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ANNEXES TO

**2007 ANNUAL REPORT ON PHARE, TURKEY PRE-ACCESSION INSTRUMENT,
CARDS AND TRANSITION FACILITY**

COUNTRY SECTIONS & ADDITIONAL INFORMATION

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LIST OF ACRONYMS

AC	Acceding Country
BSP	Business Support Programme
CAP	Common Agricultural Policy
CBC	Cross Border Cooperation
CC	Candidate Country
CEB	European Development Bank
CFCA	Central Financing and Contracting Agency
CFCD	Central Financing and Contracting Department
CFCU	Central Finance and Contracts Unit
CFP	Common Forestry Policy
CMO	Common Market Organisations
CPER	Country Phare Evaluation Review
CPMA	Central Programme Management Agency
CSO	Civil Society Organisation
DIS	Decentralised Implementation System
EAG	Evaluation Advisory Group
EAGGF	European Agricultural Guidance and Guarantee Fund
EBRD	European bank for reconstruction and development
EC	European Communities
ECR	European Commission Representation
EDIS	Extended Decentralised Implementation System
EFTA	European Free Trade Association
EIB	European Investment Bank
ENPI	European Neighbourhood and Partnerships Instrument
ESC	Economic and Social Cohesion
ESF	European Social Fund
EU	European Union
FDI	Foreign Direct Investment
FIFG	Financial Instrument for Fisheries Guidance
GDP	Gross Domestic Product
IA	Implementing Agency
IACS	Integrated Administration and Control System
IB	Institution Building

IFI International Financial Institutions
IPA Instrument for Pre-Accession
IT Information and Telecommunication
JHA Justice and Home Affairs
JMC Joint Monitoring Committee
KIDSFKozloduy international decommissioning fund
MAP Multi Annual Programming
MEDAEuro-Mediterranean Partnership
NAO National Authorising Officer
NAC National Aid Coordinator
NDP National Development Plan
NF National Fund
NGO Non-Governmental Organisation
NPA National Programme for the Adoption of the Acquis
NP National Programme
NPP Nuclear Power Plant
OLAF European Antifraud Office
OP Operational Programmes
PAO Programme Authorising Officer
PAP Pre-Accession Programme
PIFCA Public Internal Financial Control Agency
QSG Quality Support Group
REACH Registration, Evaluation and Authorisation of Chemicals
RTA Resident Twinning Advisor
SF Structural Funds
SIGMA Support for Improvement in Governance and Management
SME Small and Medium Sized Enterprises
SMSC Sector Monitoring Sub-Committee
TA Technical Assistance
TAIEX Technical Assistance Information Exchange Unit
TSE Transmissible Spongiform Encephalopathy
UIBE Unallocated Institution-Building Envelope
UNDP United Nations Development Programme
VAT Value Added Tax

PART I: COUNTRY SECTION

1. ALBANIA

1.1. The year in review

Political developments

In 2007, Albania made some progress on democracy and the rule of law, even though the political climate remained tense overall.

Albania's parliament fulfilled its constitutional role and a new president was elected, but political parties' lack of will to co-operate continued to hold back reforms, particularly in the electoral and judicial fields. Albania made some progress in strengthening its government structures to implement its EU commitments and to address its development needs. There was less turn-over in Albania's public administration, but there remained widespread weaknesses in human resources management.

In the field of justice, the procedures for evaluating judges improved, the court system was rationalised and the execution of judgements somewhat accelerated. However, the performance of the judiciary remained poor overall. The government took a more strategic approach to the fight against corruption. Anti-corruption investigations led to the arrest of a number of high-level officials. However, corruption remained widespread.

Regarding human rights and the protection of minorities, formal instructions to prosecutors and judicial police were passed, underlining the need to respect human rights in criminal proceedings. Some improvements were made to conditions in detention facilities and most pre-trial detainees were transferred to new dedicated sections in prisons. However, prisons remained overcrowded and detention standards poor.

Albania made some progress on freedom of expression. An action plan to develop new broadcasting legislation was agreed. Steps were taken to ensure that the public radio and television steering committee includes civil society representatives. However, better implementation of existing legislation is required.

Despite a favourable legal framework for civil society organisations, civil society groups remained weak and not sufficiently involved in policy-making. There was some progress on strengthening children's and women's rights through new legislation. Social services improved somewhat. Measures to support socially vulnerable people and people with disabilities remained limited. As regards property rights, the government adopted a strategy which links the processes of initial registration of real estate, restitution, compensation and legalisation of informally constructed buildings. Better management of restitution and compensation accelerated the processing of claims somewhat, but it remained slow overall.

Albania took some measures to fulfil its commitments on the protection of minorities but further improvement was hindered by the lack of sound data on the size and situation of minorities. The Roma people continued to face difficult living conditions and discrimination.

Regarding regional issues and international obligations, Albania continued to foster good relations with other Western Balkan and neighbouring EU countries, both multilaterally and bilaterally. It maintained a constructive position in relation to the Kosovo issue.

Macroeconomic developments and structural reforms

Political consensus on the essentials of economic policy was generally maintained in 2007. Macroeconomic stability was largely achieved. Economic growth continued to be strong despite energy shortages. Inflation remained low. The level of registered unemployment

(around 15%) continued to decline. Fiscal revenue performance was broadly in line with targets and budget implementation improved. Public finance reforms advanced further, but fiscal risks remained. In general, the macroeconomic policy mix was adequate. Following significant delays in 2006, privatisation gained new momentum in 2007. The privately-owned banking sector continued to grow. Credit expansion remained strong. The regulatory framework for banking supervision is well developed. Trade integration with the EU remained fairly high.

However, external deficits widened further, mainly due to difficulties in the energy sector. Some progress was made as regards the enforcement of court rulings and the establishment of property rights, but the shortcomings in the judicial system and law implementation hindered the business climate. While company registration procedures started to improve, administrative inefficiencies hampered market entry and exit. Some progress was achieved in the area of supervising financial actors other than banks, but there remains scope for strengthening it, in particular regarding the pension industry. Structural unemployment persisted. Shortages of qualified staff and poor infrastructure held back the development of a private sector that should make a sustained contribution to the country's development. The large informal sector, fuelled by persistent weaknesses in law enforcement and the regulatory framework, reduced the tax base, hampered the government's capacity to implement economic policies and negatively affected the business environment.

Progress in meeting the *acquis communautaire*

Albania continued to align its legislation, policies and capacity with the *acquis*.

In the area of the free movement of goods, progress in adopting standards and in accreditation was good overall. Capacity for metrology and market surveillance was strengthened, but legislative improvements remained pending. On consumer protection the necessary improvements to handle complaints and to deal with the settlement of disputes were not achieved. Uncertainties related to property rights continued to discourage establishment.

Progress was made on customs computerisation. This helped Albania to implement trade-related provisions of the SAA more effectively. Customs revenue continued to rise. The administration of taxation was rationalised and progress was made on computerisation and on handling of taxpayers' appeals. However, tax collection remained low.

The Competition Authority (ACA) was strengthened. It assessed several merger notifications and imposed fines for violation of competition rules. The State Aid Department was given independence from the Ministry of Economy as regards reporting. New public procurement legislation, more in line with EU standards, was approved. The Public Procurement Agency was strengthened but its administrative capacity requires further upgrading. Regarding intellectual property rights (IPR), enforcement remained weak.

In the field of employment and social policies, the institutional and regulatory framework improved with the adoption of a law on labour inspection. However, the capacity of the labour inspectorate remained limited and occupational health and safety, poor. Budget provisions for education were markedly increased. Implementation of the national strategies for pre-university education and vocational training started and a new law on higher education was approved.

Regarding industry and SMEs, a National Registration Centre was established to facilitate business registration, and a strategy to promote SME competitiveness was approved. An updated action plan was established to address the informal economy and to remove administrative barriers to investment. Progress on agriculture was limited. Some incentives to increase production were introduced, but the competitiveness of the farming sector remained

low. Compliance with EU veterinary and phytosanitary standards, required in order for Albania to benefit from SAA and Interim Agreement trade concessions, remained poor. Regarding environment, some progress was made on horizontal legislation, but implementation remained weak.

Progress in the field of transport was limited. Albania ratified the European Common Aviation Area Agreement and started the implementation of the first transitional phase. The improvements required as regards the safety of maritime transport were not carried out. In the energy sector, Albania was not able to ensure security of electricity supply. This hampered the social and economic development of the country. Considerable efforts are required to meet the requirements of the Energy Community Treaty.

Market liberalisation in the areas of electronic communications and information technologies remained at an early stage. Regarding financial control, a new law on internal audit was adopted, but an appropriate inspection service was not developed. Progress was reasonable in the field of statistics. Most major statistical classifications are in place and comply with EU standards.

In the field of justice, freedom and security, progress was made in some areas. An EU-Albania visa facilitation agreement was signed. The issuing of biometric passports in line with EU standards and the amendment of the Law on foreigners are issues that remain to be tackled.

New infrastructure, extension of IT links and better inter-agency and cross-border police co-operation led to improved border control. An integrated border management strategy was adopted. Border crossing point infrastructure nonetheless remained below EU standards. Laws on asylum comply with international standards but implementation remained weak. Migration checks at borders were somewhat more effective, but there is still considerable room for improvement.

The banking system was better used to fight money laundering; most public administration salaries are now paid through banks. However, concrete results in the fight against money laundering remained insufficient. Regarding the fight against drugs, co-operation with foreign partners improved and the construction of proper storage infrastructure for seized drugs began. Significant quantities of drugs were seized but were still low compared with the amounts which are estimated to be trafficked through Albania.

A new state police law was adopted which should help de-politicise the police. The South East Europe Police Co-operation Convention, now ratified, and a strategic agreement with Europol provided for intensified international co-operation. Success in investigation and prosecution remained hampered by poor communication between police and prosecutors.

Organised crime remained a serious problem, even though a number of high-profile organised crime arrests were made and police response to serious crimes improved. New tactical and investigative equipment was introduced. Co-operation with Interpol also improved. However, many international arrest requests were not given proper follow up. Efforts against organised crime remained hampered by corruption and weak witness protection. Albania continued to investigate and prosecute trafficking in human beings vigorously. However, Albania remained a significant transit country. Few victims were willing to testify against traffickers, due to weak witness protection. Poor co-ordination hampered implementation of the national anti-trafficking strategy.

Counter-terrorism structures in the police and the intelligence service co-operated better and co-operation with international actors was good. However, equipment and training for counter-terrorist analysts and investigators remained insufficient. Efforts to revise the law on

protection of personal data started, but legislation and structures do not yet meet European standards.

1.2. Financial assistance in 2007

Programmes launched

As from 2007, the CARDS instrument has been replaced by the new Instrument for Pre-accession Assistance (IPA). No new CARDS programmes were launched.

Overview of programmes implemented

In 2007, particular emphasis was given to progress in the implementation of the 2004 programme in order to finalise contracting for this programme before the contracting deadline in September 2007. By its expiry date in September 2007, 94% of CARDS 2004 funds had been contracted.

The area of Justice and Home Affairs remained an important area of focus. Programmes supported the renovation of the State Publication Centre, the development of investigation techniques for the benefit of law enforcement bodies, the provision of modern equipment to the Serious Crimes Court and the High Council of Justice, the establishment of a Juvenile Justice System and investments to improve conditions in Albanian prisons. Support was also provided to the training of courts on commercial matters, the renovation of Border Control Points and the strengthening of the capacity of the Albanian police forces. Substantial technical assistance in the field of justice, police and customs was provided through PAMECA, EURALIUS and CAFAO respectively.

Assistance in the area of **democratic stabilisation** concentrated its efforts on the creation of a modern Civil Registry system in close cooperation with the Organisation for Security and Co-operation in Europe, the Council of Europe, Norway and the US. Further programmes were implemented to support the development of civil society and the integration of marginalised persons.

As regards **administrative-capacity building**, the programme continued to support the implementation of public administration reform and the external audit capability. Assistance was provided to the Ministry of European Integration in order to build capacity for the coordination of the Stabilisation and Association Agreement. CARDS assistance also provided support to line ministries for EU programming and updating the National Plan for the implementation of the SAA.

As regards **economic and social development**, the local community development programme helped improve the living conditions of the targeted rural population of Albania, in particular in the less developed region of Kukes in North East Albania. Through the internal market programme, assistance was provided to support standards, certification, accreditation and metrology, complemented by activities to improve market surveillance and consumer protection in Albania.

Support was also provided for **vocational education and training (VET) and higher education** in order to improve the quality of training opportunities available. CARDS assisted the preparation of a separate VET strategy in order to improve the quality of VET and the implementation of a new Albanian Qualifications Framework Law. Investments were also made in equipment and infrastructure to improve regional vocational training centres and schools. Assistance was also provided to higher education through the TEMPUS programme in order to modernise governance at university level, improve curricula and develop the quality of higher education.

In the area of **environment and natural resources**, the development of environmental monitoring systems, the improvement of hazardous waste management systems and the establishment of a plan for the sustainable and integrated development of the Tirana-Durres region were the priorities.

At the end of 2007, contracting rates for the CARDS 2005 and 2006 programmes had reached 45% and 11% respectively.

Cards management performance

In 2007, a total of € 52.3 million was contracted and a total of € 26.3 million was paid.

The performance in implementing the 2004 CARDS programme was overall satisfactory in 2007, as a very significant part of the programme was contracted in 2007. However, this effort led to rather limited contracting for the 2005 and 2006 CARDS programmes with contracting rates for CARDS 2005 of 45 % and for CARDS 2006 of 11 %

Albania: Status of financial assistance at the end of December 2007 (in million €) – CARDS/IPA annual national programmes

	Allocated	Contracted	RAC	% contracted	Paid	RAL	% paid
CARDS 2001	33.5	30.72	2.78	92%	29.16	4.34	87%
CARDS 2002	42.9	42.42	0.48	99%	38.61	4.29	90%
CARDS 2003	38.5	38.26	0.24	99%	30.32	8.18	79%
CARDS 2004	62.0	58.02	3.98	94%	21.56	40.44	35%
CARDS 2005	40.2	18.15	22.05	45%	8.63	31.57	21%
CARDS 2006	42.5	4.61	37.89	11%	1.41	41.09	3%
Total	259.6	192.18	67.42	74%	129.69	129.91	50%

The implementation of CARDS Information and Communication Programmes, Neighbourhood Programmes and Evaluation and Audit Programmes proceeded smoothly.

In 2007, € 9.2 million were recovered from expired PHARE programmes. An action plan for 2008 was prepared in order to continue this exercise.

Institution Building highlights

Support provided to the police sector through the Police Assistance Mission of the EU to Albania (**PAMECA**) brought the Albanian State Police closer to EU standards. The mission was composed of technical assistance drawn from EU Member States and led to improvements in particular as regards: 1) the operation of police structures fighting organised crime and terrorism, 2) the functioning of the Police Academy, 3) the use of IT systems, 4) the implementation of the Integrated Border Management (IBM) strategy and Action Plan, and 5) the effectiveness of community policing.

Twinning High Council of Justice: Since late 2006 this Twinning (IT/ES) has aimed at the enhancement of the independence and performance of the country's judiciary system by

providing support to the High Council of Justice (HCJ) and its Inspectorate. Strengthening the organisational structure and administrative procedures of the HCJ and its Inspectorate allows better fulfilment of the HCJ constitutional and legal obligations in line with the European standards and the requirements of the Stabilisation and Association process.

A Twinning project to support the Supreme Audit Institution (SAI) commenced in January 2007. The project aims at the approximation of the SAI to EU standards in the area of external audit, including in preparation for the future decentralisation of EU funds.

Local Community Development Programme: In the light of combining socio-economic development needs with European requirements, this project has been part of the overall regional development strategy revision. The main objective is to improve the living conditions of the population in selected regions through the rehabilitation of physical, social and cultural infrastructure to be implemented in the frame of the planned sustainable and integrated economic and social development. As this project is implemented in a decentralised manner by the Albanian authorities, it can be considered that it also brings benefits in terms of improving Albania's implementation capacity and constitutes a test for the future implementation of the Decentralised Implementation System (DIS).

1.3. Results and impact

M&E Reports in 2007 - Lessons Learned

During the course of 2007 monitoring of CARDS projects continued to take place. In addition to this, an evaluation of selected projects/programmes was launched with the aim of identifying strengths and weaknesses in their design, performance and management. These projects/programmes were selected as a representation of key actions managed by the EC Delegation in various sectors. In terms of "lessons learnt", the following conclusions were reached:

Lessons learnt in relation to **projects' relevance**:

- Relevance was closely linked to adequacy of basic needs assessment and sustainability prospects.
- The integration of a bottom-up approach and a stronger, more tangible Albanian engagement in realising the objectives would increase relevance of actions.

Lessons learnt regarding **effectiveness**:

- Effectiveness was strongly related to institutional effect and impact.
- Good communication and relationships are indispensable, particularly if focused on potential to realise sustainability.

Lessons learnt regarding **efficiency**:

- Efficiency can be improved through setting preconditions towards beneficiaries (i.e. staff being engaged and trained in the course of a project/ programme)
- Efficiency can be improved through closer cooperation between the various actors.

Lessons learnt related to **impact**:

- The impact should be measured and measurable continuously during the life-time cycle of projects in order to avoid the fading away of the natural result oriented pressure.

- Impact can increase if beneficiaries realise sustainable improvements (i.e. through transparent recruitment and selection procedures and by minimizing massive changes of staff)

Lessons learnt in the domain of **sustainability**:

- Sustainability highly depends on quality of the (preferably) joint project/programme design, as well as the receptiveness and preparedness of beneficiaries.
- Preconditions should ideally be set to be met prior to and during implementation, especially on implementation process after technical assistance provision.

Lessons learnt in the domain of **management**:

- Stronger ownership should be encouraged through engaging Albanian beneficiaries in the management: The “responsibility pays” approach.
- Use of the Log Frame Methodology as a continuous (not as an ad-hoc or merely preliminary) managerial tool is indispensable for committed, objective, strict and fair management.
- Managerial assistance should have a coaching character.

Experiences with the decentralisation of EU funds showed that appropriate, timely planning and to take due account of the implementation capacities are elements of crucial importance. If this is not done properly, it has detrimental effects on quality of implementation and on the expected results.

The Local Community Development Programme (the only CARDS programme in Albania implemented under the decentralised implementation system) achieved high commitment and disbursement rates and had a significant impact.

Sectors with positive results

Justice, Liberty and Security

Some progress was achieved as regards police, with the approval of the police law and Integrated Border management strategy as major achievements. Judiciary progressed in particular as regards juvenile justice reform. Assistance was provided to court administrators. Investments under CARDS programme focused on upgrading the penitentiary and court infrastructure (Korca, Vlora).

European standards

Albania has continued to make progress in European standards fields such as customs, competition, certification and standardisation, banking and public procurement. Sustained institution building efforts under CARDS have contributed to this progress. In the area of standardisation, support was provided to increase administrative and technical capacity to prepare the National Standardisation Body to fulfil the 9 conditions for full membership in CEN and CENELEC. Nearly 80% of European Norms were adopted as national standards.

Vocational Education and Training (VET)

The capacity of the national, regional and local VET partners was strengthened while VET laws have been adopted. A National Qualification Framework in line with the Copenhagen Process was established and the capacity to develop curricula was improved with 6 new curricula prepared and started to be implemented. A new VET centre was established and is properly functioning.

Success story

Can you breathe? EU "filters" the oxygen that goes in the lungs of Albanians

Early in the morning, as he shows up in the window of his home in Kombinat, the eastern neighbourhood of Albania's capital, Ergys Baruti, 21 years, doesn't struggle enough to find the dump in Tirana. He just follows with his eyes the trail of this noxious white smelly smoke. What he believes in these very moments is what local media say, his city, Tirana is estimated to be one of the most polluted cities in the world, behind New Delhi and Beijing. In these very moments he understands why his father doesn't like his brother, Henri, to often play outside and he realises that in a few years the inhabitants of Tirana, including himself will have disastrous problems with their lungs.

Although no reliable data exists, experts said that deaths due to illnesses caused by pollution have increased by 20 percent in Tirana in the past two years. According to the Institute for Statistics, respiratory system diseases came third on the list of causes of death last year.

As Albania gears up to join the European Union, pollution troubles get in the way. Albania is facing a humanitarian catastrophe due to growing pollution, 10 times above the tolerance level set by the World Health Organizations (WHO), according to experts in the country.

"The biggest guarantee I see for environmental improvement is the political pressure exerted by the European Union to improve the policy making in this field", said Ermal Dizdari, reporter of "Panorama" newspaper on environmental issues.

To the extent that the quality of data affects the quality and formulation of policies, the importance of reliable data is clear. The issue of ill-informed policies in the environmental ambit of Albania is addressed by the EU-funded project "Strengthening of the Environmental Monitoring System in Albania".

The project aims at building capacities within the Albanian institutions involved in monitoring activities, and to establish an Integrated System (IEMS) for Albania in line with the requirements from the EU, in particular the reporting requirements of the European Environmental Agency (EEA). To this end, 63 monitoring stations have been built all around the country checking all aspects of the environment, air, water and soil. Furthermore, the setting-up of a national institutional network, envisioning a National Reference Centre and six National Laboratories to service the Integrated Environment Monitoring System is at an important implementing phase.

The project is especially active in capacity building with respect to these institutions which is being pursued in a way as to provide sustainability. Team leader of the project, Gunnar Pritzl, emphasises the keenness towards students' involvement and practical training during fieldwork as a means to that end.

Apart from wanting to leave behind sustainable institutions in terms of human resources, the project also aims at financial sustainability and a lesser dependence on governmental funds. In this respect, the certification and accreditation of these institutions fashioned to operate in accordance to EU norms and standards does not only grant them an authoritative voice in their subject matter but also provides them with access to EU and other relevant international bodies' funds.

The project vastly contributes to Albania's adoption of the environmental acquis, and thus consequently to the success of the Stabilisation-Association process.

2. BOSNIA AND HERZEGOVINA

2.1. The year in review

Political developments

In 2007, Bosnia and Herzegovina's progress slowed down. Complex institutional arrangements, disregard for the Dayton/Paris peace agreement and nationalist rhetoric undermined the country's reform agenda. Lack of progress on this and other important issues continued to delay the signature of the Stabilisation and Association Agreement (SAA), even though some positive developments in November allowed the initialling of the Agreement on 4 December.

Bosnia and Herzegovina's system of governance continued to involve significant international presence. The Office of the High Representative/EU Special Representative (OHR) worked closely with the European Commission to bring Bosnia and Herzegovina closer to the EU. However, the authorities of Bosnia and Herzegovina did not demonstrate capacity to take further political ownership and responsibility. The Peace Implementation Council decided to postpone the closure of OHR.

Following the elections in October 2006, which were generally in line with international standards, the government of Republika Srpska was formed in November 2006, but the state-level government and that of the Federation of Bosnia and Herzegovina needed more than four months to be constituted. Little progress was made in improving state-entity co-ordination, and overall performance of the executive and legislative institutions remained poor. The prevailing political climate led discussions on constitutional reform to a stall.

The public administration reform co-ordinator's office was strengthened and initial steps were taken to implement the public administration reform strategy. An EU supported public administration reform fund was set up. Regarding the judicial system, Bosnia and Herzegovina reduced its dependence on the international community through the replacement of international judges and prosecutors by local ones. However, the fragmentation of the judicial system and disparities in the legal framework continued to hamper the operation of the judiciary. Bosnia and Herzegovina's co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY) improved and reached a generally satisfactory level.

Bosnia and Herzegovina achieved limited progress in the fight against corruption. The National Anti-Corruption Strategy was not properly implemented.

As regards human and minority rights, full compatibility of Bosnia and Herzegovina's legislation with the European Convention of Human Rights was not achieved, as this is dependent on a reform of the Constitution. Shortcomings remained as regards the prevention of ill-treatment by law enforcement bodies, the fight against impunity, the prisons system and the access to justice and equality before the law. Religious intolerance remained an issue. In the field of freedom of expression and media, the Federation public broadcasting law was not adopted during 2007. However it was finally adopted in 2008. Bosnia and Herzegovina made progress in addressing the backlog of human rights-related cases, but court rulings were not always properly implemented.

Overall implementation of legislation protecting the rights of women, children and socially vulnerable people was poor. The complex system of government and the fragmentation of legislation across the country continued to hamper social dialogue. Some progress was made

as regards the support provided by the authorities to civil society development, even though the sector remained weak overall.

Intolerance and ethnic discrimination remained present, and the minorities-related legislation was not always properly implemented. Many refugees and internally displaced persons did not benefit from basic pension and health provisions and socio-economic integration of returnees remained a problem. The implementation of the national strategy for the Roma was limited and the Roma minority continued to face difficult living conditions and discrimination.

On the whole Bosnia and Herzegovina's relations with its neighbours were good, although certain strains appeared in particular in relation to the ruling of the International Court of Justice on Bosnia and Herzegovina's lawsuit against Serbia and Montenegro for genocide. Little progress was made in addressing the outstanding trade and border-related matters.

Macroeconomic developments and structural reforms

In 2007, economic growth remained high and accelerated, while the external balance improved. The currency board arrangement continued to underpin macroeconomic stability and inflation receded to the low levels recorded before the introduction of the VAT in January 2006. The introduction of VAT increased fiscal revenue. Foreign direct investment (FDI) increased significantly and helped finance the external deficit. The financial sector developed rapidly while price competitiveness was to a large extent preserved.

However, the overall political climate and weak domestic consensus on the fundamentals of economic policy led to a slow-down of reforms both at entity and other levels of government. Despite robust economic growth, unemployment remained very high. Public spending, and in particular social spending, rose significantly, weakening the quality of fiscal adjustment and adding to fiscal risks. Significant structural rigidities continued to hamper the functioning of the labour market. The restructuring of state-owned enterprises advanced slowly and progress in the liberalisation of network industries was limited. The business environment remained affected by significant administrative inefficiencies, weak enforcement of creditor and property rights and sizeable intervention of the state in the productive sector. The large informal sector hampered the government's capacity to implement economic policies and affected negatively the business environment.

Progress in meeting the *acquis communautaire*

Overall, Bosnia and Herzegovina made limited progress in aligning its legislation and policies with the *acquis*.

Preparations in the field of standardisation, certification and market surveillance advanced, though slowly. A lack of conformity assessment bodies and procedures continued to hinder export capacity. The establishment of a market surveillance structure based on appropriate product legislation and the phasing out of pre-market controls was not carried out. In the area of services, right of establishment and company law, registering businesses and obtaining licenses remained burdensome. Banking supervision was not brought to the State level and remained an Entity responsibility.

No significant further development took place in the area of free movement of capital, but Bosnia and Herzegovina's preparations in this area are on track. Limited additional progress was made in relation to customs rules where, in particular, rules of origin, valuation and free zones would have needed more attention. As for taxation, VAT collection was higher than expected, but no system for the reallocation of the collected revenue to the Entities and the Brčko District was agreed.

Bosnia and Herzegovina is progressing steadily in the area of anti-trust control. Some progress was also been made with regard to state aid through the establishment of a preliminary state aid inventory. The Public Procurement Agency and the Procurement Review Body saw their operation improved. Little progress was made regarding the enforcement of intellectual property rights.

Social and employment legislation and policies remained fragmented. Some progress was made in the field of education, notably through the adoption of a higher education law supporting the participation in the Bologna process. Separation of children in schools along ethnic lines remained an issue.

Little additional progress has been made towards ensuring the existence of a real internal market within Bosnia and Herzegovina. In this context, the State laws on obligations, leasing and pharmaceutical products have not been adopted.

The industry policy strategy and the SME Development strategy were not adopted. Little progress was made in the field of agriculture. The development of a comprehensive agricultural strategy was not achieved, although some steps were taken to establish the necessary State-level legal framework. Implementation of the food safety, veterinary and phytosanitary legislation remained poor. In the field of environment, the long expected State-level environmental law to create the framework for a nationwide, harmonised environmental protection was not adopted and the state environment agency was not set up.

Sustained, albeit slow, progress continued regarding Bosnia and Herzegovina's involvement in developing the trans-European transport network. Bosnia and Herzegovina advanced in the implementation of the first transitional phase the European Common Aviation Area Agreement (ECAA).

In the electricity sector, transmission was unbundled. Reforms in the gas sector saw particular delays. A country-wide energy strategy remained pending. The requirements of the Energy Community Treaty were only partly met.

As regards information society and media, some progress was made in terms of liberalisation of the telecommunication sector and approximation of audiovisual legislation with the *acquis* by the Communications Regulatory Agency. However the independence of the Communications Regulatory Authority was challenged by the difficulties in appointing the Director General. In the field of statistics, the co-operation agreement between the country's statistics institutions at State and Entity level was not properly implemented.

