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Phare 2000 Review

Strengthening Preparations For Membership

Communication from Mr Verheugen

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Executive Summary

This Communication presents the findings of a recent review of the Phare programme, one of the three pre-accession instruments that assist the candidate countries to prepare for accession to the European Union.

This review assessed whether Phare's orientations, as introduced in 1997 and updated in 1999, still meet candidate countries' needs and whether any further refinements are required.

It takes into account the new context arising from the adoption of Agenda 2000 at the Berlin European Council, including the increase in the Phare budget, and the progress achieved in the accession negotiations with the ten countries which are eligible for Phare from 2000.

The review concluded that Phare's current orientations continue to address the main needs of the applicant countries. Accession-led programming of Phare should continue, based on the Accession Partnership, National Programme for the Adoption of the Acquis, Regular Reports and the negotiations process. Phare's primary objective must remain institution building and promoting convergence with the Community's *acquis communautaire*, directly helping the countries to comply with the political, economic and *acquis communautaire* criteria set by the Copenhagen Council in 1993.

But the review identified two challenges for Phare that the Commission must tackle in the period 2000-2006:

- (1) ***Delivering on the Past Reforms.*** There should be a period of relative stability to consolidate the past reforms and to ensure their full benefit is obtained. In addition, some of '97 reforms must be refined to respond to the constructive criticisms of the Court of Auditors and European Parliament. Lastly, efforts to raise impact and absorption capacity in the applicant countries must be further emphasised.
- (2) ***Moving to Structural Funds.*** The aim is to devote about half the investment element of Phare within national programmes to this objective. The objective of Phare in this area is to:
 - (a) prepare for the implementation of Structural Funds in candidate countries by putting in place the necessary administrative and budgetary structures.
 - (b) allow these countries to benefit from a first generation of integrated regional development programmes of an Objective 1 type contributing to their economic and social cohesion.

In summary, the principal developments proposed in this Communication that build on the existing Phare system are:

- (1) To move on a differentiated basis to multi-annual programming for 2002-2006 for all Phare support, where the National Development Plans and the National Programmes for the Adoption of the Acquis warrant such an approach.
- (2) To decentralise implementation responsibility to the candidate countries from 2002, where strict preconditions are met; to improve the impact of Phare through greater national involvement in monitoring and applying monitoring results more directly to

programming of new Phare funds; and, to reinforce support, alongside candidate countries' own efforts, to implementing authorities (managing authorities in the sense of article 34 of the Structural Funds regulation) that have been accepted by the candidate country and the Commission.

- (3) To introduce more Objective 1 type approaches to Phare's support in economic and social cohesion, in the framework of the priorities set for this Objective (ie. productive sector activity, human resources and business related infrastructure).
- (4) To increase the use of schemes (equivalent to "measures" in the Structural Funds) under economic and social cohesion but to tighten up on their management.
- (5) To implement joint Interreg/Phare cross-border programmes on the basis of priorities adopted by the Joint Programming Committees, in the context of multi-annual indicative amounts set by Phare for each border, and to allow CBC through the schemes mentioned above to finance projects between €50,000 and €2 million from 2001.
- (6) To introduce the possibility of medium term assignments (ie. for around 6 months) for institution building alongside the twinning instrument.
- (7) To raise absorption capacity with substantial project preparation support.

None of the key actions presented in this Communication will be implemented unless clear preconditions have been met and the necessary financial and human resources are in place. Some key actions can be implemented in 2000 but multi-annual programming and decentralisation cannot start before 2002 at the earliest due to the preparation needed to ensure adequate management and financial control systems are in place and operational. The period covered by multi-annual programming will have no implication for the date of accession. Measures agreed under the pre-accession instruments in this context will be carried over into Structural Fund programmes, provided that they cover expenditure eligible under the Structural Funds regulation.

A small task force will be established in DG Enlargement to oversee the implementation of this Communication's developments. In addition, a monitoring and early warning capacity is being developed to assess and mitigate risks associated with the proposed developments.

Detailed procedures for the implementation of the main actions have been prepared to ensure the implications of each action are fully mapped out beforehand.

To ensure transparency, this Communication has been discussed widely, including with Member States, candidate countries and members of the European Parliament.

1. INTRODUCTION

Phare's history – 1989 to 2000

The Phare programme is one of the three pre-accession instruments financed by the European Communities to assist the applicant countries of central Europe in their preparations for joining the European Union.

The Phare programme has been providing support to the countries of central Europe since 1989, helping them through a period of massive economic restructuring and political change. Following the 1993 Copenhagen Council's invitation to central European countries to apply for membership, Phare support was reoriented, including a marked expansion in support to infrastructure investment.

However, Phare's total "pre-accession" focus was put in place only in 1997 in response to the Luxembourg European Council's launching of the present enlargement process. Phare funds now focus entirely on the pre-accession priorities highlighted in each country's Accession Partnership. Civil servants from member states are now seconded through "twinning" to assist their counterparts in preparing for accession. Lastly, Phare's management was integrated into applicant country government structures through the creation of the National Fund and a limited number of implementing agencies.

These basic orientations were adjusted in 1999 to reflect the coming on stream of Sapard in agriculture and rural development and of ISPA in transport and environment infrastructure. The principal adjustment was to redirect Phare's liberated funds towards tackling the issue of economic and social cohesion.

In 2000-2006, Phare is providing some €11 billion of cofinancing for institution building support through "twinning" and technical assistance and for investment support to help applicant countries in their efforts:

- (1) To strengthen their public administrations and institutions to function effectively inside the Union.
- (2) To promote convergence with the European Community's extensive legislation and reduce the need for transition periods.
- (3) To promote economic and social cohesion.

The guidelines for Phare were set out in the 1997 Commission Decision entitled "New Phare Orientations for Pre-Accession Assistance" including the critical principle of accession-led programming on the basis of the Accession Partnership (AP), the National Programme for the Adoption of the Acquis (NPAA) and the Regular Reports. The reforms also set out new instruments and structures to tackle the lack of impact and sustainability of Phare projects as highlighted in Commission evaluation reports, to prepare for implementation structures needed after accession and to reduce the high backlog of budgetary commitments that had been criticised by the Court of Auditors and the European Parliament.

These basic Orientations were updated in 1999 (SEC (1999)1596 final) so as to redirect the Phare funds that were liberated by the arrival of Sapard and ISPA from rural development

and from selected infrastructure projects in the sectors of transport and environment towards the area of economic and social cohesion, including projects not addressed under these two new pre-accession instruments. Following the arrival of the new Commission, a review was started to examine the performance of the Phare programme and to propose if necessary any adjustments to enhance its impact in meeting the rapidly evolving requirements of the candidate countries as they move towards accession. This is fully in line with the Commission objective of achieving value for money.

2. PROGRESS IN IMPLEMENTING THE 1997 REFORMS

2.1. Positive Results

The 1997 reforms – especially those setting up new implementation structures – were fundamental and took some twelve to eighteen months to complete, making 1999 effectively the first year of operation of the reformed Phare programme. As such, the full impact of the 1997 reform is only now being felt. There needs to be a period of relative stability over the coming two years so as to consolidate the 1997 reform process. However, the *overall results* already indicate that the reforms were well judged:

- (1) Phare programming has been fully re-oriented towards the accession objectives in the AP and NPAA, as refined annually by the Regular Reports and negotiations.
- (2) Twinning is now operational with 200 member states' civil servants in place advising their counterparts in national administrations on priority acquis issues.
- (3) The new management structures are operational in all ten candidate countries based on National Funds, Central Financing and Contracting Units (CFCUs) and Implementing Agencies. The Joint Monitoring Committees are entering operation. More responsibility has been deconcentrated to Commission Delegations.
- (4) The first Phare programmes focusing on promoting economic and social cohesion are being financed in 2000 on the basis of draft national development plans written by the countries in 1999.

The effect of these reforms is feeding through to the *Phare contracting rates* (see also Annex 1). First, the five countries with the lowest contracting rates in 1997 have shown substantial improvements in 1998. Second, contracting data on the 1997 and 1998 programmes suggest the average time between the financing memorandum and contracting is decreasing. Third, average contract size is increasing by between two and four times, depending on country. However, this progress will slow in 2001 and 2002, given the increase in the number of small project schemes that are required in support to economic and social cohesion.

Raising contracting rates was only one of the objectives behind the '97 reforms. Progress in other areas has also been positive. First, reforms sought to raise *impact* through a tighter programming framework and by requiring the regular assessment of programmes. As a

result, the number of Phare programmes rated as satisfactory or above in the Commission's assessment has increased from 39% in 1999 to 56% in 2000. However, this level clearly still needs to be improved, hence the focus placed in this Communication on raising impact.

Second, the reforms integrated Phare funding into the government's own structures and orientated those structures into a form suitable for running Structural Funds after accession. There has been a drastic reduction in the use of Programme Management Units that previously managed programmes. Third, *budgetary coordination* has been improved because Phare funds are now administered by the country's own public budgetary authority. Lastly, by placing Phare within the government's own budgetary systems and increasing government responsibility for the use of the funds, Phare's reforms have the potential to become a major *impetus for improved financial control* within the national budgetary system itself.

The flexibility built into programming has allowed the refocusing of the Phare programme in 2000 on institution building, on investment to promote compliance with the acquis and on economic and social cohesion to be successfully accomplished.

2.2 Remaining Problems

A number of remaining problems which need to be tackled by the Commission were highlighted in the *Court of Auditors' 1999 sector letter on Phare*. The Court was critical of the disruption caused to candidate countries and the Commission's own services by introducing so many changes at the same time, some of which had not been sufficiently worked out in advance. It also drew attention to the need for continued improvements in project design. On twinning, it noted that the Commission had yet to demonstrate that it was achieving adequate value for money. The Court also referred to the lack of an effective Phare management information system.

While many of the problems raised by the Court were problems of transition from the old system to the new, the Commission agrees the need noted by the Court to insist on focus, impact and absorption capacity, to ensure value for money and to generate useable management information. All these are addressed in this Communication.

In addition, given the start-up difficulties with twinning, the Commission undertook an assessment in early 2000. The assessment's findings have supported the value of the basic twinning instrument but also identified further useful refinements (see section 4.1.1).

Lastly, the Commission accepts that new developments be introduced only gradually when the system is ready to absorb them. This is especially important given the major increase in resources that candidate countries are receiving from the EU post 2000 (Annex 1, Table 1).

