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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE
COUNCIL AND THE ECONOMIC AND SOCIAL COMMITTEE**

**2009 ANNUAL REPORT ON PHARE, TURKEY PRE-ACCESSION INSTRUMENTS,
CARDS AND THE TRANSITION FACILITY**

1. INTRODUCTION

Since 1 January 2007, EU pre-accession assistance to candidate countries¹ and potential candidates² is channelled through the Instrument for Pre-accession Assistance (IPA)³. IPA replaces five former pre-accession instruments, including PHARE⁴, the Turkish pre-accession instrument⁵ and the financial instrument for the Western Balkans, i.e. CARDS⁶.

This report and the associated background document cover the continuing implementation of 2006 and earlier programmes under PHARE, the Turkish pre-accession instrument and CARDS, as well as under the Transition Facility⁷ during the year 2009, with a cut-off date of 31 December 2009⁸.

No new programmes were launched under those instruments since 2006, which was the final programming year.

2. PROGRAMMES IMPLEMENTATION: GENERAL OVERVIEW

2.1. PHARE, Turkey pre-accession instrument and CARDS

During 2009, management performance of *CARDS* programmes in the beneficiaries was, overall, satisfactory. By the end of the reporting period, the 2001-2006 programmes (2001-2004 for Croatia) were almost fully contracted across the board (ranging from 97% of allocated funds for Albania and Bosnia and Herzegovina to 99% for Kosovo⁹). Disbursements were also generally approaching completion, reaching more than 90% of 2001-2006 allocations in all CARDS beneficiaries, with the only exception of Albania (72%).

At, respectively, 85% and 73% of allocated funds, the overall contracting and payment rates reached by the end of the contracting period in 2009 for the 2002-2006 programmes under the *Turkey pre-accession instrument* pointed to less than satisfactory performance by the relevant management authorities in Turkey. The situation is set to improve in the future following changes at management levels, new recruitments and resumption of monitoring activity. Organisational and procedural improvements introduced in the relevant managing structures as part of enhanced supervision of decentralised implementation under IPA should also have a positive impact on the management of assistance under the Turkey pre-accession instrument¹⁰.

During 2009 Bulgaria and Romania continued implementation of *PHARE* 2006 national and Cross-Border Cooperation programmes. Most of the activities under the projects implemented

¹ Croatia, Iceland (as of 2010), the former Yugoslav Republic of Macedonia and Turkey

² Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo

³ Council Regulation No 1085/2006 of 17 July 2006

⁴ Council Regulation (EEC) No 3906/89 of 19 December 1989

⁵ Council Regulation (EC) No 2500/2001 of 17 December 2001

⁶ Community Assistance for Reconstruction, Development and Stabilisation, Council Regulation (EC) No 2666/2000 of 5 December 2000

⁷ Article 31 of the Bulgaria and Romania Accession Treaty

⁸ The programming and implementation of subsequent programmes are reported on in the IPA 2009 Annual Report (COM (2010) 687 final, of 25 November 2010)

⁹ Under UNSCR 1244/99

¹⁰ For further details, see the IPA 2009 Annual Report (cf. footnote 8)

under these programmes were completed by the end of the year, but verification by the national authorities and by the Commission of the results achieved continued in 2010 and will do so also in 2011. Implementation of a number of projects under PHARE 2006 programmes for Romania will continue until mid 2011, so results were not yet available by the end of the reporting period. Disbursements reached, respectively, 77.10% and 65.10% of allocations under PHARE 2005 and 2006 in Bulgaria, while the corresponding figures for Romania were 79.62% and 69%. Contracting of PHARE 2005 and 2006 in Croatia was completed in 2009, at an overall rate of about 86% of allocations¹¹. Payments continued and reached 60% of overall allocations.

2.2. Transition Facility

The ten countries that acceded to the EU in May 2004¹² completed implementation of the 2006 Transition Facility programmes on 15 December 2009, achieving the expected results and impact, notably in terms of enhancing the beneficiaries' public administration and contributing to meeting the remaining needs of the *acquis*. By the end of the reporting period, disbursement rates under the 2005 Transition Facility ranged from over 84% in Malta to over 98% in Cyprus. The corresponding range for the 2006 Transition Facility went from 58% to almost 98% (again in Malta and Cyprus, respectively).

