



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 15.12.2008
SEC(2008) 3026

COMMISSION STAFF WORKING DOCUMENT

TECHNICAL ANNEXES

**TO THE REPORT FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT AND THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE
2007 ANNUAL IPA REPORT**

{COM(2008) 850 final}

TABLE OF CONTENTS

COMMISSION STAFF WORKING DOCUMENT TECHNICAL ANNEXES	1
PART I: COUNTRY SECTION	9
1. ALBANIA	9
1.1. The year in review	9
1.1.1. Political developments	9
1.1.2. Macroeconomic developments and structural reforms	10
1.1.3. Progress in meeting the <i>acquis communautaire</i>	10
1.2. IPA in 2007	12
1.2.1. MIPD 2007-2009	12
1.2.2. Programming exercise	13
1.2.2.1. <i>Component I: Transition Assistance and Institution Building</i>	13
1.2.2.2. <i>Component II: Cross-Border Cooperation</i>	14
1.2.3. Implementation Modalities and Structures	14
1.2.4. Overview of IPA programmes implemented	15
1.2.5. Participation in Community Programmes and Agencies	15
1.3. Monitoring and Results	15
1.3.1. Monitoring	15
1.3.2. Evaluation results and Lessons Learned	15
1.3.3. Sectors with positive results - Success story box	15
2. BOSNIA and HERZEGOVINA	16
2.1. The year in review	16
2.1.1. Political developments	16
2.1.2. Macroeconomic developments and structural reforms	17
2.1.3. Progress in meeting the <i>acquis communautaire</i>	17
2.2. IPA in 2007	19
2.2.1. MIPD 2007-2009	19
2.2.2. Programming exercise	20
2.2.2.1. <i>Component I: Transition Assistance and Institution Building</i>	20

2.2.2.2.	<i>Component II: Cross-Border Cooperation</i>	20
2.2.3.	Implementation Modalities and Structures	21
2.2.4.	Overview of IPA programmes implemented	21
2.2.5.	Participation in Community Programmes and Agencies	21
2.3.	Monitoring and Results	21
2.3.1.	Monitoring	21
2.3.2.	Evaluation results and Lessons Learned	21
2.3.3.	Sectors with positive results - Success story box	22
3.	CROATIA	23
3.1.	The year in review	23
3.1.1.	Political developments	23
3.1.2.	Macroeconomic developments and structural reforms	23
3.1.3.	Progress in meeting the <i>acquis communautaire</i>	23
3.2.	IPA in 2007	24
3.2.1.	MIPD 2007-2009	24
3.2.2.	Programming exercise	25
3.2.2.1.	<i>Component I: Transition Assistance and Institution Building</i>	26
3.2.2.2.	<i>Component II: Cross-Border Cooperation</i>	26
3.2.2.3.	<i>Component III: Regional Development</i>	27
3.2.2.4.	<i>Component IV: Human Resources Development</i>	28
3.2.2.5.	<i>Component V: Rural Development</i>	28
3.2.3.	Implementation Modalities and Structures	28
3.2.4.	Overview of IPA programmes implemented	29
3.2.5.	Participation in Community Programmes and Agencies	29
3.3.	Monitoring and Results	29
3.3.1.	State of play for IPA Monitoring Committee and Sectoral Monitoring Committees	29
3.3.2.	Annual and final reports on implementation	30
3.3.3.	Evaluation results and Lessons learned	30
3.3.4.	Sectors with positive results- Success story	30
4.	FORMER YUGOSLAV REPUBLIC of MACEDONIA	32

4.1.	The year in review	32
4.1.1.	Political developments	32
4.1.2.	Macroeconomic developments and structural reforms	32
4.1.3.	Progress in meeting the acquis communautaire	32
4.2.	IPA in 2007	32
4.2.1.	MIPD 2007-2009	32
4.2.2.	Programming exercise	33
4.2.2.1.	<i>Component I: Transition Assistance and Institution Building</i>	33
4.2.2.2.	<i>Component II: Cross-Border Cooperation</i>	34
4.2.2.3.	<i>Components III and IV: Strategic Coherence Framework</i>	34
4.2.2.4.	<i>Component III: Regional Development</i>	34
4.2.2.5.	<i>Component IV: Human Resources Development</i>	35
4.2.2.6.	<i>Component V: Rural Development</i>	35
4.2.3.	Implementation Modalities and Structures	36
4.2.4.	Overview of IPA programmes implemented	36
4.2.4.1.	<i>Component I: Transition Assistance and Institution Building</i>	36
4.2.4.2.	<i>Component II: Cross-Border Cooperation</i>	36
4.2.4.3.	<i>Component III: Regional Development</i>	36
4.2.4.4.	<i>Component IV: Human Resources Development</i>	36
4.2.4.5.	<i>Component V: Rural Development</i>	37
4.2.5.	Participation in Community Programmes and Agencies	37
4.3.	Monitoring and Results	37
4.3.1.	State of play for IPA Monitoring Committee and Sectoral Monitoring Committees	37
4.3.2.	IPA Monitoring Committee	37
4.3.2.1.	<i>Component I</i>	37
4.3.2.2.	<i>Component II</i>	37
4.3.2.3.	<i>Component III</i>	38
4.3.2.4.	<i>Component IV</i>	38
4.3.2.5.	<i>Component V</i>	38
4.3.3.	Annual and final reports on implementation	38

4.3.4.	Evaluation results and Lessons learned	38
4.3.5.	Sectors with positive results – Success story	39
5.	KOSOVO (under UNSCR 1244/99)	40
5.1.	The year in review	40
5.1.1.	Political developments	40
5.1.2.	Macroeconomic developments and structural reforms	40
5.1.3.	Progress in meeting the <i>acquis communautaire</i>	40
5.2.	IPA in 2007.....	41
5.2.1.	MIPD 2007-2009	41
5.2.2.	Programming exercise	42
5.2.2.1.	<i>Component I: Transition Assistance and Institution Building</i>	42
5.2.2.2.	<i>Component II: Cross-Border Cooperation</i>	43
5.2.3.	Implementation Modalities and Structures	43
5.2.4.	Overview of IPA programmes implemented	43
5.2.4.1.	<i>Component I: Transition Assistance and Institution Building</i>	43
5.2.4.2.	<i>Component II: Cross-Border Cooperation</i>	43
5.2.5.	Participation in Community Programmes and Agencies	44
5.3.	Monitoring and Results	44
5.3.1.	Monitoring	44
5.3.2.	Evaluation results and Lessons Learned	44
5.3.3.	Sectors with positive results- Success story box	44
6.	MONTENEGRO	45
6.1.	The year in review	45
6.1.1.	Political developments	45
6.1.2.	Macroeconomic developments and structural reforms	45
6.1.3.	Progress in meeting the <i>acquis communautaire</i>	45
6.2.	IPA in 2007.....	46
6.2.1.	MIPD 2007-2009	46
6.2.2.	Programming exercise	47
6.2.2.1.	<i>Component I: Transition Assistance and Institution Building</i>	47
6.2.2.2.	<i>Component II: Cross-Border Cooperation</i>	48

6.2.3.	Implementation Modalities and Structures	48
6.2.4.	Overview of IPA programmes implemented	49
6.2.5.	Participation in Community Programmes and Agencies	49
6.3.	Monitoring and Results	49
6.3.1.	Monitoring	49
6.3.2.	Evaluation results and Lessons Learned	49
6.3.3.	Sectors with positive results - Success story box	49
7.	SERBIA	50
7.1.	The year in review	50
7.1.1.	Political developments	50
7.1.2.	Macroeconomic developments and structural reforms	51
7.1.3.	Progress in meeting the <i>acquis communautaire</i>	51
7.2.	IPA in 2007.....	52
7.2.1.	MIPD 2007-2009	52
7.2.2.	Programming exercise	52
<i>7.2.2.1.</i>	<i>Component I: Transition Assistance and Institution Building</i>	53
<i>7.2.2.2.</i>	<i>Component II: Cross-Border Cooperation</i>	54
7.2.3.	Implementation Modalities and Structures	55
7.2.4.	Overview of IPA programmes implemented	55
7.2.5.	Participation in Community Programmes and Agencies	55
7.3.	Monitoring and Results	55
7.3.1.	Monitoring	55
7.3.2.	Evaluation results and Lessons Learned	55
7.3.3.	Sectors with positive results - Success story box	56
8.	TURKEY	57
8.1.	The year in review	57
8.1.1.	Political developments	57
8.1.2.	Macroeconomic developments and structural reforms	57
8.1.3.	Progress in meeting the <i>acquis communautaire</i>	57
8.2.	IPA in 2007.....	57
8.2.1.	MIPD 2007-2009	57

8.2.2. Programming exercise	58
8.2.2.1. <i>Component I: Transition Assistance and Institution Building</i>	59
8.2.2.2. <i>Component II: Cross-Border Cooperation</i>	59
8.2.2.3. <i>Components III and IV: Strategic Coherence Framework</i>	59
8.2.2.4. <i>Component III: Regional Development</i>	60
8.2.2.5. <i>Component IV: Human Resources Development</i>	61
8.2.2.6. <i>Component V: Rural Development</i>	61
8.2.3. Implementation Modalities and Structures	61
8.2.4. Overview of IPA programmes implemented	63
8.2.5. Participation in Community Programmes and Agencies	63
8.3. Monitoring and Results	63
8.3.1. State of play for IPA Monitoring Committee and Sectoral Monitoring Committees	63
8.3.1.1. <i>IPA Monitoring Committee</i>	63
8.3.1.2. <i>Sectoral Monitoring Committees</i>	64
8.3.2. Evaluation results and Lessons learned	65
8.3.3. Sectors with positive results- Success story	65
PART II: MULTI-BENEFICIARY AND REGIONAL PROGRAMMES.....	66
9. The year 2007 in review	66
9.1. Addressing the Political Criteria	66
9.1.1. Regional Issues and International Obligations	66
9.1.1.1. <i>Regional Cooperation Initiatives</i>	66
9.1.1.2. <i>Public Administration (The Regional School for Public Administration (ReSPA))</i> ...	66
9.1.1.3. <i>Support to Interim Civilian Administrations</i>	67
9.1.2. Civil Society Dialogue and Development	67
9.2. Addressing the Economic Criteria.....	67
9.2.1. Tempus, Erasmus Mundus and Youth in Action	67
9.2.2. International Financing Institutions	68
9.3. Ability to assume the obligations of Membership and approximation to European Standards	68
9.3.1. Customs and Taxation	68

10.	IPA in 2007.....	69
10.1.	MIPD 2007-2009.....	69
10.2.	Programming exercise.....	69
10.3.	Implementation Modalities and Structures.....	70
10.4.	Overview of IPA programmes implemented.....	70
10.5.	Participation in Community Programmes and Agencies.....	70
11.	Monitoring and Results	70
11.1.	Monitoring.....	70
11.2.	Evaluation results	70
11.3.	Sectors with positive results- Success story	70
PART III: TECHNICAL AND FINANCIAL ASSISTANCE.....		71
1.	Twinning.....	71
2.	TAIEX	72
3.	SIGMA	74
PART IV: FINANCIAL DATA		76
1.	IPA funds by year	76
2.	IPA funds by country 2007 (in euro).....	77

PART I: COUNTRY SECTION

1. ALBANIA

1.1. The year in review

1.1.1. Political developments

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

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 overall poor. 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 overall slow.

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.

1.1.2. 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 affected negatively the business environment.

1.1.3. 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 overall good. Capacity for metrology and market surveillance was strengthened, but legislative improvements remained pending. On consumer protection some progress has been made. 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, even though an independent review body in line with the *acquis* was still missing. Albania undertook first

steps in the area of e-procurement. 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 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 been 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, legislation was prepared, but inspection capacity remained weak. 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 started. 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 and the lack of proactive investigative techniques.

Organised crime remained a serious problem, even if 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 and results in terms of actual dismantling organised crime organisations were limited. Efforts remained hampered by corruption and weak witness protection. Albania continued to investigate and prosecute trafficking in human beings vigorously, but it 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 structured do not meet European standards yet.

1.2. IPA in 2007

1.2.1. MIPD 2007-2009

The Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Albania was adopted on 31 May 2007. This strategic document identifies priorities based on the assessment of Albania's progress in the implementation of the Stabilisation and Association process. These priorities are grouped in three key areas, Political Requirements, Socio-Economic Requirements and European standards.

In the area of political requirements, efforts remain necessary to promote good governance, despite the progress of Albania in the consolidation of the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.

Albania needs further support to improve the socio-economic situation of the country and its population, particularly improving the business climate, reduce unemployment, better link education system with employment and strengthening the social welfare services.

Albania must continue its efforts to comply with the approximation of legislation and adoption of EU standards, whereas implementation and enforcement should be accelerated through the establishment and capacity building of agencies and institutions. Sectoral policies, customs, integrated border management and migration and asylum policy can also be supported. In addition, IPA can prepare the country for decentralised management of EU assistance through capacity building of relevant administrative departments and institutions as well as by establishing internal controls and audits.