In its *Special Report on Phare Cross-Border Cooperation* (CBC) during 1994-1998, the Court of Auditors criticised the limited impact of the programme, due in large part to limited harmonisation with Interreg, but also noted the programme's positive results in institutional development and decentralisation. The Phare CBC Regulation of December 1998 takes the Court's findings largely into account but this Communication proposes further steps that will lead to better aligning of Phare CBC with Interreg on the basis of the Berlin conclusions and the opinion of the European Parliament in this area (see 5.1.5).

The review also identified the need for the Commission to revisit the issue of fundamental public administration reform. While there is no *acquis* in this area and no standard EU model of an effective public service, Phare's possible intervention in this area is warranted because general public administration problems are repeatedly cited in regular reports and negotiations as constraining applicant countries' capacity to meet EU accession requirements.

3. CHALLENGES TO 2006

The review identified two broad challenges facing the Commission in the period 2000-2006:

- (1) ***Delivering the 1997 Phare reforms.*** The Regular Reports show that the tasks facing applicant countries on strengthening their institutions and complying with the *acquis* are far from complete. Equally, the review shows that the certain refinements of the 1997 reforms are needed if their full benefit is to be realised. As such, Phare must continue to refine and deliver on the 1997 reforms, maximising the impact of its support to the countries on complying with the political, economic and *acquis communautaire* criteria set by the Copenhagen Council and developed by the Madrid Council.
- (2) ***Moving to Structural Funds.*** The Commission must adapt its approach in economic and social cohesion. Phare can not only help applicant countries address the wide development disparities that exist between them and existing member states but must also familiarise them with the structures and procedures that they will need if they are to use Structural Funds efficiently and effectively upon accession. The Review concludes that this can be most efficiently achieved by introducing progressively Objective 1 style approaches with substantial financial resources into Phare's support to economic and social cohesion, by extending decentralisation of management, by developing management capacity and financial control and by introducing the possibility of multi-annual programming to all Phare support.

The remainder of this Communication presents the key actions proposed for the period 2000-2006 that will ensure Phare meets the above two challenges. These key actions intentionally build on the positive management and policy reforms put in place since 1997.

This Communication focuses on the ten applicant countries of central Europe. While it does not cover Cyprus, Malta and Turkey, the Commission will apply the same management principles as appropriate to these programmes. Extended decentralisation will apply to Malta and Cyprus at the earliest opportunity.

4. DELIVERING THE '97 REFORMS.

There will be no change in the basic focus of Phare in the period 2000-2006. Phare will remain a tool to address the critical priorities identified in the Accession Partnerships, the National Programme for the Adoption of the *Acquis* and Regular Reports. Increasingly, Phare will also be steered by the problems emerging in the course of negotiations.

It is for this reason that this Communication does not provide indications of sectoral or thematic priorities for Phare funding, as these must arise from the negotiation and monitoring processes. Even as accession approaches and the list of institution building problems logically declines, the scale of the task facing the applicant countries will ensure that at least 30% of Phare's budget will continue to be needed for institution building.

However, the Review identifies a series of key actions that will help improve Phare's impact in this core area, as detailed in the following sections.

4.1. Institution Building and Public Administration Reform

As this remains Phare's principal focus, the Review examined in detail the approach on institution building to identify any possible refinements that would raise the programme's impact and efficiency in this area.

4.1.1. Twinning "Light"

An independent assessment in the first half of 2000 found that twinning continues to address the countries' institution building needs, is generally working well but can still be improved¹. The Phare Review therefore concludes that the instrument will be continued but a mechanism to cover medium term assignments needs to be developed and the use of traditional technical assistance retained, where appropriate.

Short-term institution building needs of up to two weeks are addressed by the Taiex instrument. Longer-term needs of up to 24 months are addressed by twinning through inter alia the provision of civil servants on long term secondment from member state administrations to counterpart administrations in the applicant countries. However, to address those Accession Partnership priorities that lie between these two extremes, projects providing medium term twinning (twinning "light") will be introduced in 2001 Phare programmes. These will provide civil servants' expertise from member states for assignments of up to six months, with possible limited extensions. However, these civil servants need not be located permanently in the applicant country, unlike pre-accession advisors. The procedures for these assignments will be simply an abridged form of those used currently under twinning. The results-based approach will continue. Medium term assignments will be identified in project fiches in the annual programme. However, each country will also have in its annual programme a small contingency to cover a limited number of additional unforeseen medium term assignments as and when they arise. If this is not utilised before Financing Memorandum expiry, the funds will be cancelled.

4.1.2. General Public Administration Reform

Public administration reform is a key determinant as to whether new member states can function within the Union. However, much remains to be done before accession to develop a suitable public service culture, to reduce the opportunities for widespread corruption and increase the results from current anti-corruption programmes, to develop inter-ministerial co-ordination and to ensure that the many talented people who work in public

¹ The findings of this assessment will be placed on the Commission DG Enlargement website.

administrations have the resources, remuneration and motivation to do the jobs that accession will demand and the public increasingly expects.

The instruments used in the Phare programme risk being undermined by systemic failings in national administrations. There will be no improvement without strong political commitment by candidate countries. The EU needs to develop with the Member States and other donors a stronger collective voice so that candidate countries' commitment to better public administration can be fostered and built on. The Commission will continue to provide focused assistance for public administration capacity related to the acquis. A number of national programmes are already addressing wider public administration issues. In addition, the Commission will consider during the process of programming Phare 2001, in the light of national policies and support available from other external agencies, what scope there is in each candidate country for more systematic attention and resources from Phare for public administration strengthening in selected areas beyond the immediate requirements of the acquis.

4.1.3. Multi-country Programmes

In accordance with the 2000-02 guidelines, the Commission will continue to use multi-country programmes in cases where there has been a specific demonstration of their adequacy or where they can be considered as the most efficient and effective delivery instrument in view of possible economies of scale or the need to promote regional cooperation.

In addition, the Commission will find new International Financial Institution partners to complement its current partnership with EBRD, as for example in the SME Finance Facility (eg. IFC, Nefco and Council of Europe Development Bank) and improve the facility's transparency with regular reporting and country meetings.

Finally, the particular needs of monitoring and assessment and of TAIEX require continued funding, including of external technical assistance offices.

KEY ACTIONS

A mechanism for medium term twinning (twinning "light") will be introduced.

Options for wider public administration reform will be considered for each country in the 2001 programming.

Multi-country programmes will continue on a limited basis.

4.2. Raising the Impact of Phare Projects

Ensuring that Phare projects are designed and implemented for maximum impact is primarily to the benefit of the candidate countries themselves. The Commission sets the framework for and provides support to national authorities' own efforts.

The 1997 reforms have led to improved focus on a limited range of priorities at the programming stage. Extensive guidance exists on programme design and implementation. In order to encourage more effective use of it and greater attention to project impact, the Commission will:

- (1) use multi-annual programming to give candidate countries a firmer basis for investing in project management capacity.
- (2) ensure that in further deconcentration Delegation staff spend more time on project design, monitoring and assessment.
- (3) provide targeted training and support in project management as part of institution building.
- (4) request candidate country authorities to assess the impact of Phare at programme and country level as a contribution to the Commission's reports under the relevant regulations.
- (5) provide assistance to develop national monitoring and assessment capacity.
- (6) Upgrade the Phare management information system.

The tools to improve impact are largely in place. However, they cannot produce the desired results without appropriate staff and resources to use them. The Commission has to have the human and financial resources to promote, monitor and assess Phare's impact in the candidate countries. The Commission will use current resources and budgetary flexibility to try to achieve adequate staffing at headquarters and delegations and will expect the candidate countries in turn to devote resources to project management and design.

KEY ACTIONS

The Commission and national authorities will devote more resources to project design and implementation.

Candidate countries will take gradual responsibility for impact assessment and will report to the Commission on the impact of Phare.

4.3. Boosting the Absorption Capacity of Candidate countries

While the needs facing the candidate countries are huge, the number of ready and well prepared investment and institution building projects is low. This is especially true at regional level where regional authorities are increasingly being required to programme substantial amounts of money through structures which may only recently have been put in place. Unless addressed urgently, this problem will severely restrict the absorption capacity of the candidate countries in general and the impact of the Phare programme specifically. It is essential that candidate countries improve their long term financial planning so as to take account of all future resource flows. Phare can help only at the margin.

Regular meetings will be held to coordinate pre-accession support with international financial institutions, national cofinanciers and the private sector that, as in the Union, will have to finance most costs related to accession. Phare funds will support candidate countries' project preparation capacities. This will mean direct support for project preparation in the short term, but also the use of Phare programming and conditionality to encourage the development of sector strategies which provide a framework for long term resource allocation.

KEY ACTION

The Commission will support the development of long-term strategic and financial planning capacity, especially at the regional level, and will use Phare to support the preparation of projects.

4.4. Procedures and Deconcentration

Through the reintegration of Phare related activities from the Service Commun Relex into DG Enlargement in mid 2000, approval procedures will be streamlined. The number of internal checks will be reduced, and they will be conducted in parallel, avoiding overlaps and within strict deadlines. Reform of the Financial Regulation should also simplify the financial commitment procedure, reducing the number of necessary visas within DG Enlargement. The Secretary-General's rules on interservice consultation will be strictly applied. The conditions for approval of Phare decisions will be reviewed and improvements will be proposed.

The Decentralised Implementation System Manual is being updated, including a section on extended decentralisation procedures, for publication before June 2001.

The trend to ***increasing deconcentration*** started in 1997 will continue to expand the role of the Commission's Delegations. Delegations will increasingly lead on programming of Phare economic and social cohesion support in close co-operation with headquarters services involved in related activities (e.g. SAPARD), to ensure maximum complementarity. After developing the multi-annual plans in 2001 (see section 6), Delegations will lead on any annual refinement for support in this area in the period 2002-2006. Programming of institution building support and investment related to the acquis will however be led by headquarters, reflecting as it does the greater importance of negotiations and the Regular Reports.

Training of existing Delegation and headquarters' staff will be undertaken in 2001, as well as provision of new staff if required, given the different type of work they will be called on to do in the run-up to and after extended decentralisation (ie. management information, audit, control, monitoring and evaluation).

In the light of the Commission's overall reforms, the split of responsibilities between headquarters and Delegations may need to be revised as the status of each candidate country develops. A review of staffing and training needs and of the split of responsibilities between headquarters and delegations is underway.

