



**MEMORANDUM OF UNDERSTANDING**  
**BETWEEN**  
**THE EUROPEAN COMMISSION,**  
**THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT AND**  
**THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**  
**ON COOPERATION FOR**  
**PRE-ACCESSION PREPARATION OF CENTRAL AND EAST EUROPEAN COUNTRIES**

**1. PRINCIPLES**

The present Memorandum of Understanding has been established in the context of the initiatives undertaken by the European Commission ("EC") in liaison with the European Investment Bank ("EIB"), the European Bank for Reconstruction and Development ("EBRD") and the International Bank for Reconstruction and Development ("World Bank") aiming at identifying ways of giving practical effect to the desire of all these institutions to enhance the effectiveness of their co-operation in supporting the transition process in the countries of Central and Eastern Europe seeking accession to the European Union ("candidate countries"), and the efforts of the candidate countries to harmonise their standards with those of the EU.

Following the adoption by the European Commission of its Opinions on the membership applications of the candidate countries, the approval by the European Council of the measures necessary to reinforce the pre-accession strategy and the re-orientation of the EC-PHARE programme, the EC, the EBRD and the World Bank have agreed on the following, while noting that the EIB, the EU long-term financing institution, will continue to work closely with the EC in serving the EU policy objectives, and therefore will also collaborate, whenever appropriate, with the EBRD and the World Bank in the spirit of this Memorandum of Understanding:

- (i) In view of the consistency of many pre-accession policy requirements and priorities set out in the Accession Partnerships with the purpose and functions of the EBRD and the World Bank and of the shared desire to foster the reform process in the candidate countries, the EC, the EBRD and the World Bank intend to coordinate their respective financial assistance instruments to provide for harmonised action and facilitate strengthened cooperation. The EC, the EBRD and the World Bank will seek to implement programmes for the cofinancing of suitable projects in the candidate countries, meeting the operational requirements of the EC, the EBRD and the World Bank, and fostering the adoption of the Community "acquis". Ways of ensuring coherence between this concerted approach and the candidate countries' own national investment programmes and budgetary priorities in the context of sound macro-economic policy frameworks will also be sought on a systematic basis.

- (ii) The EC, the EBRD and the World Bank will seek to identify co-financing opportunities with the EC of suitable projects in the candidate countries, taking into account accession priorities, comparative advantages and complementarities with the EC, other International Financial Institutions and the private sector. A mutually supportive approach will be sought.
- (iii) Community assistance initiatives and more particularly grants under the EC-PHARE programme will play an important catalytic role and, where possible, will be combined with financing from the International Financial Institutions (IFIs) and the private sector with a view to increasing and better targeting financial support for the pre-accession requirements relevant to the candidate countries. In particular, this concerns:
- the development of the financial and enterprise sector (including SME's) and its adjustment to requirements of the 'Community acquis';
  - environmental protection measures (including where appropriate nuclear safety);
  - major infrastructure development;
  - social, rural and regional development;
  - assistance to strengthen institutions and regulatory framework that support the countries' adoption of the 'Community acquis';
  - upstream support (e.g. non-project but strategically important analytical studies and project preparation) to the national authorities of the candidate countries.

In the context of the implementation of the Accession Partnerships, the European Commission will involve the IFIs concerned in its financial programming discussions with the authorities of these countries.

- (iv) Coordinated approaches on cofinancing and project administration will be set out with a view to enhancing co-operation between the EC and the EBRD and between the EC and the World Bank. To the extent possible, consistent implementation rules and timetables will be applied for projects to be co-financed by the EC, the EBRD and/or the World Bank, for both parallel and joint co-financing.

## **2. IMPLEMENTATION**

### **2.1 *Additionality, complementarity of financing and overall ceilings***

Efficiency and appropriate use of the resources of the EC and the IFIs require that the various financing instruments be combined in such a way as to ensure:

- Adequate complementarity with financing from national sources (both public and private) in the beneficiary country concerned;
- A mix of grants and loans that take due account of the financial sustainability and profitability of the projects concerned, so as to achieve the most judicious and economical use of scarce resources as set out in the new Phare Guidelines; as a rule, the use of EU grants should be limited to cases where there are clear externalities or market imperfections.

- Compatibility with the rules and financing limits (as a proportion of the total project cost) applying to financings by the EC and the IFIs.

As a rule, the following principles will apply to co-financings between the EC and the IFIs:

- The use of financings by the EC and the IFIs should not displace other financiers, in particular private, market-based financing provided on reasonable terms and conditions;
- In public sector projects, financial contributions by the EC and the IFIs should be complemented by contributions from the beneficiary counterpart, taking into account the macro-economic environment in which the funding is to take place; in all cases, combined Community and IFIs financing would not exceed 90% of any single investment's total project cost;
- In private sector projects, the contribution and financial exposure of project sponsors should be sufficiently large so as to ensure their sustained interest in the success of their projects;
- In the case of infrastructure projects, the grant/loan mix will be based on the principle of maximizing economic benefits and cost-effectiveness; in principle, grant financing would therefore concentrate mainly on investment projects with high net economic benefits yielding limited revenue. EU grants to be awarded for large-scale infrastructure projects must not exceed the financial contributions of all the IFI's and, in any case, 25% of the total project cost;
- In the case of co-financing of industrial investments, the optimum combination of grants and loans will be tailored to the specific needs of the beneficiary enterprises (notably the SME's) giving special attention to the implementation of technical, environmental and other industrial standards and norms consistent with the Community "acquis".
- The specific arrangements on these matters will be appraised on a case by case basis by the European Commission, the relevant IFI and the National Aid Coordinators of the candidate countries .