1.2.2. Programming exercise

(in € million, to nearest € 100,000)

Albania	2007
I Transition Assistance and Institution Building	54.3
Of which: National Programme	49.3
Nuclear Safety programme	0.5
Customs Programme	1.8
Tempus and Erasmus Mundus Programmes	2.7
II Cross Border Cooperation	6.7
Of which: CBC Albania – Greece	0.9
CBC Adriatic programme	3.2
CBC Albania – former Yugoslav Republic of Macedonia	1.1
CBC Albania – Montenegro	0.8
CBC Kukes region programme	0.5
CBC participation in ERDF SE Europe programme	0.2

Programmes for component II are adopted for three years. Financial commitments are made annually and therefore figures above are just for 2007

1.2.2.1. Component I: Transition Assistance and Institution Building

The 2007 IPA component I National Programme for Albania was presented to the IPA Management Committee on 27 July 2007 and was adopted by the Commission on 20 September 2007. The number of projects within this programme was limited to seven, which should help to improve implementation rates. In order to facilitate the management of the programme by the EC Delegation, the contracting deadline for the 2007 National Programme was exceptionally extended to "n + 3" (instead of the standard "n + 2").

The programme supports Albania to comply with the political criteria through support to the police mission PAMECA III and assistance to prepare the accreditation for decentralised management of EU funds. In the economic area, the programme funds support to the SME sector through a joint programme with the European Bank for Reconstruction and Development (EBRD). The 2007 National Programme also assists the country to align with the acquis through projects on statistics alignment, water management and support to the General Directorate of Tax of Albania.

1.2.2.2. Component II: Cross-Border Cooperation

IPA Component II supports the participation of Albania in two bilateral cross-border programmes with neighbouring candidate/potential candidate countries: Montenegro and the former Yugoslav Republic of Macedonia. With regards to cross-border cooperation with Member States, IPA Component II finances a bilateral programme Albania-Greece and the participation of Albania in the multilateral cross-border programme "Adriatic", where Albania, Bosnia and Herzegovina, Croatia, Montenegro and Serbia cooperate with Greece, Italy and Slovenia across the Adriatic Sea. Moreover, IPA Component II also finances a unilateral programme concerning the development of the Kukes region of Albania, bordering Kosovo, as well as the participation of Albania in the ERDF transnational programme "South-East Europe".

All Component II programmes involving Albania, except those with Member States, were presented to the IPA Committee on 29/30 October and were adopted by the Commission on 18/20 December. Although being prepared in 2007, the cross-border programmes with Member States (with Greece and the Adriatic) were adopted in March 2008. To be noted, as a condition for its implementation, the CBC programme with Greece – which should be put into operation according to the transitional arrangements referred to in Article 99 of the IPA Implementing Regulation No 718/2007 – required a parallel adoption decision covering the Greek side of the border (adopted in September 2008).

1.2.3. Implementation Modalities and Structures

IPA 2007 National Programme:

The 2007 component I National Programme, with the exception of one project, will be implemented on a centralised basis by the European Commission in accordance with Article 53a of the Financial Regulation and the corresponding provisions of the Implementing Rules. The Implementing Authority is the Delegation of the European Commission in Albania.

The project concerning technical assistance to SMEs will be implemented by the European Commission in joint management with the EBRD following Article 53d of the Financial Regulation and the corresponding provisions of the Implementing Rules. To this end, the Commission and the EBRD will conclude a Contribution Agreement.

Albania's participation in horizontal nuclear safety, customs and education programmes is also funded from its component I envelope. These programmes are not included in the component I national programme as they will be implemented on a multi-country basis and be managed centrally by the European Commission in Brussels.

Preparation of Decentralised Implementation System:

Regarding preparations for the Decentralised Implementation System (DIS), Albania aims at full DIS accreditation for IPA. It has taken a number of initiatives in this respect: The Council of Ministers adopted in September 2007 a decision setting up structures and defining roles for DIS. The responsibility for DIS is now with the Ministry of Finance (MoF) which intends to integrate the Programme Management Unit (PMU) of a previous decentralised CARDS project into the new Central Finance and Contracting Unit (CFCU). The Commission provided comments on a draft proposal on role and structure of the CFCU. The IPA 2007 National Programme foresees a project to support the country in the DIS process, starting in 2008.

1.2.4. Overview of IPA programmes implemented

In 2007, only the implementation of the project for the police mission PAMECA under the Albania National Programme 2007 started. The call for proposals for PAMECA III was published, including a suspensive clause, shortly after the adoption by the Commission of the National Programme and was open until 14 January 2008.

1.2.5. Participation in Community Programmes and Agencies

In 2007, Albania did not participate in Community programmes and Agencies. However, a memorandum of understanding was concluded on 17 December 2007 for participation in the Research Framework Programme 7. No funds have been allocated under IPA 2007 for participation in Community programmes.

1.3. Monitoring and Results

1.3.1. Monitoring

No monitoring of IPA projects was carried out in 2007 as the IPA 2007 programmes were only adopted at the end of the year and the actual implementation only started in 2008.

1.3.2. Evaluation results and Lessons Learned

So far there are no evaluation results of IPA programmes in 2007 as the implementation only started in 2008. For the first year of IPA no lessons learned can be identified as the implementation only started in 2008.

1.3.3. Sectors with positive results - Success story box

For the first year of IPA, no sectors with positive results can be identified as the implementation of IPA programmes only started in 2008.

2. BOSNIA AND HERZEGOVINA

2.1. The year in review

2.1.1. 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. 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.

2.1.2. 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.

2.1.3. 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. 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 not 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. IPA in 2007

2.2.1. MIPD 2007-2009

The Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Bosnia and Herzegovina was adopted on 1 June 2007.

The MIPD identifies a continuing and considerable challenge for Bosnia and Herzegovina to comply with the political requirements of the Stabilisation and Association Process (SAP) by increasing the effectiveness of the executive and legislative bodies, improving the co-ordination between State and Entities and to agree on the reform of its police structure. IPA can assist in the strengthening of administrative capacity, can support domestic efforts on constitutional reform, and can assist in the reform of the police and the judicial system. Substantial political risks relate to this core reform areas and resistance of key political stakeholders may impede the success of the reforms. The Commission considers those risks in the programming of its assistance. To support the fulfilment of the political requirements, the MIPD places further emphasis on civil society and the development of independent and professional media. IPA can further assist in the fight against corruption and support Bosnia and Herzegovina to improve the situation of returnees, minorities and vulnerable groups.

Several economic indicators raise concerns, among which the high unemployment rates and external imbalances. In addition, slippages in public spending create obstacles to social and economic recovery. To assist the country to comply with the economic requirements of the SAP, IPA can support stabilising the macro-economic environment and improving the quality of public spending to create a favourable business climate. In addition, the reform of the education system and of the labour market shall contribute to foster employment. Further sectors supported under the economic requirements are trade, health, SME and regional development.

Bosnia and Herzegovina made so far only limited progress in the approximation of its legislation and policies with the acquis. To assist the country to comply with the acquis related requirements of the SAP, IPA can support the development and the implementation of strategies and policies to approximate to the European acquis in the areas of internal market, sectoral policies and justice, freedom and security. The emphasis of the assistance is placed on agriculture and rural development, transport and energy. Examples of further supported sectors are environment, quality infrastructure, customs and taxation.

The focus of the assistance in the Cross-Border Cooperation component is on the support of Bosnia and Herzegovina's participation in the cooperation with its neighbour countries Croatia, Montenegro and Serbia, on its participation in the Adriatic IPA cross-border programme with Member States and on its participation in the ERDF transnational programmes "South East Europe" and "Mediterranean ".

2.2.2. Programming exercise

(in € million, to nearest € 100,000)

BOSNIA AND HERZEGOVINA	2007
I Transition Assistance and Institution Building	58.1
Of which: National Programme	49.7
Nuclear Safety programme	0.5
Customs Programme	4.5
Tempus and Erasmus Mundus Programmes	3.4
II Cross Border Cooperation	4.0
Of which: CBC Adriatic programme	1.3
CBC Bosnia & Herzegovina and Croatia	1.0
CBC Bosnia & Herzegovina and Serbia	0.7
CBC Bosnia & Herzegovina and Montenegro	0.5
CBC participation in ERDF SE Europe programme	0.5

Programmes for components II, III, IV and V are adopted for three years. Financial commitments are made annually and therefore figures above are just for 2007

2.2.2.1. Component I: Transition Assistance and Institution Building

The IPA 2007 National Programme for Bosnia and Herzegovina was presented to the IPA Management Committee in September 2007 and was adopted by the Commission on 20 December 2007.

The programme assists Bosnia and Herzegovina to comply with the political requirements of the Copenhagen criteria by supporting the social inclusion and return, the rule of law, and the public administration and constitution reform. The socio-economic requirements are supported by assistance to labour and economic development, and to health and education. IPA assists to approximate to the acquis by supporting the establishment of regulatory systems in the financial sector, justice and home affairs, an improved quality infrastructure, energy and telecommunication as well statistics and information systems. The IPA National Programme further assists the country by supporting activities in the field of agriculture and rural development, environment and transport.

2.2.2.2. Component II: Cross-Border Cooperation

IPA Component II supports the participation of Bosnia and Herzegovina in three bilateral cross-border programmes with Croatia, Montenegro and Serbia. Concerning CBC with Member States, IPA Component II finances the participation of Bosnia and Herzegovina in the IPA CBC Adriatic programme. Finally, in 2007 the IPA Component II finances the participation of Bosnia and Herzegovina in the ERDF transnational programme "South-East Europe". The 2007 Component II programmes involving Bosnia and Herzegovina were

adopted in December 2007, except the IPA Adriatic programme, which was prepared in 2007 but adopted in March 2008.

2.2.3. Implementation Modalities and Structures

IPA 2007 National Programme:

The programme will be implemented on a centralized basis by the European Commission, EC Delegation to Bosnia and Herzegovina, in accordance with Article 53a of the Financial Regulation and the corresponding provisions of the Implementing Rules.

Bosnia and Herzegovina's participation in horizontal nuclear safety, customs and education programmes is also funded from its component I envelope. These programmes are not included in the component I national programme as they will be implemented on a multi-country basis and be managed centrally by the European Commission in Brussels.

Preparation of Decentralised Implementation System:

The Director of the Directorate for European Integration remains the National Aid Coordinator (NAC) for previous EU assistance and is also acting as National IPA Coordinator. In 2007, no significant progress was made to prepare for DIS. The recruitment of staff for key positions in the National Fund and the future Operating Structure within the Ministry of Finance and Treasury started in June 2006 but was postponed in March 2007 due to a lack of office space despite the fact that the work of a Technical Assistance team to support the Ministry had already started. Recruitment was re-launched in May 2007 but only 50% of staff have been recruited and begun to receive training. The Council of Ministers appointed a National Authorising Officer (NAO) and the head of the National Fund. The Directorate for European Integration is preparing a DIS Strategy aiming for accreditation by February 2009.

2.2.4. Overview of IPA programmes implemented

In 2007, no IPA programmes were implemented in Bosnia and Herzegovina.

2.2.5. Participation in Community Programmes and Agencies

Bosnia and Herzegovina did not yet participate in any Community Programmes or Agencies in 2007. No funds have been allocated under IPA 2007 for participation in Community programmes.

2.3. Monitoring and Results

2.3.1. Monitoring

No monitoring of IPA projects was carried out in 2007 as the IPA 2007 programmes were only adopted at the end of the year and the actual implementation only started in 2008.

2.3.2. Evaluation results and Lessons Learned

So far, there are no evaluation results of IPA programmes in 2007 as the implementation only started in 2008. For the first year of IPA no lessons learned can be identified as the implementation only started in 2008.

2.3.3. Sectors with positive results - Success story box

For the first year of IPA, no sectors with positive results can be identified as the implementation of IPA programmes only started in 2008.

3. CROATIA

3.1. The year in review

3.1.1. 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.

3.1.2. 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.

3.1.3. 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. However, further efforts are needed regarding the implementation of the first transitional phase of the European Common Aviation Area Agreement (ECAA). 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.

3.2. IPA in 2007

3.2.1. MIPD 2007-2009

The Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Croatia was adopted on 20 June 2007. It is based on an indicative financial envelope of **€438.4 million** for the period 2007-2009.

The overall objective of the pre-accession assistance provided to Croatia under IPA is to assist the country in meeting the **accession criteria**, i.e. the **political** and **economic** criteria, as well as the adoption, implementation and enforcement of the **acquis communautaire**. In addition, IPA assistance aims to support policy development as well as preparation for the implementation of the Community's **common agricultural policy** and the **cohesion policy** with a view to EU membership.

Pre-accession assistance for Croatia under IPA will be implemented according to the **five IPA components** available to Candidate Countries.

Under **Component I**, pre-accession assistance to Croatia will inter alia support public administration reform, judicial reform, and anti-corruption policy. Assistance will also focus on structural reforms in public finance, economic restructuring, business environment, statistics, land reform and labour market reform.

In addition, pre-accession assistance will support institutional capacity building for acquis transposition and implementation according to the priorities identified in the Accession Partnership, the screening reports and subsequent negotiations in the different chapters of the acquis. Finally, capacity building can also be provided for the management of IPA projects and to re-enforce institutional capacity for the management of EU Structural Funds upon accession. Croatia's participation in Community Programmes will also continue to receive financial support under Component I.

Assistance to **Cross-border Cooperation (CBC)** provided under **Component II** aims at improving co-operation and good neighbourly relations of Croatian border regions with the neighbouring border areas and familiarising Croatia with the rules and procedures governing the European Territorial Cooperation objective under Structural Funds. The MIPD foresees continuing CBC with Slovenia, Hungary and Italy and developing bilateral CBC programmes with Bosnia and Herzegovina, Montenegro, and Serbia.

