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

**2005 REPORT ON PHARE, PRE-ACCESSION AND TRANSITION INSTRUMENTS**

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## 2005 REPORT ON PHARE, PRE-ACCESSION AND TRANSITION INSTRUMENTS

### Introduction

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 2005, following the accession of the 10 new Member States, Bulgaria, Romania continued to benefit from the three pre-accession instruments and following the conclusion of the June European Council in 2004, a pre-accession strategy for Croatia was also prepared; the respective regulations were subsequently amended and credits were assigned in the budget for PHARE and ISPA already in 2005 and for SAPARD starting in 2006. 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 2005**

In 2005 the Accession Treaty with Bulgaria and Romania was signed and the EU prepared the ground for future enlargements. It began accession negotiations with Turkey and Croatia, granted the status of candidate country to the former Yugoslav Republic of Macedonia and strengthened its relationship with the other Western Balkans.

The Accession Treaty for Bulgaria and Romania was signed on 25 April 2005 and ratification began in 2005. Comprehensive Monitoring Reports on Bulgaria and Romania, closely monitoring the countries' preparations for accession throughout the year, were issued by the Commission in October 2005.

In November 2005, the Commission presented an Enlargement Strategy Paper based on three principles: the consolidation of existing commitments, applying a fair and strict conditionality and improving communication. The Commission proposed an accession strategy for Turkey and Croatia and outlined the steps necessary to realize the European perspective of the Western Balkans.

The EU opened accession negotiations with Turkey and Croatia on 3 October 2005. In October 2005, the "screening" of the *acquis* began with representatives of both countries. The Commission continued to monitor the accession process of the two countries and presented Progress Reports and revised Accession Partnerships on both of them in November 2005. In parallel, the Commission has implemented the Stabilisation and Association Agreement (SAA) with Croatia, which entered into force on 1 February 2005, as well as the Association Agreement with Turkey.

In November 2005 the Commission adopted its Opinion on the application for membership by the former Yugoslav Republic of Macedonia; the December European Council granted it candidate country status, as recommended by the Commission. Reforms in Albania paved the way for the conclusion of a SAA. Negotiations on a SAA with Serbia and Montenegro were opened in October 2005 and with Bosnia and Herzegovina in November 2005. Progress Reports on these last three were issued in November 2005. As regards Kosovo, the Commission adopted a Communication on "A European Future for Kosovo" in April and issued a Progress Report in November.

The Council did not reach agreement on the Commission's 2004 aid and trade proposals in support of the Turkish Cypriot Community. €120 million of commitment appropriations had to be cancelled at the end of 2005. The Council adopted the Commission's proposal to improve the "Green Line Regulation". These amendments will help facilitate the crossing of persons and goods across the Green Line, thus contributing to the integration of the island.

### **1.2. Main conclusions of the 2005 European Council**

Brussels European Council of 16-17 June 2005:

"The European Council reaffirms its commitment to full implementation of the Thessaloniki agenda, which emphasises that the future of the Western Balkans lies in the European Union. It reiterates that each country's progress towards European integration, taking account of the

evolution of the *acquis*, depends on its efforts to comply with the Copenhagen criteria and the conditionality of the stabilisation and association process. Moreover, in this process, regional cooperation and good neighbourly relations will remain essential elements of EU policy.

The European Council encourages the Former Yugoslav Republic of Macedonia to intensify its efforts with a view to the opinion that the Commission is to submit on its application for accession to the EU. It commends the substantial efforts made by Serbia and Montenegro, encourages it to intensify these, and reaffirms that the European Union wishes to enter into negotiations as soon as possible with a view to concluding a stabilisation and association agreement. It reiterates its determination to act likewise with Bosnia and Herzegovina as soon as the conditions for so doing are fulfilled. The European Council also recalls the importance of holding free and democratic elections in Albania in accordance with international standards, including in the regions where minorities live, in the context of that country's rapprochement with the EU.

On the eve of the commemoration of the tenth anniversary of the Srebrenica massacre, the European Council underlines that full and unrestricted cooperation by countries in the region with the ICTY remains an essential requirement for continuing their progress towards the EU. It expects that this cooperation will continue and be strengthened until all those charged with crimes who continue to elude international justice have been brought before the Tribunal.”

The European Council adopted a declaration on Kosovo recalling the European Union's contribution to the implementation of United Nations Security Council Resolution 1244 on Kosovo and asking the parties to show goodwill, so as to achieve a mutually acceptable solution.

Brussels European Council of 15-16 December 2005:

“The European Council welcomes the Commission's Opinion on the former Yugoslav Republic of Macedonia's application for EU membership. It welcomes the significant progress made by the former Yugoslav Republic of Macedonia towards meeting the political criteria set by the Copenhagen European Council in 1993 and the Stabilisation and Association Process requirements established by the Council in 1997.