In the area of justice, freedom and security, the lifting of visa requirements for all EU citizens was confirmed and the readmission and visa facilitation agreements at EU-level were signed. Further progress was in the areas of asylum and migration. As regards the fight of money laundering, the staff of the Financial Intelligence Unit increased and some progress was made. An office for the prevention of the abuse of narcotics was established, but a State-level drug policy in line with EU standards remains to be developed.

Implementation of tools such as computer-based investigations, criminal analysis systems and forensics contributed to the work of the police. A strategic agreement with Europol was concluded. However, little progress was made to implement the overall police reform aiming at unifying police forces in the country.

There is still room for improvement in fighting organised crime. The 2005-2007 national action plan for combating trafficking in human beings was implemented, but no follow-up strategy was ready by the end of 2007. Inconsistencies between state- and entity-level legislation continued to hinder prosecution of serious crimes. Bosnia and Herzegovina's

resources to counter terrorism remained insufficient. The State agency for data protection was not established.

2.2. Financial assistance in 2007

Programmes launched

As of 2007, the CARDS programmes were replaced by the new Instrument for Pre-accession Assistance (IPA). No new CARDS programmes were launched.

Overview of programmes implemented

Contracts were awarded by the EC Delegation in Bosnia and Herzegovina in 2007 for a value of EUR 44.6 million, of which EUR 34.9 million under CARDS regional and national programmes, EUR 4.1 million under the European Initiative for Democracy and Human Rights as well as the Anti-Personnel Landmine programme.

The largest share (EUR 12 million) was spent for supporting the Economic Development and Social Protection, as well as in the Justice and Home Affairs area (EUR 9.7 million). In the Good Governance and Institution Building sector, the EC remained the main donor in BiH (EUR 6.8 million). The EC was involved in several other sectors as well – Infrastructure, Education, Environment, Cross-cutting sectors, and to a lesser extent in Agriculture and Forestry, and Local Governance.

For years, the EU has provided financial and political support for **Legal and Judicial Reform**, first to the Independent Judicial Commission and then to the High Judicial and Prosecutorial Council (HJPC). Indeed, the establishment of this single HJPC was the first Feasibility Study priority that BiH fulfilled. As part of this assistance, the EC has invested around EUR 5.6 million in Information Communication Technology (ICT), centralised within the HJPC. EU support has also included the provision of state-of-the-art equipment, now in use in all courts and prosecutor's offices throughout the country. An upcoming action will purchase legal texts and publications for the Courts and Ministry of Justice.

In 2007, the EC continued to support the Registry for War Crimes and Organized Crime, Economic Crime and Corruption. In addition, the EC has contributed EUR 3.5 million to the transfer of war crime cases from the International Criminal Tribunal for the former Yugoslavia (ICTY) to the BiH courts. The EC's financial assistance has been a crucial contribution to this multi-donor effort.

In the **Agricultural Sector**, the EC has focused on institution building. In 2007, the EC provided support for the creation of structures to ensure that BiH is capable of absorbing rural development funds under IPA. The EC's areas of focus in 2007 were: 1) institution building, helping to create of administrative structures; 2) assistance for the adoption of the *acquis* and the implementation of standards (veterinary, food safety and phyto-sanitary); and 3) work on enhancing access to agricultural information. The EC supports Small and Medium Enterprises (SMEs) and job creation through a number of programmes, including the enhancement of Regional Development Agencies (RDAs) and their institutional strengthening. RDAs provide services directly to SMEs for increasing their competitiveness as well as support for regional growth. Grants were also provided for business infrastructure support, the facilitation of market information, and tourism development.

In the **Education Sector**, the EC has supported the development of the legislative framework and the adoption of laws. In 2007, almost all proposed educational laws were adopted. Thanks to the EC's support, three important laws were passed and the fourth one will soon be. Since the main problem in Education is the fragmentation and division along ethnic lines, the EC proposed that all cantonal and entity ministers be brought together in a Conference of

Ministers and that this newly formed body report to the Prime Minister's Cabinet. The EC assisted the government in developing the institutions that are foreseen in the laws, such as an agency for pre-primary, primary and secondary education, an agency for higher education, and an agency for diploma recognition. These will be responsible for the standardization and assessment of education (general and vocational education training), curriculum development, common certification, and more.

In 2007, the EC carried out a functional review of the *Health Sector* and made recommendations for PAR in this field. The EC has continued to support the implementation of these recommendations. It has also supported the strengthening of the Health Department in Ministry of Civil Affairs (MoCA) and has helped to develop normative acts for the sector. Thanks to EC funding, there are now 8 to 9 core staff within the Health Department.

In the area of *media and communication*, the EC supports the formal adoption of the Public Broadcasting Service (PBS) reform. The EC also provides technical assistance (equipment and training) to the Communications Regulatory Agency, in order to adopt European standards in the regulatory framework.

The EC was also active in the field of *export promotion*. It provided technical assistance (TA) to the Ministry of Foreign Trade and Economic Relations (MoFTER). This TA helped establish the Export Promotion Agency in the Foreign Trade Chamber. The Agency will be capable of providing expert advice and recommendations to the CoM, as well as support to companies in exploring market linkages. The EC's support entails the development of export policy papers for the development of a strategy, and on the job training.

CARDS management performance

The performance in managing CARDS programmes was overall satisfactory. 2001-2004 CARDS national programmes can be considered as fully contracted. Contracting and payments for CARDS 2005 and 2006 are on track. As a result, the IPA 2007 Annual Programme adopted on 20 December 2007 will start without any significant backlog from CARDS.

Bosnia and Herzegovina: Status of financial assistance at the end of December 2007 (in million €) – CARDS annual national programmes

	Allocated	Contracted	RAC	% contracted	Paid	RAL	% paid
CARDS 2001	105.2	98.58	6.62	94%	92.06	13.14	87%
CARDS 2002	60.5	59.30	1.20	98%	56.53	3.97	93%
CARDS 2003	50.6	49.94	0.66	99%	45.09	5.51	89%
CARDS 2004	62.1	61.84	0.26	100%	50.07	12.03	81%
CARDS 2005	44.0	39.71	4.29	90%	32.21	11.79	73%
CARDS 2006	43.8	29.25	14.55	67%	13.30	30.50	30%
Total	366.2	338.62	27.58	92%	289.26	76.94	79%

In the framework of the 2006 CARDS regional programme, a total of € 3.5 million was provided to support the Office of the High Representative (OHR) in 2007. 95% had been paid by the end of the year.

The implementation of CARDS Information and Communication Programmes, Neighbourhood Programmes and Evaluation and Audit Programmes proceeded smoothly.

Institution Building highlights

For the *preparation of decentralised implementation* of IPA in BiH, the EC Delegation embarked on a coaching and training programme for the BiH authorities to get ready to take over responsibility for planning, programming and implementing financial assistance. While until recently, the EC was covering the project cycle alone, with little involvement of the government, the EC Delegation has had a strategy of transfer of 'ownership' of the programmes to the BiH authorities. This process prepares the decentralisation of the management of assistance, and includes:

- Coaching and training the Directorate of European Integration (DEI) on strategic planning, project preparation and assessment
- Setting up a structured network of counterparts for project planning, design and implementation in all line ministries and state agencies, the Senior Programme Officers (SPO's)
- Anticipating IPA obligations by helping setting up a National Fund and a Central Finance and Contracting Unit (CFCU) in the Ministry of Finance and Treasury – 10 BiH officials have now been appointed and fully trained.

This action of the EC Delegation has been cited as one of two Success Stories in the recent audit report of the European Court of Auditors on the management of the Cards Programme 2001-2006.

Public Administration Reform (PAR) was one the sixteen priorities in the Feasibility Study and is one of the six key European Partnership priorities. The EU assists the BiH government in PAR through strengthening the systems of public administration and through administrative capacity building of selected key sectors. The EU has supported the PAR Coordinator's Office (PARCO) with the design and implementation of a national PAR Strategy and Action Plan. A range of EU-funded actions has strengthened the systems of public administration. The General Secretariat (GS) of the Council of Ministers (CoM) receives support to work towards full national responsibility for policy formulation and decision-making, and to help strengthen policy coordination between all levels of government. An e-government project aims to enhance the efficiency of the CoM through comprehensive and crosscutting IT, while a Human Resources Management Information System aims to create a single personnel database for the Civil Service Agencies (CSAs).

Donor co-ordination has been ensured throughout the entire project management cycle from project design to implementation. Recently, the role of the ECD has changed whereby the Delegation is seen more and more as the lead donor in the country. In particular, the Delegation is a core donor involved in setting up donor coordination mechanisms through the following activities:

- Support to the BiH Ministry of Finance, Directorate for European Integration and Directorate for Economic Planning to set up an Aid Coordination Committee (together with DFID),

- Key member, and regular Chair, of the Donor Coordination Forum, which gathers the international Donor Community on a quarterly basis, including contributions to an Annual Donor Mapping report (together with UNDP)
- Monthly Coordination meetings with the EU Member States

At sector level, this is particularly evident in the agricultural, regional, and SME portfolios. In the agricultural sector for example, the World Bank will design its new programmes in line with the structures required under the *acquis*.

2.3. Results and impact

M&E Reports in 2007 - Lessons Learnt

Lessons learnt derived from monitoring of projects in 2007 can be summarised as follows:

- There has been a lack of cooperation between regional and national projects. Information to local beneficiaries should be improved in order to avoid possible overlaps.
- In order to have successful national projects it is essential to involve beneficiaries, as soon as possible, from the design phase. The highest the involvement of the beneficiaries, the higher the level of 'ownership' in country.
- Project design should be linked not only to EU strategic documents, but also to country/national strategies. Sometimes the framework where project exists is rather weak.
- European Integration projects are change instruments to develop the country. Political consensus is required as to which level of authority is best fit to implement required changes. Where there is a comparative advantage to work at State level for coordination purposes, Entities should contribute more actively and positively.
- During the project design it is highly important to take into consideration absorption capacity of the local institution. Sometimes projects have too many components, or objectives and expected results are beyond the absorption capacity of the local institution.
- Preconditions for project implementation are of utmost importance. If they are not met by the time the projects should start, this may jeopardise the results expected. This has been the case for example in the case of the construction of border crossing points, where vested interests prevented the timely implementation of pre-requisites for construction and derailed the projects. BiH should take on such issues with more determination.
- The political environment sometimes do not follow the same strategic direction, i.e. state and entity strategies are often not compatible with each other,
- Most projects designed for harmonisation and approximation of the *acquis* face difficulties due to different approaches on different BiH levels of authority.
- Donor coordination does exist in BiH but it is not always effective, as it is carried out by the international community itself, and not by the government. BiH authorities need to take the lead in aid co-ordination, especially in the wake of the new IPA instrument.
- Internal organization analysis required by the institution for the good project design is still weak. This calls for furthering assistance in the area of public administration reform.
- Twinning projects have done very well. Absorption capacity remains weak however and twinning light projects or technical assistance may still be a preferred tool when the BiH counterpart administration is not yet fully equipped and up and running.

- Financial sustainability is the most important. Sustainability is better achieved where political support is matched with BiH financial contributions.

Sectors with positive results

Some of the recent successes achieved include: establishment of Quality infrastructure institutions at the state-level, supporting BiH to join CEFTA, establishment of the Export Promotion Agency, development of animal disease programme, supporting BiH in attaining approval to export fish and fish products to the EU, implementation of waste recycling pilot programs, development of investment priority lists in the water sector, rehabilitation of wild land fills, support to the civil aviation agency to develop air traffic strategies which are subsequently being implemented with EBRD loan funds.

In spite of the complex structure of the country and the difficult political environment important successes could be achieved especially in the fields of Public Administration Reform (PAR), justice and migration, asylum and visa:

A **functional system of coordination of PAR activities** on State and Entity level could be established with the driving support of the EC. The Office of PAR on state level and the PAR coordinators nominated by the Entities' governments and District Brcko create a common forum on working level where activities, progress and projects are designed and discussed. The PAR Strategy and the Action Plan adopted in 2006 by the governments of all levels in BiH build a common framework. The PAR Fund, which pools the donor funds of several donors, provides a financial tool to implement projects in the field of PAR and to ensure full local "ownership".

In sectors of **health and education** functioning of public administration was improved through establishment of conferences of ministers in both sectors. Process of coordination and decision making has been considerably improved. In education sector a set of laws was adopted providing legislative framework for establishment of three agencies that are going to be responsible for development of standards in education, assessment of outcomes of learning, accreditation and diploma recognition. Process of establishment of the agencies is ongoing.

With the establishment of **High Judicial and Prosecutorial Council**, the establishment of a modern Case Management System and a data network connecting all courts, prosecutor's offices and cadastre offices in the country and the intensive training of judges and prosecutors, the EC could actively support the judicial sector and is clearly the leading donor.

With EC support, the sector of law enforcement agencies could be substantially modernised by providing modern equipment, training and the establishment of the country-wide SDH system which provides a modern data communication network between all law enforcement agencies and their offices and its link to judiciary.

The EC helped to install a modern **Immigration Management System** (IMS) which modernised the whole procedure and management of visas and permits of stay for foreigners.

Success story

A wealth of economic opportunities

The potential for economic growth

As a result of continuous political problems since the 1990s in Bosnia and Herzegovina, overall economic performance has either stagnated or declined. Consequently, unemployment has remained persistently high, productivity is less than 50% of that in central European countries, and financial sector reform and privatisation has been slow.

Nevertheless, since 2001 there have been signs of a gradual recovery. The improved economic performance is being attributed to indications that preliminary structural reforms are beginning to bear fruit in a region which is now considered to be capable of significant growth. In a concerted effort to capitalise on this potential, the European Union Regional Economic Development (EU RED) project was set up in Bosnia and Herzegovina in March 2003.

Working together for success

Working closely with newly created Regional Development Agencies (RDAs), The project is aiming to improve the economic environment by creating a framework for sustainable economic development in the country. The key stakeholders include new and existing RDAs, local authorities and state governments, the business sector, educational establishments, international bodies and NPOs (non-profit organisations). The project is working closely with all these main actors to revive and strengthen the economy, thereby preparing Bosnia and Herzegovina for integration into the EU's Structural Funding scheme and eventual accession. The project has five main objectives: 1) the creation of 5 Regional Development Agencies; 2) the development of regional economic strategies; 3) the establishment of a National Regional Development Forum; 4) the management of a grant Fund; 5) overall project management.

What can the regions offer?

As a first step, regional profiles were developed for the five proposed regions. The North-West, offering high-quality agricultural land, forests and natural resources, can support agro-processing, wood processing and tourism. The South- West – currently experiencing a tense political situation between rival Serbs, Muslims and Croats – is promoting aluminium processing, engineering, agriculture, forestry and textiles. The Central region, previously known as the industrial basin of Bosnia and Herzegovina, is now an area of high unemployment despite its coal, steel, engineering, wood and leather industries. The Sarajevo region is one of the most developed with its airport, university, banking, tourism, manufacturing industries and trade. Finally, the North-East is best known for its salt mines and chemical industry, both of which are now in decline, hence the high unemployment rate there.

Shared concerns

The project will play a leading role in developing integrated regional strategies in co-operation with RDAs, municipalities, business associations and other relevant players. The ultimate aim is to establish a network of RDAs able to interact with the National Forum on Regional Development to promote coherent regional economic policy at national level. The National Forum will be made up of experts whose mission is to influence and promote regional policy at national level, to discuss shared economic concerns of regional and national significance, and to promote more effective and relevant regional policies and actions. One of the main components of the project is to set up and run a Fund to provide targeted grant support for regional development projects. Priority areas include creating the right economic conditions for small and medium-sized enterprises (SMEs) to develop; supporting export-related opportunities, and mobilising labour supply and skills training. Examples of the type of projects suitable for funding include the setting up of business centres incubators and technology parks; advising SMEs; developing regional branding for agriculture and horticulture; devising trade and investment promotion schemes; and establishing vocational training services. These grants, as well as the technical assistance to RDA's and Local Development Agencies (LDAs), are crucial in supporting and accelerating the process of social and economic reform in a region which badly needs it.

3. BULGARIA¹

3.1. Summary

In 2007, Bulgaria implemented both pre-accession and post-accession assistance to address the remaining needs related to IB for the implementation of the *acquis*, in line with the Extended Decentralised Implementation System (EDIS).

Since July 2007 implementation is carried out under the entire responsibility of the Bulgarian authorities applying national procurement rules. Four implementing agencies are fully responsible for daily implementation of projects.

The National Aid Coordinator (NAC) continued to exercise the programming function for the Transition Facility programme and monitoring of both Pre-accession and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

3.2. Phare/pre-accession financial and Transition assistance in 2007

The Transition Facility has been established by the Act of Accession to fund certain IB actions in Bulgaria to address the continued need for strengthening institutional capacity in certain areas through actions which cannot be financed by the Structural Funds or by the Rural Development Fund. As such, this is an extension of the assistance provided until accession under the Phare programme. The implementation of EU assistance available under the TF is managed by the Memorandum of Understanding on the Implementation of the Transition Facility signed between the Bulgarian authorities and the European Commission on 21 June 2007.

Programming

A total of €31,487,600 was allocated to Bulgaria under the 2007 TF budget for Bulgaria.

This programme is mainly based on the Commission's 2006 Monitoring Report on the state of preparedness for EU membership for Bulgaria and Romania that identifies a number of areas where improvement is needed regarding implementation and enforcement of the *acquis*. Supplementary information was provided through the outcome of peer reviews, monitoring missions, and expert reports. The programme will also assist the Bulgarian administration with the implementation and enforcement of new *acquis*. Moreover, it takes into account the need for further progress towards the achievement of the benchmarks in the areas of judicial reform, the fight against corruption and organised crime set out in the Commission Decision of December 2006 establishing a mechanism for cooperation and verification of progress in Bulgaria¹ as well as the findings of the Report on Bulgaria's progress on accompanying measures following Accession. To this end, an Unallocated Institution Building and Cooperation and Verification Mechanism Envelope has been created to assist Bulgaria to take into account the findings of the Report and to ensure follow-up under the cooperation and verification mechanism.

The Phare Management Committee approved the Transition Facility 2007 National Programme for Bulgaria on 5 October 2007. The programme was then approved by the Commission through its Decision C(2007) 5277 of 5 November 2007, which was notified to the national authorities on the same day.

¹ Information refers to the reporting period 2007. Serious implementation difficulties appeared in early 2008 and the accreditation of two implementing agencies (CFCU, Ministry of Regional Development and Public Works) was temporarily withdrawn in July 2008. See: COM(2008)496).

The Transition Facility 2007 National Programme for Bulgaria provides **€31,487,600** for:

POLITICAL CRITERIA: €1.5301 million

- Civil Society Development in the area of anti-corruption fighting
- Further Strengthening of Policies, Practices and Capacity towards Roma Integration in Bulgaria

INTERNAL MARKET: €0.690 million

- Strengthening the capacity of the National Enquiry Point within the State Agency for Metrological and Technical Surveillance
- Further strengthening the administrative capacity of the Financial Supervision Commission aiming at the efficient implementation of the *acquis*

AGRICULTURE AND FOOD SAFETY: €1.944 million

- Improvement of phytosanitary control
- Strengthening the official control of feeding stuffs by the National Grain and Feed Service
- Improvement of the administrative capacity of the "Monitoring and coordination of Paying agency activities" Unit within MAF to implement its functions in compliance with Council Regulation (EC) 1290/2005 and (EC) 885/2006
- Improvement of the diagnostic and laboratory system for animal health control against classical swine fever and high pathogenic avian influenza
- Improving the efficiency of FADN via building up of an integrated IT system for data entry, control, validation and use at national and regional level
- Strengthening the capacity of State Fund "Agriculture" for electronic data exchange in its role as a Paying agency and establishment of interface between the PA systems and DG Agriculture information systems
- Support for the implementation of the Common Market Organisations in the meat sector

ENVIRONMENT: €5.0195 million

- Strengthening the capacity of the water management authorities for the implementation of economic instruments for water management according to the
- Water Framework Directive (WFD) 2000/60/EC
- Strengthening the administrative capacity with the aim to ensure the efficient enforcement of the EU waste management *acquis*
- Implementation and enforcement of Directive 2007/105/EC amending Directive 96/82/EC (Saves II Directive) on the control of major accident hazards involving dangerous substances
- Implementation and enforcement of Directive 2006/21/EC amending Directive 2004/35/EC on the management of waste from extractive industries
- Strengthening the administrative capacity for practical implementation of legislation of the management of waste in the fields of electrical and electronic equipment (WEEE) and batteries and accumulators at national and regional level
- Strengthening the institutional capacity for the implementation of the Nature Protection *acquis*

- Further development of the Executive Environment Agency's (EEA) calibration laboratory and quality control system for ambient air quality measurements

JUSTICE AND HOME AFFAIRS: €11.68 million

- Enhancement of the administrative capacity of the police in counteraction to drug crimes at national and regional level
- Enhancement of the Ministry of Interior's capacity to fight organised crime
- Development of the institutional capacity of the Ministry of Interior for building up the VIS national interface for connecting the border control system and visa system to the EU Visa Information System and for connecting the visa system to VISION Network
- Further strengthening of the Ministry of Interior through unification and standardisation of the vocational training of the officers of the Ministry of Interior
- Enhancement of the capacity of the Bulgarian police through the introduction of European models and methods for crime analysis
- Strengthening the uniform application of the new procedural legislation in Bulgaria
- Strengthening the public management of the judiciary and court administration
- A further step towards higher quality of training in the judiciary
- Further strengthening the forensic capacity of the expert services of the Ministry of Interior for collection and examination of material traces for crime scenes
- Improving and extending the level of training in the field of countering organised crime in the Bulgarian Ministry of Interior
- Effective implementation of the EU *acquis* in the field of migration policy and further strengthening the Migration Directorate's institutional capacity
- Elaboration and strengthening of the Human Resources Management system in the Ministry of Interior in the fight against corruption among its personnel
- Strengthening the role of the Bulgarian Prison Service

CUSTOMS AND FINANCE: €3.22 million

- Further computerisation of the Bulgarian Customs Administration in line with the EU Electronic Customs Initiative
- Enhancement of the implementation mechanisms of the Intrastate System in Bulgaria
- Interim Evaluation of Phare and Transition Facility Programmes
- Development of a national system for administering the excise duty entirely by the Customs Administration

ADMINISTRATIVE REFORM AND CAPACITY: €6.586 MILLION

- Strengthening the legal and administrative capacity for Mental Health Reform
- Strengthening the capacity of the Ministry of Culture to secure development and implementation of a National Audiovisual Policy, including copyright protection
- Unallocated Institution Building and Cooperation and Verification Mechanism Envelope

EMPLOYMENT, SOCIAL POLICY AND EDUCATION: €5.0195 million

- Strengthening the capacity of the Agency for Social Assistance through trainings of experts, working in the field of child protection and experts working in the Inspectorate of the Agency

Implementation

- Phare 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Phare programme 68.20 % of the funding has been disbursed. There are several projects whose period of execution of contracts has not expired yet according to the corresponding Financing Agreements. Furthermore the Bulgarian authorities have requested extensions of the execution period for the 2004 programme which have been approved.

- Phare 2005 – rate of contracting (EDIS extensions)

At the end of the contracting period for the 2005 National programme on 30 November 2007, 73.40% of the programmes had been contracted. However, the contracting period of several projects has been extended and was on-going.

- Institution Building highlights

As of 1 July 2007, the responsibility for the implementation of the twinning projects was taken over by the Administrative Office, while the overall coordination for twinning is carried out by the NCP of the Ministry of Finance.

In 2007, a number of projects continued to be implemented through the twinning instrument. The projects funded from the Phare programme included inter alia assistance to the Ministry of Justice on various subjects involving the judiciary reform process, the Ministry of Interior on border control systems, asylum and Scheme Information System SIS II, the Ministry of Health on surveillance systems of communicable diseases and healthcare for vulnerable groups, the Ministry of Labour and Social Policy on social dialogue, the Ministry of Finance on Structural Fund preparation, tax harmonisation, the Ministry of Transport regarding cohesion fund preparation for transport infrastructure projects and other institutions such as the Bulgarian Statistical Office, the Personal Data Protection Commission, the Financial Supervision Commission, the Energy Efficiency Agency.

In addition, several new twinning contracts were prepared in 2007 for approval mainly with the Ministry of Interior as a beneficiary on border police, crime victims support and probation service.

As to the 2007 Transition Facility Programme for Bulgaria, twinning remains an important instrument for implementation. Altogether the Programme includes a total of 22 standard twinning projects and 5 twinning light projects in areas such as Agriculture, Environment, Justice and Home Affairs with the majority of projects in the field of reform of the judiciary, police, organised crime, but also in the area of border matters and migration issues, and social policy.

In 2007, Twinning continued to remain a successful instrument in Bulgaria in many areas and has helped the Bulgarian administration to further strengthen its capacities to implement and enforce EC legislation

3.3. Results and Impact

State of play for JMC / SMSC development

The JMC continues to supervise progress of EU-funded assistance in 2007 and to provide recommendations on the management of Phare and Transition Facility programmes. In 2007,

the JMC meeting took place in May 2007. It was the first meeting chaired by the Bulgarian authorities. At the meeting issues such as further improvement of project management and reporting were discussed and proposals for remedial actions were made.

Each monitoring sector is covered by the relevant Sectoral Monitoring Sub-Committee (SMSC). Each SMSC session normally meets twice a year in accordance with the annual schedule agreed within the JMC. Two rounds of SMSC meetings took place in 2007, the first round took place in April and May, the second round was organised between October and November 2007. The ten monitoring sectors cover: Public Sector/Development of administrative capacity, Public Finance, Justice and Home Affairs, Economic Development, Agriculture, Environment, Transport, Social Development

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring the Phare and Transition Facility programmes in Bulgaria lies with the NAC services within the Ministry of Finance. Activities in this area were carried out on the basis of the Action Plan on decentralisation of monitoring and evaluation, which was endorsed by the EC in May 2007. The contract for carrying out the Interim Evaluation for the year 2007 was signed in December 2006 for 12 months.

In 2007, one Consolidated Monitoring Report was issued for the JMC meeting in May 2007. The report provides a consolidated country review of the findings of the Interim Evaluations finalized in 2007. The report concludes that most of the projects have a positive impact and positively supported Bulgaria's accession process, but the efficiency needs further close attention. The report also included recommendations concerning improvement of the implementation system. The NAC has taken relevant steps to address the issue.

4. CROATIA

4.1. The year in review

Political developments

EU accession negotiations began with Croatia on 3 October 2005 and are progressing well.

Implementation of strategies for reforming the judiciary and fighting corruption has continued. The case backlog before the courts has been reduced. Some first results are appearing in the fight against corruption. Croatia has taken further steps to address problems of minorities and, to a lesser extent, refugee return. Full cooperation with ICTY has continued. Croatia ratified the new Central European Free Trade Agreement (CEFTA), and has continued to participate actively in regional cooperation, for example in the establishment of the new Regional Cooperation Council.

However, considerable challenges remain in key areas, such as reform of the inefficient judicial system, public administration reform and fighting corruption, which remains widespread. Increased attention needs to be paid to minority rights, especially refugee return. The prosecution of war crimes requires further attention. Further regional cooperation is vital, as are efforts to solve outstanding bilateral problems with neighbours, especially on border delimitation.

Macroeconomic developments and structural reforms

Economic growth has increased and macroeconomic stability was maintained. The general government deficit was reduced significantly. Inflation remained low. Private investment picked up further. Employment rose and the business environment improved. The stability of the financial sector increased. The government's economic policy capacity was further strengthened.

However, rising external imbalances can become a risk. Structural reforms, including the restructuring of the shipbuilding and steel sectors moved forward only slowly. State intervention in the economy remained significant. Inefficiencies in public administration and the judiciary continued to hamper private sector development. The external debt has not been reduced, highlighting the need for tighter fiscal policies.

Progress in meeting the *acquis communautaire*

Croatia has improved its ability to take on the obligations of EU membership. Preparations for meeting EU requirements are moving forward at a steady pace and alignment with EU rules is high in some sectors. However, significant efforts lie ahead in order to reach full alignment. In most areas there has been some progress, principally in terms of legislative alignment but also as regards administrative capacity building. In some chapters such as transport and environment, good progress made in previous years has been sustained. In other chapters such as public procurement and taxation, progress has remained limited. As regards the overall level of alignment and administrative capacity, much remains to be done. In the chapter of information society and media good progress made in previous years has been sustained.

4.2. Pre-accession in 2007

Programmes launched

As of 2007 the Phare pre-accession programmes were replaced by the new Instrument for Pre-Accession Assistance. No new programmes were launched.