In order to make better use of project management capacity in the private sector, the Commission will make greater use of modern design/build contracts, so purchasing an output, such as a waste management capacity for a municipality, rather than contracting for the various inputs separately.

KEY ACTIONS

The number of approvals leading to financial commitment will be reduced

The conditions for approval of Phare decisions will be reviewed.

The relative roles of Delegations and Headquarters in the project cycle will be redefined and Delegations will receive training and staff to carry out their responsibilities following extended decentralisation

5. MOVING TO THE STRUCTURAL FUNDS

To meet the challenge of moving towards Structural Funds, the Commission will:

- (1) Reinforce progressively Structural Fund approaches and procedures in Phare's economic and social cohesion support.
- (2) Move national Phare programmes to multi-annual programming on a differentiated basis for all support, including institution building.
- (3) Extend decentralisation, so familiarising the applicant countries with the joint responsibility principles that underpin the implementation of the Structural Funds.
- (4) Reinforce support, alongside candidate countries' own efforts, to implementing authorities (ie. managing authorities in the sense of article 34 of the Structural Funds regulation) accepted by the candidate country and the Commission in full compliance with the financial regulation.

However, these key actions must not go beyond the bounds set by the Financial Regulation and the highly specific pre-conditions for decentralisation set down in the Coordination Regulation 1266/99.

5.1. Evolving Phare's Support to Economic and Social Cohesion

The development disparities between the candidate countries and the existing member states are substantial. Central European candidates' per capita GDP range from one quarter to two thirds of the EU average. This makes the issue of economic and social cohesion all the more critical in the EU's pre-accession relations with the applicant countries.

With the funds liberated inside the Phare programme following the start-up of Sapard and ISPA, the Commission expanded its support to economic and social cohesion in 2000. Support for economic and social cohesion has been planned to evolve from this basic

approach adopted in 2000 towards the approaches seen under the Structural Funds as quickly as is sustainable and feasible.

This evolution has to take into account the specific features of each candidate country (eg. size, level of economic and social development, administrative capacity and development priorities). Partnership and differentiation between candidate countries will become a key principle in designing Phare support in this area.

After the first year's experience, the Commission has identified five Key Actions which will promote this development of the economic and social cohesion component from 2001 onwards, independently of the date of accession.

5.1.1. Clarify Phare's Objectives in Economic and Social Cohesion

In the light of the first year of programming Phare's objectives for economic and social cohesion should be:

- (1) to strengthen the countries' **programming and administrative capacities** through institution building support across their entire national territories so that they may absorb the Structural Funds upon accession.
- (2) to use **investment in support of institution building**, and closely co-ordinated with it, to begin to make an impact on development disparities and to allow pilot testing of integrated development programmes similar to Objective 1 and Community Initiatives at national and/or regional level in areas identified in the NDP, the NPAA and the Regional development plans.

Phare technical assistance and twinning support will develop the structures and know how to exercise the planning, monitoring, financial management and financial control of structural funds-type interventions, taking into account the likely predominance of Objective 1 interventions in Phare candidate countries. Given the scale and urgency of this task, this will take up much of Phare's economic and social cohesion resources in certain countries, remembering that the smaller countries receive only some €6 million per year from Phare to address all of this area.

Phare's **investment** support in the area of economic and social cohesion must be focused on a few priorities if it is to have an impact, such as in boosting development in lagging regions or helping to restructure difficult heavy industries. It is neither feasible nor wise to pilot test all structures and instruments that will be developed through institution building. This concentration requires a discipline on programming by the countries, the Commission and member states in the Phare Management Committee to ensure that resources are not spread too thinly across too many programmes. This is especially important in 2001 when future years' allocations are approved as Phare moves to multi-annual programming.

Given the scale of the problem, reducing development disparities is clearly a long-term task. Phare will certainly have an impact on limited priorities where it focuses its investment support but substantial reduction of development disparities across the board can only be achieved by the longer time perspectives of the Structural Funds after accession.

Phare is pushing for maximum impact from its investment support budget in this area by requiring national cofinancing and continuing to seek private sector and IFI cofinancing. The aim will be to devote about half the investment element of Phare within national programmes (or about 35% of the total) to economic and social cohesion. However, Phare's budget will never approach that of the Structural Funds. Its entire budget for the candidate countries represents less than 10% of the per capita support for Objective 1 regions within the Union.

5.1.2. Developing the Strategies for Economic and Social Cohesion

In late 1999, each country prepared its National Development Plan (NDP) that maps out its strategy, priorities and programmes for promoting economic and social cohesion on its national territory. This basic strategy document steers all economic and social cohesion support from Phare and the country itself. The intention is that the NDP should continue to evolve towards the national plan and community support framework documents used inside the Union, emphasising those used in Objective 1 regions. The National Development Plans need strengthening in 2000, to ensure co-ordination of Phare, ISPA and Sapard, to limit the number of sectoral and regional priorities, agreed in partnership with national and regional authorities and, lastly, to ensure technical preparation of individual measures. Their evolution should be in the direction of the Structural Funds regulations (articles 13 and 15 of the general regulation).

In addition, the Commission will advise countries on the complementary strategies (eg. National Employment Strategies) that will also be needed after accession for economic policy coordination and programming Community Initiative funding.

The Commission will reinforce support for public implementing authorities (ie. managing authorities in the sense used in the Structural Funds) accepted by the candidate countries and the Commission on the basis of criteria set in advance in accordance with the financial regulation. This will allow candidate countries to adapt more readily to Community rules and therefore to benefit more rapidly from decentralisation.

5.1.3. Develop Objective 1 Approaches under Phare

To facilitate the introduction of economic and social cohesion in the 2000 programme, Phare's investment support was limited to target regions while Phare's institution building support covered the whole country. However, the Commission believes that there is now scope to introduce approaches more similar to the Objective 1 approaches of the Structural Funds. Under these Funds member states implement both regional programmes and sectoral programmes at national level, in the framework of the priorities of the Structural Funds. For this reason, candidate countries may seek Phare investment support for sectoral schemes implemented at the national level from 2001 as part of integrated development programmes.

Such sectoral schemes at national level can also co-exist with the target region approach that might continue to be the preferred path for some countries. For example, larger countries such as Poland and Romania that contain several NUTS 2 like regions may pursue both the regional and sectoral approach. However, smaller countries such as the Baltic States and Slovenia whose national territories equate to a NUTS 2 like region may opt only for sectoral schemes at the national level, generally including some form of regional

concentration. All candidate countries should aim to develop over time a single integrated regional programme per NUTS 2 unit, and regional programming at sub NUTS 2 level should be consistent with this aim. Rigorous control in programming will be needed to maintain concentration and impact and to avoid creating too many new instruments.

A country's choice of implementation structure is also flexible. Regional programmes need not be implemented by regional structures. They can be implemented by national ministries/agencies, if more appropriate.

The need for the above differentiated and tailored approach for each particular country is critical if the structures developed, strategies designed and programmes financed through Phare are to be sustainable after accession. However, in the context of bridging to Structural Funds, such differentiation must respect the conditions and requirements of the single acquis on Structural Funds and its supporting regulations.

5.1.4. Expand the Programmatic Approach under Phare

Phare is already moving away from the identification of discrete projects towards the programmatic approach of the Structural Funds. The 2000 programme saw the approval of a number of schemes (ie. measures in Structural Funds terms), consisting of nationally or locally selected actions within a single programme along the lines of the economic and social cohesion instruments in use within the Union. A scheme's objectives, project eligibility and selection criteria and procedures are identified in advance in the Financing Memorandum but the actual selection of projects takes place after the Commission decision. Schemes must address a clear priority within the NDP in one of the areas of human resource development, productive sector investment or, in rarer cases, business related infrastructure². The review has concluded that this trend for greater use of schemes under support to economic and social cohesion should be accepted and encouraged, but that the controls need to be tightened up.

In the context of preparation for Objective 1, the candidate countries are invited to present their economic and social cohesion projects in the form of integrated regional development programmes. Where projects are below €2 million, they may not necessarily be identified in advance and proposals may be made for a measure³, as under the Structural Funds to be implemented through a grant scheme. Schemes will co-finance projects for which the Phare contribution is between €50,000 and €2 million. As the Commission has learned by experience and the Court of Auditors has pointed out, sound and efficient management means keeping the number of very small projects to a minimum. To do otherwise invites administrative overload, slow disbursement, low impact and mismanagement of funds. For this reason, projects financed through schemes in economic and social cohesion will involve Phare contributions of not less than €50,000 (except in the case of NGOs). If the project is not part of a scheme, the minimum project size of €2 million applies.

² The equivalent terms in the structural funds guidelines are upgrading human resources, increasing the competitiveness of regional economies, and urban and rural development (see section 5.1.3).

³ As defined under Article 9 (j) of Council Regulation (EC) 1260/99 laying down general provisions on the Structural Funds.

The implementing agency must be shown to have the capacity to take on the greater decentralised responsibility of operating the larger number of projects implied by such schemes. The Commission through site visits and assessment will verify during the programming stage the implementing agency's capacities in terms of management capacities at local level, a clear distinction between management and control, an internal audit trail and a proper accounting system.

Projects in schemes will be identified through a call for proposals. Projects accepted in the selection process must be finally approved by the PAO. For implementing agencies assessed favourably, the list of final selected projects will be sent to the Delegation for information. However, any project identified in the call for proposals for which the Commission contribution is between €300,000 and €2,000,000 will require ex ante endorsement by the Delegation. If the assessment of the implementing agency is not favourable, then pending action on strengthening the implementing agency the Commission may agree to support the scheme but the Delegation will have to endorse all projects with a Phare contribution above €50,000.

The next stage in evolving toward Structural Funds will be after decentralisation (see 5.3 below) when documents covering project selection and implementation above €300,000 will also be controlled by the Commission on an ex-post rather than an ex-ante basis.

The programming authorities will avoid overly complex schemes when management capacities are not well established in the candidate countries. Simple financial engineering will be promoted (ie. beneficiaries' organise commercial bank loans in parallel with Phare grants). More complex schemes such as micro-finance may be referred to the SME Finance Facility managed by the EBRD and other IFIs. The Commission recognises that provision for SMEs within Phare programmes is not yet in practice comprehensive and that the project threshold proposed could restrict access to Phare funds, in particular for small businesses. It will therefore review its SME support in the candidate countries before mid-2001. It will also pursue the existing scope for developing micro-financing under the SME facility.