In the light of the Commission's analysis, the European Council decides to grant candidate country status to the former Yugoslav Republic of Macedonia, taking into account, in particular, the substantial progress made in completing the legislative framework related to the Ohrid Framework Agreement, as well as its track record in implementing the Stabilisation and Association Agreement (including its trade-related provisions) since 2001.

The European Council makes clear that further steps will have to be considered in the light of the debate on the enlargement strategy, as provided for by the Council conclusions of 12 December 2005; of compliance by the former Yugoslav Republic of Macedonia with the Copenhagen political criteria; of the requirements of the Stabilisation and Association Process and the effective implementation of the Stabilisation and Association Agreement; and of the need for further significant progress to respond to the other issues and criteria for membership included in the Commission's Opinion and implementation of the priorities in the European Partnership, on the basis of specific benchmarks. The absorption capacity of the Union also has to be taken into account. The European Council invites the Commission to report on developments in future progress reports.”

## 2. PROGRAMMING AND IMPLEMENTATION OF THE PROGRAMMES: GENERAL OVERVIEW

### 2.1. Phare and Pre-Accession for Turkey

Total actual commitments amounted to €1178.96 million, comprising:

National Programmes	€921 million
cross border co-operation	€80 million
regional and horizontal programmes (including TAIEX)	€84.75 million
nuclear safety	€6.31 million
Bulgaria – Kozloduy Decommissioning	€50 million
Bulgaria/Romania supplementary allocation (floods)	€36.9 million

National programmes were divided as follows:

Bulgaria	€ 174.9 million
Romania	€ 396.9 million
Croatia	€ 71.5 million
Turkey	€ 277.7 million

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 €128.1 million, comprising:

National Programmes	€116.6 million
Multi-country and horizontal programmes	€11.5 million

National programmes were divided as follows:

Cyprus	€6.4 million
Czech Republic	€11.8 million
Estonia	€5.6 million
Hungary	€10.8 million
Malta	€5.9 million
Latvia	€8.8 million
Lithuania	€9.3 million
Poland	€42.9 million
Slovenia	€5.1 million
Slovakia	€10.0 million

### **2.3. Moving towards Extended Decentralisation Implementation System (EDIS)**

The Commission's objective is to enable the recipient countries of Phare assistance to manage Community funds under the extended decentralisation system ("EDIS") in order to acquire, before accession, sufficient practical experience in the management of a fully decentralised system, and thus prepare them to manage effectively structural funds upon accession (in a shared management environment).

The acceptance by the Commission of Phare implementing agencies operating under EDIS (on a fully decentralised basis) will be given upon demonstration of having appropriate resources, structures and systems in place for the effective and timely management of Community assistance.

Concerning the new Member States all had been EDIS "accredited" by the end of first quarter 2005, thus allowing the Commission to lift its ex-ante control on tendering and contracting for ongoing PHARE programmes. The Commission is closely monitoring the situation to address all issues on management and control systems that were raised pursuant to the Commission audits conducted in 2003 and 2004.

Concerning Bulgaria and Romania, Phare assistance is currently still implemented in a partially decentralised way, through the partially decentralised implementation system ("DIS"), where the national authorities as contracting authorities are responsible for all implementation and paying functions, while the EC Delegation maintains the systematic ex-ante control requirement by over each tendering and contracting. However, the national authorities in both countries acknowledge their responsibility for ensuring robust systems for managing and controlling EU funds across the administration, and make further progress in their preparation to prepare for EDIS.

- In Bulgaria, a full application for EDIS accreditation will be submitted after the successful implementation of Stage 3 "Compliance Assessment" which was finalised in March 2006. Accreditation is scheduled for end 2006, although it is expected for the first quarter 2007.
- In Romania, the authorities submitted a formal application requesting EDIS to the Commission at the end of December 2005 (with the on-the-spot verification by DG Enlargement audit services in the second half of March 2006). Accreditation is expected towards the end of 2006.

For Croatia, Phare will be implemented under decentralised implementation system (DIS). On 25 May 2005, Croatia submitted a request to the Commission for accreditation of its DIS system for Phare. Subsequently, the Commission audit services of DG Enlargement assessed the national and sectoral programme/project management capacity, financial control procedures and structures regarding public finance in Croatia. Based on this assessment, the Commission decided in February 2006 to confer the management of Phare on a partially decentralised basis to the designated Croatian body in the Ministry of Finance.

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

## 2.4. Co-ordination of the Community Pre-accession assistance

- SAPARD<sup>1</sup> (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. ISPA<sup>2</sup> (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. The Commission's Co-ordination Committee for the 3 pre-accession instruments, set at Directors level, has not officially convened during 2005, although several meetings have taken place notably in view of creation of the new Instrument for Pre-Accession (IPA) and its relevant components<sup>3</sup>. A General Assistance Document, through which the Commission informed the Phare Management Committee of the co-ordination of pre-accession aid in 2005 and planned assistance for 2006, was presented to Member States at the Phare Management Committee on 19 May 2005. In particular, this document provided the indicative financial allocations for the year for each country in relation to the three instruments, information on co-ordination with EIB and IFIs and about progress and perspectives for decentralised management. A separate annual report on co-ordination of pre-accession assistance provides more detailed information on co-ordination between PHARE, ISPA and SAPARD.