Overview of programmes implemented

The Commission decided to confer the management of Phare and CARDS programmes to the Croatian institutions under the authority of the National Authorising Officer on 7 February 2006 while maintaining the ex-ante control requirement for tendering and contracting. This decision also allowed for the further decentralisation of elements of CARDS 2003 and 2004.

Throughout 2007, further contracting of CARDS 2004, Phare 2005 and Phare 2006 (CBC programmes), and further disbursement of CARDS 2002, 2003 and 2004, and Phare 2005 and Phare 2006 (CBC programmes) took place.

The CARDS 2002 programme amounts to a total of €59 million consisting of €3 million of centralised funds for the Tempus programme, €48.5 million of deconcentrated funds managed by the EC Delegation in Zagreb and €7.5 million of funds under decentralised (DIS) management. Under deconcentrated management, the contracting rate was 96.4% with a disbursement rate of 91.8% at the end of 2007. Under DIS, these rates were respectively 93.8% and 84.7%.

The CARDS 2003 programme amounts to a total of €62 million consisting of €3 million of centralised funds for the Tempus programme, €29,633,585 of deconcentrated funds managed by the EC Delegation and €29,366,415 of funds under DIS. Under deconcentrated management, the contracting rate was 99.2% with a disbursement rate of 69.4% at the end of 2007. Under DIS, these rates were respectively 97.7% and 69.5%.

The CARDS 2004 programme amounts to a total of €81 million consisting of €4 million of centralised funds for the Tempus programme, €30,426,370 of deconcentrated funds managed by the EC Delegation and €46,573,630 of funds under DIS. Under deconcentrated management, the contracting rate was 99.96% with a disbursement rate of 66.1% at the end of 2007. Under DIS, these rates were respectively 94.6% and 20.2%.

The Phare 2005 national programme amounts to a total of €71,500,000 and is fully decentralised except for the TEMPUS and Community programmes funds. Out of €62,882,000 of decentralised funds, 88.34% had been contracted, and 13.92% had been paid by the end of 2007.

In addition to the Phare 2005 national programme, the Phare 2005 Nuclear Safety programme amounts to €641,000 and is fully decentralised. By the end of 2007, 66.53% of funds had been contracted. Disbursement had not yet started.

Also under Phare 2005, the Cross-border programmes (CBC) Croatia-Italy and Croatia-Slovenia-Hungary amount to €3 million each and are fully decentralised. By the end of 2007, 60.39% had been contracted and 27.98% paid for CBC Croatia-Italy, and 90.72% had been contracted and 61.92% paid for CBC Croatia-Slovenia-Hungary.

Under Phare 2006, the national programme, the Nuclear Safety programme and the Cross-border programme (CBC) Croatia-Italy amount respectively to €61,062,000, €1,649,000 and €3 million, are fully decentralised (except for the TEMPUS and Community programmes within the national programme envelope), and contracting had not yet started by the end of 2007. The Phare 2006 Cross-border programmes (CBC) Croatia-Slovenia-Hungary amounts to €3 million, of which 72.68 % had been contracted and 15.57% had been disbursed by the end of 2007.

CARDS and Phare management performance

Although the results of projects programmed show that the interventions reflected well the needs under the political and economic criteria as well as the ability to assume the obligations of membership, **there have been serious efficiency problems as regards *absorption***

capacity as well as timeliness and quality of the submitted tendering and contracting documents, resulting in last-minute commitment, as it has been the case with the Phare 2005 programme. Besides, physical implementation of the Phare 2005 programme will only be ensured within an extended disbursement period.

Also **weak administrative capacity** in several Croatia's public administration bodies, lack of ownership by the Programme Implementation Units (PIUs) on their own projects, insufficient co-ordination among stakeholders, as well as insufficient control on the process by the CFCU (Central Finance and Contracting Unit) hampered the effectiveness of EC assistance.

The follow-up audit on DIS conducted by ELARG in 2006 highlighted these deficiencies resulting in the aforementioned weak absorption and administrative capacities that need to be remedied.

In light of the above, ELARG decided in December 2007 to **temporarily suspend the endorsement of contracts under the Phare national programme 2006 till the Commission is satisfied about improvements judged against a set of benchmarks.**

NDPs – State of Play

The Croatian Government adopted a national development strategy entitled **Strategic Development Framework 2006-2013** in August 2006, which identifies a series of priorities that should promote Croatia's social and economic development. The Strategic Development Framework remained valid in 2007.

In addition, the Croatian Government adopted in 2007 the **National Programme for the Accession of the Republic of Croatia into the EU (NPAEU)** which is the fifth annual programme which contains activities to be undertaken on the way towards EU integration, as well as short and mid term priorities in the harmonisation of Croatian legislation with the *acquis*.

Institution Building highlights

One of the main challenges facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. The European Commission mobilises significant human and financial resources to help them with this process, using the mechanism of *twinning* administrations and agencies with the ones from the Member States.

During 2007, 26 new twinning contracts (including 'twinning light') for a total amount of approximately €22.2 million were signed, including 12 contracts under CARDS 2004 programme and 14 contracts under Phare 2005 programme.

In addition to these newly started projects, there were, by the end of 2007, 4 running twinning projects which had started in 2006, for a total amount of approximately €3.5 million: 3 projects under CARDS 2003 programme and 1 project under CARDS 2004 programme.

Moreover, 10 twinning projects for a total amount of approximately €7.9 million were finished during 2007: 1 under CARDS 2002 programme, 7 under CARDS 2003 programme, and 2 under CARDS 2004 programme.

4.3. Results and impact

State of play for JMC/SMSC development

Two series of six Sectoral Monitoring Sub-Committee (SMSCs) meetings each were held in May and November 2007. These meetings considered the state of play for a total of, respectively, 99 and 90 decentralised CARDS and Phare projects. The six sectors covered by

the SMSCs were: Public Administration Reform, Public Finance & Statistics; Internal Market, Competition & Agriculture; Economic & Social Cohesion; Energy & Environment; and Social Sector, Civil Society & Minority Rights.

This process culminated in the Joint Monitoring Committee (JMC) which took place on 10-11 December 2007. The JMC reviewed the financial status of programmes as of 1 December 2007 (tender launches, contracting, payments). It discussed a JMC Synopsis Report containing conclusions, recommendations and follow-up actions, as well as the CARDS interim evaluation report, a summary of 2007 internal audit findings related to CARDS and Phare, a summary of irregularities reporting, and the 2008 monitoring and interim evaluation plan.

The JMC also conducted a thorough review of the functioning of DIS. In light of the aforementioned difficulties encountered, the Commission decided to temporarily suspend the endorsement of contracts under the Phare national programme 2006 till the Commission is satisfied about improvements judged against a set of benchmarks (*see section 4.2 CARDS and Phare management performance*).

M&E Reports in 2007 - Lessons Learned

An ad-hoc independent evaluation report covering decentralised CARDS assistance from the 2003 and 2004 national programmes was released in December 2007. This report encompasses four sector clusters: "Social", "Internal Market, Competition and Agriculture", "Justice and Home Affairs", and "Other". These clusters are drawn from five monitoring sectors and based on a sample of 16 projects (12 from CARDS 2003 and 4 from CARDS 2004). All projects are being implemented under DIS. The total amount of assistance evaluated in the report is €20.25 million.

The report provided the following lessons that can be drawn as regards CARDS assistance:

- **Although largely relevant, CARDS support has been hampered by weaknesses in project design.** To maintain relevance, the assistance in some clusters has been the subject of significant changes to their original funding and implementation arrangements, largely due to obsolete original designs and contracting requirements.
- **The uneven efficiency of the assistance is a result of delays, mixed beneficiary performance and the generally good work of contractors and twinning experts.** The performance of the assistance in the preparatory stage, characterised by extensive delays, has negatively influenced overall efficiency. The performance of many (but not all) beneficiaries and PIUs has also been less than optimal, although this has been offset by the generally good work of contractors, twinning partners and suppliers.
- **The assistance is expected to be largely effective, with many outputs already delivered and in use by beneficiaries.** Nearly all the interventions will deliver their planned outputs. This is largely thanks to the work of the contractors and twinning partners, whose work have in nearly all cases been effective and which in a number of cases have already resulted in tangible improvements in beneficiary performance.
- **Prospects for impact are, on balance, positive.** This is most likely where policy objectives are clear and support for their implementation evident at senior level, or where assistance complements ongoing beneficiary efforts. More complex projects that promote intra-institutional change or wider reform agendas are likely to face greater challenges in delivering impact.
- **Prospects for sustainability are mixed.** This is due in part to factors that are outside the direct control of the beneficiaries, or where those institutions charged with implementing

project results are under-resourced. Otherwise, conditions to ensure the future use of investments are generally in place, while staff turnover has been noted in only some institutions.

As regards Phare programmes, an Interim Evaluation Scheme was launched in the second half of 2007. Sectoral and thematic reports are expected to be issued in 2008.

Sectors with positive results

- Based on the aforementioned evaluation of CARDS assistance, positive results were achieved in 2007, notably in the following sectors:
- In the "Social" cluster, **Higher Education and Good Governance I/II projects, inter alia**, are expected to be effective. The former has provided the beneficiaries with the tools for membership of the European Quality Assurance Network in Higher Education. The grantees of the latter intervention are on schedule to deliver their planned results that will contribute towards improving civic engagement in the grant scheme's target areas.
- Interventions evaluated under **"Internal Market, Competition & Agriculture"** show signs of having the positive impact intended. The system established under the *Plant Health* project is already functional and contribute to the plant health sector meeting EU requirements. The *Phytosanitary Inspection* project has developed the basis for the introduction of key measures in the sector such as a pilot passport system and a plant health register.
- Within **"Justice and Home Affairs"**, the *Border Management II* project is expected to be effective in introducing EU standards in the field of border checks and in preparing Croatia to implement the Schengen *acquis*. The criminal intelligence system developed under the *Criminal Intelligence II* project will support the delivery of planned results. The *Combating Money Laundering* project has been particularly effective and has already delivered some important outputs, principally the protocol on cooperation between government agencies operating in this field.

The list of aforementioned sectors providing positive results is not exhaustive. Other sectors include, *inter alia*, assistance with *Administrative Decentralisation* and *Water Management* which is expected to provide outputs that fit in with ongoing strategic and legislative developments.

Implementation of Phare assistance is relatively too recent to assess results in specific sectors.

Success story

"Support to National Development Planning" Project

The purpose of this CARDS 2003 project was to set foundations for the management of structural instruments in Croatia by establishing structures and systems for programming and management of IPA components III and IV.

IPA was designed to prepare the candidate countries for the management of funds post-accession. In order to utilise full potential of the new financial instrument, candidate countries were expected from the outset to define an institutional setup for components III and IV which would continue to manage structural instruments after accession. Since Croatian authorities had no experience on which they could build such a strategic decision, the project supplied a wealth of experiences from other countries including analysis of advantages and disadvantages of each of them for Croatia, which allowed the Government to design the IPA implementation system and appoint responsible persons even before the IPA legal basis was completed.

In addition, the project supported the NIPAC, Strategic Co-ordinator and Operating Structures with multi-annual programming for components III and IV. Further to the National Development Plan in force the project enabled the inter-ministerial co-ordination group to make selection of operations and investment projects to be funded between 2007 and 2009. Project experts worked closely with the beneficiaries in drafting the Strategic Coherence Framework and four operational programmes. Independently from those activities, the project also provided the expert team which carried out ex ante evaluation of the operational programmes and ensured country-wide consultations based on the EU regional policy partnership principle. After the Commission accepted the three-annual funding of the OPs, the project worked on the development of the monitoring and evaluation system for IPA components III and IV and prepared the institutions for meeting visibility requirements.

In 2007 the project was particularly active in consolidating the capacity of the beneficiaries in order to pave the way for introduction of structural instruments at accession. In order to do that it drafted the Structural and Cohesion Funds Readiness Strategy and Action Plan, which allowed Croatia to meet the opening benchmark for negotiations under Chapter 22. The working methods of the project were such to engage the beneficiaries as much as possible so that in few years they can take part in the programming and management of structural instruments relying much more on their own capacity.

5. CYPRUS

5.1. Summary

In 2007, Cyprus continued to implement successfully the post-accession assistance to address the remaining needs related to IB for the implementation of the *acquis*, in line with the Extended Decentralised Implementation System (EDIS).

Since July 2004 implementation is carried out under the entire responsibility of the Cyprus authorities applying national procurement rules. A number of implementing agencies are fully responsible for daily implementation of projects.

The National Aid Coordinator (NAC) continued to exercise the monitoring of both Phare and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Phare Transition Team in the Representation in Nicosia as of end July 2005, DG Enlargement continues to exercise the residual functions related to the Commission responsibilities (monitoring, payments, closure, etc.) in line with the Financial Regulation.

5.2. Pre-accession financial and Transition assistance in 2007

Implementation

– TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 TF programme 78.76 % of the funding had been disbursed. The Cypriot authorities did not request any extension for the 2004 programme. The payments can still be executed within 6 months after the expiry of the contracts execution period.

– TF 2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 98.35% of the programmes had been contracted.

– Institution Building highlights

A total of around €19 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Cyprus from Transition Facility programmes (2004-2006).

During the period, there was substantial overall progress towards the achievement of objectives and results of the EU assistance. The projects under TF 2004 projects were successfully completed and achieved its results, which further contributed to the enhancement of Cypriot public administration. However, under TF 2004 there was one exception under project "Capacity Building in the Field of Metrology in Cyprus", where not all the results were achieved. This will be rectified by the Cypriot authorities from national funds.

There were quite substantial savings under TF 2005 programme, which were reallocated into Unallocated Institution Building Facility. The UIBF was successfully contracted and has proven to be an effective tool in meeting the remaining needs of *acquis*-related issues.

5.3. Results and Impact

State of play for JMC / SMSC development

In 2007, one Joint Monitoring Committee (JMC) meeting took place in March 2007, in line with the revised JMC Mandate introduced in the new Member States in May 2004, which

established an integrated monitoring and evaluation system over the programmes under implementation. The second one was implemented by written procedure in October 2007.

The JMC meeting was fruitful and helped to address the problems concerning implementation of the ongoing projects, to discuss horizontal/systemic issues and to identify possible solutions. The ISRs were of good quality and provided a sound basis for a discussion/feedback.

In the year 2007, the monitoring system was reorganised in Cyprus. It was affected due to simplified procedures introduced by the European Commission and due to the rather small number of projects under TF 2005 and 2006 programmes.

Within this reorganisation, a Programme Monitoring Committee (PMC) was established as a main coordinating body that meets twice a year and is chaired by the NAC. The PMC assesses progress towards the objectives and targets of the projects by reviewing actual output, the rate of implementation, financial flows, etc. and makes relevant recommendations. The PMC's discussion is based on the Quarterly Progress Reports of the projects as well as the Monthly Financial Reports.

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring and evaluation of the pre-accession and Transition Facility programme in Cyprus lies with the Planning Bureau, as the executive body of the NAC.

In 2007, two evaluation reports were released, both prepared by the external contractor. The Interim Evaluation Report was issued on 02 February 2007 and covered Transition Facility 2004 and 2005. The Country Summary Evaluation Report was released in June 2007 and covered 2003 Pre-Accession programme, TF 2004 and 2005.

The reports conclude that most of the projects have a positive impact and are rated as satisfactory, but more should be done in terms of efficiency, though it has improved compared to previous reports. Serious risks have been dealt with, certain processes have been speeded up and deliverables have been under close scrutiny. In terms of impact, there is a potential for wider beneficial impact beyond the immediate objectives of the projects. The realization of this potential will however, require appropriate follow-up actions

6. CZECH REPUBLIC

6.1. Summary

In 2007, the Czech Republic continued to implement successfully the post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the EDIS.

Since December 2004 implementation is carried out under the entire responsibility of Czech authorities applying national procurement rules. The Central Finance and Contract Unit (CFCU), the Civil Society Development Foundation (NROS), Czech Invest (CI), the National Training Fund (NTF) and the Centre for Regional Development (CRD) are fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continues to exercise the monitoring of both Phare and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Representation's Phare Transition Team in Prague in July 2005, DG Enlargement exercises residual functions related to the Commission responsibilities (monitoring, payments, closure, etc.) in line with the Financial Regulation.

6.2. Pre-accession financial and Transition assistance in 2007

Implementation

– TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility programme 91.40 % of the funding has been disbursed. The Czech authorities requested no extension for the 2004 programme. The payments can still be executed within 6 months after the expiry of the contracts execution period.

– TF 2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 86.91% of the programmes had been contracted.

– Institution Building highlights

A total of around €32 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to the Czech Republic from Transition Facility programmes (2004-2006).

Implementation of Transition Facility in the Czech Republic is considered generally successful in areas such as Nuclear Safety, Justice & Home Affairs, Social Protection & Health, Environment, Agriculture and Finance & Banking & Internal Market.

As regards twinning, the Czech Republic has taken advantage to a limited extent of the Twinning instrument, since three Twinning Light projects were unsuccessfully circulated and subsequently not contracted.

6.3. Results and Impact

State of play for JMC / SMSC development

In 2007, one Joint Monitoring Committee (JMC) meeting took place in June 2007, and the second one was carried out through written procedure in winter 2007 in line with the revised JMC Mandate introduced in the new Member States in May 2004, which established an integrated monitoring and evaluation system over the programmes under implementation.

The JMC meeting was fruitful and helped to address the problems concerning implementation of the ongoing programmes, to discuss horizontal/systemic issues and to identify possible solutions. Several immediate actions were agreed upon and deadlines set for their implementation.

In the year 2007, two rounds of Sector Monitoring Sub-Committee (SMSC) meetings took place (in April and October). There are six sectors to be monitored in the Czech Republic: Social protection and health, Agriculture/Environment, Civil Society Development, Nuclear Safety, Justice and Home Affairs and Internal Market, Finance and Banking.

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring and evaluation of Phare and the Transition Facility programme in the Czech Republic lies with the Ministry of Finance (MoF). Activities in this area were carried out on the basis of the Action Plan on decentralisation of Monitoring and Evaluation, which was endorsed by the EC in May 2005.

In 2007, 5 IE reports, two Country Evaluation Summary Reports on Transition Facility programmes in the Czech Republic were issued.

The Phare Country Evaluation Summary report provides a consolidated country review of the findings of the Interim Evaluation Reports that were prepared between April and May 2007 and September and October 2007. It concludes that the efficiency of the use of Phare assistance continues to be threatened by high staff turnover, a resulting lack of institutional memory, and insufficient staff numbers. The Transition Facility Country Evaluation Summary report identifies projects managed by the Ministry of Health as problematic, due to their poor institutional ownership.

7. ESTONIA

7.1. Summary

In 2007, Estonia continued to implement successfully the post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the EDIS.

Since November 2004 implementation is carried out under the entire responsibility of Estonian authorities applying national procurement rules. The Ministry of Finance, Central Financing and Contracting Department (CFCD) is fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continued to exercise the monitoring of both Phare and the Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Phare Transition Team in the Representation in Tallinn as of July 2005, DG Enlargement continues to exercise the residual functions related to the Commission responsibilities (monitoring, payments, closure, etc.) in line with the Financial Regulation.

7.2. Pre-accession financial and Transition assistance in 2007

Implementation

– TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility programme 85.18 % of the funding has been disbursed. The Estonian authorities requested no extension for the 2004 programme. The payments can still be executed within 6 months after the expiry of the contracts execution period.

– TF2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 86.54% of the programmes had been contracted.

– Institution Building highlights

A total of around €18 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Estonia from Transition Facility programmes (2004-2006).

In 2007, Estonia made very good progress in implementing the Transition Facility 2004 and 2005 projects. TF 2004 projects were all completed by the execution deadline, some even far prior to it. On the other hand, some of the projects faced very tight implementation period because of changes needed to be introduced in the project fiches for various reasons. However, in conclusion it can be said that all projects contributed to meeting the remaining needs of *acquis* and enhanced the Estonian administrative system.

The projects under TF 2005 are also progressing well and no major problems have been encountered. Some of them had been already completed during 2007 or earlier.

In 2007 there were quite significant changes in the structures of the Ministry of Finance of Estonia, which were related to the EDIS system and implementation of the TF programmes. These changes however did not affect the implementation of the projects under Transition Facility Instruments.

7.3. Results and Impact

State of play for JMC / SMSC development

In 2007, one Joint Monitoring Committee (JMC) meeting took place in February 2007, in line with the revised JMC Mandate introduced in the new Member States in May 2004, which established an integrated monitoring and evaluation system over the programmes under implementation. The second one was by written procedure in June 2007.

In 2007, no Sector Monitoring Sub-Committee (SMSC) meetings have taken place. Monitoring reports have been prepared twice during the year and approved via written procedures by the SMSC members. There are eight sectors to be monitored in Estonia: Justice, Home Affairs, Finance, Environment, Internal Market and Transport, Agricultural, Social sector, and Education.

M&E Reports in 2007(lessons learned)

Overall responsibility for monitoring and evaluation of the Phare programme in Estonia lies with the Ministry of Finance (MoF). Currently, the Foreign Financing Department provide services to the NAC in the State Budget Department. Activities in this area were carried out on the basis of the Action Plan on decentralisation of monitoring and Evaluation, which was endorsed by EC in February 2005.

In 2007, Thematic Evaluations were introduced. The topics of these could be selected by a country but should have been approved by DG Enlargement. A contract for evaluation with external contractor was signed in 2007. The following evaluation reports were prepared and released during the year:

- (1) Transition Facility Interim Evaluation Country Summary Report VI
- (2) Interim Evaluation Report of 2004 Transition Facility Programme
- (3) Utilizing Phare/TF evaluation recommendations

In addition, Phare Interim Evaluation Report on Home Affairs Sector was prepared and released in August 2007.

The main recommendations were related to the need for creating a sustainable knowledge base so that the experience and knowledge acquired from the projects would not be lost; best practice should be more widely spread, increasing the role of Steering Committees, involving IT experts from the start of the project (in the future) if the projects are technically complicated, more active application of the recommendations of previous evaluations. Also, in order to become a Twinning provider, system should be put in place and a respective strategy should be created, which addresses organisational and operational aspects.

8. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

8.1. The year in review

Political developments

The pace of reforms in the former Yugoslav Republic of Macedonia was, on the whole, slow for most of the year. The country made some progress in addressing the **political criteria**. However, frequent tension and problems in achieving constructive dialogue between major political actors undermined the effective functioning of the political institutions and led to a slowdown in reforms.

However, following publication of the 2007 Progress Report there were signs of reforms gaining momentum. Improved cooperation among political parties and between the Prime Minister and the President has led to increasing consensus on EU-related reforms. These include appointments to the Judicial Council by Parliament and the adoption of laws on the Public Prosecutor's Office, on the Council of Public Prosecutors and on the Composition of the Committee on Inter-ethnic Relations. Progress has also been made in police reform and decentralisation. Ensuring good neighbourly relations and finding negotiated and mutually acceptable solutions to unresolved issues with neighbours, in line with the Council conclusions of December 2007, remains essential.

Macroeconomic developments and structural reforms

The **economy** of the former Yugoslav Republic of Macedonia registered a markedly accelerated growth. Macroeconomic stability has been maintained and structural reforms have further progressed, but the persistence of very high unemployment remains a major cause of concern. Institutional weaknesses and deficiencies in the rule of law still hamper the smooth functioning of the market economy and affect the business climate.

Regarding the **economic criteria**, the former Yugoslav Republic of Macedonia is well advanced in, and has further moved towards establishing a functioning market economy. It should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it vigorously implements its comprehensive reform programme in order to reduce significant structural weaknesses.

Progress in meeting the *acquis communautaire*

The former Yugoslav Republic of Macedonia has made further efforts to improve its **ability to assume the obligations of membership**. There was some progress in the fulfilment of the short term priorities of the European partnership. The country still faces major shortcomings in implementing and effectively enforcing legislation. Adequate human and financial resources to fully implement the SAA are lacking. Large scale replacement of qualified staff following political changes hampered efforts to improve administrative capacity.

8.2. Financial assistance in 2007

Programmes launched

As of 2007, the CARDS programmes were replaced by the new Instrument for Pre-accession Assistance. No new programmes were launched.

Overview of programmes implemented

During 2007, the CARDS programme was the main programme delivering the needed assistance for addressing the European priorities of the country. The implementation concerned the annual programmes from 2002 until 2006.

The former Yugoslav Republic of Macedonia received a total allocation of €231 million under CARDS programmes between 2002–2006. This allocation concentrated on several sectoral objectives referring to the priorities identified in the Progress Report and the European Partnership for the former Yugoslav Republic of Macedonia. These priorities translated into the following financial allocations by priority:

- Democracy and the rule of law: €56.6 million
- Economic & social development: €59.2 million
- Justice and home affairs: €62.6 million
- Environment and natural resources: €6.3 million
- Other: €35.3 million

The key programming documents for CARDS 2002-2006 were the CARDS Country Strategy Paper 2002-2006, Multi-annual Indicative Programmes of 2002-2004 and of 2005-2006 and annual action programmes for each annual programming cycle. The programming documents were prepared with reference to the Stabilisation and Association Agreement, annual progress reports, European Partnership, and the National Plan for the Adoption of the Acquis.

The CARDS Programme was mainly managed by the European Agency for Reconstruction. Starting its operations in 2002, the EAR took over responsibility for the previous programmes and took forward the implementation of CARDS.

In the year 2007 procurement processes were underway for the completion of the contracting of the CARDS assistance.

Strengthening the public administration

Assistance was provided in the set-up of the Directorate for Personal Data Protection as an independent and legitimate state body. A separate twinning programme partnering officials from the Macedonian and Dutch finance ministries is aimed at improving transparency, effectiveness and efficiency in the use of public funds.

Helping bring about economic reform

To further the country's economic development, the EU commenced a new Human Resources Development Fund programme seeking to improve the level of competence of managers in the business community through improved access to training and services and to increase the competences of local business service providers. Through a separate EU-supported programme to the SME Development, the aim is to support economic growth and improve the business climate in the country by fostering the development and performance of SMEs.

Aligning environment rules with EU best practices

In order to promote environment friendly management, the National Strategy for Environmental Approximation was developed. With the help of EU funding, the project provided gap analyses of 19 relevant environmental directives and broad analyses of the remaining legislation. Additionally, new environment projects were put in place in the following areas: elimination of industrial hotspots, municipal waste water management and healthcare risk waste management. The aim is to catalyse IFI funding in the relevant fields.

Supporting police reform

Under a twinning arrangement, the Ministry of Interior received assistance from the Police Academy of Brandenburg (Germany) for the implementation of the Law on Police. Under a separate initiative with a member state (France), international police experts were deployed to

support the implementation of the National Police Reform Strategy at the regional and local levels.

Towards a more independent judiciary

The IT Centre for the Judiciary was established in securing an efficient and independent judicial system and to contribute to better communication among the judicial institutions. In penitentiary reform, a grant arrangement was launched with the Council of Europe with a focus on the full implementation of professional standards in prison administrations.

Increasing trade opportunities

In an effort to boost the country's agricultural sector, the EU continued to support the National Animal Identification System aiming to complete the establishment of an integrated animal identification, holding registration and movement control system for small ruminants. In a separate programme, the EU provided assistance for the establishment of a National Vineyard Monitoring and Management System.

Strengthening the civil society

A platform was established among the civil society organisations in the country. The EU assistance programme targeted civil society organisations to help them assess the quality and accountability of the governance system. In furthering social cohesion, a Roma Representative Body was established to lobby on behalf of the Roma community for greater participation of the Roma community in public life.

Preparing the country for new IPA funding

The European Agency for Reconstruction played an important role in translating the priorities into project ideas in the framework of the newly launched Instrument for Pre-Accession Assistance. The Agency committed eight different service contracts funded under CARDS to assist the country with the programming of the Instrument for Pre-accession Assistance (IPA). To support the programming of IPA, the drafting of the compulsory documents (16 of them) was completed and assistance was provided in tendering the first projects under IPA.

CARDS management performance

The CARDS programme implementation during 2007 concerned the programmes 2002 till 2006. The objectives for CARDS delivery for 2007 were completion of payments for the 2002 and 2003 programmes, completion of the contracting for the 2004 programmes, and contracting bulk of allocations for the 2005 and 2006 programmes.

In 2007, a total of 41 contracts - 4 works contracts, 10 supply contracts, 18 service contracts and 9 grants - were signed for a total value of €37.1 Million.

In 2007, a total of €39.3 Million was paid. Payments for the 2002 programme were completed.

The Agency portfolio in the former Yugoslav Republic of Macedonia amounts to some €326.5 million. It covers projects financed under CARDS (2002-2006), projects financed under Phare (1997-2000) and the Emergency Response Programme (2001). As of 14 April 2008, 97% of these funds have been contracted of which 92% have been paid.