Components III and IV aim at supporting Croatia in policy development as well as preparation for the implementation and management of the **Community's cohesion policy**, in particular regarding the European Regional Development Fund, the Cohesion Fund and the European Social Fund. In terms of pre-accession assistance under Components III and IV, priorities comprise acquis-related investment in environmental protection and the development of a European transport network together with support to the productive sector, in particular to SMEs; **Component IV** priorities encompass investment in employment, education, social inclusion and human capital formation.

Component V aims at supporting Croatia in policy development as well as preparation for the implementation and management of the **Community's common agricultural policy**. Assistance under Component V will target three main priority axes. The first will provide assistance to the adaptation of the agricultural sector and the implementation of the acquis

communautaire concerning the common agricultural policy. The second aims at preparing Croatia for the implementation of agri-environmental measures and the third at sustainable development of rural areas.

Coherence and concentration of assistance will be necessary for the effectiveness of IPA assistance under all components. Where appropriate, effective coordination and complementarity with other IPA components will be ensured.

3.2.2. Programming exercise

(in € million, to the nearest € 100,000)

CROATIA	2007
I Transition Assistance and Institution Building	49.6
Of which: National Programme	45.4
Nuclear Safety programme	0.5
Tempus and Erasmus Mundus Programmes	3.7
II Cross Border Cooperation	9.7
Of which: CBC Croatia and Hungary	1.4
CBC Croatia and Slovenia	1.7
CBC Adriatic Programme	3.9
CBC Croatia and Serbia	0.8
CBC Croatia and Bosnia & Herzegovina	1.0
CBC Croatia and Montenegro	0.4
CBC participation in ERDF SE Europe and ERDF Mediterranean programmes	0.5
III Regional Development	45.1
Of which: Regional Competitiveness Programme	11.1
Transportation Programme	17.0
Environmental Programme	17.0
IV Human Resources Development	11.4
V Rural Development	25.5

Programmes for components II, III, IV and V are adopted for three years. Financial commitments are made annually and therefore figures above are just for 2007

3.2.2.1. Component I: Transition Assistance and Institution Building

The IPA 2007 National Programme for Croatia was adopted on 20 December 2007 with an IPA contribution of € 45.4 million.

Under the **political criteria** heading of the MIPD, the IPA 2007 National Programme will address the fight against corruption through project "Strengthening Capacities of USKOK" and project "Improving Anti-Corruption Inter-Agency Cooperation". The project "Capacity Building for Personal Data Protection" will contribute to progress in the area of human rights and the protection of minorities.

Under the **economic criteria**, the IPA 2007 National Programme will contribute to improve the business environment through the project "Development of Regulatory Impact Assessment".

The IPA 2007 projects in the area of **ability to assume the obligations of membership** will focus on institutional and administrative capacity building for acquis transposition and implementation in the following chapters: Competition Policy – "Implementing Croatian Competition and State Aid Policies"; Information Society and Media – "Reinforcement of Croatian Telecommunications Agency"; Agriculture – "Management and Control of Agricultural Funds"; Energy – "Energy Administrative Data Management"; Social Policy and Employment – "Health and Safety at Work"; Justice, Freedom and Security – "National Border Management Information System – Phase III" and "Combating Drug Trafficking and Abuse"; Environment – "Chemical Safety"; Customs Union – "Customs Laboratory Development" and "Equipment for Anti-smuggling Units".

Supporting programmes under IPA 2007 will continue to provide for administrative capacity building for strategy development, project preparation and implementation, institution building support and SAA and acquis implementation through a "Technical Assistance Facility". Capacity building under this project may also be provided for the management of IPA projects and to reinforce institutional capacity for the management of EU structural funds. Under the same MIPD heading, IPA 2007 will support "Preparatory measures for participation in the Lifelong Learning and Youth in Action programmes". "Participation in Community Programmes and Agencies" will also continue to receive financial support under IPA 2007.

3.2.2.2. Component II: Cross-Border Cooperation

Under Component II, Croatia participates in three multi-annual cross-border programmes (CBC) with neighbouring IPA countries: CBC Croatia-Bosnia and Herzegovina, CBC Croatia-Montenegro and CBC Croatia-Serbia adopted respectively on 10 December 2007, 12 December 2007, and 20 December 2007.

These cross-border cooperation programmes aim at reconciliation, encouraging the creation of cross-border networks and partnerships and developing joint cross-border actions with a view to revitalizing the economy, protecting the nature and the environment and increasing social cohesion in the programming area. They also include technical assistance.

A programme financing the participation of Croatia in the ERDF European Territorial Co-operation transnational programmes "South-East Europe" and "Mediterranean" was also funded under the IPA Cross-border Co-operation component for 2007 and adopted on 12 December 2007.

In 2007, the following cross-border programmes between Croatia and Member States were also prepared: CBC Adriatic, CBC Hungary-Croatia, and CBC Slovenia-Croatia¹. *Components III and IV: Strategic Coherence Framework*

In accordance with the provisions of the Article 154 of the Commission Regulation (EC) n° 718/2007 Croatia has established the Strategic Coherence Framework (SCF) for 2007-2013 covering IPA Components III (Regional Development) and IV (Human Resources Development).

Within the Strategic Coherence Framework the supporting socio-economic analysis and subsequent strategy identified the key objectives and priorities implemented through four multi-annual Operational Programmes (three in component III and one in component IV) with a strong strategic focus. IPA with, its similarities to the European Regional Development Fund and Cohesion fund, is a precursor of Structural Funds. The SCF is also considered as "mini NSRF".

The preparation of the SCF in Croatia has been coordinated by the Strategic Coordinator who consulted the Commission throughout the whole process. The Commission services verified the content of the SCF and concluded that it contains all the relevant elements. Subsequently on 18 June 2007 the Commission's position on the SCF was transmitted to the national authorities in the form of a letter addressed to the Strategic coordinator.

3.2.2.3. Component III: Regional Development

Three multi-annual operational programmes were adopted in 2007: "Regional Competitiveness OP" adopted on 29 November 2007, "Transport OP" adopted on 7 December 2007 and "Environment OP" adopted 29 November 2007. The IPA resources allocated to each programme are:

Component III programmes	2007	2008	2009	Total
Regional Competitiveness	11,050,250	11,600,000	12,699,500	35,349,750
Transport	17,000,250	18,000,000	18,500,250	53,500,500
Environmental Protection	16,999,500	18,000,000	18,500,250	53,499,750

In component III one of the fundamental principles of Cohesion policy has been applied. Concentration (thematic and geographical) of the assistance on limited number of strategic priorities and on disadvantaged areas (in Regional Competitiveness OP) will maximise the development impact of the IPA intervention

The strategy under component III foresees concentration of resources in the **transport** (Transport OP) and **environment** (Environment OP) and **regional competitiveness** (Regional Competitiveness OP) sectors. It covers acquis-related investments in environmental protection (waste water, drinking water and waste management) and sustainable transport (railways and inland waterways). Along with these efforts directed at basic infrastructure, further assistance

¹ They were adopted in 2008 (25 March 2008 for CBC Adriatic, 13 March 2008 for CBC Hungary-Croatia, and 27 February 2008 for CBC Slovenia-Croatia).

is aimed at modernising and restructuring the productive capacity of disadvantaged regions in particular by providing services to enterprises, particularly small and medium sized.

Moreover, under the three Operational Programmes resources will be utilised to introduce into the national framework the strategic planning and management principles guiding the implementation of EU structural instruments, also via learning by doing process.

Within each of the OP a separate priority on Technical Assistance has been introduced to support the national structures managing IPA as well as ensuring project preparation of high standards. A comprehensive institutional set up (Operating Structure consisting of a few bodies specific for each OP/priority) built for IPA will continue with some modifications under Structural funds regime.

In the course of 2007, the Croatian authorities carried out the maturity of several projects in the field of solid and waste water including the transport sector. Besides, the Commission officials in close cooperation with the Croatian authorities undertook pre-appraisal site missions. The ultimate goal was to ensure an adequate quality project pipeline. In fact, in December 2007, the HR authorities submitted their first solid waste major project application.

3.2.2.4. Component IV: Human Resources Development

A multi-annual operational programme "Human Resources Development" under Component IV for Croatia was adopted on 7 December 2007 and consists of 4 priority axes: "Enhancing access to employment and sustainable inclusion in the labour market", "Reinforcing social inclusion of people at a disadvantage", "Enhancing human capital and employability", and Technical Assistance.

Component IV	2007	2008	2009	Total
Human Resources Development	11.4	12.7	14.2	38.3

3.2.2.5. Component V: Rural Development

A multi-annual "Programme for agriculture and rural development" under Component V for Croatia was prepared in 2007² and consists of 3 priority axes: "Improving market efficiency and implementation of Community standards", "Preparatory actions for implementation of the agri-environmental measures and local rural development strategies", and "Development of the rural economy".

Component V	2007	2008	2009	Total
Rural Development	25.5	25.6	25.8	76.9

3.2.3. Implementation Modalities and Structures

As regards previous EC financial instruments (CARDS and Phare), decentralised management powers with ex-ante control were conferred to Croatia by the Commission in February 2006.

² The programme was adopted by the Commission on 25 February 2008.

The EC and the Government of the Republic of Croatia signed the Framework Agreement on the rules for co-operation concerning EC financial assistance to Croatia under IPA on 27 August 2007. By the end of 2007, the authorities of Croatia had not yet submitted a request to the Commission for decentralised management of IPA funds with ex-ante control.³

Croatia's participation in horizontal nuclear safety and education programmes is also funded from its component I envelope. These programmes are not included in the component I national programme as they will be implemented on a multi-country basis and be managed centrally by the European Commission in Brussels.

3.2.4. Overview of IPA programmes implemented

No IPA programmes were implemented in 2007, as the first IPA programmes were only adopted at the end of 2007.

3.2.5. Participation in Community Programmes and Agencies

€4.6 million are allocated from IPA 2007 Component I to co-finance the participation of Croatia in, inter alia, the following indicative list of Community Programmes and Agencies in 2008 or 2009: CUSTOMS 2013, Fiscalis 2013, IDA bc, Seventh Framework Programme for Research, Technological Development and Demonstration Activities, [Community Programme for Employment and Social Solidarity - PROGRESS](#), MEDIA 2007, Competitiveness and Innovation Framework Programme (CIP), [Culture](#) Programme, Civil Protection Financial Instrument, Europe for Citizens, Programme of Community Action in the Field of Health, European Monitoring Centre for Drugs and Drug Addiction.

In addition, IPA 2007 Component I for Croatia provided €857,775 of IPA funding for preparatory measures for participation in the Lifelong Learning and Youth in Action programmes. Participation in these programmes is conditional on the fulfilment by the candidate countries of requirements concerning the capacity of national structures – called the National Agency – to ensure sound financial management of the programmes without ex-ante control of the Commission.

3.3. Monitoring and Results

3.3.1. State of play for IPA Monitoring Committee and Sectoral Monitoring Committees

Programme implementation under IPA in Croatia shall be monitored through the IPA monitoring committee assisted for each component by Sectoral Monitoring Committees. Each committee shall satisfy itself as to the effectiveness and quality of the implementation of the programmes and operations. They may make proposals to the Commission and the national IPA co-ordinator, with a copy to the national authorising officer, for decisions on any corrective measures to ensure the achievements of programme objectives and enhance the efficiency of the assistance provided.

³ In 2008, Croatia submitted a request to the Commission for decentralised management of IPA funds with ex-ante control. It is only if the operating structures are deemed adequate that the Commission will initiate the process of conferral of management powers. The conferral of management mission carried out by the Commission in May 2008 concluded with a formal opinion on the preparedness of the bodies/authorities responsible for the programmes and the Commission has initiated the process of conferral of management powers.

No formal committee took place in 2007, as the first IPA programmes were only adopted at the end of 2007 and implementation had not yet started.⁴

However, in December 2007, three Shadow Sectoral Monitoring Committees took place for the Operational Programmes of Transport, Regional Competitiveness and environment. These meetings allowed to elaborate a number of issues relating to the rules of the procedure internal functioning of the committees. Advice and counselling was provided by the Commission in preparing a Strategic Work Plan including an action-oriented Technical Assistance plan. Besides, in 2007 a number of missions took place to advance and conclude the preparation of actions needed to pave the way for the programmes implementation. The Sectoral Monitoring Committee for the OP Human resources development also met for the first time in December 2007. Additionally; the first informal Sectoral Monitoring Committee for the rural development programme took place in November 2007.

3.3.2. Annual and final reports on implementation

No IPA report on implementation was submitted by the national authorities in 2007, as the first IPA programmes were only adopted at the end of 2007 and implementation had not yet started.

The first sectoral annual reports shall be submitted by the Operating Structures to the national IPA co-ordinator, the national authorising officer and to the Commission, after examination by the aforementioned sectoral monitoring committees and for the first time in 2008.⁵

On the basis of these reports, the national IPA co-ordinator shall send the IPA annual report on implementation, covering all IPA components, to the Commission and the national authorising officer, after examination by the IPA Monitoring Committee and for the first time in 2008.

3.3.3. Evaluation results and Lessons learned

During 2007 multi-annual operational programmes under components III and IV were subject to ex-ante evaluations carried out in accordance with Structural Funds guidelines and requirements, forming an integrant part of the process for the adoption of the programmes.

An ex-ante evaluation was carried-out by independent experts for the Rural Development programme. The conclusions/recommendations of this report were taken into consideration in preparing the final version of that programme..