The countries and Commission will ensure during programming that there is no overlap between the various economic and social cohesion schemes and projects financed through national sectoral schemes, regional programmes or the CBC border region programmes. In addition, no person or organisation receiving Phare funds may receive support from two sources. All projects financed through schemes must have tangible or verifiable outputs.

5.1.5. Evolve Phare Cross-Border Cooperation towards Interreg.

The opportunity has been taken in this review to respond to calls to align Phare CBC further with Interreg, and to align the management of CBC with economic and social cohesion. Through the use of schemes (measures), Phare CBC will be able to finance projects in the €300,000 to €2 million band (Phare contribution) which it has not been able to cover so far. The small projects' fund will continue within CBC but at 10% of the allocation per border and up to a maximum of €50,000 per project.

The Commission and the other institutions recognise the particular problems facing border regions and the importance of transborder cooperation in the next enlargement. The Commission allocates approximately 10% of the Phare budget to cross border cooperation (compared to the 2-3% of Structural Funds allocated to Interreg inside the Union).

The Phare CBC Regulation of December 1998 laid the basis for a better integration of Phare CBC programmes into the candidate countries' overall regional development policy and also for a better alignment with Interreg – answering two criticisms of the Court of Auditors. The Joint Programming Document (JPD) will include common development strategies and priorities (article 7.2 of the PHARE-CBC regulation). Eligible border regions in candidate countries are being defined according to the Interreg method (NUTS III) and a single indicative list of eligible actions under Phare CBC and Interreg has been circulated.

To continue this evolution, the Commission will further develop the programming of CBC through the National Development Plan (NDP), a more programmatic approach, multi-annual programming and decentralisation of implementation.

Support provided by Phare CBC should be consistent with support for investment in economic and social cohesion under the national Phare programme (ie. within the three priorities of business-related infrastructure, productive sector investment and human resource development). This is all the more necessary when eligible regions for Phare CBC are receiving Phare support for investment in economic and social cohesion. The Commission will invite proposals for schemes – using the more disciplined procedures and verification set down in section 5.1.4 – under CBC, covering projects between €50,000 and €2 million (Phare contribution) as for economic and social cohesion⁴. The gap between €300,000 and €2 million not presently covered by Phare will thus be closed.

An exception to the minimum project size within schemes will be made for CBC. Smaller projects under €50,000 which are excluded under normal Phare economic and social cohesion schemes will be permitted under CBC⁵, effectively a continuation of the Small Project Facilities, but only to a limit of 10% of the overall CBC budget.

Where the conditions for running a scheme do not apply, the current minimum €2 million project size will continue to apply at project level, in a flexible way, and each such project will need the Commission's ex ante approval for projects, tenders, and contracts.

To avoid overlap and to promote coordination, there will be one single body (ie. PAO) responsible for CBC and regional development per national border.

It remains to be seen whether these funds could become 'joint' funds (ie. Phare CBC combined with Interreg), and up to which extent joint structures could be set up (eg. joint steering committee and joint secretariat) given the existing procedural differences between

⁴ Using the list of eligible activities in the CBC Regulation (EC 2760/98), such schemes will apply to activities A-I.

⁵ Using CBC Regulation's list of eligible activities, such small projects are restricted to activities J-N.

Phare and Interreg. However, a de facto decentralised approval and implementation of jointly selected projects would definitely benefit genuine joint projects. Where joint structures exist, these will be in charge of project selection. The efficiency and results of the mechanisms described above will be reviewed before the end of 2002, including the need to improve the Phare-CBC regulation where appropriate.

In the Baltic Sea area, where by its nature a transnational approach must be followed, Phare CBC will provide co-funding for programmes supported by Interreg IIIB; a multi-annual Joint Programming Document will be jointly developed and coordinated with the Interreg IIIB Community Initiative Programme (CIP) by the candidate countries and member States bordering the Baltic Sea. For other transnational areas where Interreg IIIB programmes exist or could be developed (CADSES and, in future, areas covered by the CARDS programme), support may come from the Phare national programmes, on a case by case basis. In case it were decided to develop Interreg IIIC type actions, the same procedure could be followed.

KEY ACTIONS

Phare support for economic and social cohesion will concentrate on preparing structures and piloting approaches for Objective 1 actions.

National development plans will be strengthened.

Candidate countries will choose an appropriate mixture of national schemes and regional schemes and will choose appropriate implementing authorities.

The scheme (measure) approach will continue to expand. The Commission will set tighter rules for their management.

As for economic and social cohesion, programming for CBC will arise from the National Development Plan. The scheme approach will be expanded for CBC to allow closer alignment with Interreg.

5.2. Multi-Annual Indicative Programming

The issues which Phare addresses demand a long term approach. The associated budgetary costs are huge and, in response, governments phase their spending over several years. But Phare's support is restricted to a one year planning cycle with no clear undertaking that support will be provided in future years for a particular purpose.

This contradiction between efficient national investment planning and Phare's annuality is a major constraint on the candidate countries at present. It is also out of line with the multi-annual perspective used under Structural Funds. In addition, without a clear planning context for Phare support, applicant countries are reluctant to allocate funds to prepare projects in advance, aggravating problems of financing badly prepared projects that in turn lead to disbursement and impact problems. The review has therefore concluded that indicative multi-annual programming should be reintroduced to Phare, but on the basis of stronger national planning documents and a clearer assurance to candidate countries of the Commission's intentions.

Whatever arrangement is put in place must respect the constraints of the Phare and Financial Regulations. Unlike Sapard, the Phare regulation does not include a programming strategy document on which it can decentralise all project selection. Phare's budgetary allocations for each country will continue to be subject to annual financial Commission Decisions based on Financing Proposals. The inter-institutional arrangement permitting multi-annual budgeting under the Structural Funds will not be extended to the Phare programme.

The NDPs went some way to extending Phare's planning perspective in the area of economic and social cohesion with their financial schedule of support in 2000-2002. Building on this success, the Commission proposes to extend indicative multi-annual programming to cover the period 2002-2006 for all areas of Phare support – including CBC - where the underpinning strategy allows in the Commission's opinion for soundly based judgements to be made about future support requirements from Phare, namely:

- (1) The National Development Plan (NDP), the key steering document for programming economic and social cohesion.
- (2) The National Programme for the Adoption of the Acquis (NPAA), the key steering document for programming among other things Phare institution building support and investment support in regulatory infrastructure.

Where the Commission judges that national planning as set out in these documents allows, it will invite the candidate countries to propose in consultation with the Commission two indicative multi-annual financial tables – one for institution building and investment related to the acquis and the other for economic and social cohesion – in the course of the normal programming round. These will specify allocations to a sector/region level but not to the level of individual projects⁶ for the period to 2006. They will be accompanied by ex-ante appraisals which describe the current position in a sector or region and measurable indicators of achievement in meeting planned objectives. They will be submitted as annexes to the NPAA and NDP. Given its implication for bridging to Structural Funds, the indicative multi-annual financial table relating to economic and social cohesion will be prepared in consultation with the services responsible for Enlargement and Structural Funds. Phare support for human resources development should also be coherent with the recently produced Joint Assessment of the Employment Policy Priorities. In this way, the Phare programme will support the candidate countries in their efforts in preparing their employment systems for implementing the European Employment Strategy.

The Commission will assess the strategy underlying the proposal for indicative multi-annual programmes and will take a differentiated approach. If the NPAA is not strong enough, multi-annual programming will only be introduced for support to economic and social cohesion. In addition, if strategies do not accurately forecast long term needs to 2006, a financial table of commitments covering only two to three years will be agreed. Multi-

⁶ For economic and social cohesion, this means allocations for each target region and/or sectoral scheme at national level (eg. HRD scheme). For support to institution building, allocations will be identified for each priority sector or issue identified in the NPAA (eg. environment or financial control).

annual programming will be delayed if neither of the supporting strategies is appraised as adequate.

The Commission and countries' agreement to these multi-annual indicative financial tables to 2006 neither comments on nor has any implication for the dates for accession. It is a planning document only. In support of this, any priority that is in the table but that may not be committed and implemented before accession will be taken up and committed under the Structural Funds to the extent that it involves expenditure eligible under the Structural Funds regulation. At least 20% of each national Phare programme's allocation to institution building and investment related to the *acquis* will be kept out of the multi-annual indicative financial table and will continue to be programmed annually. This reflects the impossibility of forecasting all future needs in this area clearly and the need to retain funds to address unforeseen priorities that emerge from the Regular Reports and negotiations each year. There will therefore need to be an annual programming process covering both this 20% and programming to project level of multi-annual commitments as necessary.

The Commission will examine carefully proposals for indicative multi-annual programming in the same way as it does individual project proposals, paying particular attention to the quality of *ex-ante* appraisal. Subject to a favourable assessment by the Commission (DG Elarg in association with Structural Funds DGs for the economic and social cohesion proposals) and after consultation of the Phare Management Committee, the financial tables will be attached to the Financing Memorandum with the country for 2002 or later. The Commissioner for Enlargement will communicate the Commission's approval of the financial schedules to the national authorities in the candidate country.

National cofinancing will also be specified in the strategies and tables, as well as any other sources of funding already secured such as from IFIs. Where multi-annual programmes are in place, there will be midterm evaluations of NPAA and NDP objectives and the associated Phare programmes in 2004 that may lead to an adjustment of the financial tables of Phare support in the remaining two years 2005-2006.

Cooperation on programming inside the Commission needs to be reinforced. The aim is to ensure that any programmes in the multi-annual perspective not implemented before accession will be adopted and implemented after accession by the Structural Funds. In order for this to happen, candidate countries will be encouraged to anticipate the *acquis communautaire* in this field. Any funds committed by Phare but not fully disbursed at accession will continue to be financed by payment credits from Heading 7.

Multi-annual programming would be ineffective if allocations specified were dropped or changed significantly, as was the case in the mid-1990s. The approach of accession and the use of nationally approved programming documents (ie. NPAA and NDP) counters this credibility issue. In addition, while the Commission does not have the legal base for committing funds in future years, the approach clearly demonstrates its intention to provide future allocations in the areas indicated. It also reflects the favourable opinion of member states in the Management Committee to this approach. The close involvement of Structural Fund Directorates General in the development of the tables is a further assurance of the Commission's overall commitment to the initiative.