Please see Table below: Key figures at a glance, 21st April 2008

	1997-2000	2001	2002	2003	2004	2005	2006	Total
Allocation*	79.5	56.5	33	36	53.5	34.5	33.5	326.5

(€ million)								
Committed/ Allocated %	100%	100%	100%	100%	100%	95%	72%	97%
Paid/ Committed %	100%	100%	100%	99%	85%	82%	49%	92%

Institution Building highlights

The twinning mechanism was extensively used during 2007 in many priority areas and helped the country prepare for the implementation of EU policies and laws. In 2007 two new twinning projects were launched: public internal financial control with the Netherlands and harmonisation of labour legislation with Slovakia. In 2007, we completed twinning projects conducted by Germany on police reform processes and competition authority. The twinning project with the Netherlands and Hungary was also completed during 2007 tackling drugs related crimes. The twinings on the police education with the Netherlands, on statistics with Germany and Slovenia, on air quality with Finland and Austria, on money laundering with Spain, and on Prosecutor's office with Italy continued with their operations. To date, a total of 11 fully-fledged twinning projects for a total amount of €13.2 million have been financed out of the CARDS Programme. In addition, a further 1 fully fledged twinning project (on energy) and 4 twinning light projects (on policy planning, on insurance supervision agency, on public revenue office and on decentralised implementation system) were programmed during 2007 under IPA's component I. The selection process is underway for most of them.

Grants awarded to eligible EU member state institutions has been used as additional instrument for institutions building specifically targeting the policing reforms in the country. In 2007 one grant project (with France) was launched under CARDS funds. The year 2007 saw the completion of a grant project with Germany taking forward the implementation of the police reform priorities. To date, a total of 3 grant projects for a total amount of €10 million have been financed out of the CARDS Programme.

Other institutions building instruments have included technical assistance (service contracts), direct award grants to specialised international organisations and grants to civil society organisations.

8.3. Results and impact

M&E Reports in 2007 - Lessons Learned

The step-by-step establishment of the administrative structure for decentralised management of EU funds and the requirements for the management of IPA are leading elements in the evolving organisational set-up for the programming and subsequent management of EU funded projects. While it remains a challenge to allocate both sufficient resources to the management structures and to develop and implement the appropriate regulations, improvements can be noted in the involvement of different government agencies in the development of the projects.

Despite a general improvement, significant disparities between different government bodies persist. Where the Ministry of Interior for instance is taking a more leading role in both project development and project management, other ministries continue to face serious difficulties in assuming their (contractual) responsibilities. Continued support to build capacities in project development and management will remain necessary.

Further structural improvements in public administration remain a priority. Three core functions stand out. Firstly the budget planning process needs to ensure that sufficient resources are allocated to the ministries and departments to maintain the investments and – in some cases – appropriately implement core work processes. Secondly, human resource management does not only need to guarantee sufficient staff to implement the relevant mandate, but also sufficiently qualified staff and a stable staff establishment. And thirdly, the activities of an individual ministry or department do not only need to refer to a sector strategy, but also be well coordinated with other stakeholders in the process, which include other departments in the same ministry, other governmental bodies as well as the support activities of the international community.

Although addressing these structural public administration issues through capacity building projects will remain necessary, highlighting these issues in the sub-committees proves to be an excellent tool to focus attention.

Sectors with positive results - Success story

Higher education gets a boost: EU committed €2.37 million to extend the campus of South East European University

The South East European University (SEEU) was established in Tetovo in October 2001, and soon became a strong promoter of interethnic relations and understanding, by offering a tolerant, multi-lingual, multi-cultural approach to teaching and scientific research. Today the University has a student population of 8,000 in 12 undergraduate and 13 post-graduate programmes. To help the university cope with its fast growth, the EU, through the European Agency for Reconstruction provided €2.37 million to extend the university campus and provide additional teaching and office space and administration services. The extension of the campus was supported by the EU following a special decision of the European Commission. The SEEU was able to contribute €0.47M to the costs of construction. The new premises of the Business Centre for Education and Post-graduate Studies at the South East European University (SEEU) were opened on 17 September 2007.

9. HUNGARY

9.1. Summary

In 2007, Hungary continued to implement successfully the post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the EDIS.

Since June 2004 implementation is carried out under the entire responsibility of Hungarian authorities applying national procurement rules. The CFCU-Central Finance and Contract Unit, the ESF-European Social Fund Agency and the VATI-Hungarian Public Company for Regional Town Planning are fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continues to exercise the monitoring of both Phare and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Phare Transition Team in the Representation in Budapest as of July 2005, DG Enlargement continues to exercise the residual functions related to the Commission responsibilities (monitoring, payments, closure, etc.) in line with the Financial Regulation.

9.2. Pre-accession financial and Transition assistance in 2007

Implementation

- TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility programme 67.41 % of the funding has been disbursed. The Hungarian authorities requested no extension for the 2004 programme. The payments can still be executed within 6 months after the expiry of the contracts execution period.

- TF 2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 88.56% of the programmes had been contracted.

- Institution Building highlights

A total of around €36 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Hungary from Transition Facility programmes (2004-2006).

Implementation of Transition Facility in Hungary is considered successful in most areas, where most projects are reaching foreseen objectives and the assistance provides real value added to scarce public funds.

As regards twinning, Hungary has taken advantage to a limited extent of the Twinning instrument, since three Twinning Light projects were unsuccessfully circulated and subsequently not contracted.

9.3. Results and Impact

State of play for JMC / SMSC development

In 2007, two JMC meetings took place in February and June 2007, in line with the revised JMC Mandate introduced in the new Member States in May 2004, which established an integrated monitoring and evaluation system over the programmes under implementation.

In the year 2007, following the Commission's simplification proposal regarding the JMC functioning, in Hungary the Sector Monitoring Sub-Committee (SMSC) meetings and reports were abandoned. However, monthly implementation review meetings (IRM) were strengthened and evaluations aligned and adapted to the simplified monitoring scheme. IRM became the central tool of the monitoring system. The monitoring sectors were reduced to the following: Agriculture, Social and Health, Political Criteria, Environment, Internal Market/Transport, Public Finance and Customs, Justice and Home Affairs.

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring of the Phare and Transition Facility programmes lies with the National Aid Coordinator (NAC) in the National Development Agency. Activities in this area were carried out on the basis of the Evaluation Plan on decentralisation of Monitoring and Evaluation contracted by the NDA on the ground of the requirements of the European Commission.

The independent evaluator prepared Interim Evaluation reports in order to evaluate all Phare sectors in 2007. The evaluator prepared also the Country Summary Evaluation Review (CSER) for the JMC of February and June 2007.

The conclusions available from the Interim Evaluation reports are that, on the whole, the EU assistance has been well implemented, and this assistance has satisfactorily supported the institution building related to the accession process.

Depending on the sector, the effectiveness was considered satisfactory and management efficiency to overcome delays adequate. The contracting and implementation were still lagging behind the originally planned schedule.

10. KOSOVO (UNDER UNSCR 1244/99)

10.1. The year in review

Political Developments

In November 2005, former Finnish President Martti Ahtisaari was appointed the special envoy of the UN Secretary General (UNSG) to prepare a proposal for the future status of Kosovo. Following a number of status consultations and a final high-level meeting between Belgrade and Pristina on 10 March 2007, Mr Ahtisaari delivered a Comprehensive Proposal for the Kosovo Status Settlement to the UNSG on 15 March. The UNSG forwarded Mr Ahtisaari's Proposal to the UN Security Council. Belgrade and Pristina maintained divergent positions as to whether Kosovo should be independent or be an autonomous part of Serbia; whereas the Kosovo Assembly confirmed its satisfaction with the Ahtisaari Proposal, it was rejected by Serbia. On 1 August, the UNSG endorsed a new initiative on determining Kosovo's status via further negotiations, mediated by an EU-US-Russia troika. Direct talks between Pristina and Belgrade under the auspices of the troika started on 28 September. On 10 December 2007, the troika reported to the UNSG that the negotiations had failed to bring about an agreed outcome.

Macroeconomic developments and structural reforms

Kosovo's official GDP per capita was 1118/year in 2006. Growth estimates for 2007 stood at 3.5%. Inflation remained low until 2007 (1,6 in 2006) but could well peak to 12% in 2008. The level of unemployment is substantial (47% in 2006), and growing. The size of the informal economy is significant although no estimates are available. As a result, actual expendable revenue per capita could be higher and is boosted by remittances from abroad. Public finances in Kosovo were healthy, with the budget showing a surplus of 6,5% of GDP. The Euro is the de facto currency of Kosovo. Fiscal policy is conducted on the basis of the Medium Term Expenditure Framework. As concerns foreign trade, the balance of payments showed a deficit of 24% of GDP. FDI has grown steadily from less than 1% of GDP in 2004 to 12% in 2007. However, this would include investment in small scale commercial undertakings, with limited value added and representing a modest contribution to GDP. No bilateral trade agreements exist with the EU. Kosovo benefits from autonomous trade preferences granted to the countries of the region, allowing for free access to the EU market. Kosovo is part of CEFTA. Membership of the IMF would open the door to involvement of IFIs. The EBRD and EIB only have a limited presence in Kosovo.

Progress in meeting the *acquis communautaire*

Kosovo is participating in the Stabilisation and Association Process (SAP). Meetings of the SAP Tracking Mechanism were held in March and November 2007 (check). In March 2007, a new structure of sectoral meetings for the STM was established in the areas of good governance, economy, internal market, innovation and infrastructure. The new structure provides the mechanism for a more detailed analysis of the conformity of the legislation, practices and policies in Kosovo in European standards. The EU provides guidance to the authorities on reform priorities through the European Partnership. Progress on these reform priorities is encouraged and monitored through the STM.

10.2. Financial assistance in 2007

Programmes launched

As of 2007 the CARDS programmes were replaced by the new Instrument for Pre-accession Assistance. No new programmes were launched.

Overview of programmes implemented

While 2007 is the first year of a new financial assistance programme, the Instrument for Pre-Accession (IPA), the European Agency for Reconstruction (EAR) remained responsible for the implementation of the ongoing EC assistance under the CARDS instrument, amounting to some €170 million and involving over 80 projects.

The main developments of the CARDS programme managed by the European Agency for Reconstruction in 2007 include the following:

Enhancing economic and social sustainability of minority communities

The CARDS funds are supporting employment generation and community development in disadvantaged minority communities, directly assisting the returns process in coordination with the Kosovo government and United Nations Mission in Kosovo (UNMIK). This requires a direct involvement at the field level, providing direct support for the resettlement and stabilisation of returnees in their communities. At the same time, it is also necessary to provide assistance at the central level, building the institutional capacity of the Ministry of Communities and Returns to effectively coordinate the process. A special emphasis was put on assisting the reconstruction of Kosovo's religious sites damaged in March 2004.

Building democracy through media and civil society

The CARDS Programme contributes to strengthen skills and professional standards of journalists and media operators in Kosovo through an *ad hoc* programme aimed at developing the media sector to operate as an independent, responsible and efficient service for all Kosovo's communities. The civil society programme aims to build the capacity of civil society organisations (including local NGOs, the social partners, and community and professional associations) to play a key role in the development of the economic and democratic governance.

Guiding Kosovo on the path towards Europe

CARDS Programme continues to build the institutional capacity of the PISG (Assembly, ministries, and municipalities) to more effectively perform their governance roles and to strengthen the rule of law, in line with European Partnership priorities and EU best practice approaches, while also taking into account the issues arising from the gradual transfer of competencies from UNMIK. Priority interventions focused on: providing further support to the Agency for European Integration; building the professionalism of the civil service; improving public finance management; providing sector support to build up institutional capacity in the justice sector; reforming the juvenile justice system; and further strengthening border and boundary management.

Fighting poverty through sustainable industrial and rural development

The CARDS economic and social development programme aims to promote sustainable development as a key step in combating poverty. Assistance is provided to increase domestic and foreign direct investment; develop a quality standards infrastructure to improve industrial competitiveness and exports; support enterprise development in disadvantaged areas and among marginalized groups; strengthen corporate finance; proceed on the privatisation process and incorporate public owned utilities. The development of rural economy is targeted

through further institution building support to the Ministry of Agriculture, Forestry and Rural Development, and the support to improve natural resource management. The EU's commitment towards economic sustainability is tackling two more key sectors: as concerns Kosovo's transport policy, CARDS programme supported the preparation of a strategy based on the multimodal transport approach; the establishment of a demand-driven system, based on closer ties with the business sector, is instead driving the Agency's effort assisting the Vocational Education and Training sector.

Shaping Kosovo's participation in the Energy Community of South East Europe

The rehabilitation of the energy sector remains a key pre-condition for the economic development of Kosovo. The CARDS Programme in this field is tackling different aspects at the same time: assisting the Ministry of Energy and Mining and the Energy Regulatory Office to formulate and implement energy policies; strengthening the capacities of the independent Transmission System and Market Operator (TSMO) to be a reliable partner of the south-east Europe energy community; providing support to initiatives aimed at expanding production capacities (like the World Bank's Power Lignite Initiative). At the same time the Agency is providing both capacity building assistance to strengthen the human resources' quality and skills, as much as concrete technical support to complete the physical rehabilitation of the infrastructural and mechanical resources of the energy company KEK.

Strengthening local government to support democratic governance

The CARDS support to local governance follows a cross-sector approach. Projects providing assistance to local government institutions can be found in different operation sectors, reflecting the multi-faceted responsibilities increasingly assumed by local authorities. The programme assisted 21 of the 30 Kosovo municipalities in preparing their local development strategies, with a specific emphasis on the rural development aspect. Rural development was also the objective of two pilot projects run in cooperation with municipalities to test modern market-based approaches to land consolidation. Reconstruction of physical infrastructures is the main objective of several municipal development projects under implementation in all municipalities that achieved sensitive progresses in fulfilling the UN Standards for Kosovo. At the central level, the CARDS Programme is building the institutional capacity of the Ministry of Local Government to effectively perform its mandate and providing hands-on advice directly to the municipalities to improve service delivery to citizens. The development of an integrated Public Investment Programme is also providing support to local government reforms and will ultimately improve the delivery of public services at the local level.

CARDS management performance

The assistance provided by the European Union - including the CARDS programme is aimed at facilitating Kosovo's progress towards the creation of a democratic and multi-ethnic society. During 2007 the EAR with the support of the European Commission has managed to contribute to the achievement of this overarching objective through the projects mentioned above. Only in 2007 EAR managed to contract more than € 70 million and disburse more than € 51 million of the CARDS Programme. The cumulative portfolio managed by the EAR in Kosovo amounts to €1.1 billion. As of 31 December 2007, 99% of these funds had been contracted and 93% paid. Almost 87% of the CARDS 2006 programme has been contracted, thus showing the Agency's capacities to deliver, quickly and effectively, quality assistance in line with EU priorities for Kosovo.

Challenges & other issues

The Agency for European Integration as a co-ordination body for EU integration matters still needs support to develop its administrative capacity.

Efficiency of Public Administration in Kosovo is gradually increasing, however, the overall performance still remains weak in relation to policy-making, and foregoing strategic planning, and legislation implementation and enforcement.

There are several gaps identified limiting **Access to Justice** for vulnerable groups. The report assessing the “Access to Justice for Minority Communities in Kosovo”, released in July 2007, while praising the good legislative framework existing in Kosovo to grant protection of minorities’ rights, underlines that the implementation of the relevant norms is still quite low.

Institution Building highlights

The CARDS programme during 2007 has continued supporting the institutions of Kosovo by building their capacity to effectively perform their mandates. Some of the highlights covering the reporting period include:

- In close coordination with the *EU Police and Justice Planning Team* in Kosovo, the CARDS Programme is providing **support to the Ministry of Justice**, with a view to develop and strengthen the justice structure in order to guarantee an area of freedom, security and justice for all Kosovo citizens, in accordance with EU standards and best practices;
- Supporting the **Ministry of Internal Affairs (MoIA)** to facilitate a smooth transfer of powers from UNMIK to the Ministry established by the end of 2005. In cooperation with UNICEF a joint project was launched to **reform of the juvenile justice system**. The project is aimed at establishing a juvenile justice system based on children’s rights and to promote a juvenile crime prevention programme;
- Improving **border/boundary management** in Kosovo in order to facilitate the flow of goods and people in the region, while combating trans-national crime and improving the level of inspection and border/boundary control, in line with the *Guidelines for Integrated Border Management in the Western Balkans*. This includes establishing the **Integrated Border Management (IBM) system** and infrastructure works at three **border police stations**;
- Assisting local institutions to **combat financial and economic crime** including; money laundering; financing of terrorism; and confiscating the proceeds of crime;
- The **Modernisation of Kosovo Courts** which rolled out a Case Management Information System to all minor offence, district and municipal courts, the Supreme Court and the Public Prosecutors Offices;
- Rehabilitation of the **Dubrava Detention Centre** and building new workshops to be used for training detainees, possibly helping them to return to a gainful employment after their time in the centre;
- **Support to the Statistical Office of Kosovo (SOK)** through several components: to further improve the regular production and dissemination of relevant, accurate and comparable official statistics and support to SOK to prepare for the population and housing census. CARDS funds are also supporting via a grant to the Council of Europe the International Monitoring Operation chaired by Eurostat to observe and provide guidance in all phases of the census
- Support to **local government institutions** can be found in different operation sectors, reflecting the multi-faceted responsibilities increasingly assumed by local authorities. Complementary to this is the €15 million programme to upgrade the social and economic infrastructure of a number of municipalities throughout Kosovo;

- Support to the public finance management sector including the second phase of the project to **support the Office of the Auditor General (OAG)** of Kosovo;
- Support to Kosovo's institutions to implement a coherent **public investment programme** to further strengthen the capabilities of the Ministry of Economy and Finance and the budget organisations in all ministries and municipalities to better manage and control public spending;
- **Support to the Public Procurement System** contributed to the establishment of a professional and efficient public procurement system, in line with the EU acquis;
- Supporting the **Public Internal Financial Control and Internal Audit** with a view to increase the capacity of the internal audit function of Kosovo Government and to improve the effectiveness and efficiency of public spending;
- Supporting Kosovo on the path towards Europe by building the capacities of the government to more effectively perform their governance in line with the EU partnership. This includes the project called **Capacity Building on European Integration (CBEI)** which aims at strengthening the capacity of Kosovo institutions to implement EU compatible reforms and the Young Cell Scheme project which provides **scholarships for Kosovo graduate students** to attend Master's degrees in European Studies at some of Europe's most prominent universities.

10.3. Results and impact

Monitoring and Evaluation Reports in 2007 - Lessons Learned

The EAR / Advisor for Monitoring and Social Development Programming and Quality Assurance Division, has produced a thorough paper on lessons learned from Monitoring (covering the period from 2004-2006) since the adoption of the Monitoring Action Plan in September 2004.

The paper was compiled based on careful study of all Monitoring Reports/Fiches produced since September 2004, and the lessons introduced there focus on those problems which are both recurrent (as they have been coming up repetitively in a number of projects) and structural (in the sense that they permeate a diversity of sectors and are encountered in a number of Operational Centres, including Pristina Centre as well).

The Monitoring Reports and Project Fiches produced in 2007 for the projects implemented in Kosovo have been thoroughly studied by the MN& E team in Pristina and they have come up with a conclusion that a considerable improvement has been achieved in most of the issues addressed in the above mentioned paper, while some others remain still valid without significant changes. It is worth to emphasise the very good progress done in some of the projects in the treatment of cross-cutting issues (CCIs). Besides the CCIs treatment, other issues which have been substantially improved in the past months are: the quality of contractor's reporting, visibility, even ToRs which have been drafted in a more reasonable manner. This is mainly a contribution of the monitors' permanent recommendations to Programme Manager and Task Managers to the relevant issues, including here proper integration of cross-cutting issues.

Sectors with positive results

Return and Reintegration

The Agency facilitated **the return of 27 families belonging to the Roma, Ashkali and Egyptian communities** to their rebuilt houses in the Kline/Klina municipality.

An additional 78 projects were approved to receive **grants aimed at securing or creating jobs within minority communities** through the programme supporting Stabilisation of Communities (SSC), bringing the total to 152 approved projects.

Justice and Home Affairs

The EAR managed programme supporting the Ministry of Justice released two reports assessing the “**Access to Justice in Gender related cases**” and the “**Access to Justice in Environment related cases**”. While the first report praised the efforts made by the Government of Kosovo to promote gender equality, the second found that citizens lack sufficient knowledge about the exercise of their environmental rights. It also found that lengthy and expensive legal procedures are preventing the most vulnerable groups from bringing environmental legal disputes before the courts.

The project to **establish an Integrated Border Management system** was completed in December. It will strengthen the fight against trans-border crime while facilitating legitimate border flows.

The project to modernise Kosovo’s courts was completed by the end of December. Thanks to the project, all Courts’ and Prosecutors’ offices are now using new software for registering and tracking cases facilitating an **improved and faster processing of judicial cases**.

Rural Development

A new primary school located in Fushë Kosovo/Kosovo Polje was inaugurated at the beginning of November. The new building can accommodate 322 pupils in conditions that are appropriate for educating children.

The Marketing Support Project aiming at establishing a **financially sustainable and practical Marketing Information System in the Kosovo agribusiness sector** was successfully completed in December. The project was implemented in close cooperation with the Ministry of Agriculture, Forestry and Rural Development (MAFRD).

The magazine “Forbes”, one of the world’s leader source of financial information and news, included the “Kreditimi Rural i Kosove” LLC (formerly Rural Finance Project of Kosovo) amongst the “**World’s Top 50 Microfinance Institutions**”. The “Kreditimi Rural i Kosove” is a beneficiary of EC-funded technical assistance.

Success story

There are a number of projects under the CARDS programme which could be considered as successful stories based on some of the issues raised in the lessons learned document produced by the monitoring team. There are a few of them which are characterised by an excellent up-take and mainstreaming of CCIs. Below are three brief descriptions on three projects which are considered to be success stories in 2007.

Support to the Assembly

The Parliament is the bulwark of any democracy. Since 2000, the EU has provided some €3.5 million to support the Assembly of Kosovo, strengthening its ability to take on its important role in a participatory and transparent way and in close cooperation with civil society. An EU-funded project being implemented in 2007 is bringing the experience of EU parliaments to Kosovo. Under the project, officials from the Kosovo Assembly, the Prime Minister’s Office and the Ministry of Labour recently completed training on drafting legislation and on harmonising laws with the EU. The €1.5 million, two-year project started in January 2006 and is implemented by a consortium composed of four European Parliaments: France’s Assemblée

Nationale, Germany's Bundestag, the Chambre des Représentants de Belgique and the National Assembly of Slovenia, plus the Institute International de Paris La Défense.

Construction of three border police station buildings

The EU has completed the €1.3 million construction of three border police station buildings at border crossings with Albania. The construction of the three stations (Qafa e Prushit and Qafa e Morines in Gjakova/o municipality, and Vermnica in Prizren municipality) is part of the effort to improve overall border management in Kosovo. Upgrading infrastructure at border crossings is one of three components prepared under an EU project to support the transfer of responsibilities from international to local police, develop border management in accordance with Schengen standards and review current applicable legislation.

Fund for agro-processing and Industrial revitalisation (FAIR)

Fighting unemployment remains a major challenge in Kosovo, with the EU providing substantial aid for the least developed areas. The Fund for Agro-processing and Industrial Revitalisation (FAIR) offers financial and technical support to entrepreneurs, selected through a competitive application process. Both existing and new businesses may apply for FAIR grants ranging from 50,000 to 200,000 EUR for technological investments in the manufacturing sector. The proposed investment must be located in the northern part of Kosovo, specifically the municipalities of Mitrovicë/Mitrovica, Zveçan/Zvecan, Vushtri/Vucitrn, Zubin Potok and Leposavic/Leposaviq. The entrepreneurs selected will also receive professional advice in areas such as finance, production, marketing and management. FAIR is funded by the European Union, co-funded by the Grand Duchy of Luxembourg and implemented by the International Organisation for Migration (IOM).

11. LATVIA

11.1. Summary

In 2007, Latvia continued to implement successfully the post-accession assistance to address remaining needs related to institution building for the implementation of the *acquis*, in line with the Extended Decentralised Implementation System (EDIS).

Since May 2004 procurement is carried out under the entire responsibility of the Latvian authorities applying national procurement rules. The Ministry of Finance, Central Financing and Contracting Agency (CFCA) and the Society Integration Foundation are fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continued to exercise the programming function for the Transition Facility programmes and monitoring of both Phare and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Phare Transition Team in the Representation in Riga as of July 2005, residual functions related to the exercising of Commission responsibilities (monitoring, payments, closure, etc.) have been fully exercised by the Commission headquarters.

11.2. Pre-accession financial and Transition assistance in 2007

Implementation

- TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility programme 72.59 % of the funding has been disbursed. The Latvian authorities requested no extension for the 2004 programme. The payments can still be executed within 6 months after the expiry of the contracts execution period.

- TF 2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 92.07% of the programmes had been contracted.

- Institution Building highlights

A total of around €19 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Latvia from Transition Facility programmes (2004-2006).

Phare and Transition Facility assistance continue to be successful in the fields of civil society and society integration, with long term impact on cooperation among different ethnic groups and civil society non-government stakeholders. Other institution building sectors with satisfactory results include projects related to police training and some institutional fine tuning in the area of health and safety at work with the strengthening of several related institutions and the Central Statistical Bureau.

In 2007, Twinning continued to be the main implementing instrument in many areas of the *acquis* in Latvia and has helped the Latvian administration to further strengthen its capacities to implement and enforce EC legislation. On the whole Latvia has made good use of Phare and Transition Facility assistance. Institution building with the support of Phare and the Transition Facility and investment with Phare assistance progressed well.

11.3. Results and Impact

State of play for JMC / SMSC development

In 2007, one Joint Monitoring Committee (JMC) meeting took place in January 2007, in line with the revised JMC Mandate introduced in the new Member States in May 2004, which established an integrated monitoring and evaluation system over the programmes under implementation. The second JMC meeting was by written procedure in September 2007.

Each monitoring sector is covered by the relevant Sectoral Monitoring Sub-Committee (SMSCs). Each SMSC normally meets twice a year in accordance with the annual schedule agreed within the JMC. Two rounds of SMSC meetings took place in 2007, the first round took place in April and May 2007, the second round was organised in October 2007. The 13 monitoring sectors cover: Civil Society; Society Integration; Justice; Home affairs; CBC; Agriculture; Environment and nuclear safety; Energy and Market and Anti-trust surveillance; Public Finance; Statistics; Regional development; Social matters; Health sector. For each sector a monitoring report is produced.

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring and evaluation of the Phare programme in Latvia lies with the Ministry of Finance (MoF). A new contract with the independent evaluator was signed in August 2007 for a duration of 12 months.

In 2007, two consolidated monitoring reports were issued – one for the JMC meeting in January and one for the JMC in September. The reports provide a consolidated country review of the findings of the Interim Evaluations finalised in 2007. Two consolidated reports concluded that Transition Facility assistance has supported successfully Latvia's accession process. Transition Facility assistance is in Latvia highly relevant, the projects are well adapted to beneficiaries' needs, and they correspond to the needs in the sectors. The efficiency of projects' implementation needs some further attention; however, the impact of the evaluated projects is significant.

12. LITHUANIA

12.1. Summary

In its third year of accession, Lithuania continued to implement successfully the post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the EDIS.

Since May 2004 procurement is carried out under the entire responsibility of the Lithuanian authorities applying national procurement rules. The Ministry of Finance, Central Programme Management Authority (CPMA) is now responsible for ex-ante control and twinning. The CPMA is fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continued to exercise the monitoring of both Phare and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Phare Transition Team in the Representation in Vilnius as of July 2005, residual functions related to the exercising of Commission responsibilities (monitoring, payments, closure, etc.) have been fully exercised by the Commission headquarters.

12.2. Pre-accession financial and Transition assistance in 2007

Implementation

– TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility 70.64 % of the funding has been disbursed, while one project has been extended and was on-going. The payments can still be executed within 6 months after the expiry of the contracts execution period.

– TF2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 97.33% of the programmes had been contracted.

– Institution Building highlights

A total of around €36 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Lithuania from Transition Facility programmes (2004-2006).

During the period, there was substantial overall progress towards the achievement of objectives and results of the EU assistance. TF 2004 projects were successfully completed and mostly achieved its results. The Unallocated Envelope under the TF 2005 programme was successfully contracted, 8 projects were approved. Assistance has been provided and knowledge shared in the fields of social security, sustainable agriculture, customs, maritime safety etc.

12.3. Results and Impact

State of play for JMC / SMSC development

In 2007, two JMC meetings took place in March and October 2007. At these meetings issues such as further improvement of project management and reporting were discussed and proposals for remedial actions were made.

