaty as early as possible in 2005.

In the light of a recommendation delivered by the Commission on 6 October 2004, the December European Council also decided to open accession negotiations with **Turkey** in October 2005. The decision was taken in recognition of the progress on reforms achieved by Turkey and provided that key pieces of legislation would enter into force and the Protocol extending the Ankara Agreement to the new Member States would be signed before opening negotiations.¹

On 20 April 2004, the Commission recommended opening accession negotiations with **Croatia**. Based on this recommendation, the June European Council decided to convene a bilateral intergovernmental conference with Croatia early in 2005 in order to begin negotiations.²

Regarding financing, on 29 September 2004, the Commission proposed, in conjunction with its proposals on the financial perspectives for 2007–2013, the establishment of an instrument for pre-accession assistance (IPA) to replace Phare, ISPA, Sapard and CARDS, and cover current and future applicants. Within the same decision it was proposed to set up a neighbourhood programme along the external borders of the EU and Candidate Countries, involving Phare cross-border cooperation, TACIS and Interreg funding. For the period 2004–2006, the Council laid down a general approach for reallocating the resources still available under Sapard and ISPA. As part of the pre-accession strategy for Croatia, the Commission proposed allowing that country access to all three of the existing pre-accession instruments.

1.2. Main conclusions of the 2004 European Councils

Brussels European Council of 17-18 June 2004:

¹ The European Council, on December 17, 2004, accepted the recommendation of the Commission and decided to start negotiations with Turkey on October 3, 2005, providing the Protocol adapting the Ankara Agreement to the current membership of the EU is signed before that date. The signature took place on 29 July 2005 and a formal decision signalling the beginning of negotiations was taken on the 3 October 2005.

² EU Member States decided in Luxemburg on 3 October to launch accession negotiations with Croatia. The opening of the accession negotiations was made possible by the assessment of the Council of Ministers that Croatia was fully cooperating with the International War Crimes Tribunal for the former Yugoslavia (ICTY) set up by the UN

The European Council underlined that **Bulgaria and Romania** are an integral part of the ongoing enlargement round and recalled that the guiding principles which applied to the accession negotiations with the ten new Member States should continue to apply to Bulgaria and Romania, which are part of the same inclusive and irreversible enlargement process.

The European Council welcomed the significant progress made by **Turkey** in the reform process, including the important and wide-ranging constitutional amendments adopted in May as well as the sustained efforts of the Turkish Government to meet the Copenhagen political criteria. The Union reaffirmed its commitment that if the European Council decides in December 2004 that Turkey fulfils the Copenhagen political criteria, the EU will open accession negotiations with Turkey without delay.

Brussels European Council of 4-5 November 2004:

The European Council heard a presentation by the President of the European Commission on the **Progress Reports**, the **Strategy Paper** on Enlargement and **Recommendations** regarding the candidate States as well as the study on issues arising from Turkey's membership perspective published by the Commission on 6 October 2004.

Brussels European Council of 16-17 December 2004:

The European Council welcomed the findings and recommendations presented by the Commission on 6 October 2004 in its regular reports on Bulgaria, Romania and Turkey, the strategy paper on enlargement, its recommendation on Turkey and the impact assessment on issues arising from Turkey's membership perspective.

The European Council recalled that the Union's capacity to **absorb** new members, while maintaining the momentum of European integration, is an important consideration in the general interest of both the Union and the candidate countries.

The European Council considered that **Bulgaria** will be able to assume all the obligations of membership at the envisaged time of its accession, provided that it continues its efforts to that end and completes in a successful and timely way all necessary reforms and commitments undertaken in all areas of the *acquis*. Safeguard clauses will provide for measures to address serious problems that may arise before accession or in the three years following accession.

The European Council noted with satisfaction that progress made by **Romania** in implementing the *acquis* and commitments entered into as regards, in particular, Justice and Home Affairs and Competition, made it possible to formally close all of the outstanding chapters with this candidate on 14 December 2004 and accordingly looked forward to welcoming it as a member from January 2007.

The European Council recalled its previous conclusions regarding **Turkey**, in which, at Helsinki, it agreed that Turkey was a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States. It requested the Council to agree on a framework for negotiations, to be presented by the Commission, with a view to opening negotiations on 3 October 2005.

The European Council agreed that accession negotiations with individual candidate States will be based on a **framework for negotiations**. Each framework, which will be established by the Council on a proposal by the Commission will take into account the experience of the fifth

enlargement and of the evolving *acquis*, and will address a series of elements according to the candidate countries' own merits and their specific situations and characteristics.

2. PROGRAMMING AND IMPLEMENTATION OF THE PROGRAMMES: GENERAL OVERVIEW

2.1. Phare and Pre-Accession for Turkey and the Special Aid Package for the Northern Part of Cyprus

From 2004, the eight Central and Eastern European countries and the two Mediterranean countries which acceded to the EU on 1 May 2004 have no longer been beneficiaries of pre-accession aid. However, a special Phare phasing-out mechanism for a maximum period of 15 months was established in order to allow an orderly transition of the EU delegations' role in the management of Phare programmes to the national authorities.