No additional IPA evaluations were carried out in 2007, as the first IPA programmes were only adopted at the end of 2007 and implementation had not yet started.

3.3.4. Sectors with positive results- Success story

No IPA programmes were implemented in 2007, as the first IPA programmes were only adopted at the end of 2007.

⁴ The first Sectoral Monitoring Committees are scheduled to take place in May or June 2008, to be followed by the first IPA Monitoring Committee in July 2008.

⁵ The exceptions are Component II, where the first sectoral annual reports shall be submitted in 2008, and Component V, where the first sectoral annual report shall be submitted within six months of the end of each full calendar year of programme implementation.

4. FORMER YUGOSLAV REPUBLIC OF MACEDONIA

4.1. The year in review

4.1.1. Political developments

The former Yugoslav Republic of Macedonia made progress in addressing the Copenhagen political criteria. During 2007 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 the publication of the Commission's critical Progress Report in November 2007 some significant further reforms were adopted concerning the judiciary, reform of the police, and inter-ethnic relations.

4.1.2. Macroeconomic developments and structural reforms

There has been further progress 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.

4.1.3. 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. Some progress has been made in the implementation of the first transitional phase of the European Common Aviation Area Agreement (ECAA).

4.2. IPA in 2007

4.2.1. MIPD 2007-2009

Based on the assessment of strategic needs and priorities set out in section 1 the pre-accession assistance strategy for the period 2007-2009 is concentrated on four areas of activity:

1. Support Institution Building
2. Improve cross-border cooperation
3. Prepare the beneficiary for participation in the Community's cohesion policy and rural development instruments
4. Prepare for decentralised management of EU funds

4.2.2. Programming exercise

(in € million, to the nearest € 100,000)

Former Yugoslav Republic of Macedonia		2007
I Transition Assistance and Institution Building		41.6
Of which:	National Programme Part I	12.0
	National Programme Part II	22.9
	Nuclear Safety programme	0.5
	Customs programme	0.5
	Tempus and Erasmus Mundus Programmes	5.7
II Cross Border Cooperation		4.2
Of which:	CBC former Yugoslav Republic of Macedonia and Bulgaria	0.7
	CBC former Yugoslav Republic of Macedonia and Greece	0.8
	CBC former Yugoslav Republic of Macedonia and Albania	2.2
	CBC participation in ERDF SE Europe programme	0.5
III Regional Development		7.4
Of which:	Transport Priority	5.6
	Environment Priority	1.4
	Technical Assistance Priority	0.4
IV Human Resources Development		3.2
V Rural Development		2.1

Programmes for components II, III, IV and V are adopted for three years. Financial commitments are made annually and therefore figures above are just for 2007

4.2.2.1. Component I: Transition Assistance and Institution Building

Due to the urgent need to continue the support to the Police Reform which had started under the CARDS programme, it was decided to split the 2007 component I National Programme into two parts.

The first part (€ 12 million) contained projects linked to the Police Reform and a Project Preparation Facility. The relevant Financing Agreement with the former Yugoslav Republic of Macedonia was signed on 30 October 2007.

Part II of the national programme (€ 22.94 million) was adopted by the Commission on 16 November 2007; Signature of the Financing Agreement took place end of May 2008. This

second part aims at supporting the implementation of the Public Administration Reform Strategy, the Judicial Reform as well as capacity building for decentralised management of EU funds. Under Socio-economic Requirements the programme will assist municipalities with building the essential infrastructure to support both social and economic development. As regards Acquis related activities substantial support will be given to the tax administration, the statistical office and customs. Additionally the programme supports the participation of the country in certain Community Programmes.

The Framework Agreement between the European Commission and the former Yugoslav Republic of Macedonia, which gives the legal and financial framework for the implementation of all IPA programmes between 2007 and 2013, was also signed on 30 October 2007. The necessary ratification by the Parliament took place on 30 January 2008.

4.2.2.2. Component II: Cross-Border Cooperation

With the support of IPA Component II, in 2007 the former Yugoslav Republic of Macedonia participated in a bilateral programme with Albania and in two bilateral programmes with neighbouring Member States Bulgaria and Greece. IPA Component II also financed the participation of the former Yugoslav Republic of Macedonia in the ERDF European Territorial Co-operation transnational programme "South-East Europe".

4.2.2.3. Components III and IV: Strategic Coherence Framework

As required by Article 154 of Commission Regulation (EC) N° 718/2007, the Former Yugoslav Republic of Macedonia prepared a Strategic Coherence Framework (SCF) for the period 2007-2013, covering IPA components III and IV. Its purpose is to set the overall strategic framework for programming of resources in the context of the national priorities for social and economic development and Community priorities for cohesion, thus constituting a key reference document for programming IPA regional development and human resources development components. The SCF is a key document to introduce structural funds strategic planning to candidate countries (a "mini NSRF"), reinforcing the role of IPA assistance under components III and IV as a precursor to structural funds.

The preparation of the Strategic Coherence Framework was coordinated by the Strategic Coordinator for IPA regional development and human resources development components. Throughout its preparation extensive coordination has taken place within the national administration, particularly the line ministries who will be involved in the implementation of components III and IV programmes. Once finalised, it was transmitted to the Commission for information and verification of consistency with the requirements of the regulation, but the Strategic Reference Framework remains a national document.

Over the period 2007-2013, assistance under Component III will be rebalanced from transport sector to environment sector. The percentage of resources allocated to the environment sector will be progressively aligned with other candidate countries, in line with the needs of the country, the development of adequate strategies and investment planning and the capacity to prepare and implement infrastructure investments in the environment sector.

4.2.2.4. Component III: Regional Development

The multi-annual Operational Programme (OP) for Component III was prepared by the national authorities during the year 2007 in close cooperation with the Commission. The OP obtained the favourable opinion of EU Member State Coordination Committee of the

Structural Funds. The Regional Development OP was adopted by Commission Decision on 29 November 2007.

Component III	2007	2008	2009	Total
III-Regional Development	7.4	12.3	20.8	40.5

Its overall objective is to support the sustainable development of the country through the improvement of transport and environment infrastructure. Assistance in the transport sector focuses on the continuation of the development of the South East Europe Core Regional Transport Network (corridors VIII and X). This strategy is strongly supported by Member States and IFIs who provide substantial funding (namely Greece and the EIB), to permit the completion of strategic transport corridors which will benefit the whole region. The priorities shall be progressively shifted from corridor X to corridor VIII as well as from road to rail.

Concerning assistance in the environment sector, clearly targeted investments will focus on waste water treatment and solid waste management where the impact to the population and natural environment is the greatest.

Within the operational programme, a separate priority on technical assistance has been introduced, to support national structures managing IPA, including ensuring project preparation of high standards for current programmes and for future programming periods.

The institutional set-up which has been set in place for the management of IPA component III programme concentrates financial management in the Ministry of Finance (Central Financing and Contracting Department, National Fund) that delegates some technical tasks to the line ministries concerned (transport and environment).

4.2.2.5. Component IV: Human Resources Development

Concerning Component IV, the OP "Human Resources Development" was adopted on 7 December 2007. It encompasses three priority axis: "Employment – Attracting and retaining more people in employment", Education and Training – Investing in human capital through better education and skills", and "Social Inclusion – Promoting an inclusive labour market".

Component IV	2007	2008	2009	Total
IV – Human Resources Development	3.2	6.0	7.1	16.3

4.2.2.6. Component V: Rural Development

It should also be noted that for Component V, a multi-annual "Operational programme for the Rural Development" was prepared in 2007⁶ and consists of 3 priority axes: "Improving market efficiency and implementation of Community standards", "Preparatory actions for implementation of the agri-environmental measures and local rural development strategies" and "Development of the rural economy".

⁶ The programme was adopted by the Commission Decision C/2007/677 on 25 February 2008.

Component V	2007	2008	2009	Total
V – Rural Development	2.1	6.7	10.2	19.0

4.2.3. Implementation Modalities and Structures

The IPA Regulation stipulates that implementation of Components III, IV and V is subject to the conferral of management by the Commission to the beneficiary country. This is expected to take place in late 2008 – early 2009. For Components I and II, direct centralised management – i.e. the Commission (EC Delegation to Skopje) acting as contracting authority on behalf of the beneficiary country – is allowed for an initial phase as long as conferral of management power (decentralised implementation system – DIS) has not been granted.

The former Yugoslav Republic of Macedonia's participation in horizontal nuclear safety, customs and education programmes is also funded from its component I envelope. These programmes are not included in the component I national programme as they will be implemented on a multi-country basis and be managed centrally by the European Commission in Brussels.

In 2007 the Commission has supported through CARDS the national authorities in their preparation for decentralised management. Assistance has been provided to the structures and authorities as defined in article 21 of the IPA Implementing Regulation to prepare for their DIS accreditation. This is being done via hands-on support to the designated bodies, the elaboration of project implementation manuals, manual of procedures, programme operational guidelines, draft texts of implementing agreements amongst the different structures and authorities.

4.2.4. Overview of IPA programmes implemented

4.2.4.1. Component I: Transition Assistance and Institution Building

The tender of the project "Integrated Border Management" was launched and evaluated in 2007. The evaluation of the tender proposals for the national project on "Reforms in the Customs Administration" is ongoing. Several Framework Contracts under the "Project Preparation Facility Support" project fiche are in progress.

4.2.4.2. Component II: Cross-Border Cooperation

The programmes were adopted towards the end of 2007. There was no implementation of IPA projects in 2007. The CBC programme between the former Yugoslav Republic of Macedonia and Albania expects the first launch of a Call for proposals under people-to-people actions by September 2008.

4.2.4.3. Component III: Regional Development

The operational programme was adopted towards the end of 2007. There was no implementation of IPA projects under Component III in 2007.

4.2.4.4. Component IV: Human Resources Development

The operational programme was adopted towards the end of 2007. There was no implementation of IPA projects under Component IV in 2007.

4.2.4.5. Component V: Rural Development

There was no implementation of IPA projects under Component V in 2007.

4.2.5. Participation in Community Programmes and Agencies

The IPA programme 2007 foresees a Community contribution of € 0.94 million to the participation of the former Yugoslav Republic of Macedonia in Community Programmes. These funds are to cover around 85 % of the cost for the "entry tickets" for the various programmes and agencies.

For some programmes, Memoranda of Understanding (MoU) were signed in 2007 (7th Framework Research Programme, PROGRESS, CIP- EIP) for other programmes this will be the case in the second half of 2008 (CIP-ICT, CIP-IEE, Europe for Citizens, Media, Fiscalis 2013 and Customs 2013).

Whereas CARDS has paid for the "entry tickets" for 2007 and 2008 for the 7th Framework Research Programme and CIP-EIP, IPA 2007 will pay for the outstanding ones.

In addition, IPA 2007 Component I for the former Yugoslav Republic of Macedonia provided € 900,000 of IPA funding for preparatory measures for participation in the Lifelong Learning and Youth in Action programmes. Participation in these programmes is conditional on the fulfilment by the candidate countries of requirements concerning the capacity of national structures – called the National Agency – to ensure sound financial management of the programmes without ex-ante control of the Commission.

4.3. Monitoring and Results

4.3.1. State of play for IPA Monitoring Committee and Sectoral Monitoring Committees

Programme implementation under IPA shall be monitored through the IPA Monitoring Committee assisted for each component by Sectoral Monitoring Committees. Each Committee shall satisfy itself as to the effectiveness and quality of the implementation of the programmes and operations. They may make proposals to the Commission and the national IPA-coordinator, with a copy to the national authorising officer, for decisions on any corrective measures to ensure the achievement of programme objectives and enhance the efficiency of the assistance provided.

4.3.2. IPA Monitoring Committee

The set up of the IPA monitoring committee is planned for the first half 2008

4.3.2.1. Component I

The set up of the Component I Sectoral monitoring is planned for the first half 2008.

4.3.2.2. Component II

The set up of the joint monitoring committees of the cross-border programmes is planned for the first half 2008.

4.3.2.3. *Component III*

The first Sectoral Monitoring Committee was held on 10 December 2007 in Skopje under a provisional form. It provided the basis for a wider partnership involvement in overseeing the future implementation of the programme and resolved key procedural issues (membership, internal rules of procedures, etc). The strategic role of the SMC will increase as the implementation of the programme becomes effective upon the conferral of management and signature of the financing agreement.

4.3.2.4. *Component IV*

The set up of the sectoral monitoring committee for the OP Human Resources Development is planned for the second half 2008.

4.3.2.5. *Component V*

The first shadow Sectoral Monitoring Committee took place on 25 October 2007. The set up of the sectoral monitoring committee (IPARD Monitoring Committee) for the IPA Rural Development programme is planned for the first half 2008.

4.3.3. Annual and final reports on implementation

No IPA report on implementation was submitted by the national authorities in 2007 as the first IPA programmes were only adopted at the end of 2007 and implementation had not yet started.

The first sectoral annual reports shall be submitted by the national operating structures to the national IPA co-ordinator, the national authorising officer and to the Commission, after examination by the aforementioned sectoral monitoring committees, and for the first time in 2008⁷.

On the basis of these reports, the national IPA co-ordinator shall send the IPA annual report on implementation, covering all IPA components, to the Commission and the national authorising officer, after examination by the IPA Monitoring Committee and for the first time in 2008.