Each monitoring sector is covered by the relevant Sectoral Monitoring Sub-Committee (SMSCs). In 2007 1 round of SMSC meetings took place from February until August 2007. The sectors cover Agriculture and Fisheries, Justice and Home Affairs, Nuclear Safety, Energy and Transport, Public Administration, Public Finance and Customs, Environment, Internal Market and Statistics. For each sector a monitoring report is produced.

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring and evaluation of the Phare/TF programmes in Lithuania lies with the NAC Office which is in the Ministry of Finance.

The final report of the project 2004/016-925-05-01 'Evaluation of EU funded programmes (2006-2007)' states that the IE of Phare and TF assistance in 2006-2007 showed more than 2/3 of the recommendations were fully or largely implemented, less than 1/4 were partly implemented and a small part of recommendations lost their relevance or there were no information on their status. The largest number of partly implemented recommendations was in the sector of Agriculture.

The Country Evaluation Summary Report, prepared in February 2007, indicated that taking into consideration the implementation results of the Phare and Transition Facility Programmes it can be concluded that the overall programme implementation performance is good. Taking into account that no interim evaluations of the programmes were foreseen in this reporting period, it has been agreed to replace the preparation of the CSR by conducting the interim evaluation of the Agriculture sector which covers quite a big number of projects under implementation.

13. MALTA

13.1. Summary

In 2007, Malta continued to implement successfully the post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the EDIS.

Since June 2004 implementation is carried out under the entire responsibility of Maltese authorities applying national procurement rules. The Department of Contracts (DoC) within the Ministry of Finance is fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continued to exercise monitoring of both Pre-accession and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Phare Transition Team in the Representation in Valletta as of January 2005, DG Enlargement continues to exercise the residual functions related to the Commission responsibilities (monitoring, payments, closure, etc.) in line with the Financial Regulation.

13.2. Pre-accession financial and Transition assistance in 2007

Implementation

– TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility programme 80.36 % of the funding has been disbursed. The Maltese authorities requested no extension for the 2004 programme. The payments can still be executed within 6 months after the expiry of the contracts execution period.

– TF 2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 87.29% of the programmes had been contracted.

– Institution Building highlights

A total of around €21 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Malta from Transition Facility programmes (2004-2006).

In 2007, Malta continued the implementation of Transition Facility projects. Overall, the implementation has been rather successful and many remaining needs as regards the application of *acquis* were addressed. The projects also contributed to the enhanced administrative capacity in Malta's public service. The TF support involved projects in the area of market surveillance, health and safety, intellectual property, border control, assistance to the Malta Maritime Authority and justice sector, social security coordination, improving air quality, food safety, information security, etc.

In the context of implementation and achievement of results the project 2004/16762.05.01 "Capacity Building in the Food and Veterinary Regulation Division, MRAE" should be highlighted, as according to external monitoring experts, this was a very successful project and was one of the best examples of the EU Twinning exercise.

Regarding Unallocated Institution Building Facility, Malta has fully absorbed the funds available under TF 2004, and partially under TF 2005. The small-scale projects, implemented

under this facility have proved to be very efficient and have generated good and sustainable results.

13.3. Results and Impact

State of play for JMC / MSC development

In 2007, two JMC meetings took place in May and November 2007. In connection with the monitoring simplification procedure, a new JMC mandate was introduced in Malta in 2007, which established an enhanced monitoring and evaluation system over the programmes under implementation.

For the year 2007, two rounds of Monitoring Sub-Committee (SMSC) meetings have taken place in March and October 2007. Due to small number of programmes, the Maltese authorities have abolished the sector-approach and review each project separately.

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring and interim evaluation of the Pre-Accession and Transition Facility programmes in Malta lies with the NAC services located at the Office of the Prime Minister (OPM). Activities in this area were carried out on the basis of the Action Plan on decentralisation of monitoring and Evaluation, which was endorsed by EC in February 2005.

In 2007, two evaluation reports were released: Country Summary Evaluation Report on 30 April 2007 and Second Interim Evaluation report 2007 of on-going projects on 9 November 2007. Due to the small size of the Malta programmes, the interim evaluation is carried out on the overall programmes and not on a sector basis.

According to the reports in terms of relevance, the projects were assessed to be satisfactory. Overall, the projects were *acquis* related, built on previous support, addressed the needs of the beneficiary in terms of reinforcing technical and administrative capacities. Project efficiency has been assessed as satisfactory and has improved during the evaluation period compared to the previous reporting periods. This is much due to the enhanced cooperation of the different counterparts. On the other hand, delays in tendering and contracting have still affected the efficiency. Effectiveness was rated as satisfactory as the majority of the projects had achieved or would achieve its overall objective. A small number of projects encountered some difficulties, mainly due to external factors, which meant some activities could not be realised. It should be mentioned that one project implemented by the Ministry of Health and two projects implemented by the Ministry of Finance were rated as highly satisfactory. However, in some cases staff turnover still had an adverse effect on the effectiveness. Impact and sustainability have been rated as satisfactory. The most important benefits include acquisition of knowledge and skills in implementation of the *acquis* and drafting the legislation, manuals and guidelines and equipping various institutions in order to enforce and implement *acquis*-related obligations.

However, it should be mentioned that the Maltese authorities have made continuous efforts to ensure sustainability of the results. In this direction measures have been undertaken to hire necessary staff, to build necessary premises or to follow that the strategies or other legislative documents prepared within the projects will be adopted on an appropriate level.

14. MONTENEGRO

14.1. The year in review

Political developments

Following political developments in 2006 marked by the independence of Montenegro and Parliamentary elections, 2007 was characterised by intensive European integration activities and debates on the country's new Constitution. The Constitution was adopted in October 2007 and is broadly in line with European standards. The Stabilisation and Association Agreement with the EU was signed on 15 October 2007; an Interim Agreement was also signed which entered into force in January 2008. However, compliance with the requirements of the Agreement suffers from a weak administrative capacity across most sectors. Progress on these reform priorities is encouraged and monitored by the enhanced permanent dialogue.

In January 2007, the first political dialogue meeting between the EU (troika) and Montenegro was held. In September 2007, the EU and Montenegro signed agreements on visa facilitation and readmission. The new arrangements will simplify procedures for issuing visas to certain categories of citizens of Montenegro, including students, scholars, business people, journalists and tourists.

Macroeconomic developments and structural reforms

Thorough analysis of Montenegro's economy is hindered by weak statistics and a large grey economy.

The general government balance surplus increased from 3.4% of GDP in 2006 to a surplus of 8.5% in 2007. Surplus and privatization receipts amounting to 3.2% of GDP led to an equivalent increase in government deposits with the banking system and further reductions in government arrears, as well as to a reduction of domestic and foreign debt.

The trade deficit declined to almost 60% of GDP in 2007, from 40% in 2006. However, a surge in net foreign direct investment (from about €500 million to €700 million) helped close the gap in the balance of payments. Significant inflows of foreign direct investment (FDI) and rapid credit growth have caused a large current account deficit, increasing the risk of macroeconomic instability in the near to medium term.

The major sectors driving economic activity are construction, financial services and tourism, with FDI playing a major role in each.

Progress in meeting the *acquis communautaire*

The **SAA agreement** and the Interim Agreement between the EU and Montenegro were signed on 15 October 2007. Sustained effort is needed for the strengthening of the administrative capacity to perform commitments as from the entry into force of the Interim Agreement. In May 2007 the government adopted an Action Plan for the implementation of the European Partnership and started implementation.

Support has been provided to relevant government institutions to assist in **legal harmonisation** in key areas relevant to the *acquis*, e.g. data protection, intellectual property rights, telecommunications, veterinary, fisheries.

Progress has been made towards the **environmental** requirements of the *acquis* following the establishment of an institutional structure for an independent Environmental Protection Agency which, when it becomes operational, will assume responsibility for inspection, permitting, enforcement and dissemination of environmental data.

The legal framework in the domain of **public procurement** has been reviewed and the administrative capacity of the Public Procurement Commission has been strengthened. Training has been provided to governmental procurement units in the application of the new public procurement legislation, system and procedures, which have been independently assessed as being well-aligned with the *acquis*.

Initial progress has been made on the development of the infrastructure for **metrology, standards, testing and quality** (MSTQ) in compliance with the *acquis* and WTO requirements..

Support to the **fisheries** sector has established adequate administrative structures which move towards *acquis* goals and advance the competitiveness of the sector.

14.2. Financial assistance in 2007

Programmes launched

As of 2007, the CARDS programmes were replaced by the new Instrument for Pre-accession Assistance (IPA). No new CARDS programmes were launched.

Overview of programmes implemented

Democratic stabilisation

Internally Displaced Person (Refugees) return

Technical assistance to help the Commissariat for Displaced Persons (MCDP) addressed the problems facing IDPs.

Civil society

The following programmes are implemented: technical assistance for trade unions to enhance their capacity to play a constructive role in public administration reform; support for partnership projects to address the priorities of the *Development and Poverty Reduction Strategy Action Plan*, including the elderly, raising awareness about women's reproductive issues; increasing employment opportunities of the disabled and integrating Roma in schools; training to Trade Union or Civil Servants and Judiciary.

Good governance and institution-building

Judiciary

Judicial reform strategy supported by EU assistance was adopted by the government. A Probation Service was established in the Ministry of Justice with EU and Council of Europe support; funding was allocated to the construction of a forensics centre while widening training capacity of the Police Academy; a draft Law on data protection was prepared with the Ministry of Interior and relevant governmental departments.

Border crossings

Follow up was given to the improvement of the IT system of the Ministry of Interior; a new border control facility at Scepan Polje on the border with Bosnia and Herzegovina has been completed; access roads to Scepan Polje and the border crossing with Croatia have been upgraded.

Public administration

The following activities are implemented: assistance to the Human Resource Management Authority; fostering local government decentralisation ; assistance to the Ministry of EU Integration, International Economic Relations and to the Secretariat for EU Integration for

IPA programming ; assistance to the Montenegrin Statistical Office (MONSTAT) focused on the National Accounts and GDP compilation in accordance to ESA 95 Standards; support to telecommunications regulatory agency ; technical assistance for “Implementation of Budgetary and Salary system Reforms” to the Ministry of Finance, Ministry of Internal Affairs and Public Administration and Human Resources Management Authority

Economic and social development

Energy

EU experts helped prepare a mid-term energy efficiency action plan now under implementation;

Economy

Support was provided to the updating of government’s Private Sector Development Strategy covering the period from 2007 to 2010; Turn Around Management and Business Advisory Services programmes provided assistance to small and rural businesses and other target groups, i.e. women, minorities and disadvantaged groups in less developed regions

Environment

Support has been provided during the preparation of the first major project to be funded by an EIB loan of €57 million; and upgrading of Podgorica’s wastewater treatment plant has been completed. Additional rehabilitation of the coastal region sewerage system is ongoing; institutional model has been agreed for an Environmental Protection Agency and a Project Implementation Unit, pending formal adoption of relevant legislation.

Transport

CARDS-funded (€3 million) road improvement projects have been completed. Additional IFI-funded (€20 million) road and rail infrastructure projects are under implementation.

Agriculture and fisheries

Support to the fisheries sector in Serbia and Montenegro has assisted the public and private sectors to implement the National Fisheries Strategy; physical facilities in the food safety laboratories have been upgraded.

Internal market

Support has been given to the harmonisation of the legal and institutional framework of the public procurement system; in addition, coordination between the bodies in charge of metrology, standards, testing and quality (MSTQ) under a common reform agenda was achieved.

Labour market and education

The first EU-funded project in support of labour market reform has attained major milestones: (i) a draft National Employment Strategy (NES) aligned with the EU 2005 Guidelines for Growth and Jobs; (ii) a discussion paper (White Paper) on what sort of competences, skills and attitudes the workforce in Montenegro would have to have by 2017.

Cross-border cooperation

Two grant contracts under the INTERREG III B CADSES and fourteen under the INTERREG III A Adriatic were awarded during 2007.

CARDS management performance

In 2006, the European Agency for Reconstruction was given responsibility for a further €19.5 million in Montenegro, bringing its cumulative portfolio of EC assistance programmes to €129 million.

By year-end 2007, 96% of this cumulative total had been contracted, and 88% spent; and 78% of CARDS 2006 was contracted.

Institution Building highlights

Supporting public administration reform and EU integration structures

The Agency provided support for civil service training through the Human Resources Management Authority. It also offered assistance to EU integration structures in the Secretariat for EU integration and in line ministries for training on EU programming.

14.3. Results and impact

Sectors with positive results

Helping refugees and IDPs

An EU assistance programme targeting Roma Internally Displaced Persons (IDPs) from informal KONIK settlements facilitated the return of 22 Roma, Ashkalia and Egyptian families to Kosovo (the Municipality of Pec/Peja). The Programme also aimed at supporting social inclusion of RAE displaced persons by organised literacy and Albanian language courses for a total of 80 youths and regular health-related counselling for 80 RAE adults, mostly women.

Within a housing and economic livelihood assistance programme worth €2.4 million, displaced persons in Montenegro have been provided with alternative housing solutions and income generation support. The project constructed 24 prefabricated houses for 27 Roma families living in the municipality of Berane and delivered building material and income generation support to some 60 displaced persons.

Economic Development

Direct business advisory services have been provided to a total of 10 medium sized and more than 80 small enterprises through the Turn Around Management Assistance (TAM) and Business Advisory Services (BAS) programmes in cooperation with EBRD. More than two thirds of the beneficiaries were SMEs from the less developed rural regions of the country, and women, and SMEs owned and managed by women or representatives of minorities and other disadvantaged groups.

Energy

In the field of energy, the Government has decided to unbundle the electricity utility EPCG following the advice of European experts into 5 legally separate companies, in line with the most recent EU directives and policy on the subject. A completely independent Transmission Company will be established and operational by the end of 2008, while the Generation, Distribution and Supply companies will be first established as legally independent companies by May of 2008 within a holding structure, and will become completely independent companies during 2009. In turn, the Energy Regulatory Agency has successfully implemented the first phase of the tariff reform of the electricity sector.

Environmental infrastructure

The wastewater treatment plant serving the capital city of Podgorica has been fully rehabilitated, with a view to minimising pollution of the Moraca River and the ecologically sensitive waters of Skader Lake. The qualities of Adriatic coastal waters have also been

improved following the successful rehabilitation of sections of the sewerage system of the coastal region.

Transport Infrastructure

Traffic congestion during the tourist season has been reduced on the Adriatic coastal roads following the completion of 6km of third lanes at critical sections between Petrovac and Bar.

Catalysing IFI funding

Support to developing the project implementation capacity of the Ministry of Transport and the Ministry of Environment has been instrumental in attracting additional IFI funding of €70 million. The additional funds will be used to upgrade the rail and environmental infrastructure.

Agriculture and rural development

Major actions in the fishery sector and in animal identification and registration (bovines) have been undertaken during 2007, with this being the baseline for improved food safety levels. These actions will benefit consumers and improve the competitiveness of the agriculture and food sectors.

Supporting civil society

EU assistance significantly contributed to the development of a legislative framework dealing with employment, vocational education and training for the disabled. It enabled access to employment opportunities for the disabled coupled with public campaign and advocacy among employers.

Internal market

As a new sector of cooperation within the Agency's remit in the country, the first actions in the Internal Market area have had a medium or small scope, paving the way to the large scale operations foreseen for 2008 in key domains such as quality infrastructure, trade, competition, state aid, consumer protection and public procurement.

Labour market and education

First actions have been taken in this fundamental area of social policy, which has made the EU the leader in the area of employment and human resource development policies. The action included the enhancement of the educational aspects under the EU Charter of Small Enterprises and the furtherance of labour market statistics.

Cross-border cooperation

Two grant contracts under the INTERREG III B CADSES and fourteen under the INTERREG III Adriatic were awarded by the Agency during 2007. These are the first projects in the area of cross border cooperation in Montenegro. They will certainly contribute to the preparation of further projects, which are to meet the demanding standards of the upcoming IPA calls for proposals for bilateral borders and multilateral actions with the participation of EU Member States.

Success story

Animal Identification System

Development of the agriculture and food sector is one of the corner-stones of Montenegro's economic development strategy. Significant support has been provided to the sector, exemplified by implementation of an animal identification system. Approximately €1 million of EU financial support in consultancy services and €0.7 million in supplies (IT hard and

software, office equipment and vehicles) assisted the Veterinary Directorate and the Ministry of Agriculture to set up and operate the system for the identification and registration of cattle.

In the European Partnership, cattle identification and registration is marked as a short term priority that has now been accomplished. The SAA equally refers to the identification and registration of sheep, goats and other animals as medium and long-term priority – this being the baseline for better animal health and food safety, thus benefiting consumers and the development of the market economy in the agriculture and food sectors. The action has been decisive in enabling Montenegro to go faster than any other country in the region towards a sound identification and registration system, including a central electronic database. No other EU Member State or Western Balkan Country was able to build up its I&R system in less than two years, which should be assessed as a good omen for the future operations in the veterinary and food safety domains.

15. POLAND

15.1. Summary

In 2007, Poland continued to implement successfully the post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the EDIS.

Since February 2005 implementation is carried out under the entire responsibility of Polish authorities applying national procurement rules. The Central Finance and Contracts Unit (CFCU), the Polish Agency for Enterprise Development (PAED) and the Implementing Authority for European Programmes (formerly Implementing Authority for Phare Cross-Border Cooperation Programmes, IA-CBC) are fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continues to exercise the monitoring of both Phare and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Phare Transition Team in the Representation in Warsaw as of July 2005, DG Enlargement continues to exercise the residual functions related to Commission responsibilities (monitoring, payments, closure, etc.) in line with the Financial Regulation.

15.2. Post-accession financial assistance in 2007

Implementation

– TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility programme 75.45 % of the funding has been disbursed, while one project has been extended by 4 months and was on-going. The payments can still be executed within 6 months after the expiry of the contracts execution period.

– TF 2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 86.13 % of the programme had been contracted.

– Institution Building highlights

A total of around €115 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Poland from Transition Facility programmes (2004-2006).

Implementation of Transition Facility in Poland is considered generally successful and projects provide notable value added.

In order to address unforeseen needs, additional assistance from the Institutional Building unallocated envelopes was provided for projects mainly in Public Administration, Justice and Home Affairs and Agriculture sectors.

15.3. Results and Impact

State of play for JMC / SMSC development

In 2007, two JMC meetings took place in June and December 2007, in line with the revised JMC Mandate introduced in the new Member States in May 2004, which establish an integrated monitoring and evaluation system over the programmes under implementation.

The JMC meetings were fruitful and helped to address the problems concerning implementation of the ongoing programmes. In particular, issues such as further simplification of the monitoring system, improvement of project management and reporting were discussed and proposals for remedial actions were made.

In the year 2007, two rounds of Sector Monitoring Sub-Committee (SMSC) meetings have taken place. The first round of SMSC meetings took place in March-April and second round in October. There are six sectors to be monitored in Poland: Environment and Transport; Agriculture; Internal Market; Justice and Home Affairs; Public Administration; Regional Programmes (Cross-Border Co-operation, and Economic and Social Cohesion).

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring of the Phare and Transition Facility programmes in Poland lies with the NAC department within the Office of the Committee for European Integration (UKIE). Activities in this area were carried out on the basis of the Action Plan on decentralisation of monitoring and Evaluation, which was endorsed by EC in February 2005. The contract for carrying out the Interim Evaluation in the Transition Facility programmes in the year 2007 was signed on 17 August 2006 and expired on 15 December 2007.

In 2007, two Consolidated Monitoring Reports were issued - one for the JMC in June and one for the JMC in December. The reports provide a consolidated country review of the findings of the Interim Evaluations and Thematic/Ad Hoc evaluations finalized in 2007. Two consolidated reports concluded that TF assistance has successfully supported Poland's accession process. TF assistance is in Poland highly relevant, the projects have been well adapted to beneficiaries' needs, and they correspond to direct needs in the sectors. The efficiency of projects implementation needs some further attention; however, the impact of the evaluated projects is significant. The reports included also recommendations concerning improvement of implementation system.

The main conclusion available from the Thematic/Ad Hoc reports is that the indicators applied in the projects implemented under the Transition Facility Programmes need to be improved in many projects. The NAC has taken relevant steps to address the issue.

16. ROMANIA

16.1. Summary

In 2007, Romania implemented both pre-accession and post-accession assistance to address the remaining needs related to IB for the implementation of the *acquis*, in line with the Extended Decentralised Implementation System (EDIS).

Since January 2007 implementation is carried out under the entire responsibility of the Romanian authorities applying national procurement rules. Three implementing agencies are fully responsible for daily implementation of projects (two of them accredited in December 2006 and one in April 2007).

The National Aid Coordinator (NAC) continued to exercise the programming function for the Transition Facility programmes and monitoring of both Pre-accession and Transition Facility Programme. The National Authorizing Officer (NAO) carries out the financial supervision.

16.2. Phare/pre-accession financial and Transition assistance in 2007

The Transition Facility has been established by the Act of Accession to fund certain IB actions in Romania to address the continued need for strengthening institutional capacity in certain areas through actions which cannot be financed by the Structural funds or by the Rural

Development Fund. The implementation of EU assistance available under the TF is managed by the Memorandum of Understanding on the Implementation of the Transition Facility signed between the Romanian authorities and the European Commission on 5 September 2007.

Programming

A total of **€46,500,000** was allocated to Romania under the 2007 TF budget for Romania.

Although the most urgent needs as regards *acquis* implementation have been addressed before Accession, the Transition Facility provides further support in order to consolidate the functioning of administrative structures on par with those of other Member States. The 2006 Commission Comprehensive Monitoring Reports for Romania and the continuous monitoring process by the Commission of the Romania preparation for accession constitute the main sources of information for identification of institutional weaknesses that the Transition Facility could assist in addressing.

Following accession, priority sectors and actions were identified in consultation both with national authorities and Commission services on the basis of the relevant follow up actions from pre-accession monitoring as well as other needs for reinforcing institution building where shortfalls are still perceived. Particular account was taken of results of the Mechanism for Cooperation and Verification of progress in Romania to address specific benchmarks in the areas of judicial reform and fight against corruption.

The Phare Management Committee approved the Transition Facility 2007 National Programme for Romania in 5 October 2007. The programme was then approved by the Commission through its Decision C(2007) 5793 of 2007, which was notified to the national authorities on 30 November 2007.

The Transition Facility 2007 National Programme for Romania provides **€46,500,000** for:

JUSTICE FREEDOM AND SECURITY: €8.75 million

- Unification of the Jurisprudence of Courts and Prosecutor Offices in Romania
- Strengthening the Public Ministry's Institutional Capacity
- Strengthening the Capacity to Fight Cyber Crime
- Strengthening the Capacity to Fight Economic and Financial Crime
- Improving the System of Romanian Judicial Statistics
- Strengthening the Romanian Probation System and the Inter-Institutional Cooperation on Victim Protection
- Support for Strengthening the Insolvency Mechanism
- Assistance for Enhancing the Respect of Human Rights in Prisons and Improving the Efficiency of the Romanian Penitentiary System
- Enhancement of National Anticorruption Department Investigative Capacities
- Bringing anti-corruption capacities in Ministry of Internal Affairs up to EU Standards
- Building civil society support against corruption
- Improving the Management of Human Resources of the Romanian Police
- Improving the Witness Protection Capacity
- Fight against Money Laundering and Terrorism Financing

- Improving the Administrative Capacity in the Field of Migration and Asylum
- Integrated IT system for the International Police Cooperation Centre

AGRICULTURE: €4.87 million

- Strengthening the institutional capacity of National Sanitary Veterinary and Food Safety Authority (NSVFSA)
- Efficient operation of IACS/LPIS
- Support for Common Agricultural Policy adaptation
- Improving the Farm Accountancy Data Network in Romania
- Implementation of the milk quota system

SOCIAL POLICIES AND EMPLOYMENT: €4.75 million

- Supporting the Development of Occupational Health Services
- Reform of the Mental Health Care System
- Integration of Youth from Minorities and Disadvantaged Groups into the Romanian Society

ENVIRONMENT: €2.52 million

- Further implementation and enforcement of the environmental *acquis* in the IPPC and SEVESO II sectors
- Support in developing the administration capacity to manage the National Green House Gases (GHG) Emissions Registry
- Setting-up the National Integrated Registry on flora, wildfauna species and Romanian natural habitats of Community interest
- Support to National Environmental Guard administration to ensure appropriate enforcement of the environmental legislation at EU border

CUSTOMS AND PUBLIC FINANCES: €10.09 million

- Reinforcement of the Customs Administration
- Public Finance Management
- Tax administration reform
- Strengthening the Administrative Capacity in Implementing the EU *Acquis* within the Public Procurement Field

ENERGY AND NUCLEAR SAFETY: €3.07 million

- Promotion of market based instruments for E-RES, energy efficiency and emission rights
- Strengthening the effectiveness of the operation of the electricity market
- Strengthening Security of Energy Supply in Romania
- Radiological Safety in Uranium Mining and Milling Facilities
- Support to ANDRAD to develop technical and technological solutions for a new radioactive waste treatment facility

ADMINISTRATIVE CAPACITY: €12.45 million

- Administrative capacity and Cooperation and Verification Mechanism Facility

Implementation

– Phare 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 pre-accession programme 62.17 % of the funding has been disbursed. There are several projects whose period of execution of contracts has not expired yet according to the corresponding Financing Agreements. Furthermore the Romanian authorities have requested extensions of the execution period for the 2004 Phare programme which have been approved.

– Phare 2005 – rate of contracting (EDIS extensions)

At the end of the contracting period for the 2005 National programme on 30 November 2007, 84.88% of the programmes had been contracted. However, the contracting period of several projects has been extended and was on-going.

– Institution Building highlights

Following the accreditation for EDIS granted on 14 December 2006, the responsibilities and the tasks related to twinning have been officially taken over by the Administrative Office, the twinning team within CFCU, DG Enlargement being responsible for issuing the Steering Committee Opinion on twinning contracts. 20 such opinions have been issued during 2007 for 2006 twinning contracts which continue to be useful in many priority areas and helped Romania to prepare for the implementation of EU policies and laws.

In order to address unforeseen needs, additional assistance from the Institutional Building unallocated envelopes 2005 and 2006 continues to be provided for projects mainly in Public Administration, Finance and Audit sectors.

16.3. Results and Impact

State of play for JMC / SMSC development

In 2007, two JMC meetings took place in July and December 2007, in line with the revised JMC Mandate introduced in the new Member States in May 2004, which establishes an integrated monitoring and evaluation system over the programmes under implementation.

In the year 2007, two rounds of Sector Monitoring Sub-Committee (SMSC) meetings took place in spring and autumn. There are 10 sectors to be monitored: SMSC 1 – ESC and CBC, SMSC 2 – Justice, SMSC 3 – Home Affairs, SMSC 4 – Finance, SMSC 5 – Public Administration, SMSC 6 – Agriculture SMSC 7 – Internal Market SMSC 8 – Social (including minorities) SMSCs 9 and 10 – Environment and Transport.

M&E Reports in 2007 (lessons learned)

The overall responsibility for monitoring of the Phare programmes in Romania lies with the Central Evaluation Unit within the Authority for the Coordination of Structural Instruments in the Ministry of Economy and Finance. Activities in this area were carried out with the support of an Interim Evaluation Phare external contractor which started the effective implementation of the contract in May 2007, on the basis of the Interim Evaluation workplan approved in December 2006. Two extra activities as thematic evaluations were included in the contract, over the revision of indicators and on procurement.

During 2007, one consolidated Country Summary Evaluation Report was issued, for the Joint Monitoring Committee in December, to support decision making. The reports provide a consolidated country review of the findings of the Interim Evaluations finalized until October 2007 (Internal Market, Social, Environment, Transport, Public Administration, and Finance)

and the Thematic Evaluation of Phare procurement procedures and practices (proposed in response to concerns over the performance of contracting).

The Country Summary Report concluded that the overall performance is positive. Phare supported programmes are successfully implemented, generally deliver the expected results and contribute to the impacts that are sought. However, the delays in reaching the implementation stage are undermining the efficiency and have a degrading effect on relevance, effectiveness and impact.

The main conclusion available from the Thematic report on procurement is that Romania was not well prepared for the implementation of Phare projects under national public procurement rules at the time of EDIS accreditation at the end of 2006. While a number of issues have been solved during 2007, some serious structural and process issues need to be urgently addressed. The implementation practices of the national public procurement rules are heavily bureaucratic leading to less competition in public tenders. The majority of Phare funds are still contracted immediately before the end of the commitment period leaving often insufficient time for the implementation of projects.