Bulgaria and Romania were the sole recipients under Phare in 2004.

The current Phare Guidelines state that approximately 65% of Phare resources is earmarked for institution-building and associated investment (of which a minimum of 30% for IB). The main instruments for institution-building and transfer of know-how are *Twining* and *Twining Light*. These involve the secondment of experts from public administrations in Member States to those in candidate countries to help develop the capacity to implement specific aspects of the *acquis*. A maximum of 35% is allocated to investments designed to promote economic and social cohesion (ESC).

In addition to the National Programmes and CBC elements funded under Phare, a number of multi-country horizontal programmes were carried out. These programmes covered nuclear safety, statistical co-operation and participation in Agencies, a networking facility, TAIEX operations and an information and communication programme.

Turkey benefits from its own pre-accession instrument and, through this, from multi-country horizontal programmes. The 2004 pre-accession financial assistance programme for Turkey focused mainly on addressing the Copenhagen political criteria, approximation to the *acquis*, strengthening the public administration, justice and home affairs, and economic and social cohesion. The programme also included co-financing for Turkey's contribution for participation in the sixth Framework Programme and the Community education programmes.

The Commission Decision on the 2003 Special Aid Package for the northern part of Cyprus was amended on 11 August 2004 (Commission Decision C(2004)3030) in order to refocus the assistance programme following the outcome of the April 2004 referenda by increasing the allocation for TAIEX assistance and for feasibility studies. Assistance under this programme is managed centrally by the Commission. By the end of 2004, contracts were signed with UNDP, British Council and the British Council for a total amount of €10.3 million.

Funding in 2004 was in line with the conclusions of the Copenhagen European Council which endorsed the revised roadmap for Bulgaria and Romania as well as the transfer of aid for Turkey to Heading 7 (pre-accession).

Total Phare operational commitments amounted to € 757.7 million comprising:

National Programmes	€577.8 million
---------------------	----------------

Nuclear Decommissioning (Kozloduy) €85.0 million

Cross-Border Co-operation € 64 million

Multi-Country/Horizontal Programmes €28.4 million

(N.B. The remaining € 2.5 million represent Phare commitments to the European Training Foundation managed under the Education and Culture policy area.)

National programmes were divided as follows:

Bulgaria	€172.5 million
Romania	€405.3 million

The pre-accession assistance programme was agreed for Turkey:

Turkey	€245.9 million
--------	----------------

This includes the National Programme (€236.7 million), as well as horizontal measures including TAIEX and support expenditure.

Detailed information about Phare in each country and Pre-accession financial assistance for Turkey can be found in the Annex - Part I: Country section- to this report.

2.2. Transition Facility

The ten countries which used to receive pre-accession financial assistance under Phare (or specific pre-accession facilities in the cases of Cyprus and Malta) instead benefited for the first time in 2004 from a special Transition Facility for institution building aimed at allowing the then new Member States to strengthen and consolidate institutional and administrative capacity to implement the *acquis communautaire* and thus continue the institution-building measures initiated under Phare.

The Transition Facility was created by article 34 of the Act of Accession, as a temporary post-accession financial instrument. Programming is based on needs identified in the Commission's Comprehensive Monitoring Report (November 2003). The article gives a non-exhaustive list of examples of key *acquis* where weaknesses may still persist, but also excludes any area which is eligible for funding under the Structural Funds. Reflecting continuity with Institution Building support funded by Phare, part of each annual envelope of the Transition Facility has been allocated to certain multi-beneficiary programmes.

Total commitments amounted to €189.6 million, comprising:

National Programmes €166.6 million

Horizontal and Multi-country Programmes and others €23.0 million

National programmes were divided as follows:

Cyprus	€9 million
Czech Republic	€17.1 million
Estonia	€8.4 million
Hungary	€18.4 million
Malta	€11.8 million
Latvia	€6.7 million
Lithuania	€22.4 million
Poland	€49.9 million
Slovenia	€8.7 million
Slovakia	€14.2 million

2.3. Co-ordination of the Community Pre-accession assistance

SAPARD³ (Special Accession Programme for Agriculture and Rural Development) aims to help candidate countries deal with the problems of the structural adjustment in their agricultural sectors and rural areas, as well as in implementing the *acquis communautaire* concerning the CAP (Common Agricultural Policy) and related legislation. Detailed information on SAPARD activities can be found in the SAPARD annual report for 2004.

ISPA⁴ (Instrument for Structural Policies for Pre-Accession) is directed mainly towards aligning the applicant countries on Community infrastructure standards. It also finances major environmental and transport infrastructure. Detailed information on ISPA activities can be found in the ISPA annual report for 2004.

The Commission's *Co-ordination Committee* for the 3 pre-accession instruments, set at Directors level, convened once in 2004.

A General Assistance Document, through which the Commission informed the Phare Management Committee of the co-ordination of pre-accession aid in 2004, was presented to Member States at the Phare Management Committee on 10 June 2004. In particular, this document provided the indicative financial allocations for the year for each country in relation to the three instruments, information on co-ordination with EIB and IFIs and about progress and perspectives for decentralised management. A separate annual report on co-ordination of pre-accession assistance provides more detailed information on co-ordination between Phare, ISPA and SAPARD.