4.3.4. Evaluation results and Lessons learned

An ex-ante evaluation was carried-out by independent experts for the Rural Development programme. The conclusions/recommendations of this report were taken into consideration in preparing the final version of the programme. Additionally multi-annual; operational programmes under components III and IV were subject to ex-ante evaluations carried out in accordance with Structural Funds guidelines and procedures

No additional IPA evaluations were carried out in 2007, as the first IPA programmes were only adopted at the end of 2007 and implementation had not yet started.

⁷ The exceptions are Component II cross-border programmes, where the first sectoral annual reports shall be submitted "in the second year following the adoption of the programme" (i.e. in 2009), and Component V, where the first sectoral annual report shall be submitted within six months of the end of each full calendar year of programme implementation.

4.3.5. Sectors with positive results – Success story

No IPA projects have been finalised in the course of 2007.

5. KOSOVO (UNDER UNSCR 1244/99)⁸

5.1. The year in review

5.1.1. 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.

5.1.2. Macroeconomic developments and structural reforms

Kosovo's official GDP per capita was 1,118 € / 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.

5.1.3. 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

⁸ Under United Nations Security Council Resolution 1244 of 10 June 1999.

priorities is encouraged and monitored through the STM. Some progress has been made in the implementation of the first transitional phase of the European Common Aviation Area Agreement (ECAA).

5.2. IPA in 2007

5.2.1. MIPD 2007-2009

The Multi-annual Indicative Planning Document 2007-2009 for Kosovo was adopted by the Commission on 1 June 2007. It follows the EU policy for the Western Balkans, the Stabilisation and Association process (SAP). The Commission's Enlargement Strategy Communication of November 2007 confirmed that Kosovo merited particular attention, with the EU and Member States needing to take the lead in the international community in line with the EU's crucial role in a post-status Kosovo.

Therefore, the major challenges for Kosovo that should be addressed by the Multi-annual Indicative Planning Document (MIPD) are:

Political Criteria: EC assistance under this heading should focus in particular on support to the development of civil society, minority rights and the rule of law in Kosovo. More efforts should be devoted to help the authorities develop a reform agenda that promotes fiscal sustainability, good governance of public expenditure, sound financial management and knowledge society.

Economic Criteria: EC assistance should also be used in support of developing Kosovo's economy and improving the socio-economic environment of all communities in a sustainable way. This should require measures that can catalyse IFI and private sector investment, taking due account of the limitations the status issue imposes on such investment.

The European agenda: In addition to the above, EC assistance should continue to support Kosovo's European vocation and its integration into the Western Balkans region as a whole. Guided by European Partnership priorities, a gradual approximation to EC legislation in specific sectors, increased attention to the rule of law in the wider sense, and preparations for Kosovo's participation in Community programmes should be some salient features.

The indicative funding available for the period 2007 – 2009 amounts to €259.1 million⁹ for Component I (Transition Assistance and Institution Building) and Component II (Cross-Border Co-operation).

⁹ Additional allocation of €60 million to the IPA Component I in Kosovo was included in EU 2008 Budget to accompany the expected challenges resulting from status resolution.

5.2.2. Programming exercise

(in million euro, to the nearest 100,000 euro)

KOSOVO (under UNSCR 1244)	2007
I Transition Assistance and Institution Building –	68.3
Of which: Annual Programme	62.0
Customs Programme	3.5
Tempus and Erasmus Mundus Programmes	2.8

5.2.2.1. Component I: Transition Assistance and Institution Building

The total annual allocation for Kosovo in 2007 was € 68.3 million, all of which will be implemented under component I.

The € 62 million IPA annual programme for Kosovo was adopted by the Commission on 28 November 2007. It included € 2.8 million originally allocated to component II.

The IPA annual programme contained the following projects:

Political Requirements (27 %)

- Building the capacity of Kosovo's institutions to develop EU compatible legislation and policy, € 6 million
- Strengthening the Rule of Law, € 7 million
- Return, Reintegration and Cultural heritage in Kosovo, € 3.7 million

Socio-economic Requirements (53 %)

- Developing an enabling economic environment for all of Kosovo's communities, € 11 million
- Reconstruction of roads and bridges, € 8 million
- Support to local government and decentralisation, € 12.4 million
- Education in Kosovo: Inter-culturalism and the Bologna Process, € 1.4 million

European Standards (10 %)

- Meeting EU Standards in Energy Sector, € 3 million
- Meeting EU Standards in Food Safety and Veterinary Services, € 2 million
- Meeting EU Standards in Public Procurement, € 1.5 million

The programme has a facility for project preparation of € 1 million and a reserve of € 5million (10 %).

5.2.2.2. Component II: Cross-Border Cooperation

In 2007, the conditions for programmes under Component II in Kosovo were not met. The funds for Component II have been included in Component I.

5.2.3. Implementation Modalities and Structures

IPA programmes in Kosovo shall be implemented under centralised management by the European Commission. The programmes could also be implemented using joint management with International Organisations. As any other IPA beneficiary, Kosovo has to establish a Roadmap for the decentralisation of the management of EU funds, initially with ex ante controls by the Commission. Kosovo is at very early stage. As the first step, Kosovo needs to appoint the NIPAC, which could be either the Director of the Agency for European Integration under the Deputy Prime Minister's Office or the Deputy Prime minister. The discussions on "Roadmap for DIS" are expected to start in 2008-2009. The EC is in process of supporting the Kosovo's authorities to take more ownership of the annual programming process.

IPA Framework Agreement for Kosovo was signed on 19 December 2007.

IPA 2007 programme

Programming task Manager is Unit C3 (Kosovo issues unit), DG Enlargement. The Implementing Authority is the European Commission except for the two following actions - Activity 2 of Project 3 "Return, Reintegration and Cultural Heritage" and Project 7 "Education in Kosovo: Inter-culturalism and the Bologna Process" which shall be implemented by joint management with the Council of Europe.

Implementation Task Manager is the Operations Section of the EC Liaison Office in Kosovo except for Activity 1 of Project 1 "Legal and Policy Advice to Kosovo's Authorities" where the Implementation Task Manager is DG Enlargement's Institution Building unit.

Kosovo's participation in horizontal customs and education programmes is also funded from its component I envelope. These programmes are not included in the component I annual programme as they will be implemented on a multi-country basis and be managed centrally by the European Commission in Brussels.

5.2.4. Overview of IPA programmes implemented

5.2.4.1. Component I: Transition Assistance and Institution Building

11 IPA 2007 tender forecasts were published in December 2007 with a suspension clause on availability of funds depending on the signature of the Financing Agreement (expected in 2008).

5.2.4.2. Component II: Cross-Border Cooperation

Funds are included in Component I.

5.2.5. Participation in Community Programmes and Agencies

There is no framework agreement concerning participation of Kosovo in Community programmes. Kosovo did not participate in Community Programmes in 2007.

5.3. Monitoring and Results

5.3.1. Monitoring

Kosovo is included in the target area of the ROM project managed by DG Enlargement's Regional and horizontal programmes unit . Information on IPA 2007 projects to be monitored was provided to the contractor of the ROM project.

5.3.2. Evaluation results and Lessons Learned

So far there are no evaluation results of IPA programmes in 2007 as the implementation only started in 2008. For the first year of IPA no lessons learned can be identified as the implementation only started in 2008.

5.3.3. Sectors with positive results- Success story box

Given that the IPA Financing Agreement was not signed in 2007 (see 2.3), IPA implementation in 2007 has been very limited.

6. MONTENEGRO

6.1. The year in review

6.1.1. 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, businesspeople, journalists and tourists.

6.1.2. 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 increased 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.

6.1.3. 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 adoption of a number of legal acts transposing the relevant EU environmental acquis. Further progress will be achieved through the establishment of an independent Environmental Protection Agency which, when it becomes operational, will assume responsibility for inspection, permitting, enforcement and dissemination of environmental data.

Some progress has been made in the implementation of the first transitional phase of the European Common Aviation Area Agreement (ECAA).

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. National needs have been analysed, the long-term MSTQ strategy has been reviewed and the legal framework assessed for its degree of compatibility with the acquis.

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

6.2. IPA in 2007

6.2.1. MIPD 2007-2009

During the year 2007, the MIPD 2007-2009 was adopted on 1 June 2007, and the MIPD 2008-2010 was prepared. Both are in line with the recommendations of the Enlargement Strategy, the European Partnership, and the SAA.

IPA Component I will support Montenegro in the following areas:

- **Political criteria.** An increased importance is given to this priority axis which will thus focus on the consolidation of democratic institutions, reform of the judiciary, public administration reform including decentralisation and local government, fight against corruption and organised crime, human rights and protection of minorities, anti-discrimination, as well as the media. Civil society development will be given special attention for the promotion of dialogue; small grants will assist environment, anti-discrimination, gender equality, social inclusion, health, business advocacy, and consumer protection¹⁰.
- **Economic criteria.** This priority axis will concentrate on employment generation, education, research, social inclusion, health, business environment, budget and fiscal management, rural development, food safety, environment, energy, transport, as well as infrastructure and other activities which will prepare the country for future Structural Funds.

¹⁰ It will be complementary to the EIDHR programme dealing with democracy and human rights

- **Ability to assume the obligations of membership.** IPA will assist the introduction and implementation of the EU acquis in all areas; the overall coordination of the European integration process; strengthening Montenegro's administrative capacity to implement the SAA; preparing for the Decentralised Implementation System (DIS) for EU funds management; and participation to Community Programmes.

IPA Component II will support **cross-border cooperation** activities between Montenegro and adjacent Candidate and potential Candidate Countries and with EU Member States in the context of the IPA Adriatic programme. It will also support the participation of Montenegro in ERDF transnational programmes under the European Territorial Cooperation objective of the Structural Funds.

6.2.2. Programming exercise

(in million euro, to nearest 100,000 euro)

MONTENEGRO		2007
I Transition Assistance and Institution Building		27.5
Of which:	National Programme	23.9
	Nuclear Safety programme	0.2
	Customs Programme	1.9
	Tempus and Erasmus Mundus Programmes	1.5
II Cross Border Cooperation		3.9
Of which:	CBC Adriatic programme	0.7
	CBC Montenegro and Croatia	0.5
	CBC Montenegro and Bosnia & Herzegovina	0.6
	CBC Montenegro and Serbia	0.6
	CBC Montenegro and Albania	0.6
	CBC participation in ERDF SE Europe and ERDF Mediterranean programmes	0.9

Programmes for component II are adopted for three years. Financial commitments are made annually and therefore figures above are just for 2007

6.2.2.1. Component I: Transition Assistance and Institution Building

The programming exercise for IPA 2007 was done mainly by the European Agency for Reconstruction (EAR), in close coordination with the National IPA Coordinator (NIPAC) and the Secretariat for European Integration (SEI).

The 2007 National Programme (Component I) focuses on the continuation of reforms in areas such as judiciary, public administration, the fight against corruption and organised crime, as well as in the overall process of transposing and implementing the EU standards in various

areas. Thirteen projects have been identified for a total amount of € 23.87 million. It was adopted on 21 November 2007.

Under "**Political criteria**", there are three projects for a total amount of € **6 million** supporting Civil society; Fight against organised crime and corruption; and Judiciary Reform.

Under "**Socio-economic Requirements**", there are three projects for a total amount of € **9.20 million** supporting the establishment of a National Qualification Framework; Transport Sector Management and Infrastructure; and Energy market approximation.

Under "**European Standards**", there are six projects for a total amount of € **7.45 million** on the following sub-sectors Legal Harmonisation; Veterinary services; Statistical office MONSTAT; Public procurement system; Quality Infrastructure (standardisation and metrology); and Tax Administration.

In addition, an amount of € **1.22 million** is foreseen for Project preparation facility, technical assistance and contingencies; while Tempus and Nuclear assistance projects are managed by Headquarters.

6.2.2.2. Component II: Cross-Border Cooperation

IPA Component II encompasses four cross-border programmes between Montenegro and its Western Balkan neighbours: Croatia, Bosnia and Herzegovina, Serbia and Albania. Moreover, it includes the participation of Montenegro in the IPA Adriatic cross-border programme with Member States. IPA Component II also supports the participation of Montenegro in two ERDF transnational cooperation programmes: "South-East Europe" and "Mediterranean". Due to its small land area, Montenegro's entire territory is part of one or the other CBC programme.

IPA CBC combines cohesion and external relation objectives and supports activities such as: (1) development of cross-border economic, social and environmental activities of border areas; (2) addressing common challenges in particular in the field of environment and public health and development; (3) promoting "people to people" type actions, including among NGOs and local authorities.

6.2.3. Implementation Modalities and Structures

Montenegro's participation in horizontal nuclear safety, customs and education programmes is also funded from its component I envelope. These programmes are not included in the component I national programme as they will be implemented on a multi-country basis and be managed centrally by the European Commission in Brussels.

Related to **DIS** accreditation, i.e. granting decentralisation with ex-ante controls, a strategy has been established in accordance with the Commission's guidance "Roadmap for DIS" and with the assistance of SIGMA. IPA will support its implementation, and it is foreseen that Montenegro could be granted conferral of management power in three years time.

Montenegro has nominated the national IPA co-ordinator (NIPAC); the competent accrediting officer (CAO); the national authorising officer (NAO); and the Program Authorising Officer (PAO).

A first audit mission by DG Enlargement is due in July 2008.

6.2.4. Overview of IPA programmes implemented

During 2007, no IPA programmes were implemented in Montenegro.