17. SERBIA

17.1. The year in review

Political developments

Parliamentary elections took place in 21 January 2007 and were conducted in accordance with international standards. However, the ensuing period highlighted sharp divisions among political parties. This led to a slow-down in the overall pace of reform. The Kosovo issue continued to dominate the political agenda. Following several months of uncertainty a new reform-oriented government was formed in May 2007. It achieved early positive results on cooperation with the ICTY, which enabled the Commission to finalise negotiations on a Stabilisation and Association Agreement (SAA). The SAA was initialled on 7 November 2007.

In the area of *democracy and the rule of law* there was some progress in implementing the new *constitution* which entered into force in November 2006. A constitutional law was adopted, however several provisions, in particular, on the judiciary still need to be implemented in line with European standards.

The work of the *parliament* has been hindered by the political situation. The first sitting of the parliament after its inauguration following the January 2007 elections was adjourned for almost three months due to the protracted negotiations to form a government. Delays in the formation of the government and sharp political divisions had a negative impact on parliamentary activities.

As regards *regional issues and international obligations*, Serbia played a positive role in improving regional co-operation, including notably the South East Europe Co-operation Process (SEECOP), the Regional Co-operation Council (RCC) and the amended Central European Free Trade Agreement (CEFTA).

The government, in its programme, gave a clear commitment to fulfil its international obligations. The Serbian authorities subsequently improved co-operation with the ICTY, leading to the arrest of two indictees and their transfer to The Hague. A National Security Council was established. The National Council for Co-operation with ICTY was also reinstated. However, Serbia did not achieve full co-operation with the ICTY that should lead to the arrest of the remaining fugitives.

Serbia participated in 2007 in discussions under the auspices of the UN Secretary General's Envoy for Kosovo on the future status of Kosovo. Serbia however rejected its recommendations and has maintained that Kosovo should remain an integral part of the country, whilst offering substantial autonomy. Serbia continued to discourage Kosovo Serbs from participating in the provisional institutions of self-government and elections in Kosovo.

Visa facilitation and *readmission* agreements have been concluded between the European Union and Serbia. The visa facilitation agreement will foster people-to-people contacts and increase opportunities for travel, especially for the younger generation. The agreement contains a joint declaration from the parties to start a discussion on visa liberalisation and a statement that the agreement should be seen as a first concrete step towards full visa liberalisation. The Readmission Agreement set out clear conditions and procedures for the authorities of both Serbia and the EU Member States for taking back people who are illegally residing on their territories. The effective implementation of the agreements, as well as progress in key areas such as border management, document security and the fight against organised crime, will open the way towards a visa-free regime.

Macroeconomic developments and structural reforms

Serbia's **economy** continued to grow strongly but progress in macroeconomic stabilisation was mixed. The reversal of fiscal consolidation added to fiscal and macroeconomic risks. Much needed structural reforms continued slowly and the high level of unemployment remained a major challenge.

As regards the **economic criteria**, Serbia made some progress towards establishing a functioning market economy. Further reform efforts must be pursued to enable Serbia to cope in the medium term with the competitive pressures and market forces within the Union.

The authorities to a large extent maintained the main elements of a sound economic policy. The economy continued to expand strongly. The inflow of foreign capital remained significant. Declining inflation contributed to a stable environment for economic actors. The budget remained in surplus and investment activity improved markedly.

The privatisation of state-owned banks is well advanced and competition among banks is strong. The new government has shown limited willingness to revive the process of privatising state-owned companies. The SME sector grew in importance. Foreign trade and investment continued to grow and economic integration with the EU advanced.

However, despite strong economic performance, unemployment remains very high. Further progress in privatisation is needed and a competitive and dynamic private sector has not yet been fully established. Fiscal policy turned expansionary in 2007. Public sector wages increased substantially. This contributed to a sizeable increase in expenditures as a percentage of GDP in 2007 and added to external imbalances and inflationary pressures. The lack of flexibility in the labour market remains an obstacle for job creation. Investment was hampered by excessive bureaucratic requirements and complex legislation. Commercial courts continued to suffer from limited capacity and expertise. The large informal sector, fuelled by weaknesses in law enforcement and the regulatory framework, reduces the tax base, hampers the government's capacity to implement economic policies and affects negatively the business environment.

In general terms, Serbian economy performed well. However, there were a number of major imbalances mainly inflation, unemployment and the growing balance of payment deficit.

Progress in meeting the *acquis communautaire*

The government placed emphasis in its programme on European integration, but the results were mixed. In August 2007 the government adopted an action plan on harmonisation with the *acquis* in an attempt to accelerate the reform process. The Serbian administration participated in SAA negotiations in a professional manner and this helped to improve coherence among the various Ministries and agencies. Policy co-ordination, however, needs to be further improved.

As regards **European Standards**, SAA negotiations showed that Serbia has the administrative capacity to progress towards the EU. Serbia will be well placed to implement a future SAA if this capacity is properly utilised.

Serbia made some progress in addressing Partnership priorities in the areas of the **internal market**. Serbia has shown progress in approximating with European standards on a number of **sectoral policies**. In the area of *industry and SME* Serbia is fully committed to the process of the European Charter for Small Enterprises. Serbia's preparations progressed well in the area of *agriculture*. However, efforts need to be maintained and expanded into a number of more specific areas such as veterinary and phytosanitary issues and food safety. Progress was made on improving the quality and reliability of *statistics* on labour market and business activities,

whilst further progress is needed on agriculture statistics and strengthening administrative capacity.

Some progress was made in meeting European Partnership priorities in the area of *transport*. There were some improvements in the *energy* sector, notably in liberalising the internal energy market. There has been little progress in the area **of information society and media**.

There has been some progress in the field of **justice, freedom and security**. *Visa* facilitation and *readmission* agreements have been concluded between the European Union and Serbia. There have been some improvements in the area of *border control* including the handover of state borders from the Serbian military to the Ministry of Interior. There have been improved results in tackling *illegal migration* but there has been little progress in the area of *asylum*.

Money laundering constitutes a serious problem in Serbia.

Some progress was made in fighting *organised crime* and important cases were brought to a conclusion, including the convictions and sentencing of those found guilty of the murder of former Prime Minister Djindjic. However, organised crime continues to pose a serious problem for Serbia and more concerted efforts are needed.

Progress was made in combating *trafficking human beings* through improved regional co-operation and the adoption of a national strategy. Serbia has been recognised as a source, transit and destination country. Serbia is still at an early stage in developing a comprehensive approach to combating terrorism. The ratification of a number of international conventions is still pending. There was little progress in the area of *protection personal data* and current legislation is not in line with European standards

17.2. Financial assistance in 2007

Programmes launched

As of 2007, the CARDS programmes were replaced by the new Instrument for Pre-accession Assistance (IPA). No new CARDS programmes were launched.

Overview of programmes implemented

Democratic stabilisation

Refugees and IDPs

- A programme to support minorities, anti-discrimination legislation and mediation launched.
- 2nd phase of institution-building support to the Commissariat for Refugees and IDPs launched.
- A new assistance project (€1.5 million) aiming at providing durable solutions for the displaced through the provision of housing solutions and income-generation support started.
- 24 families - a total of 142 people - moved to a new block of 44 apartments built in the eastern Serbian town of Petrovac and 10 new apartments were handed over to IDPs who had lived in a collective centre in Jagodina.
- €1 million contract with the OSCE to provide targeted assistance to the Roma community in Serbia.

- The Government of Serbia adopted a decision to sign a Council of Europe Development Bank (CEB) loan agreement to build 1,000 flats for refugees. It will be implemented with the support of a Programme Implementation Unit financed by the EC.

Civil Society

- Under the Media Fund, 18 contracts with media outlets have been signed for a total of €1.8 million. The objective is to support quality production and investigative reporting.
- In May, the Agency launched a project to provide technical assistance to Radio Television Serbia. The project aims to support high-quality journalism, management and training of RTS staff.
- A €2 million project supporting the restoration, conservation and access to the Yugoslav Film Archive started.

Good governance and institution building

Judicial System

- The SENA software application for case management has been installed in Serbian courts.
- Following the delivery in 2006 of a DNA testing laboratory, training for laboratory personnel has been completed.
- A twinning project with the Ministry of Justice assisted in EU law approximation.

Police

- A twinning project with the Organised Crime Directorate of the Ministry of the Interior helped to modernise investigative techniques.
- The installation and testing of communication and IT equipment for the Organised Crime Directorate (€2.5 million) and Juvenile Detention Centres (€1 million) was completed. The delivery of equipment for prisons (€2.5 million) is ongoing.
- An international conference was held to discuss effective methods of prevention and combat of World Wide Web crime.

Border Crossings

- A new twinning project is assisting the Ministry of the Interior to improve its internal strategic planning capabilities, cross border policing and implementation of the Integrated Border Management Strategy.
- Works to reconstruct the Preševo crossing (border with FYROM) started in the autumn, whilst the contract for the Dimitrovgrad railway station site (border with Bulgaria) was awarded and works will start in early 2008.

Public Administration

- A study visit to Slovenia took place in September for employees of the Human Resource Management Service, High Civil Service Council and Appeal Board of the Government.
- A review of pay and grading options was carried out and recommendations presented to the Ministry of Labour, Employment and Social Affairs, together with proposed amendments to the draft Public Service Pay Law.

- A preparatory study to support the reform of the pension system in Serbia has been launched.
- A €2 million project is assisting the Ministry of Finance to improve the budget planning and preparation process.
- A €1.8 million twinning project has been launched to strengthen the capacity of the Ministry of Economy and Regional Development to create, negotiate and implement trade policy and to negotiate international trade agreements.
- A €1.5 million assistance project on Consumer protection started.
- Phase III of the Policy and Legal Advice Centre project will continue to provide legal advice to the Serbian administration on such issues as public procurement, state aid and financial services.
- An assistance project to the Serbian Statistical Office has been completed by the Italian Statistical Office.

Health

- The Agency celebrated €100 million of EU funds contracted for the Serbian health sector since the beginning of the Agency's work in Belgrade.
- A capacity building project assisting the Ministry of Health to implement a €50 million emergency EIB health loan closed successfully.
- The project "Improving preventive services in Serbia" closed successfully.
- The €2.5 million project "Support to the implementation of Capitation Payment in Primary Health Care in Serbia" started in September.
- As part of a project to develop a modern Health Information System for basic health and pharmaceutical services, pilot tests in Pancevo have led to customisations of patients' basic Electronic Health Records.
- A €4 million service contract for "Training in Health Service Management" has been awarded.
- The Agency awarded contracts to supply equipment worth a total of €3.55 million to the public health laboratories.

Local Government

- Under the Municipal Infrastructure Support programme, projects totalling €34 million have been completed or are underway in 9 municipalities across the country.
- The Agency launched a €20 million programme to assist local authorities in the north-east of Serbia, to modernise municipal administration.
- Technical Assistance projects supported the Ministry of Public Administration and Local Self Government in finalising laws on decentralisation.

Economic and social development

Enterprise Development

- The national strategy for Foreign Direct Investments prepared by the Ministry of Economy and Regional Development has been developed with the assistance of experts provided by the programme.
- The €4.5 million programme “Support to Enterprise Development and Entrepreneurship” closed. This included the financing of 26 projects by a dedicated fund.
- An EU-funded project is supplying accurate digital maps to the Serbian Geodetic Authority for its updating of the land register (cadastre).
- An Integrated Socio-economic Development Plan based on the Rehabilitation of the Middle Danube River Basin and Inland Waterway System of Serbia has been completed.

Vocational education and training

- In the context of the implementation of an EIB loan of €25 million for the **education sector**, an EAR technical assistance project provided intensive training to build loan management capacity within the Ministry of Education.
- Contracts have been signed to supply specialised IT equipment to VET schools worth €3.64 million. Deliveries are ongoing.
- Two twinning projects on Modernisation of the National Employment Service (€1.5 million) and Support to Development of National Employment Policy (€1.5 million) started.

Agriculture

- 125 vans (worth €880,000) were handed over to the Serbian Veterinary and Phytosanitary Directorates together with basic equipment worth €700,000 for performing veterinary and phytosanitary inspections at 14 border posts.
- A new €1.4 m twinning initiative between the Serbian Ministry of Agriculture and the province of Rioja will support the Serbian wine sector.
- A draft Rulebook for food establishments other than slaughterhouses has been produced, as well as an action plan for phased alignment with the *Acquis* of animal waste disposal practices and infrastructure.
- More than 30 staff of the Veterinary Directorate of the Ministry of Agriculture underwent training in drafting legislation aligned with the *Acquis*.
- A procedures manual for preparation of the national rural development programme has been drafted.

Infrastructure and energy

- A capacity building project for the transport sector was completed in January, with the delivery of a draft Strategy and Policy for this sector.
- The Agency awarded the contracts to supervise rehabilitation works of the (i) Belgrade Gazela Bridge across the Sava River and (ii) of the E-75 motorway Belgrade – Novi Sad along the Corridor X. The works will be financed by an EIB/EBRD loan.
- The first of the major environmental improvement projects in thermal power stations – air filters for Kostolac A power plant (€5 million) – was successfully completed.

- A contract has been signed for the procurement of the Capacity Allocation System for the electricity transmission system operator, and implementation is underway. Hardware and software for the System has been delivered to the beneficiary EMS – Elektromreža Srbije.
- Works for the second major environmental project - ash disposal in Nikola Tesla B power plant, with a budget of €30 million – are ongoing.
- The pre-feasibility study for Stavalj Coal Mine and Thermal Power Plant was successfully completed.
- The first season of works on the modernisation of District Heating in five cities (€20 million) has been concluded.
- The supply of hardware and software for the Serbia electricity market (market management system) has been completed, and all tests finalised.

Environment

- The Agency launched a project to provide technical assistance for medical waste management. It includes the installation in hospitals of equipment for treatment of medical waste.
- An Action Plan for the Water Management Information System (WMIS) has been prepared.
- Action plans and feasibility studies for the remediation of three heavily polluted sites have been prepared.
- Training was provided on EU accession and coordination with the environmental *Acquis* for staff of the Ministry of Science and inter-ministerial coordinators from other ministries.

Regional Cooperation

- Under the Neighbourhood Programmes (NP) with Hungary and Romania - Implementation of 72 projects is ongoing.
- Under the CADSES programme – seven projects are under implementation.
- Under the Italy Adriatic Neighbourhood Programme 2004-2006 - 17 projects are under implementation and two more are in the contract preparation stage.

CARDS management performance

The cumulative portfolio of CARDS programmes in Serbia is €1.288 billion. By the end of the year, 90% of this total had been contracted and 77% had been spent.

Institution Building highlights

The Serbian Development and Assistance Coordination Unit (DACU) that deals with EU and other external funds was transferred from the former Serbian Ministry of International and Economic Relations to the Ministry of Finance.

The Government established DIS working group which started to prepare an Action Plan for implementation of Decentralized Implementation System in. It receives support from SIGMA and other donors.

17.3. Results and impact

M&E Reports in 2007 - Lessons Learned

List of conducted and planned evaluations 2007 (status on 31 December 2007)

Type/ Code (X)	Project- Programme	Sector/ Location	Status
Final/Mid-term Evaluation	on of the contribution by Serbia's participation in the Energy Market	Energy/ Serbia, Kosovo, Montenegro	Final Report Jan 08
Mid-term/Final Evaluation	ICB support Serbia	Public Administration/ Institutional Capacity Building	Ongoing
Evaluation Report on CCI Seminar	Cross-Cutting Issues all Centres	Cross-Cutting Issues (generic)	Final Report May 07
Mid-term Evaluation	TAM/BAS programmes in Serbia	SME Sector Development/ All Centres	Ongoing

One of our main concerns regarding the implementation of the assistance is the pace of public administration reform at central government level. Serbia continued to exhibit weak inter-ministerial relations which undermined the implementation policy crucial to addressing key socio-economic challenges (unemployment, high trade deficit) and the demands of European integration (implementation of regulatory and policy reforms supported under the CARDS programme). We have learnt that alignment of external assistance with Serbia strategic planning cycles, and budgeting processes is essential.

The European Agency for reconstruction had to work in a rapidly changing environment and needed to adapt swiftly to new challenges. This was addressed through training – in technical subjects such as economic reform, in administrative issues such as the development of skills, and not least in applying instruments such as Twinning. Other useful lesson was to realise the usefulness of reacting promptly and properly to audits, either by the Court of Auditors or by the EC's Internal Audit Service, and to continually monitor and evaluate our programmes and projects.

Sectors with positive results –Success stories

EC support for environment, transport, health, energy, trade and support to minorities was successful. (See some examples below).

One billion euros of EU funding contracted in Serbia

With the signature of a million-Euro contract for a road construction feasibility study in January, the total amount of EU-funded contracts signed by the European Agency for Reconstruction in Serbia passed the one-billion-euro mark.

Solving the problem of ash disposal in Serbian power plants

The majority of Serbia power stations burn coal, and Nikola Tesla power plant (“TENT B”) near Belgrade, produces 1.7 million tons of ash every year. The use of outdated methods of disposal causes serious pollution to both air and groundwater. A €28 million project will improve the system for transporting and depositing the ash, with positive effects on the health of the local population. The project was officially launched on 3 October.

District heating projects in Serbia

Five Serbian cities have signed agreements with the EAR to reconstruct, improve and extend key parts of the central heating systems. The peak demand for electricity in Serbia is driven by the use of electricity for space heating in housing, so increasing the share of district heating has the effect of reducing that peak demand.

New equipment for Public Health Institutes

New equipment for laboratories in Serbian public health institutes was delivered. The equipment, worth €1.4 million, will improve the routine laboratory work and enhance the quality of services in 30 public health laboratories.

Facilitating trade flows

A €1.8 million twinning project will strengthen Serbia's capacity to create, negotiate and implement trade agreements. The project began in November and supports Serbia in enforcing foreign trade law, implementing the Stabilisation and Association Agreement (SAA), and speeding up the country's entry into the World Trade Organisation (WTO).

Modernising Serbia's southernmost border crossing

Building works have started at the Preševo border crossing between Serbia and the Former Yugoslav Republic of Macedonia. The first phase of works will cost €5.6 million and will last 14 months. The crossing is located on the E75 – a key part of European transport corridor X.

Targeted assistance to the Roma community in Serbia

A €1 million contract with OSCE to provide targeted assistance to the Roma community in Serbia started. The programme is consistent with the Poverty Reduction Strategy of the Government and the developmental goals pursuant to the Decade of Roma Inclusion, 2005-2015.

18. SLOVAKIA

18.1. Summary

In 2007, Slovakia continued to implement successfully the post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the EDIS.

Since October 2004 implementation is carried out under the entire responsibility of Slovak authorities applying national procurement rules. The Central Finance and Contracting Unit (CFCU), the Regional Development Support Agency (RDSA) and the National Agency for Development of Small and Medium Enterprises (NADSME) are fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continues the monitoring of both Phare and TF Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Representation's Phare Transition Team in Bratislava in July 2005, DG Enlargement exercises residual functions related to the Commission responsibilities (monitoring, payments, closure, etc.) in line with the Financial Regulation.

18.2. Pre-accession financial and Transition assistance in 2007

Implementation

– TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility programme 87.82 % of the funding has been disbursed. The Slovak authorities requested no extension for the 2004 programme. The payments can still be executed within 6 months after the expiry of the contracts execution period.

– TF 2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 89.89% of the programmes had been contracted.

– Institution Building highlights

A total of around €29 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Slovakia from Transition Facility programmes (2004-2006).

Implementation of Transition Facility in Slovakia is considered generally successful in and projects provided notable added value.

The Twinning instrument continues to be used successfully in many priority areas and helped Slovakia to prepare for the implementation of EU policies and laws.

18.3. Results and Impact

State of play for JMC / SMSC development

In 2007, two JMC meetings took place in January and July 2007, in line with the revised JMC Mandate introduced in the new Member States in May 2004, which established an integrated monitoring and evaluation system over the programmes under implementation.

Further to the simplification of the monitoring system in Slovakia, the SMSCs were not abandoned, since they were considered as an effective tool with higher level of members' decision-making power. The decreased amount of ESC projects effected the merging of two sectors, which resulted in the following monitoring sectors: Justice, Home and Social Affairs and Cross-border Cooperation.

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring and evaluation of the Phare and Transition Facility programme in Slovakia lies with the Aid Co-ordination Unit, as the executive body of the NAC, at the Office of the Government. Activities in this area were carried out on the basis of the Action Plan on decentralisation of monitoring and Evaluation, which was endorsed by the EC in March 2005.

The work of the external contractor for the interim evaluation of Transition Facility projects started in April 2006 and lasted until November 2007. The last Country Interim Evaluation report was issued in June 2007 and covered 3 sectors: JHA, Internal Market and ESC. The conclusions that were made were the following: Most of the Transition Facility Programmes remain *relevant*, even when looking at them from an early ex-post perspective. In addition to the accession to the Schengen agreement, the Fight against Corruption has been re-introduced in the priority areas of the Transition Facility assistance. The key problem of *efficiency* remains the delay in programme implementation, though measures have been taken to improve the situation. The evaluation of *effectiveness* was mostly based on the 2004 projects, as almost none of the 2005 or 2006 ones was at the implementation stage at the time of the report. Some early tangible effects could be reported, for instance in the improved work of the General Prosecution, the implementation of the National Programme for the Fight against Drugs or the Public Finance Management Reform. Evaluation of *sustainability* and *impact* is

rather positive. Most of the Transition Facility interventions should be sustainable, such as in the sub-sectors of agriculture, judicial support, finance or customs.

19. SLOVENIA

19.1. Summary

In 2007, Slovenia continued to implement successfully the post-accession assistance to address the remaining needs related to institution building for the implementation of the *acquis*, in line with the EDIS.

Since 17 September 2004 implementation is carried out under the entire responsibility of Slovenian authorities applying national procurement rules. The Ministry of Finance, Central Financing and Contracting Department is responsible for ex-ante control and twinning. The Ministry of Finance, Central Financing and Contracting Department (CFCD) is fully responsible for the daily implementation of the projects.

The National Aid Coordinator (NAC) continues to exercise the monitoring of both Phare and Transition Facility Programmes. The National Authorizing Officer (NAO) carries out the financial supervision.

Since the closure of the Phare Transition Team in the Representation in Ljubljana as of July 2005, DG Enlargement continues to exercise the residual functions related to the Commission responsibilities (monitoring, payments, closure, etc.) in line with the Financial Regulation.

19.2. Pre-accession financial and Transition assistance in 2007

Implementation

– TF 2004 – finalisation of payments

At the end of the period for execution of contracts for the 2004 Transition Facility programme 68.78 % of the funding has been disbursed. The Slovak authorities requested no extension for the 2004 programme. The payments can still be executed within 6 months after the expiry of the contracts execution period.

– TF 2005 – rate of contracting

At the end of the contracting period for the 2005 Transition Facility programme on 15 December 2007, 82.92% of the programmes had been contracted.

– Institution Building highlights

A total of around €17 million of post-accession assistance from national allocation (not including horizontal and multi-country programmes) has been allocated to Slovenia from Transition Facility programmes (2004-2006).

In 2007 the implementation of the Transition Facility projects in Slovenia proceeded reasonably well. There were no major problems with the implementation of the Transition Facility projects. The value added and the impact of the TF was much larger in the previous 3 years when the majority of the projects were implemented.

Implementation of Transition Facility is considered successful in the following areas: Agriculture, Justice and Home Affairs, Agriculture, Internal Market.

19.3. Results and Impact

State of play for JMC / SMSC development

In 2007, two JMC meetings took place in June and in December 2007, in line with the revised JMC Mandate introduced in the new Member States in May 2004, which established an integrated monitoring and evaluation system over the programmes under implementation.

In the year 2007, two rounds of Sector Monitoring Sub-Committee (SMSC) meetings took place. The first round of SMSC meetings took place in March-April and second round between September and October. In Slovenia the following sectors are monitored: Agriculture, Economic and Financial Issues, Internal Market, Justice and Home Affairs, Environment, Energy and Transport.

M&E Reports in 2007 (lessons learned)

Overall responsibility for monitoring of the Phare programme in Slovenia lies with the National Aid Coordinator (NAC) with the Government Office for European Affairs (GOEA).

Only the projects related to Economic and financial issues, Internal Market, Agriculture and Justice and Home Affairs sectors were subject to interim evaluation in 2007. The government Office for European Affairs signed a contract with an external evaluator on 25 October 2005 to perform interim evaluations in years 2006 and 2007.

The independent evaluator also prepared two Country Evaluation Summary Reports (CSER) in May and in November 2007.

The conclusions available from the Interim Evaluation reports are that, overall the implementation of the evaluated Transition Facility assistance was rated satisfactory and there were no major problems or critical situations. However, the implementation of 2 of the evaluated projects was rated as unsatisfactory, 12 as satisfactory and 5 were rated highly satisfactory.

20. TURKEY

20.1. The year in review

Political developments

Turkey continues to sufficiently fulfil the Copenhagen **political criteria**. Following the constitutional crisis in spring, early parliamentary elections were held in full respect of democratic standards and of the rule of law. However, limited progress was achieved on political reforms in 2007. Significant further efforts are needed in particular on freedom of expression, on civilian control of the military, and on the rights of non-Muslim religious communities. Further progress is also needed on the fight against corruption, the judicial reform, trade union rights, and women's and children's rights.

Macroeconomic developments and structural reforms

The Turkish **economy** continued to grow rapidly, with high inflows of foreign investment. The monetary and fiscal policy mix was broadly adequate. Inflationary pressures, growing external imbalances and weaker fiscal discipline in 2007 may affect macroeconomic stability. Structural reforms have slowed down and labour market rigidities hamper job creation.

As regards **economic criteria**, Turkey can be regarded as a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it implements its comprehensive reform programme to address structural weaknesses.

Progress in meeting the *acquis communautaire*

Turkey improved its **ability to take on the obligations of membership**. Progress was made in most areas, in particular in the chapters on free movement of goods, financial services, trans-European Networks, and science and research. Alignment is advanced in certain areas, such as free movement of goods, intellectual property rights, anti-trust policy, energy, statistics, enterprise and industrial policy, consumer and health protection, and science and research. However, alignment needs to be pursued, in particular in areas such as, free movement of services, state aid, agriculture, fisheries, food safety, veterinary and phytosanitary policies, and environment. A number of obligations by Turkey under its Customs Union with the EU remain unfulfilled. Turkey's administrative capacities to cope with the *acquis* need further improvement.

20.2. Pre-Accession in 2007

Programmes launched

Financing Agreements for two further components of the **National Programme 2006** (Parts Ib and II) were signed on 19.07.2007 after conditions for the strengthening of certain DIS institutions had been met. The June 2007 Joint Monitoring Committee confirmed the establishment of absolute deadlines for the submission of procurement files for the ECD ex-ante control and the subsequent launching of tenders and publication of calls for proposals, the non-respect of which will result in the loss of the related EU funding. If adhered to by the DIS institutions, these deadlines will lead to a further acceleration of procurement under NP 2006 compared to NP 2005. The established procurement deadlines under NP 2006 were by and large adhered to in the course of 2007.

As of 2007, the Turkish pre-accession instrument was replaced by the Instrument for Pre-Accession Assistance (IPA).

Overview of programmes implemented

At the end of 2007, €1281 million of EU funds were under implementation in Turkey (incl. National Programmes/NP 2002-2006 EADP, Admin Coop, PCP which were funded under MEDA). At the end of the year, the contracting deadline for the following funds was over:

The NP 2002 amounted to €126 million, of which €112 million (89%) were contracted and €105 million (83%) were disbursed.

The NP 2003 amounted to €144 million, of which €122 million (85%) were contracted and €113 million (79%) were disbursed.

The NP 2004 amounted to €236 million, of which €194 million (82%) were contracted and €169 million (72%) were disbursed.

The NP 2005 (97% under DIS) amounted to €278 million, of which €234 million (84%) were contracted and €87 million (31%) were disbursed.

In addition to the Turkey Pre-Accession Instrument, the implementation of other programmes was continued: The MEDA Programmes (1996-2001), EIDHR/Gender and Environment Programmes, Communication Strategies (2002-2006), ATA (2002-2007), FEMIP, Small Projects Programme. Excluding MEDA, these programmes together amounted to €36 million, with the inclusion of the de-concentrated part of the NP2005 which is amounting to € 8.45 million.

At the end of 2007 the contracting deadline was outstanding for the following funds:

The NP 2006 (parts I and II, both fully under DIS) amounted to €442 million, of which €86 (including PCP) million (20%) were contracted and €62 million (14%) were disbursed.

In addition, the Euro-Med Youth Programme, the 2006 Avian Influenza programme, Communication Strategies, Audit & Evaluation, ATA, EIDHR micro projects, as well as EMPL/REGIO-SSTA were ongoing. Together, these programmes amounted to €28 million.