As for Bulgaria and Romania, in 2009 they carried on with contracting and implementation of the 2007 Transition Facility programmes. By the contracting deadline of 15 December 2009, both countries reached a contracting rate of slightly less than 70%. In Romania, this rate was due to slower than expected contracting, while the low performance in Bulgaria is explained by the prolonged suspension of accreditation for decentralised implementation of the relevant Implementing Agency (applied also to PHARE pre-accession funds).

2.3. Successful project examples

Pre-accession assistance not only helps to prepare the countries that wish to join the EU, but has also stabilised the situation in the Western Balkans in the last decade and supported a far-reaching economic and political reform agenda.

The following are concrete examples of achievements through pre-accession assistance in 2009¹³:

- In Albania, CARDS financed a *border crossing point* with Montenegro and a *reintegration centre for minors*, thus contributing to facilitate regional cooperation and the free movement of persons and goods and to strengthen the justice and home affairs sector in the country;
- In Bosnia and Herzegovina, CARDS financed a *border crossing point* with Montenegro as well as a *reception centre for irregular migrants*. The former helps to increase the efficiency of customs clearance, enables adequate control of freight and passengers crossing the borders and facilitates their smooth legal flow. The latter provides specialised detention facilities for the purpose of removal of irregular third country nationals in conformity with international and EU standards and best practices, while preparing for

¹¹ Funds that were not contracted by the deadline have been de-committed

¹² Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia

¹³ Projects completed or ongoing in 2009

their return to their country of origin or to another country. In addition, *municipal and cantonal court buildings* have been rehabilitated so that space can be used more efficiently, therefore contributing to a more efficient and effective conduct of administrative and judicial functions;

- In Croatia, PHARE has contributed to enforcing *intellectual property rights*, developing the *fisheries sector* and aligning it more closely to the Common Fisheries Policy and setting up “*Blue Border surveillance*” in line with EU best practices. In the first case, PHARE assistance has helped the relevant institutions raise public awareness and improve their cooperation, coordination and enforcement mechanisms through exchange of intelligence, information and best practices. In the second case, it has improved the institutional structure, administration and statistical system in the sector and strengthened inspection and monitoring. In the third case, it has helped the Croatian Border Police develop and implement a Blue Border surveillance component to its Integrated Border Management Action Plan. CARDS has contributed to the development and maintenance of a high quality *food safety* system by setting up a new food safety system and related institutional framework and upgrading the control activities of the institutions responsible for live animals and food products;
- In the former Yugoslav Republic of Macedonia, CARDS has contributed to strengthening the *fight against organised crime and corruption* by developing a comprehensive legal and institutional framework for a more effective policy and helping make a specialised anti-corruption Unit fully operational. CARDS has also established a national *visa management system* which enhances security in the EU through specialised software and equipment that improve visa issuing processes and introduce standardised procedures as well as rapid, consistent and accurate verification of visa applicants. Finally, CARDS has supported the setting up of a national *vineyard monitoring and management system* by supporting the responsible body, developing a vineyard cadastre and register and helping align national wine legislation with EU law;
- In Kosovo, CARDS has supported the creation of a *juvenile justice system* based on children’s rights through capacity building of juvenile justice professionals, research development and targeted prevention and rehabilitation programmes. CARDS has also promoted the establishment of modern, sustainable, competitive, environmentally friendly and financially sound *small and medium enterprises* and *employment creation*. Finally, this pre-accession instrument has support the *supply of coal* to existing power plants through the rehabilitation of heavy coal mining machinery;
- In Montenegro, CARDS financed the rehabilitation of a number of wastewater pumping stations in four municipalities, improving the situation of wastewater management in coastal towns;
- In Serbia, CARDS has supported a more transparent, effective and predictable functioning of *local governments* and has piloted a strategic planning methodology for sustainable development of local government. It has also sustained restructuring and development of *SMEs* in priority sectors, such as those with environmental and energy efficiency concerns, owned/run by women entrepreneurs and/or young high-tech enterprises. Finally, it has supported the reform of *Vocational Education and Training* through training of teachers, school managers and others in modernised teaching methods, implementation of pilot curricula, outcome-based assessment of students and preparation of teaching material;