6.2.5. Participation in Community Programmes and Agencies

On the basis of SAA protocol 8 on the participation of Montenegro in Community programmes, Montenegro is participating in the 7th Framework Programme R&D – EC, and the Entrepreneurship and Innovation Programme

6.3. Monitoring and Results

6.3.1. Monitoring

No monitoring of IPA projects was carried out in 2007 as the IPA 2007 programmes were only adopted at the end of the year and the actual implementation only started in 2008.

6.3.2. Evaluation results and Lessons Learned

So far there are no evaluation results of IPA programmes in 2007 as the implementation only started in 2008. For the first year of IPA no lessons learned can be identified as the implementation only started in 2008.

6.3.3. Sectors with positive results - Success story box

For the first year of IPA, no sectors with positive results can be identified as the implementation of IPA programmes only started in 2008.

7. SERBIA

7.1. The year in review

7.1.1. 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 (SEECP), 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.

7.1.2. 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.

7.1.3. 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 in the area of agriculture slowed down. 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.

Further progress has been made in the implementation of the first transitional phase of the European Common Aviation Area Agreement (ECAA).

7.2. IPA in 2007

7.2.1. MIPD 2007-2009

Having signed the IPA Framework Agreement on 20 November 2007 with the Commission, Serbia will receive pre-accession financial assistance from 2007 onwards. The Serbian government played an active role in the preparation of the 2007-2009 Multi-Annual Indicative Planning Document (MIPD) which was adopted in June 2007. The MIPD sets out the priorities for EU financial assistance under the new IPA for the period 2007-2009.

7.2.2. Programming exercise

(in million euro, to the nearest 100,000 euro)

SERBIA	2007
I Transition Assistance and Institution Building	181.5
Of which: National Programme	164.8
Nuclear Safety programme	5.5
Customs Programme	1.5
Tempus and Erasmus Mundus Programmes	9.7
II Cross Border Cooperation	8.2
Of which: CBC Serbia and Bulgaria	1.3
CBC Serbia and Romania	1.6
CBC Serbia and Hungary	1.3
CBC Adriatic programme	0.3
CBC Serbia and Croatia	1.0

CBC Serbia and Bosnia & Herzegovina	1.1
CBC Serbia and Montenegro	0.5
CBC participation in ERDF SE Europe programme	1.1

Programmes for component II are adopted for three years. Financial commitments are made annually and therefore figures above are just for 2007

7.2.2.1. Component I: Transition Assistance and Institution Building

The **2007 National Programme for Serbia** under the IPA Transition Assistance and Institution Building Component was adopted by the Commission on 20 December 2007. It aims at assisting Serbia to implement the necessary reforms needed to fulfil EU requirements, make progress in the Stabilisation and Association process and to lay the foundations for fulfilling the Copenhagen criteria as well as to implement the European Common Aviation Area Agreement..

More specifically, the 2007 IPA National Programme with a total budget of around € 165 million comprises 37 projects. 2007 IPA is addressing priorities in the following axes:

- Political Requirements, with a budget allocation of € 56 million
- Socio Economic Requirements, with a budget allocation of € 71 million
- European Approximation of Sectoral Policies, with a budget allocation of € 34.5 million

Among others, the 2007 IPA Programme is providing assistance to the following projects:

The **Municipal Support Programme** with a budget of **€ 22 million** builds on the strong record under the CARDS programme of reforming central/local government relations, promoting decentralisation and supporting administrative reform at municipal level. The specific objective of this programme is to improve the capacities for good governance and municipal management at the local level, to improve local services to citizens and to enhance local economic development by strengthening local organisations, the Standing Conference of Towns and Municipalities and the local-central government cooperation.

The **Support to Refugees and Internally Displaced Persons (IDP) project** with a budget of **€ 10 million** which is addressing an issue of major importance for Serbia. To date the EU has been supporting actions such as the closure of collective centres and the provision of legal assistance. This project is designed to support IDP/refugees living in private accommodation to integrate into society, temporary accommodation will be supplied to the most vulnerable groups and direct legal assistance will be provided for those who wish to return to Croatia, Bosnia and Herzegovina, etc.

The **Support to the Establishment of the Ombudsman Office** with a budget of **€ 1 million** will contribute the enhancement of the principles of the rule of law, human rights and good governance in Serbia through greater accountability of public administrative bodies. The project will support the operations of the Serbian Ombudsman Office as an independent institution in line with EU standards.

The **Regional Economic and Social Development Programme** with a budget of € 21 million will support the balanced regional economic development in Serbia which is a strongly underlined priority in the MIPD. This project will increase the capacity of central government to design and implement an integrated regional development policy in Serbia. Regional Development Agencies, Municipalities and other local stakeholders will be supported to implement national regional policies and actions including direct operational agreements to the Regional Development Agencies.

The **Health Sector Reform Emergency Medical Services** with a budget of € 10 million will improve Emergency Medical Services (EMS) in Serbia as part of the overall reform of the health system. The supply of vehicles and the training of **Emergency Medical Services** personnel will address a major gap in the implementation of the EMS reform strategy. The logistical reach capacity and quality of service delivery of **Emergency Medical Services** will be extended on a full national territorial level. The project is aiming to purchase of 200 emergency vehicles, to purchase training machines in Belgrade, Novi Sad, Niš and Kragujevac and to train the staff who will use the vehicles and the other equipment.

The **Danube River Information System (RIS)** with a budget of € 11 million will enhance the speed, the safety and the efficiency of traffic on the Danube by building a dedicated RIS (telematic information service), conforming to the requirements of the EU RIS Directive. This consists of a major project for the country since Serbia has an extensive inland waterway network comprising of three international rivers and a channel network of almost 2,000 km of inland waterways and the Danube River with its 588 km passing through the country is considered to be one of the most important components of transport infrastructure in the entire region.

The **Emissions Reduction from Nikola Tesla thermal power plant** with a budget of € 12 million is a major project for Serbia in order to fulfil its environmental obligations under the Energy Community Treaty, (Directive 2001/80/EC for large combustion plants). As such, polluting emissions must be reduced from Nikola Tesla thermal power plants which require the reconstruction of two electrostatic precipitators (air filters) this project will provide the technical assistance and works to address this need.

The Programming of IPA 2008 National Programme was also initiated during 2007. The priorities of the programme are determined by the Multi-annual Indicative Planning Document (MIPD) 2008-2010 which was also under preparation in 2007. These priority axes are:- **Political Criteria, Economic Criteria and Ability to assume obligations of membership.**

7.2.2.2. Component II: Cross-Border Cooperation

Cross-border cooperation helps reconciliation and good neighbourly relations, while also facilitating the integration of the beneficiary countries into the EU.

IPA Component II encompasses three multi-annual (2007-2009) bilateral cross-border programmes with neighbouring candidate/potential candidate countries (Croatia, Bosnia and Herzegovina, Montenegro) and three bilateral cross-border programme with neighbouring Member States (Hungary, Romania, Bulgaria). The programmes aim at promoting economic, social and environmental development of border regions, mainly through activities involving local communities.

In view of the previous participation of Serbia – Montenegro in the INTERREG 2000–2006 Adriatic programme, Serbia has been granted a phasing-out participation in the IPA cross-border Adriatic programme with Member States, with a limited support of Component II.

Finally, Component II is also financing the participation of Serbia in the ERDF transnational programme "South-East Europe".

7.2.3. Implementation Modalities and Structures

Serbia's participation in horizontal nuclear safety, customs and education programmes is also funded from its component I envelope. These programmes are not included in the component I national programme as they will be implemented on a multi-country basis and be managed centrally by the European Commission in Brussels.

In Serbia, the DIS working group established within the government produced a Strategy for the implementation of Decentralized Implementation System. In addition, the working group will prepare in 2008 capacity building plans for DIS institutions and will make preparatory activities for signing the Memorandum of Understanding for the introduction of DIS.

In addition, during 2008 the Government should start establishing national institutions relevant for implementation of DIS. According to the SIGMA report on DIS accreditation, national institutions require 24 to 36 months for set-up.

A first audit mission by DG Enlargement is due in July 2008.

7.2.4. Overview of IPA programmes implemented

No IPA programmes have been implemented in Serbia during 2007. The workload was concentrated mainly in the preparation of tenders under the 2007 National Programme, in order to be launched in 2008.

7.2.5. Participation in Community Programmes and Agencies

Serbia signed the Memoranda of Understanding for the 7th Framework Programme (FP7). The IPA programme 2007 foresees a Community contribution of € 2 million to support the participation of Serbia in Community Programmes. These funds are to co-finance the "entry tickets" for various programmes and agencies.

7.3. Monitoring and Results

7.3.1. Monitoring

No monitoring of IPA projects was carried out in 2007 as the IPA 2007 programmes were only adopted at the end of the year and the actual implementation only started in 2008.

7.3.2. Evaluation results and Lessons Learned

So far there are no evaluation results of IPA programmes in 2007 as the implementation only started in 2008. For the first year of IPA no lessons learned can be identified as the implementation only started in 2008.

7.3.3. Sectors with positive results - Success story box

For the first year of IPA, no sectors with positive results can be identified as the implementation of IPA programmes only started in 2008.

8. TURKEY

8.1. The year in review

8.1.1. 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.

8.1.2. 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.

8.1.3. 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, 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, consumer protection 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.

8.2. IPA in 2007

8.2.1. MIPD 2007-2009

The **Multi-annual Indicative Planning Document** (MIPD) is the strategic programming document for IPA in Turkey. It is established for a three year rolling period, with annual reviews. The first MIPD for Turkey 2007-2009 was given a favourable opinion by the IPA Committee on 16 February 2007 and then adopted through written procedure by the Commission on 30 April 2007. The IPA instrument in Turkey, as reflected in the MIPD, consists of five components: (IPA-I) the Transition Assistance and Institution Building component; (IPA-II) the Cross-Border Cooperation component; (IPA III, IV and V) the Regional, Human Resources and Rural Development components.

Within the **Institution Building** component the focus of assistance in the area of the political criteria is on the institutions that are directly concerned by the reforms: the judiciary and the law enforcement services. A second priority supports the continued development of civil society organisations. Among the issues to be addressed, priority is given to human rights and fundamental freedoms; gender issues; and the fight against corruption. As concerns the adoption and implementation of the acquis, the main areas of activity, reflecting the volume of legislation to be transposed and implemented as well as the investments required, is: agriculture and food safety; justice, liberty and security (particularly border management; migration and visa policy; and international cooperation among law enforcement agencies); and environment. The promotion of the Civil Society Dialogue is to be implemented through grants supporting cooperation between EU and Turkish civil society organisations and by the co-financing of Turkey's participation in Community Programmes, notably the education and youth programmes.

The introduction of EU Structural Funds' territorial cooperation objective is addressed by the **Cross-border Cooperation** component. Budgetary allocations in 2007 are divided between the bilateral Bulgaria-Turkey cross-border programme and participation in the ENPI Black Sea basin programme.

EU assistance helps to prepare the beneficiary country for participation in Community's cohesion policy and rural development instruments from day one of accession. In view of the limited funds available, the multi-annual planning strategy laid down in the MIPD pursued both sectoral and geographical concentration of funds. The objectives of the revised Lisbon Strategy have also been taken into account, bearing in mind the state of Turkey's economic development.

The **Human Resources Development** component supports a single OP addressing three major areas of intervention: employment, education and social inclusion, which are to be implemented by four priority axes: attract and retain more people in employment, enhance investment in human capital, increase adaptability of workers and promote an inclusive labour market.

The **Rural Development** component sets out three priority axes: adaptation of the agricultural sector and implementing of Community standards, preparatory actions for agri-environment measures and Leader and development of the rural economy.

8.2.2. Programming exercise

(in € million, to nearest € 100,000)

TURKEY	2007
I Transition Assistance and Institution Building	256.7
Of which: National Programme	256.2
Nuclear Safety programme	0.5
II Cross Border Cooperation	2.1
Of which: CBC Turkey and Bulgaria	1.1
CBC participation in ENPI Black Sea cooperation programme	0.5

III Regional Development	167.5
Of which:	Regional Competitiveness Programme
	Transport Programme
	Environment Programme
IV Human Resources Development	50.2
V Rural Development	20.7

Programmes for components II, III, IV and V are adopted for three years. Financial commitments are made annually and therefore figures above are just for 2007

8.2.2.1. Component I: Transition Assistance and Institution Building

The National Programme (NP) 2007 for Component I is based on 37 projects, which were elaborated by beneficiaries (notably Ministries) and agreed upon by the relevant Turkish national authorities (NIPAC, NAO) and the European Commission. The NP 2007 supports measures in the areas of the political criteria, the adoption and implementation of the acquis communautaire and the promotion of the civil society dialogue. After obtaining the favourable opinion of the IPA Committee on 29 October the National Programme was adopted by Commission Decision on 20 December 2007.

8.2.2.2. Component II: Cross-Border Cooperation

Following the experience gained under the Turkey-Bulgaria 2004-06 cross-border cooperation (CBC) programme, the first multi-annual (2007-2009) IPA Bulgaria-Turkey CBC programme was prepared by the participating country and adopted by Commission Decision on 20 December 2007. The objective of the Programme is to help the border region between Turkey and Bulgaria to overcome development problems resulting from its relative isolation and to support the development of co-operative networks on both sides of the border.