Pre-Accession management performance

The risk of a suspension of the decentralised implementation system in Turkey was averted by the Turkish authorities through a set of measures tackling the weaknesses of the CFCU and the line ministries.

Following a mission carried out in January 2007, a highly critical follow-up audit report on the functioning of the DIS in Turkey was finalised at the beginning of June. Through reinforcement of the staffing of the CFCU and the adoption of legislation strengthening the CFCU, the imminent suspension of DIS could be averted. Other critical shortcomings identified for urgent addressing through an Action Plan by Turkey concerned the insufficient supervision of line ministries through the PAO, a flawed practice of dealing with irregularities, a sub-standard quality control of procurement files through the PAO, as well as late procurement and contracting. Significant progress was achieved in strengthening DIS in the second half of 2007, including acceleration of contracting, the reinforcement of the CFCU and the assertion of the authority of the PAO over the SPO structures in the line ministries. Important weakness persist, nevertheless, notably lack of leadership at the centre and lack of capacity of the NAO office.

Preparations for IPA accreditation should not deflect attention from further progress in improving the DIS structure, such as the need to ensure appropriate staffing and skill levels, ensuring adequate preparation for the programming phase, accelerating procurement, monitoring capacity both at programme and at project level, avoiding last minute contracting and reducing rejection rates during ex-ante control

No improvements were observed as to the monitoring functions of the EUSG and there was a lack of clear segregation of duties and project management capacity in the case of the projects where the EUSG is the programme beneficiary. The staffing of the EUSG remains insufficient.

NDPs – State of Play

The 9th Development Plan has been drafted with a view to provide the main strategic basis for Turkey's accession to the EU. The period and the definition of the major axis are inspired by IPA. The strategic approach is welcome. Its EU accession vision is appreciated. However, the plan provides little guidance with respect to the priorities under each policy field and does not set out a coherent strategy of alleviating the regional disparities in Turkey. The comparatively limited resources available under IPA cannot compensate for this and would need to be embedded into a comprehensive framework.

Institution Building, an example

Strengthening the Accountability, Efficiency and Effectiveness of the Turkish National Police

The strengthening the accountability, efficiency and effectiveness of the Turkish National Police Twinning project, which started its implementation in February 2005 and had a duration of 24 months, addresses the needs for improvement of quality of police services to the public and respect for human rights in the discharge of police tasks, pre-service and in-service training, community police facilities and personnel system including promotions and appointments and working conditions of the Police. The project with a total volume of €2,6 million was carried out with the Spanish Ministry of Interior, General Directorate of Security and the Turkish Ministry of Interior, General Directorate of Security. About 3000 police officers have been trained on issues such as human rights and community policing within the framework of the project. A code of ethics for police officers was developed.

20.3. Results and impact

State of play for JMC/SMSC development

In 2007, two JMC meeting (June 6 and December 18) as well as thirteen SMSC meetings were held to monitor the implementation of pre-accession assistance up to 2006: Political Criteria; Civil Society Dialogue; Internal Market, Customs Union, Energy and Telecommunications; Public Finance, Statistics and Accession Process Support; Environment, Transport, Regional Competitiveness; Human Resources Development; Rural Development. The quality of monitoring reports remains variable, and the functioning of the SMSC system is unsatisfactory as a result of lack of meeting preparation on the side of the line Ministries and the lack of an adequate participation at decision-making level. The December 2007 JMC has discussed the continuing weakness of the monitoring system and has requested the EUSG to report to the next JMC meeting on measures aimed at its strengthening.

M&E Reports in 2007 - Lessons Learned

Overall, EC assistance to Turkey has generally been evaluated to be *relevant* to key accession-related issues. Only assistance to the transport sector was moderately unsatisfactory due to a weak design of projects, overly complex implementation arrangements and insufficient budgetary allocations. In terms of *efficiency*, assistance in many sectors has been weak, in particular due to slow contracting. Once started, implementation has been improving. Overall *effectiveness* has been mixed, with better results in the internal market sector, improving trends in the environment sector, but problematic results in the transport sector. *Impact* is generally quite positive and visible, in particular in the environment, transport and

internal market sectors, less so in the energy sector. Also *sustainability* was moderately good over the sectors, with relatively good prospects in the environment and the transport sectors and problematic prospects in the economic and social cohesion, the infrastructure and the energy sectors.

The evaluations of EU pre-accession assistance to Turkey show that particular attention should be given to mitigating the risks associated with:

- absence of adequate **planning documents and sectoral strategies** resulting in weaknesses in needs analysis;
- insufficient attention to **horizontal public administration reforms** in the support for the development of administrative and judicial capacity; and
- weaknesses in **programme management** resulting from understaffing and instability of the DIS institutions.

Sectors with positive results

Positive results have been achieved notably in the social development sector, but also in the environment and the internal market sectors.

The environment sector appears to show generally the most satisfactory results, while assistance to the transport, energy and infrastructure sectors encountered most problems.

Success story

İzmit Handicapped Production Centre

Bizimköy Handicapped Production Centre is one of the projects under the Marmara Earthquake Rehabilitation Programme (MERP), with a total budget of 28.0 Million Euros including the co-financing of the Turkish Government and the relevant municipalities (EC contribution is 20.0 Million Euros), provided in the aftermath of the earthquakes which took place in Marmara region in 17 August 1999. In this project, €1,3 million covered the construction of 6 facilities together with the Bizimköy Handicapped Production Centre which were included in the Programme for the use of handicapped adults, handicapped children, orphans, women and young people at İzmit, Düzce, Bolu and Gölcük municipalities. The construction works were completed as of end 2005 and the centres became operational as from spring 2006.

The objective of MERP is to help restore the living conditions in the region affected by the earthquake, support economic recovery and growth and to develop an institutional framework for disaster risk management and mitigation.

As a result of this project, a complete production centre is constructed, 230 job opportunities for handicapped are created, a model was formed in which the employer is a foundation and employees are handicapped and thus the project has concretely contributed to the social and economic rehabilitation of handicapped people in Turkey.

Şanlıurfa Drinking Water Project

Şanlıurfa municipality, with its population around 500,000, had severe water shortage both in terms of quantity and quality due to the lack of adequate water supply system. The high rate of occurrence of waterborne diseases proves the inadequate water supply system. Most people had access to water not more than few hours per a week. This €21 million-EC grant project funded the construction of over 35 kilometres of large diameter water transmission pipelines, water reservoirs with a total capacity of more than 100,000 m³, and three pumping stations. The facilities will be able to provide water for almost 1.5 million people – the projected

population of the city in 2020. The significant improvements in water delivery and quality in the city bring substantial health and environmental benefits, as cleaner water means less disease and better protection of the environment.

PART II: ADDITIONAL INFORMATION ON IMPLEMENTATION AND PROGRAMME MANAGEMENT ISSUES

21. TECHNICAL AND FINANCIAL ASSISTANCE

21.1. Twinning

Twinning has been designed and developed by the Commission as the main instrument for Institution Building. It aims at helping Candidate and Potential Candidate countries in their development of modern and efficient administrations, with the structures, human resources and management skills needed to implement the *acquis communautaire* so as to reach the same standards throughout the Union but also to benefit fully from European Union membership.

This major Institution building initiative has managed to mobilise significant human and financial resources of the Commission as well as of the Member States and the beneficiary countries to achieve this administrative overhaul. Twinning projects are based on the secondment of EU public sector experts (Member state officials or mandated body experts), known as Resident Twinning Advisors (RTAs) who are made available to the beneficiary country administrations for a period of at least one-year in order to assist these administrations to obtain the mandatory result defined for each and any twinning project. To that effect, the Resident Twinning Advisors provide technical advice and are in charge of the day-to-day implementation of the twinning projects.

They are supported by a senior Project Leader in their home administration, who is responsible for ensuring the overall thrust of the twinning project implementation and for co-ordinating all other inputs from the Member State administration or mandated body which provides the twinning expertise. In order to achieve the aforementioned mandatory results, it is indeed necessary to combine different means of assistance, including short-term expertise, training, and other services (such as translation and interpreting) in addition to the Resident twinning Advisor.

More than 1,400 twinning projects have already been funded by the Community since twinning was launched in 1998. Each twinning project has an average budget of €1 million. Almost one half of these projects concerns Justice, Freedom and Security issues, and Public Finance and internal market matters. Other areas prioritised include Agriculture and fisheries, Environment and Social policy.

During the calendar year 2007 the following project fiches were circulated with financial means coming from Phare, CARDS or Transition Facility envelopes:

<i>Number of Phare, CARDS and Transition Facility Twinning projects <u>launched</u> in 2007</i>	
Albania	5
Bosnia Herzegovina	1
Bulgaria	22
Czech Republic	1

Croatia	5
Estonia	1
former Yugoslav Republic of Macedonia	1
Latvia	1
Romania	22
Serbia	2
Turkey	2
Total	63

In addition, the Candidate Countries and Potential Candidate Countries are being offered the possibility of drawing on twinning expertise through “Twinning Light”, in order to address well-circumscribed projects of limited scope. In 2007, this instrument has been continuously used by the beneficiary administrations.

21.2. TAIEX

TAIEX² started operations in 1996 as a follow-up to the Commission’s White Paper on the preparation of the associated countries for integration into the internal market.

Since then, TAIEX has evolved into an instrument providing short-term technical assistance to facilitate the approximation, application and enforcement of the EU legislation.

Apart from the Western Balkans and Turkey partners, the TAIEX instrument also covered the 10 new Member States, the Turkish Cypriot community and the countries covered by the European Neighbourhood and Partnership Instrument (ENPI).

TAIEX support consists of expert missions, workshops, peer assessments, study visits and training programmes designed on the basis of specific requests and needs of beneficiary institutions. TAIEX is demand-driven and it delivers services on a "first come, first served" basis.

TAIEX also facilitates the access to several databases (CCVista, Progress, JurisVista, VetLex, PhyroLex and Avis) that provide translation of legislative texts and information on the alignment of legislation.

The TAIEX operation continued to develop in a positive and dynamic manner in the course of 2007. The total number of incoming requests rose sharply from 1,049 in 2006 to 1,591, an increase of 52%. The major part of applications came from the Western Balkans and Turkey (45%), followed by the 10 new Member States (26%) and the ENPI countries (14%).

During the year, a total of 1,282 events were organised, representing an increase of 16% compared with 2006 and about the same level as 2005. Out of these events 467 were organised for Phare beneficiary countries.

² Technical Assistance Information Exchange Instrument

The number of participants at TAIEX events went up by some 4% to 36,971 in 2007, while the experts engaged went up by 5% to 4,148. Out of those 16,095 participants came from Phare countries and 2,231 experts were involved in projects related to Phare beneficiary countries.

The positive results and the increasing demand for assistance clearly demonstrate the need and usefulness of TAIEX as an instrument of know-how transfer and exchange of best practice.

TAIEX continued to play an important role in supporting the Turkish Cypriot community. Out of the Financial Aid Regulation (Council Regulation No 389/2006) the instrument was allocated €11 million to encourage the economic development of the Turkish Cypriot community with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation for the *acquis communautaire*. In 2007 assistance focused on the preparation and launching of the Programme for the Future Application of the Acquis (PFAA), which was finally agreed in October 2007 and which will concentrate on 12 EU policy areas. Notable progress have been achieved so far in the sector of environment (creation of basic conditions for the drafting of main framework legislation), the Green line Regulation (Council Regulation No 866/2004) and the statistical sector (preparation of a "Master Plan" and of a statistical law). Basic work has been done to prepare strategies for the agricultural sector as well as for the reform of the Customs system.

2007 was the first full-operational year for the ENP countries and Russia. TAIEX has received more than 200 applications from these countries against some 50 in seven months of operations in 2006. In the same period, over 3,000 participants from the administrations of these partner countries have been trained.

The share of ENPI applications has increased from 5% to 14% of the total. For the majority of events the subjects covered topics related to internal market issues: this is understandable considering that the ENP is not offering a prospect of accession, but rather –as stated in all Action Plans- "a stake in the EU's internal market". However, also subjects related to the rule of law, to agriculture and to health and safety have received significant attention.

TAIEX offers access to a range of databases. The Progress database organises all EU legislation in a format that allows a continuous exchange of up-to-date information on newly adopted acts and on the harmonisation of national legislations. All data collected via the Progress Database are shared with the European commission services and delegations, country missions and the concerned national authorities. CCVista constitutes a repository of all translations of EU legislation produced by the Translation Coordination Units of the beneficiary countries. It is a vital source of information to all internet users who wish to consult legislation translated into various languages of the beneficiary countries. The database is currently being used by the candidate and Western Balkan countries. By the end of the year, CCVista database contained more than 5,000 translated EU acts from Croatia and over 2,000 from the former Yugoslav Republic of Macedonia. This represents over 55,000 OJ pages in the case of Croatia and almost 30,000 OJ pages in the case of the former Yugoslav Republic of Macedonia. The JurisVista Database is a library of translations of key judgements of EU jurisprudence; it is mainly used by the judiciary, academic institutions such as new Member State universities and others such as law firms. VetLex offers direct access to consolidated versions of all EU veterinary legislation, simplifying the daily tasks of veterinary inspectors, border post officials and others. Similarly, PhytoLex offers consolidated versions of EU phytosanitary legislation, while Avis is a database dedicated to animal diseases.

The TAIEX Expert Database (ED) represents a key-instrument in the daily work of TAIEX assistance tasks. Launched in October 2004, the ED registers public officials from all the EU Member State national administrations covering a large number of fields of the EU legislation body and interested to participate in TAIEX activities. In 2007 more than 3,800 experts were present in the ED, a significant increase in comparison with 2006 (with around 2,600 public officials signed in). Additionally, more than 550 "institutional" contact points that play a coordination role within every ministry of the Member States have been added into the database. The Expert Database is contributing to a better identification of appropriate key-experts in a given field and a smoother and rapid response to beneficiaries' requests.

Several Commission Financing Decisions were adopted in 2007 to ensure the continued funding of the TAIEX operation. They consisted of € 6,83 million from the Transition Facility for Bulgaria and Romania, € 9,28 million from the Instrument of Pre-Accession Assistance (IPA) and € 5,0 million from the Pre-Accession Assistance Funds for Kosovo. Funding also included €1,5 million from MEDA and €1,5 million from TACIS and €2 million from the ENPI through sub-delegation from DG AIDCO.

An ex-post evaluation report on TAIEX was completed in 2007. It concluded that TAIEX is an important instrument in supporting the accession process that has performed well in providing short-term, demand-driven assistance and a large number of outputs. In this context, the speedy mobilisation and the handling of administrative details were in particular appreciated on the recipients' side. The report recommended that TAIEX should focus more on networking opportunities, further increase cost-effectiveness and sustainability of actions.

21.3. SIGMA

Since 1992, this Institution building instrument for assistance in horizontal areas of public management (Public administrative reform, public procurement, public sector ethics, external and internal financial control) is implemented by the OECD through a contribution agreement which is funded by the Commission.

In 2007, SIGMA has worked with the two new EU Member States and the three EU candidate countries as well as with potential candidate countries in the Western Balkans. Within this context a total of 57 concrete project assignments have been approved by the European Commission and carried out by OECD: 24 in Bulgaria, Romania, Croatia and Turkey and 33 in the Western Balkan countries. All of these project activities were carried out under distinct contracts, funded both under the Transition facility and CARDS.

In the course of 2007, preparations were started to launch a new global contract for the continuation of SIGMA programme under the new financial Instrument for Pre-Accession Assistance (IPA). This new contract will benefit all Candidate and Potential Candidate countries

22. INFORMATION ON MULTI-COUNTRY AND HORIZONTAL PROGRAMMES

22.1. Political Criteria

Participation in Community programmes, Agencies and Committees

Under the CARDS Regional Programme 2005 (€2.5 million) in 2007, several Grant Agreements were awarded to Community Agencies the main objective of which were to enable Western Balkan countries to participate in and to familiarise themselves with the work of these Agencies whose role is to prepare for their adoption of the Community *acquis* and consequent upgrading of their administrative capacity where necessary:

- the Agency for Safety and Health at the Workplace (ASHW),
- the European Environment Agency (EEA),
- the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA),
- the European Monitoring Centre for Racism and Xenophobia (EUMC),
- the European Maritime Safety Agency (EMSA),
- the European Aviation Safety Agency (EASA).

Agencies received grants up to a value of 95% of the total eligible project costs. Contracts with EEA and ASHW were concluded in December 2006 and the contracts were awarded during 2007.

Return of refugees

Three projects under CARDS 2002 regarding refugee return and local integration continued during 2007 and were due to end in early 2008. Main results were:

- Contract 132-144 (€250,000, Help): Provision of 30 income-generating grants and organisation of basic business training; construction of 8 apartments; implementation of a community project proposed by the host community in Herceg Novi (Montenegro).
- Contract 132-245 (€202,000, IAN): provision of informational assistance (status issue, access to social rights, regulation of property issue...) to 1,000 beneficiaries, provision of legal assistance (complaints, claims, acceleration requests) to 400 refugees, provision of personal documents (birth, citizenship and marriage certificates) for 400 persons. This project was particularly successful in that the achieved results went well beyond the expected results for all the activities and the quality of the reporting was excellent. In October 2007, Commissioner Spidla visited this project.

Within CARDS 2006 there was one project under discussion:

- Contract with UNHCR (€1 million): the project regarding the application of the "3x4" initiative continued according to schedule and the preparation of the third phase (financing proposal to be adopted in June 2008) was being discussed between D3 and UNHCR/Brussels.

Social inclusion.

"Social inclusion of and access to human rights for Roma, Ashkali and Egyptian communities in the Western Balkans" (Contract 148-352: CARDS 2006: €1 million). The overall objective is to ensure social inclusion, protection and return-related activities to the Roma people, internal displaced persons and other marginalised groups. A call for proposals was published in early 2007 and a contract was made to UNHCR in February.

Social security coordination

The *"Social Institution Support Programme"* with the Council of Europe (CARDS 2003, contract 085-023: €2 million) came to an end in February. It was renewed for a further three years under IPA 2007 (q.v. IPA report).

Justice, freedom and security

There were eight projects under implementation during 2007:

- CARDS 2002-2003: *"Support to and Coordination of Integrated Border Management Strategies in the Western Balkans"* implemented by a consortium led by the French

Ministry of Interior, General Directorate of National Police, Department of International Police Cooperation (SCTIP) (contract 081-242: €1.99 million). The project came to an end in April and the final report was submitted within the contractual deadline and final payment made accordingly.

- CARDS 2002-2003: "Establishment of an Independent, Reliable and Functioning Judiciary and the Enhancing of the Judicial Cooperation in the Western Balkans", implemented by a consortium led by the Ministry of Justice of Austria (contract 082-231: €5 million). The project came to an end in May. The final report was submitted in November and final payment made in December.
- CARDS 2002-2003: "Development of Reliable and Functioning Policing Systems and Enhancing of Combating main Criminal Activities and Police Co-operation", implemented by a consortium led by the Council of Europe (contract 079-524: €4 million). The project came to an end on 30 June but the final report had not been submitted by the end of 2007.
- CARDS 2002: "Development of a reliable and functioning prison system respecting fundamental rights and standards and enhancing of regional cooperation in the Western Balkans", implemented by the Council of Europe (contract 132-165: €0.82 million), continued throughout 2007 and was due to end in March 2008. It was agreed to extend the implementation period by three months (to March 2008) and to increase the resources available for implementation which should allow the Council of Europe to pursue a much more intensive implementation schedule during the second half of the project.
- CARDS 2005: "*Second Expert Working Group Meeting*" implemented by CECOFORMA (contract 140-045: €29,082);
- CARDS 2005: "*Third Expert Working Group Meeting*" implemented by BS Europe (contract 142-429: € 24,197);
- CARDS 2005: "*Fourth Expert Working Group Meeting*" implemented by BS Europe (contract 144-534: € 28,886);
- CARDS 2005: "*Fifth and Sixth Expert Working Group Meeting*" to be implemented in January 2008 by APRI International (contract 146-607: € 59,978).

The evaluation of the project proposals CARDS 2006 "*Support to the Prosecutors' Network*" was still continuing at the end of the year. The call for proposals had been published in August.

In December 2007 was published the open call for proposals under CARDS 2005 "*International law Enforcement Co-ordination Units*" (ILECUs). The purpose of the action is to create ILECUs and thereby strengthen international police cooperation with a view to supporting the exchange of information in international investigations and to facilitate contacts on an operational level.

Public administration

A contribution agreement of €2.5 million was signed with OECD to implement the first phase of the development of ReSPA. The agreement includes the cost of the operation of the ReSPA Secretariat, the development of training and other activities related to its future institutionalisation. During 2007, Danilovgrad in Montenegro was selected to be the seat of the Regional School for Public Administration and all legal preparatory work is in progress.

The initial task of the ReSPA team at the OECD was to determine demand for training in the Western Balkans region. In agreement with the European Commission, the OECD would design and manage contractors from within EU Member Countries. Ten activities were

developed to implement the Work Programme (WP) approved by the Steering Committee in January. Additional modules were incorporated in the WP after the first meeting of the ReSPA Steering Committee in April, and after the first meeting of the heads of Schools and Institutes of Public Administration in Ljubljana in June.

The modules developed and delivered covered:

- Three Training of Trainers modules in Skopje, Podgorica and Pristina on negotiation techniques in a European environment in cooperation with EIPA;
- One module of Training of training managers in Athens in cooperation with EKKDA³;
- One module of Training junior diplomats at the Dubrovnik Summer School on the promotion of Foreign Direct Investments in the Western Balkans, in cooperation with the Diplomatic Academy of Croatia;
- One module of Training Policy advisers on advisory techniques, in cooperation with NISPAcee⁴;
- Second ReSPA annual conference, Durres, Albania, on making strategies work and the use of adequate legal instruments to implement strategies;
- Regional training initiative on Public Procurement, in cooperation with Sigma and ILO-ITC⁵;
- Training of Senior Budget Officials on the impact of the adoption of an organic Budget Law on the work of Government, in cooperation with the ENA, Paris.

A module on Human Resources Management and in particular on the profile of the European Senior Civil Servant was initially planned for November 2007 but postponed to March 2008 at the request of the Italian co-organiser, SSPA⁶.

The ReSPA team at the OECD contacted the NISPAcee, IASIA, EGPA and IIAS secretariats in order to gain formal membership for ReSPA to those professional networks. Full membership will only be possible once ReSPA has been formally and legally established. Finally, organising and co-organising ReSPA modules with established EU Schools and Institutes of Public administration, also contribute to the inclusion of ReSPA into professional networks.

Four activities were carried out to implement the **Institution Building** dimension of ReSPA:

- Steering Committee: the ReSPA team at the OECD has organised three sessions of the Steering Committee. The Rules of Procedure of the Steering Committee have been drafted and approved by the Steering Committee Members, and the sessions function along the lines agreed initially.
- The ReSPA team at the OECD worked on a series of papers and held a number of meetings with EC officials to advise on the institutionalisation of ReSPA phase 2 and the where ReSPA should be located in the Western Balkans. The Commission agreed in principle with the EIPA in October that it would support the further institutionalisation of ReSPA in Phase 2. The ReSPA team advised the Commission on the future location of ReSPA in November 2007.

³ Greek School of Public Administration

⁴ Network of Schools and Institutes of Public Administration in Central and Eastern Europe

⁵ International Training Centre of the International Labour Office

⁶ Italian School of Public Administration

- Implementation of staffing policy: the initial contract between the OECD and EC foresaw the establishment of a project team at the OECD composed of one OECD Administrator and three experts from the Western Balkans who would be the future core staff of ReSPA. At the 2nd Steering Committee, the Regional members asked for a revision of this scheme and suggested that one resource person should be contracted by OECD per signatory party of the protocol of cooperation. The ReSPA team at the OECD developed a proposal which was accepted by the 4th Steering Committee in April 2007. The implementation by the ReSPA signatories of this option took much longer than initially envisaged. The first resource was contracted in July and the last one in November 2007. It was noted at the 5th Steering Committee in November that only some resources had been delivered on time and at the required level of quality. The Chairman invited Steering Committee Members and the ReSPA team at the OECD to develop ways to improve the functioning of the in-country resource persons.
- The ReSPA website was developed initially under the technical auspices of the OECD IT Services and later developed and hosted outside the OECD. This was done in order to facilitate the eventual portability of the ReSPA website and content to Danilovgrad.

Support to interim civilian administrations and to Stability Pact

- **UNMIK.** Throughout 2007, Unit D3 remained responsible for the commitment of funds and implementation of contracts to support the running costs of UNMIK Pillar IV. From early 2008, financing for the running costs of UNMIK Pillar IV is to be provided under the Stability Instrument (DG RELEX) and the EC Liaison Office would be responsible for the management from March 2008.
- **OHR.** A Contribution Agreement aiming to fund 53% of the OHR budget for the remaining period of its operation (contract managed by the EC Delegation in BiH); Budget: €1 million
- **Stability Pact.** Support to the Stability Pact was maintained in 2007 and due continue until June 2008 when it would be replaced by the Regional Cooperation Council (RCC).

Cross-border cooperation (CBC)

There was one project under implementation namely "*Cross-Border Institution Building*" (CBIB) under CARDS 2003 and its extensions under CARDS 2005. Phase I (CBIB-1) was extended for one further year as from 23 December 2007.

CBIB-1 had been launched at the end of 2005 with the objective of preparing beneficiary countries to implement the IPA CBC programmes at internal Western Balkans borders. The project allocation came from Regional CARDS 2003 (budget: €1.75 million) and its extensions by end December 2007 under Regional CARDS 2005 (budget: €0.875 million). In 2007, the project started by helping governments to put into place CBC structures and to recruit the necessary staff. There followed training for the drafting of eight programmes, which were submitted to and approved at the IPA Committee of December 2007.

During two Steering Committees organised in the region, it was made clear that the CBIB project was already of great benefit not only in terms of regional cooperation and reconciliation but also for building ownership and capacity of the beneficiaries to draft and manage the EU programming exercise. The CBIB project is now being continued to train beneficiaries in the implementation of the programmes, i.e. the procurement phase, as well as to provide training to facilitate the preparation of projects by potential beneficiaries (mainly applicants for calls for proposals).

Civil Society Dialogue and Development

CARDS Regional Programme 2006: "*Civil Society Dialogue and People to People*" - a call for proposals was launched in December 2007 and it was expected that about seven contracts would be signed by mid-2008.

There were two programmes under implementation at the end of 2007:

- CARDS 2002 Democratic Stabilisation, Support to the Rule of law, Good Governance, Public Accountability and Freedom of Opinion. Two Grants contracts supporting "Albania Women's Leadership Programme" (060-191) and "Good Governance for Areas of Special State Concern in the support of NGOs" (060-256) ended and the final report approved. For the former, the last payment was initially suspended due to the lack of audit report and miscalculation, but the problem was later settled. For the second, a recovery order was initiated by the Financial Unit but the transfer of ownership requested was still missing at the end of the year.

- CARDS 2003 *Democratic Stabilisation, Support to Civil Society Development and Network to Network and media*. Several Grants contracts⁷ started in 2005 and contributed to support the local development of CSOs and their contribution to the democratic process in the region through:
 - Strengthening Civil Society Organisations that Operate in the Agricultural Sector;
 - Engaging Civil Society in Decision Making Process for Arms Control and Community Safety;
 - Development of Multi Level Capacity Building Programme;
 - Cooperation, Integration and Community Empowerment of Ethnic Minority Groups;
 - Women Resource for the Local and Democratic Development;
 - Law of Action for Developing Civil Society;
 - Involvement of Citizens in the Local Democratisation Process;
 - Capacity Building of Disabled People's Organisations.

The final reports of five projects (108-450, 108-452, 108-453, 108-458 and 108-459) were still pending at the end of the year and it was expected that they would end in 2008.

The CARDS 2003 Programme also allocated funds to support nine projects (budget €1 million) to increase independence and development of media sector. Five (073-340, 123-315, 123-317, 123-321, 123-323, 123-734) finished during the year having cooperated in TV Media co-productions by creating new partnerships, exchanging best practices and enhancing understanding about issues considering of great importance in the region, as well as raising awareness on the function of the ICJ, ICC and ICTY. In June 2007, all contractors were invited to attend the Rhodes Film Festival to present documentaries, share experiences and do some networking.

In December, the call for proposals was launched for the project "*Consolidating Partnership between Civil Society Organisations and Public Authorities for Raising Minority Rights in the Region*" (CARDS 2006: €2 million).