- In Turkey, the pre-accession instrument has supported the definition of a national multiannual action plan on *gender equality*, produced a model for a gender equality body, established networks among relevant institutions and delivered training and awareness-raising. The instrument has also helped to combat domestic violence against women by contributing to develop a policy and a national action plan on the subject, building the capacity of public agencies to provide services to victimized women or to those at risk, raising public awareness and gathering data on the nature and scale of the problem at national level. Further, the instrument has helped to *reduce pollution of groundwater and the environment* by establishing a solid waste management system in the region concerned. Finally, the instrument has funded numerous *employment* projects in various provinces to assist public employment services implement more efficient employment measures in line with labour market needs at a local level and to increase employability of young people and women.

3. RELEVANT DEVELOPMENTS IN 2009, LESSONS LEARNED AND PERSPECTIVES

3.1. Main developments and lessons from implementation of PHARE and the Transition Facility in Bulgaria and Romania

One of the main developments in 2009 with regard to implementation of PHARE and Transition Facility assistance was related to the suspension of funds to Bulgaria in February 2008 and the subsequent withdrawal of accreditation from two Bulgarian Implementing Agencies in July of that same year¹⁴. 2009 saw improvements in the acknowledgement and quantification of control system weaknesses and in the follow-up of irregularities by the relevant Bulgarian authorities as of the month of July. At the end of October 2009, Bulgaria submitted to the Commission proposals for financial corrections. This led the Commission to lift the suspension of payments on 18 November 2009.

Learning from the above experience, during the reporting period the Commission engaged in a wider exercise aimed at addressing more comprehensively those standards of internal control that were most relevant for improving accountability, reinforcing the assurance process and enhancing the effectiveness of decision-making in programming and implementation of pre-accession assistance¹⁵.

Other actions taken in 2009 by the Commission and relevant also for the management of pre-accession programmes that were closing down included the adoption of a Control Strategy document and Instructions to Delegations aimed at guiding their setting up of the internal control standards, particularly in the newly devolved¹⁶ EU Delegations in the Western

¹⁴ In February 2008 the Commission suspended payments of PHARE and the Transition Facility funds managed by two accredited agencies and in July 2008 it withdrew the accreditation of those agencies, i.e. their right to manage those programmes, following controls on the spot which revealed that the national management and control systems set up to manage pre-accession funds were not reliable. See 2008 Annual Report on PHARE, Turkey Pre-Accession Instrument, CARDS and Transition Facility, COM(2009)700 of 21.12.2009

¹⁵ Namely, the internal control standards related to *objectives and performance indicators, risk management process, processes and procedures and management supervision*

¹⁶ Until the end of 2008, the major part of the CARDS programme was managed by the European Agency for Reconstruction (EAR). Since September 2008, the remaining tasks of implementing this programme in the former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia were taken over by the EU Delegations under the responsibility of Commission headquarters (DG Enlargement)

Balkans, and clarifying aspects of supervision at headquarters. A payment claims validation policy for centralised management¹⁷, including the preparation of *annual assurance strategies* by Authorising Officers by Sub-Delegation¹⁸ (AOSD), was also adopted in this context. Additional *ex post* controls of AOSD acts in centralised management were foreseen from 2010.

The experience from implementation of PHARE and the Transition Facility under EDIS¹⁹ in Bulgaria and Romania has brought home the lesson that decentralised management of EU assistance *without ex-ante* controls should be introduced before accession, so that its efficiency and effectiveness can be demonstrated and confirmed in practice under the close scrutiny of the Commission.