## 2.2 *Eligibility and selection criteria, and sectoral policy performance benchmarks*

Projects will be eligible for EC/EBRD and EC/World Bank co-financing if they move towards full compliance with the relevant EU sector policies and priorities set out in the Accession Partnerships (e.g. energy, transport, environment, etc.) and the principles and policies of the EBRD/World Bank. Where appropriate, minimum policy performance benchmarks will be considered by the European Commission and the IFIs concerned for a specific sector in a candidate country. When determining the eligibility of projects for EC/EBRD and EC/World Bank co-financing, particular attention will be paid:

- to the existence of specific programmes for aligning the legal and regulatory framework in the different sectors (notably the environmental standards) to those

- of the EU; if necessary, and in addition to the Community programmes, the EBRD and/or the World Bank may assist the candidate country in establishing such programmes;
- to the financial and economic viability of the projects (including, but not limited to, projects in the energy and municipal sectors) through transparent cost recovery pricing policies that will take into account social conditions;
- to the ability of the national authorities to ensure a sustainable development of the different sectors and projects (i.e. liberalization and introduction of competition, etc.);
- to the degree of readiness of a project and the prospects for expediting its implementation;
- to the transition impact of the project and its contribution to the pre-accession strategy of the candidate country concerned.

### 2.3 *Co-financing arrangements*

The modalities for project co-financing will be examined on a case by case basis, in view of the characteristics of each particular investment project.

Parallel co-financing will be used on projects where the components to be financed respectively by the EC and the EBRD or the World Bank are clearly separate. In these cases, to the extent possible, co-ordinated implementation rules and timetables will be agreed so as to ensure maximum consistency and efficiency.

Whenever significant administrative efficiencies are to be gained, in particular in the case of parallel co-financing, the EC would delegate to the EBRD, and where possible to the World Bank, administration and/or supervision responsibility for EC's financial contribution. In such cases, the EC will provide agreed financial compensation for the additional administrative burden and responsibility assumed by the EBRD or the World Bank. A blue print has been prepared for such delegated administration arrangements with the EBRD and will be used wherever possible.

In cases where the EC is clearly the minority co-financing partner and on emergency assistance, the possibility of joint co-financing will be explored, consistent with the relevant EC, EBRD and World Bank regulations and operational policies.

Where neither joint co-financing nor delegated administration is possible, the EC, the EBRD and the World Bank will, at a minimum, aim to use the same administrative unit within the same administration authority, to exchange technical reports and information, subject to any applicable confidentiality requirements, while using the relevant IFI procurement documentation, and to undertake joint monitoring and evaluation missions.

In the case of delegated administration or joint cofinancing, the EC Financial Control and the European Court of Auditors shall have access to EBRD's and World Bank's records relating to the use of EC grant funds while preserving the confidentiality of other information in respect of the IFIs affairs or its clients.

#### 2.4 *Coordination procedures*

In order to ensure consistency of EC, EIB and other IFI's interventions with national priorities and secure adequate complementary funding from national sources, appropriate co-ordination procedures with national and local authorities of the candidate countries will be established at all levels:

- (i) Regular contacts will be maintained at working level, in the countries of operations through EC delegations and the IFIs' local offices, with a view to monitoring implementation and ensuring timely availability of the funds;
- (ii) Before discussing priorities of Community's financial support for the candidate countries with the national authorities of these countries, the EC, on the basis of indicative allocations of Community budgetary support to the various eligible categories of projects (e.g. compliance with EU norms, infrastructures, structural actions, etc.) will liaise with the IFIs, so as to identify co-financing for both upstream and investment opportunities;
- (iii) As appropriate, the Commission will involve the IFI's in its discussions with the national authorities on the terms and conditions for the implementation of these co-financing opportunities, taking into account investment priorities identified by these authorities.

In order to improve collaboration and ensure maximum synergy between the interventions of the EC, the EIB and the other IFIs, bilateral meetings will be held, as and when appropriate, to discuss on matters of common interest, and will consider before the end of each year on the annual work programme for the following year (including objectives, investment priorities and identification of projects that could be co-financed).

Furthermore, representatives of the different institutions will meet jointly at least once a year, preferably during the first calendar quarter, to ensure cross fertilization and to establish a joint indicative list of projects that could be co-financed. A working group will prepare such meetings and could meet when required to address any additional issues of common concern.

### 3. LIST OF PROJECTS

A preliminary list of potential projects or facilities representing the current "project pipeline" priorities of the IFIs, which qualify for co-financing from the EC in 1998 and 1999 under the Phare Programme, has been agreed in principle. These projects will be further investigated by the EC and the relevant IFI with the National Aid Coordinators in the candidate countries. Given the iterative and dynamic nature of IFI project development with the applicant countries, this list will need to be updated. This list includes projects that involve the EIB.

**4. REVISION AND TERMINATION**

The present Memorandum of Understanding may be reviewed at the request of any party in the light of developments in the pre-accession process of the candidate countries and the evolution of the financial policies and instruments of the EC, of the EBRD and of the World Bank. Any amendment following any such revision will be done in writing.

Any party has the unconditional right to terminate this Memorandum of Understanding at any time by giving the other parties written notice to this effect.

Brussels,

For the European  
Commission

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For the European Bank for  
Reconstruction and  
Development

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For the International Bank for  
Reconstruction and  
Development

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