Phare business support programme (BSP)

One programme was being implemented in 2007: the third *Phare Business Support Programme* (BSP-3: budget €10 million). It addresses the needs of Business Representative Organisations (BROs) in Bulgaria, Romania, Croatia and Turkey by strengthening their corporate function and by providing training in the relevant *acquis communautaire* and to implement remedial measures where necessary. Following two calls for proposals, 18 projects were selected for funding. All projects had started their activities by the end of the year and were expected to continue until mid-2009.

22.2. Economic Criteria: IFI Cooperation and Competitiveness

SME finance facility (SMEFF)

The object of the SMEFF is to persuade financial intermediaries, i.e. banks and leasing companies in beneficiary countries, to expand and sustain their financing operations to SMEs.

⁷ Civil society development: 100-744, 100-760, 100-770, 100-777, 100-820, 100-834, 100-847, 100-873, 100-923, 100-926, 100-927, 100-987, 100-944; Network to network: 108-450, 108-452, 108-453, 108-458, 108-459.

SMEFF is implemented by the EBRD, EIB and the Council of Europe Development Bank (CEB) in cooperation with KfW. The latest SME programme, amounting to €53 million, was launched in 2006 and covers Romania and Bulgaria for the last time. At the end of December 2007, projects were still being selected for the 2005 and 2006 programmes and the total amount of EU incentives earmarked for projects was €300 million.

The approval of new projects and amendments to existing projects continued apace. Eight projects were processed: five under the SMEFF and three under the Equity Window of SMEFF. The first project in Turkey was submitted by KfW under SMEFF.

The Equity Window: the programme launched in 1999 has not been successful and equity investments have been below expectations. Following discussions with the EBRD, some amendments were made to the programme. The limit to the size of investment was removed (previously capped at €1 million), the investment period was extended by one year for the Bulgarian and Romanian Fund and the termination date was also extended by one year for the Baltic Fund. There was still an issue about the management fees and DG ECFIN was analysing the file.

Investment promotion /business climate

Two projects were being implemented from CARDS 2005, having been launched in March and April respectively:

- *“Defining and Strengthening Sector Specific Sources of Competitiveness in the Western Balkans region”* (contract 131-329: budget €1 million); co-financing with OECD and implemented by the OECD Investment Compact with the objective of developing and implementing a regional sector-focused investment strategy. During 2007 the OECD Investment started with the analytical work and country missions necessary to develop the regional sector-focused investment strategy. The initial work showed that the sectors with most growth potential for the region were automotive components, textiles, business process outsourcing and information, and communication technologies. The first phase of the project will end in June 2008, when a regional sector focused investment strategy will be presented to the region with recommendations for policy reforms in those sectors.
- *“Invest in the Western Balkans Programme”* (contract 133-455): budget €1 million; co-financed by bilateral donors and implemented by FIAS/IFC⁸ (World Bank Group) with the objective of promoting the region among foreign direct investors mainly the through promotion and marketing events and through capacity building of the region's investment promotion agencies. Although the initial contract had been signed in March with MIGA⁹, due to an internal reorganisation within the World Bank Group, the project team entrusted with the implementation of this project was transferred to the responsibility of FIAS under the responsibility of the IFC.

During 2007 FIAS/IFC activities focused on marketing and investment facilitation programmes in the following sectors: automotive components, food and beverages sectors, Information and Communication Technologies, Business Services and Textiles.

In 2007, six investments worth €12.7 million and 14 site visits were generated. Regional outreach events were implemented in various EU Member States. On-the-job training for 14 staff from Investment Promotion Agencies in the Western Balkans at outreach events took place and Investment Promotion Agency staff were trained locally.

⁸ FIAS: Multi-Donor Investment Climate Advisory Service; IFC: International Finance Corporation
⁹ Multilateral Investment Guarantee Agency

Preparatory work commenced to design an on-line tool to allow foreign investors to compare 18 locations within and selected locations outside the region. Some country-specific activities were implemented such as an auto components marketing campaign in Germany together with "Invest in Macedonia", an initiative on tourism infrastructure in conjunction with Albinvest, Invest Macedonia, the Montenegro Investment Agency (MIPA) and FIPA (Bosnia and Herzegovina) and an initiative on industrial zones with Albinvest, Invest Macedonia and MIPA.

It is expected that both projects will end in 2009. The next step will be to involve the Regional Cooperation Council and encourage it to take a leading role in developing a regional initiative. The cost of this new initiative is estimated at €3.8 million covering three years of implementation.

Energy efficiency finance facility (EEFF)

The EEFF was launched in 2006 in response to the Energy Efficiency Green Paper and the Directive on Energy Performance of buildings. It aims at stimulating energy efficiency investments in all types of building and in the industry sector by making appropriate financing available to end-borrowers. The overall results of the programme will be savings in energy and a significant reduction of CO₂ emissions. The implementation of the programme started in April 2007 and the first projects were approved in December 2007 for a total amount of incentives of €13.65 million.

At the last Steering Committee of the IFI Facilities, it was decided to introduce a more flexible approach to make the EEFF programme easier to implement in the beneficiary countries where awareness of energy efficiency was still weak and technical expertise was still necessary to implement the programme not always locally available.

Municipal finance facility (MFF)

The MFF, operated in cooperation with the EBRD, CEB/KfW and the EIB, aims at deepening and strengthening the municipal credit markets in beneficiary countries. A new MFF programme amounting to €17.8 million that had been launched in 2006 was being implemented with two sponsors only, and covered Romania and Bulgaria for the last time. At the end of December 2007, the total amount of EU incentives committed into projects was €60 million.

Municipal infrastructure facility (MIF)

The MIF was developed in 2002 in response to the Nice European Council. An analysis had revealed that the lack of adequate transport and environmental infrastructure in the beneficiary countries' border regions with the EU was a persisting problem to regional development. At the end of 2007, the Phare allocations from the 2002 and 2003 budgets (€39.9 million) had been fully earmarked for 24 municipal projects.

Infrastructure Projects Facility (IPF)

The IPF was announced to all potential candidate countries/territories and all beneficiaries were informed at regional meetings. A first identification of projects to be supported by IPF (transport, energy, environment and social infrastructure) indicated very good potential of the instrument also in complementarity with IPA national programmes. The sum of €16 million was allocated to the IPF under the CARDS 2005 and 2006 programmes and a restricted service tender was launched in September. The evaluation was due to take place in early 2008 for the contractor to be in place by May when the first projects to be supported were expected.

The programming of additional resources under the IPA 2008 Multi-beneficiary programme was well advanced (q.v. IPA report).

Education and youth

Two programmes under CARDS 2006 were being prepared:

- Erasmus Mundus,
- Tempus

The Call for Proposals for *Erasmus Mundus* was launched in December with a short deadline of February 2008 for both the "External Cooperation Window" and the "Western Balkan Window". An "Erasmus Mundus Day" was organised in most countries/territories covered by the programme in order to make familiar the universities as well as the students with the components of the programme and the procedures to follow. The Evaluation Committees of the "Western Balkan Window" and "External Cooperation Window" would take place during the first quarter of 2008.

The Call for Proposals for *Tempus IV* was due to be launched in January 2008 with a deadline for applications for April. A meeting would take place in early 2008 with all the Tempus Joint European Projects representatives to inform them about the new components of Tempus IV and about the new procedures to be respected. "Tempus Days" would also be organised.

22.3. European Standards

Quality infrastructure

One project was under implementation in 2007, financed under CARDS 2006: "*Quality Infrastructure in the Western Balkans*" (contract 138-543: budget €1 million). In addition EFTA contributed €50,000. The contract with the Comité Européen de Normalisation (CEN) was signed in April 2007 for eighteen months. The project was progressing according to schedule.

The purpose of the contract is to improve the capabilities of quality infrastructure bodies to offer industry services to provide the tools to trade in the EU and EFTA market, as well as in the markets of the Beneficiaries. The main activities under this project are:

- Assessment reports about the state of technical regulations, standardisation, accreditation, testing-certification-inspection, metrology and market surveillance.
- A further series of intensive hands- on training events will be run in quality infrastructure field.
- Regional proficiency testing exercises (inter- laboratory comparisons) will be run.

Three steering committees took place in 2007 and the final Steering Committee will be held in July 2008.

Transport

In 2007, the following projects were being prepared and/or implemented under CARDS:

- "*Support to the SEETO Secretariat*" (contract 086-526: €1.79 million, CARDS 2003) which ended in June, to be followed by its sequel in 2008 (€1 million under CARDS 2006) which would be a contract for 16 months continuing support to the development of the South East Europe Transport Core Network through a renewed technical assistance contract to be signed in mid- 2008 for a period of 16 months with a focus on road safety and railways.

- “*Technical Assistance to the implementation of the ECAA Agreement*” (budget €1 million, CARDS 2006): preparation of the project to give assistance to the Western Balkans Civil Aviation administration to support the implementation of the European Common Civil Aviation Area Agreement in each beneficiary country/territory starting in May 2008. The previous project (contract 072-517 with Eurocontrol under CARDS 2002) only partially filled expectations thus leaving the new project to undertake some further areas of intervention.

Energy

The project undertaken in 2007 was "*Contribution to the budget of the Energy Community*": budget €2.5 million, of which CARDS 2006 (€1.2 million: contract 148-620) and IPA 2008 (€1.3 million: contract 154-260). The EC contributes 98.1% of the budget of the Energy Community.

"*EC Contribution to the budget of the Energy Community for the second half of 2007*" (budget €1.22 million). This project is being financed from CARDS 2006 (contract 141-814)

Project ended/concluded in 2007:

"*Support to the establishment of the Energy Community Secretariat*" (budget €3.5 million: grant contract 100-231). This project was financed from CARDS. The implementation period of the project ended in June.

Activities in 2007:

- All Contracting Parties drafted a national plan to implement **Directive 2001/77/EC** on the promotion of electricity produced from renewable energy sources in the internal electricity market and a plan to implement **Directive 2003/30/EC** on the promotion of the use of biofuels or other renewable fuels for transport, as requested by Article 20 of the Treaty. The plans were endorsed by the Ministerial Council on 29 June 2007 in Montenegro.
- Preparation of national "Statements on monitoring of security of supply", by each Contracting Party (except by the former Yugoslav Republic of Macedonia – still missing) and Romania as former Contracting Party by 30 June 2007. The statements were presented at the PHLG meeting on 28 June 2007.
- According to Article 21 of the Treaty, the iECS drew up a list of Generally Applicable Standards in the European Community for electricity and respectively gas, on the basis of information provided on the relevant web pages. This list was endorsed by the Ministerial Council in its meeting of 29 June 2007.
- The iECS prepared two further reports in the course of the Grant Contract: the *Report on Regional Gas Market Design* (unsolicited) and the *Final Report on Compliance with Electricity Benchmarks* that reflect also the progress of the Energy Community with the development of the national and respectively regional energy markets.
- For the occasion of the 5th PHLG meeting and the 2nd Ministerial Council meeting on 28-29 June 2007, the iECS drafted the *Report on the Implementation of the Treaty Establishing the Energy Community* which serves as an extended explanation of the findings provided in the much shorter (5 pages) *Annual Report on the Activities of the Energy Community to the European Parliament and the National Parliaments*. The Ministers authorised the Secretariat to submit it as the 1st Annual Report in accordance with Article 52 of the Treaty (see Ministerial Council conclusion no. 6 of 29 June 2007).
- An important step to improve integration of South East Europe countries into the Internal Energy Market was registered when the TSOs of 27 European countries reached a voluntary agreement on Inter-TSO Compensation for Transit (ITC) for April - December 2007, in June. The new agreement was signed by all signatories of the previous agreement, except the TSO companies of the Czech Republic and Slovakia; a number of new states (Albania, Bosnia and Herzegovina, Croatia, Estonia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia) have decided to join the mechanism this year.
- Some progress was also registered with the general design of the SEE Regional Balancing Mechanism for which the ECRB/SETSO SG BM prepared with the support of SEETEC,

Forum a Common Position Paper, which was presented at the 10th Athens Forum for discussion.

- TERNA Italy and APG Verbund Austria prepared and presented at the 10th Athens Forum the Business Plan for the set up of the “SEE Auction Office Ltd.” The further development of the Dry-run Coordinated Auction Tool (DrCAT) will be supported by the iECS, which will finance the second stage, through a contract to be concluded between Energy Community and APG Verbund early July 2007.

Regular meetings as follows:

- The 5th PHLG meeting and the 2nd Ministerial Council Meeting, on 28 June 2007 and respectively 29 June 2007 in Becici, Montenegro. The 3rd ECRB meeting will be held on 5 July 2007 in Athens.
- The Seminar *Electricity Investments in the Energy Community: Challenges and Opportunities*, and the 10th Athens Forum were organised in April 2007, on 23 and respectively 24 -25, in Athens
- The 2nd Gas Mini-Forum was held in Vienna on 11 May 2007.
- The *Memorandum of Understanding (MoU) for the development of a social pillar of the Energy Community* was a topic for discussion in the 5th PHLG meeting where two Contracting Parties have announced that are ready to sign it: the former Yugoslav Republic of Macedonia and Serbia. At the Ministerial Council meeting, the decision was to open the MoU for signature from October 2007 possibly during a Conference on the Social Aspects of the Energy Community (*see also Ministerial Council Conclusion No. 10 of 29 June 2007*).

In the 2nd Quarter 2007, the transition process of the Energy Community Secretariat from the initial phase of an interim body, to the international organisation registered significant progress on 29 May 2007 with the signing of the Headquarter Agreement between the Republic of Austria and the Energy Community. The final step is the ratification of the aforementioned Headquarter Agreement, which is pending as of the report date.

Customs and Taxation

The programming and implementation of the support to Customs and Taxation is gradually being taken over by the Geographical Units and Delegations and it is expected that the involvement of Elarg/D3 will substantially diminish during 2008 and disappear altogether in 2009. Nevertheless, there was much activity on the regional level in 2007.

The first contract¹⁰ with Eurocustoms (CAFAO-1) for the management of the *Customs and Fiscal Assistance Office (CAFAO)* programme in the Western Balkans came to an end on 30th June. A second contract (CAFAO-2), also with Eurocustoms, lasting for eight months from 1st July, was financed partially from national CARDS 2006 funds¹¹ and partially from national IPA 2007 funds¹².

CAFAO-2 continued from CAFAO-1 to provide technical assistance to the Customs and Tax Administrations in Albania, BiH, fYRoM, Montenegro, Serbia and Kosovo. Substantial progress was made in the objectives and activities by continuing institutional strengthening

¹⁰ contracts 116-590 et seq.

¹¹ contracts 141-688, 141-696, 141-698

¹² contract 141-748

and the capacity building of beneficiary administrations and aligning their legislation to the EU *acquis*.

Operationally speaking, CAFAO-2 ended on 31st December. The contract was to continue for a further two months into 2008 so as to ensure a smooth transfer of activities to the new TACTA project to be financed wholly from national IPA 2007 budgets (q.v. IPA report). Transfer agreements of equipment were drawn up by the Commission for signature by the eventual recipients of the equipment, much of which would be put at the disposal of the TACTA project.

During the reporting period, several *equipment supply tenders* were managed by DG ELARG in parallel with CAFAO. They were launched centrally in Brussels on behalf of the respective beneficiary administration to procure specialised equipment (IT, communication and search equipment, laboratory equipment etc):

- EuropeAid/120836 'Supply of equipment for the Customs Administrations of Serbia and Montenegro' which was launched at the end of 2006:
 - Serbia: contracts 124-819, 124-821, 124-822, 124-825 totalling €726,835;
 - Montenegro: contracts 124-811, 124-815, 124-816, 124-817 totalling €233,404.
- EuropeAid/122812 '*Supply of IT equipment for the Customs Administration of the former Yugoslav Republic of Macedonia*' was launched and contracts signed (contracts 142-777 and 142-812 totalling €269,905).
- EuropeAid/126035 'Supply of Laboratory, IT/Communication & Search Equipment and Vehicles for the Customs Administration of the former Yugoslav Republic of Macedonia' was launched at the end of the year, with a budget of about €900,000 and contracts were due to be signed in early 2008.

An additional Customs and Taxation project was under preparation at the end of the year, to be known as "*SEMS*"¹³ (contract 154-684: budget €471,000) which would be financed from the balance of the CARDS 2005 Serbia & Montenegro State Union Action Programme. SEMS had formed an integral part of CAFAO but could not be included in TACTA because at the time when the tender for TACTA was launched in late 2007, DG TAXUD had not yet decided whether SEMS should continue to be developed. Consequently no IPA budget was set aside to cover SEMS. Later, DG TAXUD requested that SEMS be maintained at its current level for a further twelve months pending a definitive decision regarding its (SEMS') future. Since no IPA budget existed to continue SEMS, recourse was made to remaining CARDS funds. It was arranged that the contract would be a direct agreement with Agenzia delle Dogane, the contractor of TACTA and complementary to that project.

Statistics

One project was under implementation at the end of 2007: "*Statistical Co-operation in the Western Balkans*" (contract 122-506) financed from CARDS 2003. The contract continued throughout the year and was due to end in March 2008. The main activities of this project are:

- Regional pilot projects in the area of labour market statistics, migration statistics, external trade statistics, purchasing power parities statistics
- Training activities in the countries, internships in Eurostat and EU-countries

¹³ South-east Europe Monitoring System

- Participation in working groups
- Harmonised data collection

A final steering committee meeting was to be held in March 2008.

Environment

The following CARDS projects were being implemented in 2007:

- “*Pilot River Basin Plan for Sava River - Croatia, BiH, Serbia and Montenegro*” (contract 076-751: €2.14 million): CARDS 2003. The scope of the project was to provide technical assistance aimed at supporting the governments of BiH, Croatia and Serbia and Montenegro in implementing the Water Framework Directive in these countries in general and in the Sava river basin in particular, with pilot projects in Vrbas River sub-basin (BiH), Dobra River sub-basin (Croatia) and Kolubara River sub-basin (Serbia and Montenegro).
- “Support to the implementation of the Regional Environmental Reconstruction Programme” (REReP) (contract 125-235: €1 million): CARDS 2005;
 - A joint management Contribution Agreement with the Regional Environmental Centre (REC) was entered into during the first Quarter of 2007 and the new REReP leaflet was prepared and published at the beginning of October. The 10th Task Force meeting took place with the EC in Brussels in November. The final topics of regional workshop and study visits were agreed upon and confirmed by the beneficiary institutions at the 7th ELAN meeting in November in Skopje. The searchable web-based Matrix was upgraded with the aim to become more user-friendly and is available on the project website. The list of EC directives subject to progress monitoring was updated to reflect legislative changes in the EU since the last progress monitoring.
 - The first Regional **Priority Environmental Investment Programme** (PEIP) meeting took place on 26 November in Brussels. The meeting focused on the following topics :
 - EC approach towards financing infrastructure projects – new initiatives and project preparation facilities;
 - EC Project Preparation Facilities (including DABLAS) and their implications for candidate and potential candidate countries;
 - Progress on financing priority investment projects in Croatia, FYRoM and Turkey;
 - Benefits of compliance with the *acquis* in potential candidate countries;
 - The Work Plan for 2008 was discussed and presented at the REReP Task Force meeting on 27 November 2007.
- “Support to the 'Environmental Compliance and Enforcement Network for Accession’” (ECENA) (contract 131-659): CARDS 2005.
 - ECENA is a network of environmental inspectors and experts of the Western Balkans and Turkey to exchange 'best practice' in the field of following up compliance with the transposed *acquis communautaire* in the field of environment. In addition to establishing a network among specialists the project arranges training of specialists on selected segments of the *acquis*, in particular on new additions to the environmental *acquis*. A joint management Contribution Agreement with REC was entered into during the first Quarter of 2007.

- *"Danube regional investment support facility"* (DISF) (contract 071-310: €3.64 million): CARDS 2002 (This project ended in June 2007).
- *"Environmental project preparation facility"* (EPPF) (contract 123-894: €1.79 million): CARDS 2003

Two Phare programmes were sub-delegated to DG Environment:

1/ Phare 2005:

- "Developing the capacity of environmental authorities, through transfer of best practice and training to support effective use of financial resources": the Final report was submitted and approved but the contractor had encountered difficulties in collection of data from some countries;
- *"Capacity building in implementation of the environmental acquis at the local and regional level"*, the project was extended until July 2008.

2/ Phare 2006:

- *"Support for Investment preparation under the Danube-Black Sea (DABLAS) Task Force"*. The project is progressing well and according to schedule. Pilot projects re being prepared in the beneficiary countries and methodological guidance on project preparation is being supplied.
- "Supporting the enforcement of environmental legislation in Acceding and Candidate countries through IMPEL and ECENA networks".
- "Monitoring transposition and implementation of the EU environmental acquis".
- *"Developing the capacity of environmental NGOs, through transfer of best practices from NGOs in the EU25"*. Twelve grant agreements were signed in 2007, but there were some minor changes to be made in grant activities.
- "NGO Forum".
- *"Service contract for twinning grants for NGOs"*. A service contract was signed in 2007, which was giving support to the implementation of twelve grant agreements.

Nuclear safety and radiation protection

There were two programmes under implementation at the end of 2007:

- CARDS 2005 Nuclear Safety programme (2005/017-532),
- Phare 2006 Nuclear Safety Programme (2006/018-412),

The service contract 123-776 concerning *"Management of medical radioactive waste in Bulgaria, Croatia and Romania"* was completed and the final draft final report approved. The last payment was initially suspended due to the lack of audit certificate, but situation has since been settled.

A centralised project entitled: *"Technical back-up to PHARE/IPA nuclear activities"* (contract 143-474, budget €279,000) is being implemented. The project has been contracted in 2007 through an administrative agreement with the Petten establishment of the Joint Research Centre (Institute of Energy). The project consists of providing technical support to DG ELARG in the implementation of the Phare and IPA nuclear projects.

22.4. Monitoring and Interim Evaluation

The sectoral interim evaluations of Phare programmes as well as of pre-accession financial instrument for Turkey are essentially programme management tools which provide programme managers with a regular performance assessment of the activities in all sectors. Recommendations are systematically put forward in the reports for improving management and delivery of evaluated programmes/projects and discussed at debriefing and Joint Monitoring Committee (JMC) meetings for follow-up actions. The monitoring and interim evaluation system in the new Member States also provides for the feedback of monitoring and evaluation results to decision-making through the Implementation Status Reports that are discussed for corrective actions at the JMC meetings. Moreover, thematic, country and consolidated interim evaluations provide recommendations on the design of future programmes.

The Interim Evaluation Scheme for Turkey generated one comprehensive country evaluation report for Turkey (TPAER) as well as two sector Interim Evaluation reports.

The key messages derived from the country summary evaluation of Turkey were the following:

- The overall assessment of EU support to Turkey is that, while much has been achieved, a relatively small additional investment in human resources in key DIS institutions would have facilitated better use of EU funds, and a significantly higher level of tangible impact. Given that DIS capacity did not develop as envisaged, EU assistance was too ambitious.
- The shortcomings in DIS capacity resulted in poor design of assistance due to absence of relevant sectoral strategies, and detailed, systematic needs analysis. Moreover, the lack of programming readiness was affected by insufficient progress in key legislation such as the Public Administration Framework Law.
- With the notable exceptions of Justice and Home Affairs and Social Development, assistance was not efficiently implemented. Poor coordination between key institutions, persistent understaffing in the CFCU and the EUSG, tender and contractual documents of low quality, as well as rushed, last minute contracting of much assistance seriously constrained the benefits of EU assistance.
- Efficiency has also been undermined by lack of effective monitoring which fails to provide useful information, and in many cases, remains practically non-existent. A noteworthy development in this respect is the preparation of a Common Monitoring Manual for grant schemes.
- As a result of this inefficient implementation, overall effectiveness has been limited. Only three out of eighteen sector evaluations were rated as fully satisfactory, notably Justice and Home Affairs, Economic and Social Cohesion, and Social Development.
- Overall sustainability is at risk due to high levels of turnover of staff, and slow progress in public administration reform. But prospects for sustainability improved somewhat as a result of good levels of commitment, well-planned dissemination of activities, and recognition of the need for sustainability at the design stage.

No Interim Evaluation reports were issued for Croatia during 2007.

22.5. Ex-post evaluation

The findings of the ex-post evaluation Consolidated Report identified as a key risk factor several weaknesses in formulating the strategies and objectives for the pre-accession assistance. Specifically the findings of this report pointed to the need to rebalance pre-accession support through increased attention and broader support to the political criteria including good governance, PAR, civil society and fight against corruption. Since these key messages were echoed in the 2007 Enlargement Strategy Paper, the key messages on the political criteria in these two reports were mutually reinforced. Additionally, the evaluation report's proposal for a broader approach to public sector reform was very much welcomed by beneficiaries, World Bank, OECD, Council of Europe and Transparency International.

22.6. Other activities of the monitoring and evaluation function

The monitoring and interim evaluation system involves successive decentralisation of the responsibilities for monitoring and interim evaluation to the Candidate Countries. In conjunction with DIS accreditation, the responsibility for monitoring is decentralised to the Candidate Country (but the Commission remains ultimately responsible for monitoring), whereas the interim evaluation (IE) function remains centralised until the Candidate Country has developed satisfactory monitoring and evaluation capacities.

All the new Member States had their decentralised monitoring and Interim Evaluation functions set up since 2005. Croatia and Turkey have decentralised monitoring function, and once evaluation capacity is sufficiently built and following conferral of management under IPA, it is expected that decentralisation of Interim Evaluation will follow for these countries. As regards FYROM, DIS is expected to be introduced by end 2008/ spring 2009.

During 2007, the Commission started to prepare the taking over of the evaluation function from the EAR.

PART III: FINANCIAL DATA

23. PHARE, TURKEY PRE-ACCESSION AND TRANSITION FACILITY FUNDS BY YEAR 1990 – 2007

Financial Overview and Performance

The following chart shows the breakdown year by year of the funds committed in the period 1990-2007 (€ million):

Year	Funds Committed
1990	475.3
1991	769.7
1992	979.6
1993	966.1
1994	946.1
1995	1,114.0
1996	1,207.8
1997	1,135.1
1998	1,153.9
1999	1,481.7
2000	1,651.5
2001	1,635.4
2002	1,695.1
2003	1,698.1
2004	1,240.5
2005	1,353.9
2006	1,772.2
2007	78.2

In 2007, total Phare and Transition Facility commitments amounted to € 78.2 million, comprising:

Transition Facility Programmes: € 78 million euros, of which

Bulgaria	31.5 million
Romania	46.5 million

Horizontal programmes and others: € 0.2 million

24. PHARE, TURKEY PRE-ACCESSION AND TRANSITION FACILITY FUNDS BY COUNTRY 1990–2007

Total Phare, Turkey and Transition Facility commitments, contracts and payments, in € million

Partner Country	Commitments	Contracts	Payments
Bulgaria	2,359.6	1,786.3	1,522.9
Czech republic	917.2	836.4	824.2
Croatia	144.6	61.4	9.6
Cyprus(*)	338.0	101.8	71.7
Czechoslovakia	230.5	231.8	228.9
East Germany	34.5	28.9	28.9
Estonia	346.8	311.3	307.8
Hungary	1,480.1	1,376.8	1,356.5
Latvia	423.6	381.2	376.8
Lithuania	810.3	760.9	743.7
Malta	57.1	46.4	41.6
Multi-country programmes	3,357.0	2,829.4	2,178.2
Poland	3,996.0	3,657.5	3,607.4
Romania	3,670.0	2,942.8	2,344.4
Slovakia	717.6	661.8	656.0
Slovenia	360.3	326.7	321.5
Turkey	1,861.9	1,219.6	922.7
Total	21,105.3	17,561.0	15,542.7

25. CARDS FUNDS BY YEAR 2000 – 2007

Financial Overview and Performance

The following chart shows the breakdown year by year of the funds committed in the period 2000-2007 (€ million):

Year	Funds Committed
2000	836.2
2001	686.5
2002	620.4
2003	531.0
2004	549.3
2005 ¹⁴	500.5
2006	513.1
2007	0.0

26. CARDS FUNDS BY COUNTRY 2000 – 2007

Total CARDS commitments, contracts and payments, in € million

Partner Country	Commitments	Contracts	Payments
Albania	292.3	245.2	183.4
Bosnia & Herzegovina	481.8	460.2	411.6
Croatia	196.1	180.0	172.4
Former Yugoslav Republic of Macedonia	299.2	287.6	264.1
Kosovo	1030.3	1025.3	977.8
Montenegro	90.4	126.8	122.1
Serbia ¹⁵	1390.6	1353.8	1192.2

¹⁴ Figures include re-use of recoveries from previous years (and therefore may be above the original budgetary allocations)

Regional Programme ¹⁶	456.5	421.4	375.4
Total	4237.1	4100.2	3699.1

¹⁵ Includes Montenegro in 2000-2001; includes funds for the Serbia and Montenegro State Union (2005).

¹⁶ Includes interim civilian administrations