³ For general information on SAPARD, we refer to the website of DG Agriculture http://europa.eu.int/comm/agriculture/external/enlarge/index_en.htm

⁴ For general information on ISPA, we refer to the website of DG Regional policy http://europa.eu.int/comm/regional_policy/funds/ispa/ispa_en.htm

2.4. Co-operation with the European Investment Bank (EIB) and International Financial Institutions (IFIs)

As in previous years, Co-operation with the EIB and other IFIs continued in 2004 under the framework of the Memorandum of Understanding on co-operation in pre-accession assistance.

The Commission Services periodically organise meetings with the EIB and other IFIs to coordinate issues related to programming and implementation, as well as procedural issues. In view of organising the transition from pre-accession support to full membership of the EU for countries acceding in May 2004, the Commission also chaired on 26 March 2004 the EC/IFI Working Group, as well as the EC/IFI High-Level Group, which consist of meetings at senior management level between EC and all IFIs.

Given the fact that large infrastructure projects which are commonly subject to international co-financing are now financed under ISPA, co-financing under Phare was limited.

The main co-financing instrument in 2004 was again the SME Facility in which the EIB, the EBRD and the Council of Europe Development Bank / KfW are participating. The objective is to continue co-financing capacity building of the financial sector to develop financing for SMEs (through the SME Facility) and municipalities (through the Municipal Lending Facility). For more details on these facilities, see details in Annex Part II.

3. PROGRAMME MANAGEMENT

3.1. Moving towards Extended Decentralisation Implementation System (EDIS)

The concept of the EDIS accreditation process is to facilitate the full decentralisation of the management and implementation of EU funds to candidate country administrations. When EDIS is fully achieved, the Commission no longer exercises systematic ex-ante control over individual transactions, but is limited to an ex-post control, whilst retaining the overall final responsibility for general budget execution.

Concerning the 10 new member states, the obligation to have EDIS in place by the date of accession was included in the Act of Accession (article 33) and provided a clear impetus for the then acceding countries to complete the final preparations for this to be achieved. As a result, the preparations for EDIS were completed in all the 10 new member states countries during 2004. By the end of 2004, EDIS had been formally granted - in the form of a Commission Decision to waive ex-ante control on management of pre-accession funds - to 9 out of the 10 new member states (**Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Slovakia and Slovenia**). Poland was the only new Member State not to have received EDIS accreditation in 2004, though a decision was expected in the first weeks of 2005.⁵ Details concerning the EDIS decision in each of the 10 new member states can be found in point 1 of each of the country sections.

For the Bulgaria and Romania, the state of play at the end of 2004 was the following: both **Bulgaria** and **Romania** had completed EDIS Stage 1 (Gap assessment) and had progressed onto Stage 2 (Gap plugging), with the target to move to EDIS during the first half of 2006.

⁵ Poland was granted EDIS accreditation in January 2005.

The Commission and the national administrations in these countries continued to monitor the process through the High Level Working Groups (HLWG), set up in 2002 in all Phare countries to oversee and provide guidance for the transition to EDIS.

Turkey moved to a DIS (decentralised implementation system) in October 2003, with the indicative target to proceed with EDIS in 2007.

3.2. Monitoring and Evaluation

The monitoring and evaluation function aims firstly to monitor and evaluate the effectiveness of the financial support given to beneficiary countries in achieving their pre-accession objectives by assessing the programme performance and deriving lessons learned. The second objective is to support the development of local monitoring and evaluation capacity as a means to strengthen the states' capacity to manage and control pre-accession aid.

3.2.1. Ex ante evaluation

During 2004, discussions on the 2003 internal ex-ante evaluation of programming mechanisms exercise for Phare in 2004 and beyond continued and focused on the only set of recommendations still pending, that being the introduction of a more systematic and formal quality control mechanism.

3.2.2. Monitoring and Interim Evaluation

In 2004, the external interim evaluation schemes generated some 45 individual country, sectoral, ad-hoc or thematic evaluation reports covering Phare and other pre-accession financial instruments measures, as well as a Consolidated Summary Report of Phare support allocated in 1999-2002 and implemented until November 2003.

Concrete actions in this area included: the completion of programme/project design workshops in most candidate countries to address design weaknesses; and a special seminar with relevant stakeholders involved in twinning to identify actions to further strengthen the twinning instrument.

3.2.3. Ex post evaluation

The Evaluation Unit launched the tendering process for a major external ex post evaluation exercise of Phare national programmes allocated in 1999-2001, with a view to starting the evaluation work in the first quarter of 2005. The exercise will conclude at the end of 2006, after a planned duration of 20 months

3.3. Other activities

A number of other activities were undertaken by the Commission services in order to improve the quality of the programmes for the year 2004, as well as to support the development of local monitoring and evaluation capacity. Specific actions are described in Annex Part II.2.3.