Mindful of this, the Commission has set tight conditions for the decentralisation of the management of IPA funds to the Croatian authorities. These conditions will ensure that the national authorities are capable of assuming the tasks of managing pre-accession (IPA) funds before accession and Structural Funds after accession. Similarly, the Commission will take further action to address outstanding recommendations from audits and evaluations to strengthen the management and control systems for decentralised implementation of IPA in Turkey.

Implementation of pre-accession assistance in Bulgaria and Romania has also indicated that issues remaining during the last year of implementation can still be complicated and resource demanding. Therefore in 2009 the Commission intensified its efforts to secure a closer monitoring and *ex-post* follow up of the programmes that were closing-down.

Finally, the experience in Bulgaria and Romania has also had an impacted on the coordination of the EU pre-accession assistance in those countries. Following from Parliament's request for regular reporting on the status of implementation of EU funds in Bulgaria and Romania, in 2009 the Commission has created an additional internal coordination mechanism to monitor the management of EU funds in those two countries.

3.2. Lessons from implementation of the pre-accession instrument in Turkey and perspectives

Turkey is the biggest recipient of EU pre-accession assistance. Management of this assistance is partially decentralised, i.e. conferred to the national authorities, but under *ex ante* control by the EU Delegation. Although recognizing that projects funded from the EU budget had achieved their intended outputs and that results were likely to be sustainable, in its Special Report 16/2009 on the management of pre-accession assistance to Turkey under the

¹⁷ Applicable *mutatis mutandis* to decentralised implementation, although subject to further clarification in this case

¹⁸ I.e. with powers of budget implementation conferred upon them (delegated) by the Commission, as per Art. 51 of the Financial Regulation applicable to the EU general budget, Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002

¹⁹ Extended Decentralised Implementation System. Management of pre-accession assistance is an important learning phase for the national authorities of a candidate country to prepare for future management of the – considerably higher – amounts the country will receive after accession. Therefore management of pre-accession funds is conferred to the national authorities gradually, first under supervision by the EU Delegation (DIS - decentralised implementation with *ex ante* controls) and later on without such *ex ante* controls (EDIS)

instrument applicable in the period 2002-2006²⁰, the Court of Auditors considered that, in the past, the link of the assistance to the priorities of the enlargement agenda and its effectiveness in supporting those priorities could not be sufficiently demonstrated.

Mindful of the above findings, the Commission is taking steps under the new instrument for pre-accession assistance (IPA) to increase its effectiveness. In addition to strengthening the management and control system under decentralised implementation, already mentioned above, the following steps are being taken:

- Programming of financial assistance will be better linked to political priorities and will be complemented with a more sectoral approach where appropriate, with sector strategies aiming at both improved ownership and impact.
- The Commission will ensure that future projects have clearer objectives that result in an improved intervention logic with relevant and measurable indicators and benchmarks.
- Where necessary, clearly defined conditionalities will be used to ensure that beneficiaries implement the commitments necessary for financial assistance to achieve results and impacts.
- Increased focus on results and impact of projects under implementation will be given in the monitoring systems.
- Audits, evaluations and close monitoring will ensure that improvements are effective and further adjustments are brought under way to the system if necessary.

For more details on perspectives related to management of pre-accession assistance, please refer to the IPA 2009 Annual Report²¹ and related background document²².

4. PERFORMANCE OF PHARE/CARDS/TURKEY PRE-ACCESSION INSTRUMENTS

In 2009 sector, thematic and ad-hoc evaluations were completed as part of the Interim Evaluation (IE) scheme in Turkey and Croatia, covering mainly the pre-accession financial instrument (Turkey) and PHARE and CARDS (Croatia). Retrospective evaluations of CARDS programmes were conducted also in the former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia²³.

According to the evaluations, overall the assistance which has been delivered has addressed the priorities and strategies agreed with the beneficiaries. Evaluation findings suggested the performance of assistance varied from moderately satisfactory to moderately unsatisfactory. *Positive results* have been achieved, including an increased capacity of people and institutions working with EU-funded programmes across all sectors, with beneficial impacts on government policy, institutions, private entities and individuals. The instruments have provided the means to modernise infrastructure, equipment, practices and procedures.