Under the leadership of the Romanian Ministry for Development, Public Works and Housing, which is to become the Managing Authority of the programme, the Black Sea basin countries (Armenia, Azerbaijan, R. Moldova and Georgia (whole territory), Bulgaria, Greece, Romania, Russia, Turkey and Ukraine (regions closest to the basin)) have prepared in 2007 a sea basin cooperation programme under the ENPI programme for the period 2007-2013. The Commission decision on IPA funding for the participation of Turkey in this ENPI Black Sea basin programme was adopted on 20 December 2007.

8.2.2.3. Components III and IV: Strategic Coherence Framework

As required by Article 154 of Commission Regulation (EC) N° 718/2007, Turkey prepared a Strategic Coherence Framework (SCF) for the period 2007-2013, covering IPA components III and IV. Its purpose is to set the overall strategic framework for programming of resources in the context of the national priorities for social and economic development and Community priorities for cohesion, thus constituting a key reference document for programming IPA regional development and human resources development components. The SCF is a key document to introduce structural funds strategic planning to candidate countries (a "mini NSRF"), reinforcing the role of IPA assistance under components III and IV as a precursor to structural funds.

The preparation of the Strategic Coherence Framework was coordinated by the State Planning Organisation, who performs the role of Strategic Coordinator for IPA regional development and human resources development components. Throughout its preparation extensive coordination has taken place within the national administration, particularly the ministries who will be involved in the implementation of components III and IV programmes. Once finalised, it was transmitted to the Commission for information and verification of consistency with the requirements of the regulation, but the Strategic Reference Framework remains a national document.

The social and economic analysis provided by the Strategic Coherence Framework justified the concentration of resources under the regional competitiveness and human resources development programmes in the 12 NUTS II regions with a GDP per capita below 75% of Turkish national average. The strategic objectives are to upgrade the business environment and to development better entrepreneurial capabilities of enterprises, and to promote the development human resources and skills. As regards transport and environment, concentration is foreseen on a limited number of projects which contribute to promote interconnectivity with TEN-T network and intermodality, to promote sustainable development and approximation with the EU environmental acquis.

8.2.2.4. Component III: Regional Development

The multi-annual Operational Programmes (OP) for Component III were prepared by the Turkish authorities during the year 2007 in close cooperation with the Commission. All OP obtained the favourable opinion of EU Member State Coordination Committee of the Structural Funds. The Regional Development OPs were adopted by Commission Decision as follows: OP Regional Competitiveness and OP Environment on 29 November 2007; and OP Transport on 7 December 2007. The IPA resources allocated to each programme are as follows:

Programmes	2007	2008	2009	Total
III – Transport	58,600,000	60,800,000	60,300,000	179,700,000
III– Environment	67,000,000	69,500,000	67,600,000	204,100,000
III Regional Competitiveness	41,900,000	43,500,000	54,800,000	140,200,000

The overall objective of the "Transport" programme is to increase the competitiveness of Turkey by supporting investments in transport infrastructure sector. In this framework the scope of the intervention in Turkey will cover transport infrastructure, including in particular interconnection, interoperability and intermodality of national networks and with the trans-European networks. With regard to freight transportation efforts should be deployed in order to rebalance the modes of transportation in favour of rail and ports freight transportation. The TINA study (Trans European Network for Transport) is the key determinant for the identification of investment priorities in the transport sector.

The overall objective of the "Environment" programme is to increase the competitiveness of Turkey by supporting investments in environment infrastructure sector. In this framework the scope of the intervention in Turkey will cover environment infrastructure, in particular in water supply, sewerage and waste water treatment and in intergraded waste management. The intervention should pursuit a coherent strategy over medium to long term and possibly mobilise additional financial sources as EIB, IFI's and donors. The criteria for projects

selection are the impact on the population served, the non affordability of the construction of specific projects, the sensitivity of the area. The implementation will pursue the river basin intergraded approach, the sustainability development principles, the national and regional waste management planning and the compliance with relevant environmental acquis.

The overall objective of the "Regional Competitiveness" programme is to increase the competitiveness of the poorest regions of Turkey by supporting enterprises. This objective will be achieved through four specific objectives: enhancement of physical and financial infrastructure, increasing business stock, increasing employment creation capacity of the productive sector and enhancing the added value of the production base.

Within each operational programme, a separate priority on technical assistance has been introduced, to support national structures managing IPA, including ensuring project preparation of high standards for current programmes and for future programming periods. The institutional set-up which will be set in place for the management of IPA component III programmes concentrates financial management in experienced structures prepared under previous assistance instruments (Central Finance and contracts Unit, National Fund) while transferring overall management and responsibility for implementation to operating structures within line ministries.

8.2.2.5. Component IV: Human Resources Development

The multi-annual Operational Programmes (OP) for Component IV was prepared by the Turkish authorities during the year 2007 in close cooperation with the Commission. The OP obtained the favourable opinion of EU Member State committees and the European Social Fund Committee. The HRD OP was adopted by Commission decision on 7 December 2007.

Component IV	2007	2008	2009	Total
IV – Human Resources Development	50.2	52.9	55.6	158.7

8.2.2.6. Component V: Rural Development

Under Component V a multi-annual operational programme for "agriculture and rural development" was prepared by Turkey during the course of 2007 and adopted by the Commission on 25 February 2008.

Component V	2007	2008	2009	Total
V – Rural Development	20.7	53.0	85.5	159.2

8.2.3. Implementation Modalities and Structures

Assistance under IPA component I-IV (except component II – Turkey-Bulgaria CBC programme) will be implemented through decentralised management, initially with ex-ante controls performed by the Commission on the tendering of contracts, launch of calls for proposals and the award of contracts and grants (the exact list of ex-ante controls will be specified in the Commission decisions on the conferral of management powers per component). For that purpose, a management and control system for the management of the different programmes has to be established and accredited by the Turkish authorities before

the conferral of decentralised management can be requested from and be given by the Commission.

Decentralised management without ex-ante controls by the Commission is an objective for the implementation of assistance under IPA Component I-IV. Turkey is required to provide a roadmap (as part of Financing Agreements) with indicative benchmarks and time limits to achieve this objective. The minimum criteria for waiving the ex-ante controls by the Commission include the establishment of a benchmarking system with quantitative and qualitative aspects as well as a sustained and noticeable downward trend with regard to the rejection rate due to the ex-ante controls by the Commission.

Assistance under Component V will be implemented through decentralised management without ex-ante controls from the beginning. The accreditation and conferral of management process is therefore expected to take longer as for the other components.

Turkey's participation in horizontal nuclear safety, customs and education programmes is also funded from its component I envelope. These programmes are not included in the component I national programme as they will be implemented on a multi-country basis and be managed centrally by the European Commission in Brussels.

For the implementation of financial assistance and in addition to the conferral of management, the European Community and Turkey must sign a Framework Agreement setting out general rules for cooperation (applicable to all components for the whole period of IPA assistance). Negotiations on a Framework Agreement with Turkey began in September 2007 and were still ongoing at the end of the reporting period. In addition, the Commission and Turkey must also sign specific Financing Agreements for each programme.

Component I and the ENPI Black Sea programme under Component II

On 31 October 2007, within the required deadline set by the IPA Implementing Regulation, the NAO submitted a deviation report to the European Commission and informed of his intention to accredit for IPA Component I. On 21 November, a Prime Minister circular was issued to appoint Board of Treasury Controllers as the Audit Authority under IPA, and Minister Simsek (Treasury) as the Competent Accrediting Officer (CAO).

On 30 November, the European Commission was informed of the accreditation of the NAO and NF through the CAO, Minister Simsek, and of the accreditation of DIS for the management of IPA Component I through the NAO based on Art 76 of the IPA Implementing Regulation. The NAO stated that no high risk findings remained and that all remaining medium risk findings would be addressed the latest by January 20. A package containing all documents to be assessed as part of the EC conferral audit was submitted by the Turkish authorities to the Commission in early February 2008, in view of a possible conferral audit for Component I and II.

Component II – Turkey-Bulgaria CBC

As Turkey-Bulgaria CBC programme will be implemented through shared management with the Bulgarian Managing Authority in the lead, no additional accreditation or conferral of management as for the other Components is needed.

Component III: Regional Development and Component IV: Human Resources Development

The process of accreditation of the structures dealing with Component III and IV began in 2007. By the end of that year, the Gap Assessment and the Gap Plugging stages were completed and the Compliance Assessment stage was ongoing. Due to weaknesses identified, the Compliance Assessment stage had to be deferred to mid-2008. No application package had been submitted to the Commission by the end of 2007. The Commission expects the submission of the application package by end of September 2008.

The Commission decisional procedure to adopt the template of the Financing Agreement was expected to be adopted in mid July 2008. The signature of the Financing Agreements can only take place after the conclusion of the internal accreditation processes and the subsequent Commission Decision conferring management powers to national authorities.

Component V: Rural Development

The Rural Development programme will be implemented by conferring decentralised management powers without ex-ante controls to the Turkish Republic. The auditors from DG Agriculture and Rural Development conducted two advisory missions in May and November 2007. Despite progress made, it appeared that the original time-table for accreditation by mid 2008 is unrealistic as significant weaknesses remained to be addressed.

8.2.4. Overview of IPA programmes implemented

The implementation of programmes will effectively start once the conferral of decentralised management decision per component is taken by the Commission and the Framework and Financing Agreements have entered into force.

No IPA programmes were implemented in 2007, as the first IPA programmes were only adopted at the end of 2007.

8.2.5. Participation in Community Programmes and Agencies

This IPA Component I NP 2007 foresees Community financial support of € 58 million for Turkey's participation, inter alia, in the following programmes and agencies for the year 2008: Lifelong Learning +; Youth in Action; Culture; IDABC; Community Action field in public health; PROGRESS; CIP/EIP; Customs 2013; 7th Framework Programme for Research; European Environment Agency (EEA); European Monitoring Centre for Drugs and Drug Addiction.

8.3. Monitoring and Results

8.3.1. State of play for IPA Monitoring Committee and Sectoral Monitoring Committees

8.3.1.1. IPA Monitoring Committee

Programme implementation under IPA shall be monitored through the IPA monitoring committee assisted for each component or programme by Sectoral Monitoring Committees. Each committee shall satisfy itself as to the effectiveness and quality of the implementation of the programmes and operations. They may make proposals to the Commission and the national IPA co-ordinator, with a copy to the national authorising officer, for decisions on any corrective measures to ensure the achievements of programme objectives and enhance the efficiency of the assistance provided.

No joint IPA Monitoring Committee took place in 2007, yet in line with requirements from the IPA implementing regulation some 'shadow' sectoral monitoring committees for different programmes were established and had their inaugural meetings.

8.3.1.2. Sectoral Monitoring Committees

<i>Component / Programme</i>	<i>Date of meeting (shadow Committees)</i>
<i>IPA I TAIB Sectoral Committee</i>	<i>18 December</i>
<i>IPA III Regional Development Sectoral Committees</i>	
<i>Environment</i>	<i>27 November</i>
<i>Transport</i>	<i>26 November</i>
<i>Regional Competitiveness</i>	<i>27 November</i>
<i>IPA IV Human Resource Development Sectoral Committee</i>	<i>13 December</i>
<i>IPA V Rural Development Sectoral Committee</i>	<i>29 November</i>

As regards component III, the first round of Sectoral Monitoring Committee meetings provided the basis for a wider partnership involvement in overseeing the future implementation of the programmes and resolved key procedural issues (membership, internal rules of procedures, etc). The strategic role of the SMC will increase as the implementation of the programmes becomes effective upon the conferral of management and signature of the financing agreements.

Annual and final reports on implementation PA report on implementation was submitted by the national authorities in 2007, as the first IPA programmes were only adopted in the end of 2007 and implementation had not yet started.

The first sectoral annual implementation reports shall be submitted by the Operating Structures to the national IPA co-ordinator, the national authorising officer and to the Commission, after examination by the aforementioned sectoral monitoring committees and for the first time in 2008¹¹.

On the basis of these reports, the national IPA co-ordinator shall send the annual report on implementation to the Commission and the national authorising officer, after examination by the IPA Monitoring Committee and for the first time in 2008.

¹¹ The exceptions are Component II cross-border programmes, where the first sectoral annual reports shall be submitted "in the second year following the adoption of the programme" (i.e. in 2009), and Component V, where the first sectoral annual report shall be submitted within six months of the end of each full calendar year of programme implementation.

8.3.2. Evaluation results and Lessons learned

An ex-ante evaluation of the HRD OP was carried out in 2007 under the responsibility of the Ministry of Labour and Social Security. The results of the ex-ante evaluation were taken into account in the drafting process of the HRD OP. The final ex-ante evaluation report forms an integral part of the HRD OP adopted by the Commission.

An ex-ante evaluation was also carried-out by independent experts for the Rural Development programme. The conclusions/recommendations of this report were taken into consideration in preparing the final version of the programme.

No IPA evaluation of results was carried out in 2007, as the first IPA programmes were only adopted in the end of 2007 and implementation had not yet started.

8.3.3. Sectors with positive results- Success story

No results and success stories from IPA are available yet as no programmes were implemented in 2007.