KEY ACTIONS

On the basis of stronger National Programmes for the Adoption of the Acquis and National Development Plans, the Commission will undertake on a selective basis indicative multi-annual programming for the period 2000-06 for institution building and investment. Sufficient flexibility will be retained to address problems arising in the accession process. The programmes will be prepared in association with all relevant Structural Funds services and appropriate planned activities will be taken over by Structural Funds financing for countries that accede in the planning period.

5.3. Extended Decentralisation

The effective and efficient implementation of Community support for Structural Funds inside the Union relies on the decentralisation of implementation to the Member State authorities that is then subject to ex post control by the Commission. However, as Phare constitutes external assistance, the Commission currently controls implementation on an ex ante basis.

As such, candidate countries would have great difficulty in moving directly from the current Phare approach to full financial delegation under Structural Funds as new Member States. To facilitate the transition, implementation of Phare programmes may be further decentralised on a country-by-country basis based on the evaluation of each implementing agency involved in programme delivery as provided for in Council Regulation 1266/99. This extended decentralisation of management allows for the Commission to exercise its controls on an ex post basis (instead of ex ante) and for national procedures to be followed but only when a number of clear and measurable preconditions are met and only if the country accepts financial responsibility for the use of funds.

The procedures for this extended decentralisation system will follow as far as possible the approaches of the Structural Funds, while respecting the limits imposed by the Financial Regulation on external aid. The structures created in 1997 (the National Fund, CFCUs and Implementing Agencies) will be used under extended decentralisation. The system of payments through accountable advances will be retained. The following will be the main directions of evolution of current practice:

- (1) Framework agreements (the legal basis for co-operation between the Commission and candidate countries) will be revised and will spell out a clear separation of responsibilities between candidate country and Commission to underpin the decentralisation.
- (2) after Financing Memorandum signature, full financial responsibility will be transferred to the National Authorising Officer (NAO) for the implementation of funds and for the approval of all intermediate documents (including financing agreements, tenders, contracts and invoices), until Commission verification of operations undertaken at Financing Memorandum expiry.

- (3) management and paying functions will be clearly separated inside the National Fund and Implementing Agencies. This will include appointing managing and paying authorities in line with the approach followed for Structural Funds.
- (4) After a 20% advance on each annual programme, the NAO will request interim replenishments against actual payments made on the contracts financed by the Financing Memorandum. The last 10% will be paid only after the Commission has verified the accounts and discharged the NAO of his/her delegated financial responsibilities at Financing Memorandum expiry.
- (5) internal financial control will be assured by the National Fund and Implementing Agencies which will monitor, control and report on the use of Phare and national funds down to the contract level.
- (6) audit will be undertaken by an independent body and an annual report will be produced by that independent body on the use of Phare funds⁷.
- (7) Commission controls will be exercised on an ex post basis through verification of accounts and operational evaluations. Any non-compliance with established rules – individual irregularity or systematic errors - will result in financial corrections (recovery and/or withdrawal of financing).
- (8) national procurement procedures will be used where consistent with the procurement provisions of Council Regulation (EC) 1266/99. However, if a country's procurement system is not compliant in this regard, decentralisation can still occur but the Commission will specify procedures and contract forms to be used.
- (9) the national monitoring and evaluation system must be able to provide reliable operational details of Phare implementation. Information from assessment and evaluation reports generated through the existing Joint Monitoring Committee structures will be summarised annually.

Responsibility for meeting these preconditions lies with the national fund and implementing agencies. The ten candidate countries will not be ready to move to decentralisation at the same time. The Commission will decide on decentralisation on a country-by-country basis following an analysis of the capacity of the implementing agencies involved in the delivery of Phare programmes. It will spell out detailed procedures and responsibilities in the Phare Financing Memorandum agreed with the country for the year concerned. Following this decision, decentralisation should apply to all ongoing and new programmes⁸.

⁷ The scheduling of this annual audit by the independent body - and any audits/evaluations from the Commission - will be coordinated with the audit requirements of ISPA and Sapard to avoid multiple audits of the same institution.

⁸ Certain programmes may continue to require ex ante Commission approvals due to their specific problems or their nature (eg. twinning). These will be specified in the decision on decentralisation.

To ensure sound economic management and to control risk and in line with the 1999 Composite Paper on enlargement, Commission will cooperate directly with the Court of Auditors and OLAF in 2000 and 2001 to ensure that adequate control and fraud prevention and detection measures are in place.

Commission authorities responsible for ISPA and for Phare are working now on detailed procedures for preparing and implementing this decentralised system. Every effort will be made to keep the procedures for extended decentralisation under Phare and ISPA similar. A checklist has been prepared that spells out the preparatory actions needed in each implementing agency and in national systems to meet each of the preconditions specified in Regulation 1266/99. Model Financing Memorandums are being prepared outlining the detailed operation of this extended decentralisation system under Phare. The operation of decentralisation will also be reflected in the ISPA Financing Memorandum. A model Framework Agreement will be produced and the national approval processes (subject to successful accreditation/verification) should begin in 2001.

KEY ACTION

The Commission will implement the decentralisation provisions of regulation 1266/99 country by country from 2002 and on the basis of strict conditions.

5.4. Reinforce Support to Implementing Agencies

Implementing agencies must be effective and efficient so as to ensure the Phare programme's satisfactory implementation. Sections 4.2 and 4.3 set out those key actions – largely focused on implementing agencies - that the Commission plans to undertake that will boost countries' absorption capacity and impact. However institution building support directly to a very limited number of implementing agencies which may in future work on Structural Funds may also be considered to ensure their effective programme management, where appropriate and where fully in line with structural fund practices as set within Article 23 of Regulation 1260/99.

6. IMPLEMENTATION AND SCHEDULES

Annex 3 summarises the tasks that will be undertaken to ensure the Key Actions set forth in this Communication are fully implemented.

Short Term Tasks: All “Continuing the 97 Reforms” actions and the action entitled “Evolving Phare's support to Economic and Social Cohesion” can be implemented from 2001 onwards. Specific guidance to the countries and Commission programming authorities on these tasks are set out in the “Phare Programming Guide for 2001”. If required, additional instructions may be issued over the coming twelve months, for example on reallocation of tasks in Delegations.

Medium Term Tasks: However multi-annual programming and extended decentralisation cannot be implemented quickly as they are more complex and have higher risks associated with them. As such, the next eighteen months is given over for preparation for the countries, including Commission advice, twinning support and technical assistance. In addition, the Commission's own preparations will be completed by end 2001 (ie. retraining,

information system, etc). These developments may then – for eligible countries – be operational from 2002 onwards.

A gradual introduction of multi-annual programming and extended decentralisation will be consistent with the recommendations of the Court of Auditors and Parliament and will not undermine the Commission's responsibilities for guaranteeing sound and efficient management.

Moving to extended decentralisation is highly complex and will require great effort, especially from the candidate countries themselves. The Communication provides the general policy orientations. To assist the countries in acting on these orientations, a guideline checklist has been prepared that set out in more detail the preparation activities to be undertaken and the main procedures for the operation of extended decentralisation.

A small temporary task force will be established in DG Enlargement to coordinate the implementation of this Communication's proposals. In addition, money has been allocated centrally for the development of the management information system, for support to the candidate countries in their preparation for extended decentralisation and for continued development of the monitoring and evaluation systems. Additional support may be allocated under national Phare programmes.

There will be a careful monitoring, early warning and mitigation of the principal risks associated with this Communication's proposed developments, especially as regards multiannual programming and extended decentralisation. The main risks identified are: (i) implementation of reforms runs into problems because of poor preparation; (ii) internal Commission co-operation and co-ordination is inadequate; (iii) budgeting of finance and human resources is not adequate to implement the Key Actions; (iv) Key Actions in areas of Phare impact and absorption capacity only produce minor and slow improvements; (v) financial control and corruption problems arise after decentralisation; (vi) disbursement problems arise because of new and untested schemes used from 2000 onwards; and, (viii) dilution of resources on too many new schemes.

Other mechanisms to bridge the actual accession period may be required in the longer term.

GLOSSARY

- **ABSORPTION CAPACITY** – the ability of a national administration to plan for and implement external assistance.
- **ACCESSION PARTNERSHIP** – document agreed by the Council setting out the Union’s view of priorities in accession preparations in the short and medium term for candidate countries.
- **BACKLOG** – the aggregate commitments under Phare or for an individual country not yet contracted.
- **CANDIDATE COUNTRIES** – for the purposes of this Communication, the ten Central and Eastern European countries with whom accession negotiations have been opened.
- **CFCU** – the Central Financing and Contracting Unit set up in all candidate countries which administers tenders, contracts and payments for all Institution Building and some investment projects.
- **DECENTRALISATION** – the process by which management of EU funds is devolved to candidate country administrations. This is presently governed by the Decentralised Implementation System (DIS). This communication envisages replacing Commission ex-ante control with ex-post control under certain conditions (extended decentralisation).
- **DECONCENTRATION** – the process by which management of EU funds is devolved from Commission HQ to Delegations.
- **EX-POST EVALUATION** – the evaluation of impact of an activity after completion.
- **IMPLEMENTING AGENCY** – the agency in the candidate country responsible for tendering, contracting and payment for projects assigned to it. The CFCU is the Implementing agency for Institution Building projects.
- **ISPA** – the Pre-Accession Structural Instrument which finances environment and transport projects.
- **JOINT MONITORING COMMITTEE** – the Committee set up in all candidate countries to co-ordinate monitoring and assessment of pre-accession aid.
- **MONITORING & ASSESSMENT** – the process of gathering data on project progress, assessing the likelihood of objectives being met, and recommending changes in approach if necessary.
- **MULTI ANNUAL FINANCIAL TABLE** – under multi-annual programming, a document which will set out an agreed level of Phare support for selected sectors and economic and social cohesion measures for several years ahead.
- **NATIONAL AID COORDINATOR** – in candidate country administrations, ensures a close link between the general accession process and the use of Community financial assistance.