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<sup>1</sup> For general information on SAPARD, we refer to the website of DG Agriculture.

<sup>2</sup> For general information on ISPA, we refer to the website of DG Regional policy.

<sup>3</sup> Of the proposed 6 external relations instruments that are due to apply in the period 2007-2013, one is the new instrument for pre-accession assistance, IPA. At the junction between external assistance and internal policies, the IPA intends to facilitate the entry into the Union of candidate countries (Turkey, Croatia and the former Yugoslav Republic of Macedonia) and potential candidate countries (Albania, Bosnia and Herzegovina, Montenegro, and Serbia including Kosovo under UN Security Council Resolution 1244). IPA will be an accession driven instrument, fulfilling all the requirements stemming from the accession process, notably in terms of priorities, monitoring and evaluation. IPA will replace the current pre accession instruments notably: Phare, the scope of which is support for the implementation of the *acquis communautaire* in the form of institution building and related investments, investments in economic and social cohesion and cross-border cooperation; ISPA, which is the precursor of the Cohesion Fund and deals with environment and transport infrastructure; SAPARD, the precursor of Rural Development plans, dealing with Common Agricultural Policy *acquis* and Rural development, Turkey pre-accession, with the same scope as Phare; CARDS, which covers the Western Balkans.

### 3. CO-OPERATION WITH THE EIB AND INTERNATIONAL FINANCIAL INSTITUTIONS

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

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

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

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

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

- 14 SME Finance Facilities comprising in total €323 million of EU incentives and €2,039.25 million of credit lines from the IFIs. As of end-February 2006, €267 million of EU incentives are already earmarked into projects.
- 9 Municipal Finance Facilities comprising a total of €100 million of EU incentives and €500 million of loans from the IFIs. As of end-February 2006; €37.5 million of EU incentives are already earmarked into projects.

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

The mechanism of the Municipal Finance Facility is similar to the SME Finance Facility mechanism. Loan and risk-sharing instruments from resources of IFIs are combined with non-

reimbursable financial incentives for local financial intermediaries. It is also foreseen that a limited amount of technical assistance for municipalities will be funded by Phare to strengthen the demand side of the municipal credit market.

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

#### **4. MONITORING AND EVALUATION**

The monitoring and evaluation function aims firstly to monitor and evaluate the financial support to the beneficiary countries in achieving pre-accession objectives by assessing the programme performance and deriving lessons learned. Secondly, it provides accountability with respect to the value of money and the use of pre-accession funds. A third objective is to support the development of local monitoring and evaluation capacity in beneficiary countries as a means to strengthen their capacity to manage and control pre-accession aid.

##### **4.1. Ex ante evaluation**

During 2005, an ex-ante evaluation exercise of the Instrument for Pre-accession Assistance (IPA) was prepared. The exercise will start in 2006 and serve as an input into the preparation of the IPA Multi-annual Indicative Planning Documents.

##### **4.2. Monitoring and Interim Evaluation**

In 2005, the interim evaluation (IE) schemes in Romania, Bulgaria and Turkey managed by the Evaluation unit of DG ELARG generated 34 individual country, sectoral, ad-hoc or thematic evaluation reports covering Phare and other pre-accession financial instruments measures. Steps were also taken to launch an interim evaluation scheme in Croatia. The Interim Evaluation reports on financial support in 2005 showed that the performance of Bulgaria, Romania and Turkey pre-accession assistance was rather mixed. A significant number of programmes were only rated as barely satisfactory.

Results and impacts on several sectors have been mixed. Notable exception is the Justice & Home affairs sector where the immediate results of the majority of the assistance were significant but with less evident impact on the society as a whole. Other sectors with positive results included internal market and agriculture. By contrast, the overall results and impact of preparing beneficiaries to manage the structural funds have been limited.

The main findings of the evaluation of Phare assistance to Roma minorities are that Phare has been able to support integrationist projects for the Roma, which have contributed to opening up a civil dialogue and which have achieved some initial results especially in institution-building. Twinning has continued to serve as an essential instrument for the pre-accession process.

### **4.3. Ex post evaluation**

In 2005, the external ex post evaluation exercise of Phare programmes, comprised of national, cross-border and multi-beneficiary programmes, started. The exercise is scheduled to be completed by the end of 2006.

### **5. 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 2005, as well as to support the development of local monitoring and evaluation capacity. Specific actions are described in Annex Part II.3.