²⁰ Special Report No 16/2009 *The European Commission's management of pre-accession assistance to Turkey*, published on 13 January 2010

²¹ Cf. footnote 8

²² SEC(2010)1430 final of 25 November 2010

²³ For Albania as well as Bosnia and Herzegovina, CARDS evaluations were completed and reported on in 2008

Interventions in the evaluated sectors have therefore produced political, social, environmental and economic impacts.

The performance of assistance was often mitigated by *weaknesses* identified in the beneficiary countries related to programming (insufficient institutional implementation capacity and national strategies at the time of preparation of project proposals), implementation (limited beneficiary capacity in some areas and delays in implementation) and monitoring (limited functionality of the sectoral monitoring sub-committees) of assistance. There was also a lack of tools to assess cost efficiency and the absorption capacity of beneficiaries remained rather weak.

Based on evaluation findings, *recommendations for future programming* included that beneficiary institutions dealing with pre-accession assistance should ensure more adequate capacity for programming and project design. This should include, in particular, more solid assessment of the needs and absorption capacity of the institution making use of the project outputs, a more systematic embedding of assistance with national strategies and higher consideration for efficiency aspects. Regarding implementation, the administrative efficiency within both the national structures and the EU Delegations should be increased further to enable timely procurement procedures and prevent implementation delays. Once projects are being implemented, they should be subject to more systematic monitoring. The monitoring system should be further strengthened both in terms of functionality of sectoral monitoring sub-committees and quality of monitoring reports.

The *long-term impact and sustainability of pre-accession assistance* remained an open issue in most beneficiaries, mainly due to high turnover of staff and budget uncertainty to cover follow up activities and operational/maintenance costs of projects. National authorities therefore need to promptly address the problem of high staff turnover to ensure long-term impact and sustainability. Future programming should also address more systematically the question of financial resources needed to ensure that outputs delivered by programmes are translated into sustainable results.

The beneficiaries are addressing the findings and recommendations from the 2009 evaluations. For its part, the Commission has intensified its regular monitoring of progress in the actions undertaken by the beneficiaries to address evaluation findings. In addition, the Commission is drawing from the findings of these evaluations to improve management of pre-accession assistance under the new IPA instrument, with regard not only to implementation, but also to programming and the wider intervention logic of the new instrument, as outlined above.

5. CO-OPERATION WITH THE EIB AND INTERNATIONAL FINANCIAL INSTITUTIONS

Developments in 2009 under the PHARE funded financial facilities created in cooperation with IFIs²⁴ saw an additional EUR 35 million of incentives earmarked for projects under the *SME Finance Facility (SMEFF)* and EUR 5 million of additional incentives committed under the *Municipal Finance Facility (MFF)*. Overall, 31 PHARE programmes were under implementation in 2009 under the four existing facilities (i.e. the two facilities mentioned above, plus the *Municipal Infrastructure Facility (MIF)* and the *Energy Efficiency Finance*

²⁴ The European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB) in association with Kreditanstalt für Wiederaufbau (KfW)

*Facility (EEFF)*²⁵). New projects were approved under all the facilities except the MIF, for which the contracting period with local financial intermediaries had expired. The difficult market conditions still prevailing in 2009 have caused difficulties in the implementation of programmes under some of the facilities (e.g. MFF 2005 and 2006) as well as requests for amending their scope (e.g. include renewable energy projects under the EEFF). In 2009 those facilities were being reshaped in order to align them with the Europe 2020²⁶ objectives. This process was still ongoing at the end of the reporting period.

²⁵ For more information on the four programmes, see the 2008 Annual Report on PHARE, Turkey Pre-Accession Instrument, CARDS and Transition Facility (COM(2009)700 final of 21.12.2009)

²⁶ Europe 2020 is the new strategy for a smart, sustainable and inclusive growth, launched by the Commission on 3 March 2010 (COM(2010)2020 final, of 3.3.2010) to exit the economic crisis and prepare the EU economy for the next decade and adopted by the Council in June 2010 (EUCO 13/10 of 17 June 2010)