- NATIONAL DEVELOPMENT PLAN (NDP) – the candidate country’s action programme for regional development and Objective 1-type measures.
- NATIONAL FUND - the central treasury entity through which the Community funds are channelled into the candidate country
- NATIONAL PROGRAMME FOR THE ADOPTION OF THE ACQUIS (NPAA) – the candidate country’s own timed and costed action programme for accession preparation.
- PROJECT AUTHORISING OFFICER – head of an Implementing Agency.
- REGULAR REPORT – the annual report by the Commission on the state of preparedness of each candidate country.
- SAPARD – the Special Action Programme for Agriculture and Rural Development, the pre-accession instrument for this sector.
- SMALL PROJECT FACILITY – part of the Cross Border Co-operation programme which allows projects below a given threshold to be identified as the programme progresses.
- TWINNING – an agreement between a candidate country and one or more member state administrations to transfer acquis-related skills and knowledge with a specific result (progress towards adoption of part of the acquis).

Annex 1

REVIEW OF PROGRESS SINCE 1997

1. Policy Problems and Responses

With the possibility of accession to the Union clearly on the table by the mid 1990s, Phare had to move its focus from general restructuring support to facilitating candidates' pre-accession efforts. This required not only a change to the strategy for Phare but also the addition of new instruments to better match the maturing needs of the countries.

Developments in Phare 1997-2000		
1997 reforms	1999 guidelines	Proposed for 2001 and beyond
<p>Programming based solely on Accession Partnerships and National Programmes for the Adoption of the acquis</p> <p>Institution building a key priority (minimum 30% of the programme)</p> <p>Twinning introduced</p> <p>Supervision of implementation deconcentrated to Delegations</p> <p>Multi-annual programmes reduced</p> <p>Minimum project size and criterion of maturity established</p> <p>Principle of joint responsibility for monitoring established. Role and composition of Joint Monitoring Committees defined</p> <p>Principle of further decentralisation established</p> <p>National Fund established</p> <p>Project Management Units phased out</p>	<p>Investment support reoriented to take account of opening of ISPA and SAPARD. Co-ordination mechanism for co-ordination of pre-accession instruments established.</p> <p>Framework for economic and social cohesion support established, based on National Development Plan and investment actions in priority regions</p>	<p>Multi-annual commitments from 2002 based on strengthened NPAA and NDP. Objectives of economic and social cohesion refined. Investment in priority regions to be supplemented by possibility of support for Structural Fund type measures at national level. Programmatic approach through schemes expanded</p> <p>Twinning extended to cover shorter periods</p> <p>Deconcentration extended and roles within Delegations redefined to allow more time to be spent on substantive project supervision</p> <p>Movement from ex-ante to ex-post control from 2002 under defined conditions</p>

Moving to this next phase was the basic policy rationale for the new 1997 Phare reforms that continue to underpin the programme. The first major reform was the introduction of the Accession Partnership and National Programme for the Adoption of the Acquis. These strategic documents, coupled to regular annual progress reports and negotiations, now underpin all programming of Phare. They ensure that Phare is now "accession" instead of "demand" driven, concentrating support on those priorities identified in the Accession Partnerships that help the candidate countries to fulfil the Copenhagen criteria for membership of the Union. Analysis of the appearance of national programmes on Phare management committee agendas suggests that following a dip in 1997 and 1998 as the New Orientations were introduced, this policy framework for programming is beginning to allow programmes to be agreed in reasonable time (Table 2).

Second, given the low levels of administrative capacity identified in the Opinions, institution building has been made and remains a key priority, receiving 30% of the Phare budget. A new instrument of "twinning" between EU and CEEC government institutions and civil servants was introduced recognising that long term secondments of EU civil servants with the central European counterparts addresses applicants' administrative problems more effectively than traditional private sector consultancy advice.

Third, the remaining 70% of the Phare budget project was refocused onto realising concrete investments that directly promote accession, such as regulatory infrastructure for laboratories, and on projects that promote economic and social cohesion that are modelled on and are a precursor to the Structural Funds.

From 1997 to 2000, Phare also assisted the preparation for the ISPA and Sapard instruments through the Special Preparatory Programme and through the Large Scale Infrastructure Facility. On the one hand, this helped the countries develop strategies and institutions for managing Structural Funds and on the other cofinanced with IFIs some €250 million in transport and environment projects, as a precursor to ISPA. With ISPA and Sapard operational since January 2000, Phare's resources now can be reallocated from most rural, environmental and transport large investment projects to focus on promoting investment related to the acquis and economic and social cohesion.

Fourth, multi-country programme support was cut back in response to the need to maximise resources at the country level in order to address the candidate countries' individual needs regarding the acquis, and to reduce any transition problems that might otherwise result from the replacement of Phare pre-accession assistance by support under the Structural Funds instruments at accession day. However, assistance continued to be channelled through the multi-country approach where there were clear advantages in terms of cost, impact and sustainability, such as through the Statistics and Justice and Home Affairs programmes, through cooperation with the EBRD in the horizontal SME Finance Facility or through TAIEX.

Lastly, greater emphasis was placed on ensuring the impact of the Phare programme not only through the more focused programming approach outlined above but also through establishing a comprehensive monitoring and assessment system and ex post evaluation system. These ensure that progress on implementing Phare projects is measured, that projects can be adjusted where necessary and that lessons from completed programmes are learned and fed back into future programming.

There was an update to the Phare reform in 1999 to reflect the imminent start of Sapard and ISPA. Recognising that much of the rural development and of infrastructure needs in environment and transport would be covered by these new instruments from 2000, this update of Phare concentrated on the refocusing of resources onto two core areas of strengthening of institutions and of addressing the substantial problems of economic and social cohesion in the applicant countries.

In addition, this current Review looked at performance in 1999 and in the first six months of 2000 with a number of broad conclusions:

- (1) The basic orientations for Phare's institution building support, including twinning, are sound. However, the emphasis on twinning needs to be counter balanced with a clearer understanding that certain tasks are better addressed by traditional technical assistance. The Review confirmed the important gains in efficiency that will be gained by decentralising administration to the Delegations and CFCU's. Lastly, the TAIEX and twinning instruments address very adequately the short and longer term requirements for institution building. But a medium term instrument is required.
- (2) On economic and social cohesion support, the Review identified that considerable progress has been made. National Development Plans are in place and the first programmes are being put forward for financing in 2000. However, as expected, some teething problems have been experienced that need to be addressed. First, greater emphasis must be placed on mirroring under Phare the types of Objective 1 support that will be for the most part pursued by applicant countries after accession. In this regard, the concept of target regions must be complemented by sectoral programmes implemented at national level. Second, Structural Funds cannot be implemented efficiently unless two other critical structural fund pillars are exported to the Phare programme – notably multi-annual programming and extended decentralisation.
- (3) Two further issues are still insufficiently addressed – notably impact and absorption capacity. The impact of Phare programmes is improving but can be improved further. This requires greater weight being put on monitoring and evaluation and on ensuring that countries are fully integrated into this process and “take ownership” of the results. Absorption capacity is another problem area identified clearly by the Review. The Commission must ensure that adequate resources are allocated by Phare itself and also, more importantly, by the countries themselves to ensure adequate and timely preparation of projects. The Review concludes that Phare must tackle these related problems, recognising that the simplest way to perpetuate low impact and slow disbursement is to finance badly prepared projects. A linked issue must clearly be a more effective use of conditionalities on Phare support.

2. Management Problems and Responses

The 1997 reforms also involved a fundamental change to Phare's management procedures, responding to several major weaknesses that had been highlighted since 1994 by Parliament and the Court of Auditors.

While appropriate in the early 1990s, Phare's implementation system was not well suited to the far larger, more ambitious and focused Phare programme of 1997. As a result, a number of operational problems had resulted.

Firstly, a high and increasing backlog of budgetary commitments had developed that questioned the absorptive capacity of the programme. Second, the candidate countries did not place a high priority on the Phare programme because of its lack of focus and because of its management by project management units that were often artificially separated from government. Third, the programme was fragmented into far too many small projects that not only overloaded the administrations but also prevented focus and created problems of transparency in procurement. Fourth, overly complex administration with over five layers of programming documentation led to unnecessary bureaucratic inefficiency and delays. Fifth, the Commission's own supervision and control systems were inadequate: implementation procedures were unclear and approvals were made too often by central Commission staff rather than locally through Delegations, so creating unnecessary bottlenecks in the approval process. The overlap of responsibilities between Commission institutions meant there was often a lack of clear responsibilities for management and administration.

The Commission agreed a series of substantial reforms to correct these management problems in 1997, focusing on three broad inter-linked objectives – namely, the integration of Phare's implementation into the candidate countries' own government structures, the simplification and rationalisation of the Phare's procedures and the improvement of the Commission's supervision and control over the Phare programme.

The PMU system was terminated. In its place, a National Fund has been created, usually in the Ministry of Finance, to act as the sole conduit of Phare funds. Procurement is now undertaken by a Central Finance and Contracting Unit or by a limited number of Implementing Agencies which will be expected to implement Structural Funds after accession (usually the key ministries such as transport and environment). By 1999, the new system was operational in all ten candidate countries. This process of concentration of implementation responsibility in a few bodies will be continued post 2000 where the target will be to have one CFCU for all institution building support and one implementing agency for economic and social cohesion.

By the end of 1996, Phare's implementation system had become bogged down with overly complex administrative procedures and an excessive number of small projects. On the one hand, a €2 million target size for investment projects was set that has helped counter this problem to some degree. In addition, by requiring that only projects that were ready for tendering could be included in financing proposals, the Commission was able to replace the five levels of Phare planning documents that were used previously with one Accession Partnership and one annual Financing Proposal that outlined in annex the specific projects to be financed and the schedules for contracting and disbursing the funds schedules. Once the Financing Proposal is approved (or the Financing Decision is adopted) and the Financing Memorandum with the government of the country concerned is signed, these specific projects can now immediately be tendered and payments made to the national fund in line with the schedules. This removes the need for additional documents such as sector operational and quarterly work programmes.

The effect of measures to ensure greater speed of implementation is shown in Table 3. Seven out of ten countries have seen an acceleration or a steadying in the rate of contracting programmes. In general, countries with weak contracting performance in 1998 have improved in 1999, in some cases dramatically.

The reforms also overhauled the Phare tendering system to make it more transparent and open. Sectoral framework contracts are now used to implement all technical assistance projects below € 200,000 while any contract above this amount has to pass through full open or restricted tendering, following a pre-qualification exercise advertised on the internet or in the Official Journal.

The reforms also focused on strengthening the Commission's own supervision and control of the Phare programme. Commission Delegations were given an increased role in supervision and Commission financial control over the use of Phare funds was strengthened at both headquarters and in the delegations.

The experience in 1999 and the first part of 2000 confirm that the basic implementation structures – National Fund, Implementing Agencies and technical units - are sound but that their full benefits will not be obtained unless they are strengthened and emphasised over the coming years. In addition, it was recognised that further developments will be needed to be bolted onto this sound basic structure – notably further decentralisation of implementation (including monitoring and evaluation) and multi-annual programming. Prior to accession the applicant countries need to have several years' experience of full responsibility for implementation and programming for lengthy periods in advance on the basis of strong strategic documents. The Review also concluded that imposing these two additional changes too quickly would be highly counterproductive. As such, they cannot be introduced before 2002 at the earliest and only then if clear preconditions are met.

Based on progress so far, the Review also notes that the Commission's procedures and structures can be further streamlined and adjusted to reflect the changing demands of an increasingly decentralised Phare system. Of greatest importance in this regard are:

- (1) To extend the role of Delegations within the increasingly decentralised system.
- (2) To increase the emphasis placed on monitoring and evaluation and ensure full national involvement.
- (3) To consolidate responsibilities in line with overall Commission reform within DG Enlargement so permitting more efficient processing of key documents by fewer but more directly responsible officials.
- (4) To expand cooperation in the area of economic and social cohesion with other Directorate Generals involved in the area of Structural Funds.
- (5) To ensure greater coordination between the three pre-accession instruments.

Table 1: Indicative annual allocations per country for Phare⁹, Ispa and Sapard from 2000: comparison with pre-accession flows 1995-99

	PHARE	SAPARD	ISPA		Total		Average allocation from Phare 1995-99
	Indicative annual allocation (national programmes)	Indicative annual allocation	Indicative annual allocation	Indicative annual allocation	Indicative annual allocation	Indicative annual allocation	
	€ million	€ million	€ million		€ million		€ million
			minim.	maxim.	minim.	maxim.	
Bulgaria	100	52.1	83.2	124.8	235.3	276.9	83.0
Czech	79	22.1	57.2	83.2	158.3	184.3	69.0
Estonia	24	12.1	20.8	36.4	56.9	72.5	24.0
Hungary	96	38.1	72.8	104	206.9	238.1	96.0
Latvia	30	21.8	36.4	57.2	88.2	109	30.0
Lithuania	42	29.8	41.6	62.4	113.4	134.2	42.0
Poland	398	168.7	312	384.8	878.7	951.5	203.0
Romania	242	150.6	208	270.4	600.6	663	110.0
Slovakia	49	18.3	36.4	57.2	103.7	124.5	48.0
Slovenia	25	6.3	10.4	20.8	41.7	52.1	25.0
Total	1085	520	1040		2645		730.0
Total inc CBC et al	1577						

⁹ Includes Cross Border Cooperation Programme

Table 2: Contracting rates: comparison 1997/8 programmes

	% of 1997 commitments contracted by end 1998	% of 1998 commitments contracted by end 1999
Bulgaria	91*	41
Czech Republic	22	39
Estonia	60	59
Hungary	10	23
Latvia	53	50
Lithuania	44	19
Poland	28	49
Romania	55	38
Slovak Republic	36	46
Slovenia	34	38

* 1997 was an atypical year for Bulgaria, since Phare provided mainly emergency aid

**Table 3:
Commitment rates: country programmes presented to management committee 1996-2000**

Programmes* presented before end June	1996	1997	1998	1999	2000
By number	7	5	0	4	6
By % of value of national programmes	52	34	0	45	52

* ten candidate countries within Phare only

Table 4:

**Total Phare commitments, contracts and payments (inc CBC) by sector
(1990-1998 in million EUR)**

Sector	Commitments	Contracts	Payments
Administration & public institutions	761.23	395.35	291.58
Agricultural restructuring	562.60	459.01	438.57
Civil society and democratisation	104.84	79.79	64.95
Education, training and research	1,012.09	959.93	867.51
Environment and nuclear safety	753.12	544.62	447.19
Financial sector	268.68	257.82	248.76
Humanitarian, food and critical aid	533.02	521.07	501.52
Infrastructure (energy, transport and telecoms)	2,145.59	1,298.24	958.04
Approximation of legislation	84.07	73.81	19.66
Consumer protection	12.91	12.63	8.97
Private sector, privat. & restructuring, SMEs	1,156.02	924.98	815.81
Integrated regional measures	340.15	124.91	83.34
Social development and employment	272.84	233.64	202.37
Public health	105.57	98.92	88.46
Other (multidisciplinary, general TA, etc.)	778.15	712.59	552.39
Total	8,890.88	6,697.3	5,589.10

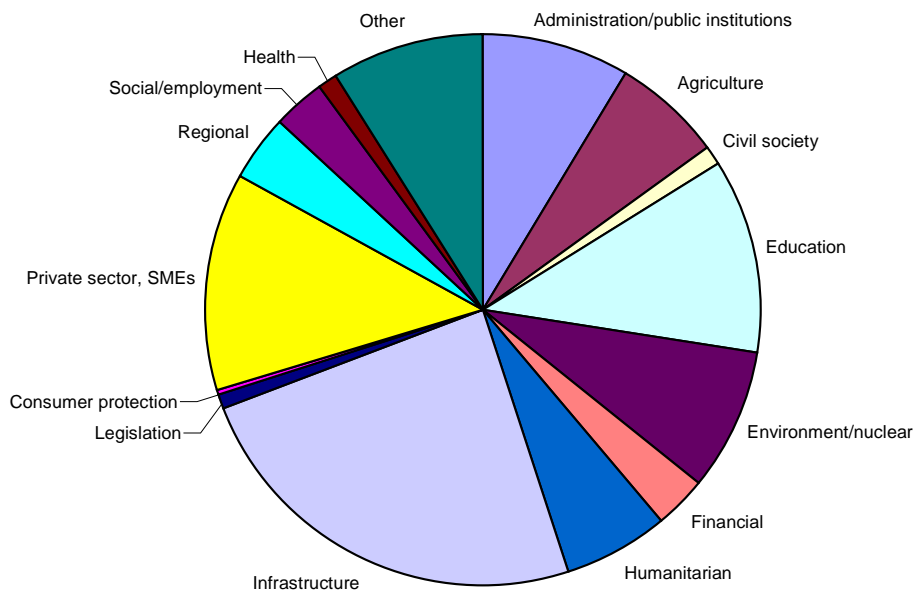
Source : Phare 1998 annual report

Table 5:**Total Phare commitments, contracts and payments (inc CBC) by country
(1990-1998 in million EUR)**

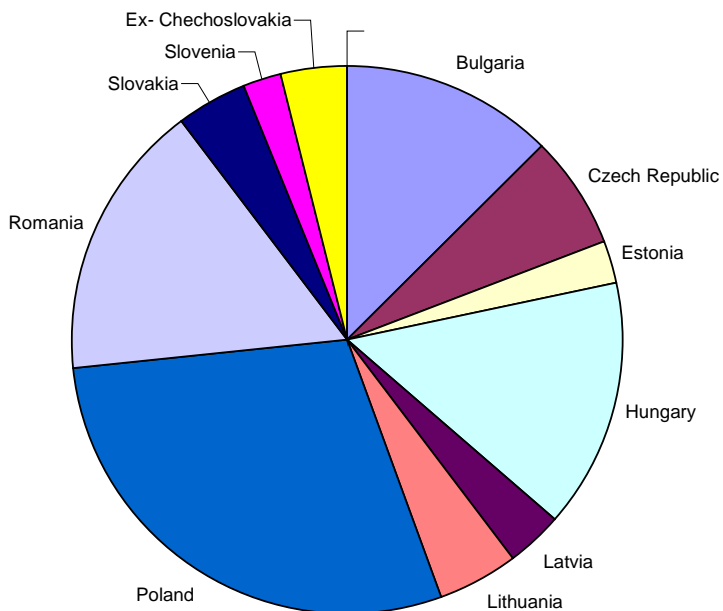
Partner country	Commitments	Contracts	Payments
Albania	493.13	347.82	315.88
Bosnia & Herzegovina	282.33	206.98	152.11
Bulgaria	746.94	518.13	479.44
Czech Republic	389.73	246.12	196.46
Estonia	162.83	116.76	95.48
FYROM	167.33	127.68	93.57
Hungary	864.04	586.59	566.92
Latvia	206.57	149.56	115.07
Lithuania	272.03	197.33	146.46
Poland	1,731.51	1,386.04	1,251.30
Romania	971.85	675.75	598.13
Slovakia	253.23	149.45	132.95
Slovenia	131.29	95.65	77.67
Ex-Czechoslovakia	232.71	228.85	229.17
Multi-country	880.69	701.07	544.67
Horizontal programmes	1,104.68	963.51	593.81
Total	8,890.88	6,697.3	5,589.10

Source : Phare 1998 annual report

Phare commitments by sector, 1990-98



Phare commitments by country, 1990-98
(ten candidates only)



Annex 2

RELEVANT SECTIONS OF COUNCIL REGULATION (EC/1266/1999)

Article 12

- (1) Project selection, tendering and contracting by applicant countries will be subject to ex-ante approval by the Commission.
- (2) The Commission may, however, decide, on the basis of a case-by-case analysis of national and sectorial programme/project management capacity, financial control procedures and structures regarding public finance, to waive the ex-ante approval requirement referred to in paragraph 1 and confer on Implementing Agencies in applicant countries management of aid on a decentralised basis. Such a waiver will be subject to:
 - (a) the minimum criteria for assessing the ability of Implementing Agencies in applicant countries to manage aid and minimum conditions applicable to such agencies set out in the Annex to this Regulation;
 - (b) and specific provisions concerning, inter alia, invitations to tender, scrutiny and evaluation of tenders, the award of contracts and the implementation of Community public procurement directives, which will be laid down in financing agreements with each beneficiary country.
- (3) The Commission will adopt rules governing inspection and evaluation.

Minimum criteria and conditions for decentralising management to Implementing agencies in applicant countries

Minimum criteria for assessing the ability of Implementing Agencies in applicant countries to manage aid. The following criteria will be applied by the Commission in assessing which Implementing Agencies in partner countries are able to manage aid on a decentralised basis:

- (1) there should be a well-defined system for managing the funds with full internal rules of procedure, clear institutional and personal responsibilities;
- (2) the principle of separation of powers must be respected so that there is no risk of conflict of interest in procurement and payment;
- (3) adequate personnel must be available and assigned to the task. They must have suitable auditing skills and experience, language skills and be fully trained in implementing Community programmes.

Minimum conditions for decentralising management to Implementing Agencies in applicant countries. Decentralisation to applicant countries with ex post control by the Commission may be considered for an Implementing Agency where the following conditions are met:

- (1) demonstration of effective internal controls including an independent audit function and an effective accounting and financial reporting system which meets internationally accepted audit standards;
- (2) a recent financial and operational audit showing effective and timely management of Community assistance or national measures of similar nature;
- (3) a reliable national financial control system over the Implementing Agency;
- (4) procurement rules which are endorsed by the Commission as meeting requirements of Title IX of the Financial Regulation applicable to the general budget of the European Communities;
- (5) Commitment by the National Authorising Officer to bear the full financial responsibility and liability for the funds.

This approach will not prejudice the right of the Commission and the Court of Auditors to check the expenditure.

Annex 3 – SUMMARY OF SHORT AND MEDIUM TERM ACTIONS

Short Term Actions (2001)	
1.1 Medium-Term Twinning	<ul style="list-style-type: none"> • Phare Info Office to place assessment report about twinning on the Commission website. • Prepare fiches for financing from 2001 that cover identifiable medium term administrative cooperation assignments. • Budget for small contingency that will be used to finance medium term administrative cooperation assignments that cannot be foreseen at present.
1.2 Programme for General Public Administration Reform	<ul style="list-style-type: none"> • Undertake assessment with national authorities to identify if there are additional measures Phare can finance to assist in general public administration reform. Central resources will be provided to assist in this assessment. • Act on any positive recommendations for programming such public sector administration support.
1.3 Streamline procedures	<ul style="list-style-type: none"> • Finalise review of procedures after repatriation of units/directorate from SCR and of the current split of responsibilities delegations to HQ. • identify specific cases where redundant approvals can be eradicated (especially in the steps for approval of Financing Memorandum) and in financial approvals. • Publish on internet revised/updated DIS manual by June 2001 • Revise split of responsibilities headquarters/delegations to reflect developments arising from this Communication and from Commission's overall reforms.
1.4 Continue Deconcentration	<ul style="list-style-type: none"> • Finalise audit of future needs for deconcentration covering tasks in run to and tasks after decentralisation. Adapt "job description" for HQ and delegations • Finalise instruction on Sincom and access from delegations • Develop guidance for Delegation involvement in programming of economic and social cohesion support

Short Term Actions (2001)

1.5 Actions to Raise the Impact of Phare Projects	<ul style="list-style-type: none">• Integrate Monitoring And Assessment Unit into DG Enlargement as part of SCR repatriation• Monitor establishment of JMC structures.• Provide “lessons learned” from past Phare support (eg. sectoral analysis of past programmes summarising slow/fast disbursement, successes/failures and high/low impact) for inclusion in multi-annual programming discussions by May 2001. Preferably developed by JMC structures.• Ensure uninterrupted technical assistance support to monitoring and assessment as currently undertaken by OMAS consortium.• Include from 2001 a focus in Phare annual report on assessment/evaluation reports’ findings and on coordination of pre-accession instruments.• Provide continued support to countries to include measurable and verifiable indicators of achievement in programme design.
1.7 Develop Management Information System	<ul style="list-style-type: none">• Tender and manage centrally full contract for development of MIS• Oversee financing/installation of new MIS system into Delegations, HQ, Nat Fund, IA’s and CFCU’s.
1.8 Boosting Absorption Capacity	<ul style="list-style-type: none">• Ensure NAO and PAO have assured programme of boosting absorption capacity (institution building and project preparation support) to ensure future project pipeline. If not present, develop programme.• Provide Phare cofinancing on degressive basis (ie. national cofinancing required as well) for institution building and direct pipeline development activities under 2001 Phare programme, where necessary.
2.1 Focusing Phare’s Objective in Economic and Social Cohesion	<ul style="list-style-type: none">• Ensure Phare Institution Building support in 2001 to prepare the main institutions and programmes involved in ESC that will be needed after accession, including both regional programmes and sectoral programmes implemented at national level. Critical recipients in this area will be financial control, procurement and monitoring/evaluation structures/systems.• Programme investment support based on a few priorities.

Short Term Actions (2001)

2.2 Developing the Strategies for Economic and Social Cohesion	<ul style="list-style-type: none">• Country to update the NDP with support from Commission (March/April 2001), especially on coordination of pre-accession instruments / focus on a limited number of priorities / better statistics / better design of measures (including both regional programmes and sectoral programmes at national level).• Country to identify by March-April 2001 (with Commission guidance) the future focus areas for Phare institution building support (ie. key support structures/systems, regional programmes and/or sectoral programmes at national level) for 2002-2006 in view of move to multi-annual programming. This will cover all structures/systems/programmes that structural funds will need after accession.• Country to identify by March-April 2001 (with Commission guidance) future concentrated programmes of Phare investment support (ie. regional programmes and/or sectoral programmes at national level) for 2002-2006 in view of move to multi-annual programming.• Commission to assess draft NDP (and NPAA) and target institution building/investment beneficiaries.• Alert countries to other strategies that should begin to be addressed in applicant countries that will be needed in the EU for general policy coordination and for programming Community Initiatives (eg. National Employment Strategies for ESF).
2.3 Expanding Schemes	<ul style="list-style-type: none">• NAO to ensure all implementing agencies involved on schemes can meet preconditions set out in Communication (2000).• Delegation verification of capacity of implementing agencies to operate schemes (2000 and 2001)• Operation of schemes from 2000 under approach outlined in the Communication which is adapted from existing schemes and Commission's own vade mecum on operation of schemes.
2.4 Developing the National Programme for the Adoption of the Acquis	<ul style="list-style-type: none">• Advice and support to country authorities to strengthen the NPAA, especially as regards financial sections and better preparation of priorities including planned timescales, by May 2001 for assessment/move to multi-annual programming of institution building support.

Short Term Actions (2001)	
3.1 "Preparatory" support for Decentralisation	<ul style="list-style-type: none"> • Commission to prepare common checklist for extended decentralisation for Phare and ISPA covering <ul style="list-style-type: none"> – Financial control and management systems – Internal/external audit – National procurement systems – Budgeting – Monitoring/evaluation – external audit function
3.2 Guidance for move to Multi-Annual Programming	<ul style="list-style-type: none"> • The Commission will provide before end 2000: (I) tailored guidance on revision of the NDP and NPAA on a country by country basis; and, (ii) templates for presentation of the multi-annual financing tables as annexes to the NPAA and NDP in 2001.
3.3 Implementation Manuals, Model Framework Agreements and Model Financing Memorandum	<ul style="list-style-type: none"> • DIS manual of procedures updated to include a section on the procedures to be followed for Extended Decentralisation (pre-conditions, funds flow and control, project management) by mid 2001. • Model Financing Memorandum for extended decentralisation by end 2000. And Model Framework Agreements to countries by end 2000 for countries to prepare approvals on date of moving to extended decentralisation.
Medium Term Actions (2002 onwards)	
5.1 Commission Verification of Extended DIS systems	<ul style="list-style-type: none"> • Commission verification will be undertaken of the national systems to measure that all 1266/99 pre-conditions are met. Audit framework support contracts will be required for this initial verification but also for clearance of accounts/verifications at programme closures.
5.2 Commission Decision on move to extended decentralisation and operation under new system	<ul style="list-style-type: none"> • For countries meeting preconditions, the move to extended decentralisation will be undertaken by attaching to the Commission Decision for the Phare National Programme for the relevant year, a list of the programmes moving to extended decentralisation and standard procedural instructions.
5.3 Commission Decision on move to multi-annual programming	<ul style="list-style-type: none"> • (I) financial tables outlining summary financial allocations 2002-2006 annexed to Commission Decision in 2002 for those countries meeting preconditions.; and, (ii) future annual decisions follow the financial table with adjustments where necessary.
6.1 Multi-annual Proposals for Phare Support for the Period 2002-2006	<ul style="list-style-type: none"> • Financial schedules (based on NDPs and NPAAAs) from countries May 2001. Appraised by Commission June/July 2001. If approved, financial schedules attached to the Phare Commission Decisions for 2002 specifying the allocations to be followed in 2002 and beyond.

Annex 4

PROJECT DESIGN

The requirements on project design set down in the 1997 Phare Re-orientations remains the single largest contributor to raising the impact of Phare. As such, these requirements will continue to be stressed in future:

- (1) **Catalytic:** Phare support must act as a catalyst for a priority, accession-driven action which would otherwise not take place or which would only take place at a later date
- (2) **Co-financing:** All investment projects supported by Phare must receive co-financing from national public funds. The Community contribution may amount to up to 75% of the total eligible public expenditure. Every effort should be made to attract co-financing from other sources.
- (3) **Co-ordination:** As well as coordination with national cofinancing, the Commission and country authorities must ensure coordination with actions undertaken by ISPA and Sapard and to promote cooperation with the European Investment Bank and other International Financial Institutions. Within Phare, especial care must be taken to avoid overlap between economic and social cohesion support programmes (ie. regional, national and CBC schemes). Within schemes, no person or organisation receiving Phare funds is permitted to receive support from another part of the Phare programme.
- (4) **Crowding-out:** Phare support should not displace other financiers, especially from the private sector or from the international financial institutions. Where schemes or projects are clearly distortionary of existing banking or other private market structures, they will not be financed.
- (5) **Project readiness and size:** projects will only be programmed for Phare support if they are fully developed. A minimum project and grant scheme size of EURO 2 million will apply. No scheme project in economic and social cohesion may be less than €50,000 with flexibility for CBC projects..
- (6) **Clear deliverable:** no project will be financed unless a verifiable output is assured, whether physical for supply/works or proof of delivery in the case of services.
- (7) **Sustainability:** the investment actions to be supported should be sustainable beyond the date of accession. All projects must comply with EU norms and standards, be coherent with the sector policies of the EU and respect the principle of sustainable and environmentally sound development enshrined in Articles 2, 3, and 6 of the Amsterdam Treaty. All projects must also be financially sustainable to cover future maintenance and operating costs.
- (8) **Competition:** all actions financed must respect the competition and state aid provisions of the Europe Agreements.

Annex 5

PHARE'S PROGRAMME CYCLE