PART II: MULTI-BENEFICIARY AND REGIONAL PROGRAMMES

9. THE YEAR 2007 IN REVIEW

The Multi-beneficiary programme is designed to complement the Component I National Programmes and to strengthen multi-lateral experiences in the Western Balkans and Turkey. It provides support through regional and horizontal programmes. The main activities of particular importance which took place in 2007 are identified below:

9.1. Addressing the Political Criteria

9.1.1. Regional Issues and International Obligations

9.1.1.1. Regional Cooperation Initiatives

European Community assistance to regional cooperation has been provided mainly through support to the Stability Pact for South Eastern Europe and its Special Coordinator, who was tasked to complement the EU Stabilisation and Association process (SAP) with the Western Balkans. Encouraged by the international community, the Beneficiaries and Members of the South East Europe Cooperation Process (SEEC) agreed in May 2006 to take over the ownership of certain regional cooperation activities. This led to the decision a year later to establish the Regional Cooperation Council (RCC). Considerable work was done in 2007 to establish the legal, administrative and financial basis of the RCC which formally commences operations in early 2008. It is a regionally owned cooperation structure located in Sarajevo and has been co-financed in the first three years by the Beneficiaries, the Commission and other interested donors.

As highlighted in the Communication on Enlargement Strategy and Main Challenges 2007-2008¹², the EU will continue to support local ownership of initiatives in regional cooperation. The RCC is seen as the key interlocutor for regional cooperation and therefore financial support will be provided to the RCC Secretariat. This will be complemented by support for thematic or sector specific regional initiatives originally launched under the Stability Pact.

9.1.1.2. Public Administration (*The Regional School for Public Administration (ReSPA)*)

The Regional School of Public Administration (ReSPA) aims to improve regional cooperation in the field of public administration, to strengthen administrative capacity as required by the European integration process and to develop human resources in line with the principles of the European Administrative Space. The ReSPA initiative emerged following the Thessaloniki agenda and continues to attract a lot of political interest. During 2007, training activities were continued in 2007 and it was agreed that the European Institute for Public Administration (EIPA) would support phase II of the project. A call for proposals to decide the seat of the future school was launched at the end of 2007.

¹² Communication from the Commission to the European Parliament and the Council – Enlargement Strategy and Main Challenges 2007-2008, COM(2007) 663, 6 November 2007

9.1.1.3. Support to Interim Civilian Administrations

The political uncertainties surrounding this support, in particular the failure to reach a settlement on the future of Kosovo in the Security Council, made it necessary to maintain the support to UNMIK Pillar IV for the whole of 2007. Commission Decisions provided for this support until the end of February 2008. An agreement was reached with DG External Relations to take over the management and financing of the Stability Instrument from February 2008 onwards, thus facilitating the continuation of support to UNMIK Pillar IV.

9.1.2. Civil Society Dialogue and Development

In line with the Communication from the Commission on Enlargement Strategy and Main Challenges 2007-2008, a revised strategy on Civil Society Dialogue and Development was established in 2007. It was agreed to coordinate and streamline support by focussing on three areas of intervention, constituting a new civil society facility:

- (i) Support to local civic initiatives and capacity building efforts;
- (ii) People-to-People programmes to EU institutions and bodies;
- (iii) Partnership activities between organisations in the beneficiaries and the EU.

It was decided during 2007 that the Multi-beneficiary programme would provide horizontal technical assistance to support the implementation and monitoring of both civil society initiatives and partnership actions managed from Brussels. Support provided is complementary to assistance given under the European Instrument for Democracy and Human Rights (EIDHR).

9.2. Addressing the Economic Criteria

9.2.1. Tempus, Erasmus Mundus and Youth in Action

Education: Multi-beneficiary IPA assistance is provided in Education via the established Tempus and Erasmus Mundus programmes. The Commission offered 100 scholarships for the academic year 2007/2008 to postgraduate students from the Western Balkans under the Erasmus Mundus programme. A further 500 scholarships are available for the academic year 2008/2009. Following discussions with Commission Rehn in April 2008, an additional 600 scholarships are available for the academic year 2009/2010.

Youth: Non-formal education and youth intercultural exchanges play an important role in creating an area of peace, stability, prosperity and freedom. The Communication on the Western Balkans of January 2006 indicated that the Commission will also create new opportunities under the Youth Programme. In 2007, the 'Youth in Action' programme replaced the Youth programme. This programme supports projects leading to improved intercultural dialogue and tolerance among young people, social inclusion of disadvantaged youngsters, as well as the strengthening of youth NGOs and the development of civil society. The new 'Western Balkan Window' was established in 2007 within the Youth in Action Programme to allow more projects submitted by organisations from the Western Balkans to be supported. Continuation of this Window will contribute to further expand the actions of the European Commission in the field of non-formal education and youth in the region, and to achieve the objectives set in the Commission Communication of the Western Balkans of

January 2006 and March 2008. Particular attention will be paid to promoting actions in this at national, regional and EU levels.

9.2.2. International Financing Institutions

To improve access to finance by candidate and potential candidate countries and territories, a strategy was decided in 2007 to develop regional initiatives with International Financing Institutions (IFIs) during the coming years along three strands:

- (i) Support to private investments
- (ii) Promotion of energy efficiency investments
- (iii) Support to investments in infrastructure remediation and upgrading

In light of this new strategic approach, it was agreed to extend the existing energy efficiency facility to the Western Balkans. Significant resources are now being devoted to the newly established Infrastructure Projects Facility to prepare and promote infrastructure investments in transport, energy, environment and the social sector; these efforts are being made in cooperation with the EIB, EBRD, CEB and other interested IFIs. At the same time, endeavours are being continued to improve the efficiency of current facilities, including the SME facility which has been impacted by delays in implementation. Cooperation with the European Fund for Southeast Europe (EFSE) to make loan facilities available to micro-enterprises and households are also being continued.

The Commission, the EIB, the EBRD and the Council of Europe Development Bank committed to establish a Western Balkans Investment Framework by 2010 with other IFIs and donors to further enhance harmonisation and cooperation in investments for socio-economic development in the region.

Regarding coordination with the IFIs, the second meeting of the IFI Advisory Group, which is linked to the implementation of the Memorandum of Understanding signed with the IFIs in mid-2006, was scheduled for January 2008. Technical Working Group meetings were established for Transport and Energy (September) and Environment (October). A first meeting for the Social sector was not possible in 2007 but was held in January 2008. A two-day IFI coordination meeting with participants of all major IFIs, DG ELARG geographical teams and Delegations as well as line DGs was held on 10-11 December 2007.

9.3. Ability to assume the obligations of Membership and approximation to European Standards

9.3.1. Customs and Taxation

The project to support Customs administrations in the Western Balkans proceeded according to plan i.e. (i) a second contract (€11.42M (CARDS 2006 (€5.3M and IPA 2007 €6.12M)) was signed with Eurocustoms to provide assistance during the second half of 2007 and (ii) a consortium was awarded the contract (€7.06M) to continue to support, on a multi-country basis, the relevant Beneficiary Customs¹³ and Taxation¹⁴ administrations until early 2009. The

¹³ Albania, BiH, Montenegro, Serbia and Kosovo (under UNSCR 1244).

¹⁴ BiH and Kosovo (under UNSCR 1244) only.

Commission's policy is that the programming and implementation of support to Customs and Taxation will gradually evolve from having been programmed and managed horizontally (by the Regional Programmes Unit) to being managed by the Geographical Units and Delegations, starting with Taxation in 2007 and with Customs from 2008.

10. IPA IN 2007

10.1. MIPD 2007-2009

The Multi-beneficiary Multi-annual Indicative Planning Document (MIPD) 2007-2009 provides the strategic three-year plan for programming of the assistance to potential candidate and candidate countries and territories through regional and horizontal programmes. Multi-beneficiary actions complement and add value to the support given under the Component I National Programmes. Multi-beneficiary IPA assistance is programmed through regional and horizontal programmes:

- Regional programmes facilitate, in particular, the regional cooperation process among the Beneficiaries of the Western Balkans, although Turkey may also partake. These programmes endeavour, in particular, to promote reconciliation, reconstruction and political cooperation.
- Horizontal programmes address common needs across several IPA Beneficiaries and seek to attain efficiencies and economies in implementation by providing centrally managed and/or jointly managed assistance with international organisations rather than by implementing the programmes on a national basis. Institution building activities are also performed in this framework, notably through instruments such as TAIEX and SIGMA.

Multi-beneficiary actions focus therefore on support that requires collaboration among the Beneficiaries, such as regional structures, networks of experts or civil servants or to tackle needs or problems of a cross-border nature. Certain support under IPA is also concentrated under Multi-beneficiary assistance in order to have a coordinated approach and facilitate administration and assistance. This includes, for example, collaboration with International Financial Institutions for the joint implementation of certain finance facilities and support to the participation in Tempus, Erasmus Mundus or Youth in Action programmes. The Multi-beneficiary MIPD also includes the IPA support given to nuclear safety and radiation protection, the Interim Civilian Administration in Bosnia and Herzegovina, communication and administration, as well as audit, evaluation and monitoring.

The Multi-beneficiary 2007-2009 MIPD was based on an indicative financial envelope of € 401.4 million.

10.2. Programming exercise

The Accession and European Partnerships as well as the Annual Progress Reports set down the priorities for programming of assistance under the IPA Multi-beneficiary Programme 2007-2009. In addition, the Communications from the Commission on Civil Society Dialogue and on the Western Balkans have been taken into account. During 2007, the Commission has further endeavoured to establish a transparent consultation process in particular with the Beneficiaries. This process is aimed at enhancing, as far as possible, local ownership of the choices, content and design of the programmes. Consultations take place at regular intervals during the programming phase with amongst others, the Beneficiaries, European Commission

Delegations, Stability Pact, International Financial Institutions, Civil Society Organisations, line Directorate Generals as well as with other Donors.

The strategic choices identified in the Multi-beneficiary MIPD 2007-2009 and the Annual Programmes were made based on guidance provided in these EU strategic documents, the lessons learned from the programming and implementation of previous EU assistance and the findings from consultations with the aforementioned parties.

10.3. Implementation Modalities and Structures

The Multi-beneficiary programme is managed through centralised and joint management. Centralised management is mainly in the form of implementation by the Commission services at Headquarters, but may also be possible by devolved management by the Commission Delegation in the beneficiary countries or by indirect management through Community agencies, Community bodies or national public sector bodies. Joint management is complementary to the central management in that the Commission is the Contracting Authority and is managing the funds jointly with an international organisation.

10.4. Overview of IPA programmes implemented

The Multi-beneficiary IPA budget (€108.9 million) was complemented with € 51.4 million which was transferred from the National Programmes to facilitate the implementation of projects in the areas of Nuclear Safety and Radiation Protection (€ 8.2 million), Education (€ 29.5 million) and Customs (€ 13.7 million).

Of the total € 160.3 million (€ 108.9 million + € 51.4 million) budget, eleven contracts in the following areas were completed in 2007: Customs and Taxation (€ 6 million), Support to UNMIK (€ 20.7 million), Monitoring (€ 2 million), Stability Pact (€ 2.12 million) and Participation in Community Agencies (€ 1.2 million).

10.5. Participation in Community Programmes and Agencies

The ticket to participate in the Programmes or Agencies is financed through the National Programmes. Support was provided under the Multi-beneficiary IPA 2007 programme to facilitate the preparation of Croatia, Turkey and the former Yugoslav Republic of Macedonia in certain Community Agencies.

11. MONITORING AND RESULTS

11.1. Monitoring

No monitoring activities have been carried out yet.

11.2. Evaluation results

As project implementation commenced only in the second half of 2007, no evaluation has been completed as yet.

11.3. Sectors with positive results- Success story

As project implementation commenced only in the second half of 2007, there are neither results nor success stories as yet.

PART III: TECHNICAL AND FINANCIAL ASSISTANCE

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 and to benefit fully from European Union membership.

This instrument has mobilised significant human and financial resources of the Commission as well as of the Member States and the beneficiary countries. Twinning projects are based on the secondment of EU public sector experts (Member State officials or mandated body experts), known as Resident Twinning Advisors 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 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. The average budget for a twinning project is €1 million. Almost one half of these projects concerns Justice, Freedom and Security issues, Public Finance and Internal Market matters. Other areas prioritised include Agriculture and fisheries, Environment and Social policy.

The 2007 programming exercise (the first under IPA) at this stage encompasses 41 projects. To date, 16 Twinning projects have been launched. Moreover, about 25 Twinning projects are programmed to be launched under IPA 2007. The distribution of launched and programmed Twinning projects in the Candidate and Potential Candidate Countries for 2007 is as follows:

Number of IPA 2007 Twinning projects <u>launched</u>		Number of IPA 2007 Twinning projects <u>programmed</u>	
Kosovo	2	Albania	1
Montenegro	3	Bosnia and Herzegovina	5
Turkey	11	Croatia	11
		former Yugoslav Republic of Macedonia	1
		Serbia	7
Total	16	Total	25

(In 2007 Twinning projects have also been launched and implemented in Romania and Bulgaria under the Transition Facility programme).

The 16 Twinning projects launched to date are projects in the following sectors: Justice and home affairs (9), Agriculture and fisheries (3) Internal market and economic criteria (2) and Environment (2).

Furthermore, 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.

2. TAIEX

TAIEX¹⁵ 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 IPA beneficiary countries partners the TAIEX instrument also covered the 12 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.

¹⁵ Technical Assistance Information Exchange Instrument

The TAIEX operation continued to develop in a positive and dynamic manner in the course of 2007. The total number of incoming requests from rose sharply from 1,049 in 2006 to 1,591, an increase of 52%. The major part of applications came from the IPA beneficiary countries (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 408 were organised for IPA beneficiary countries.

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 11,158 participants came from IPA countries and 1,644 experts were involved in projects related to IPA 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.

3. SIGMA

Since 1992, this 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. It will cover 2009-2010 with an increased global budget of €10.5 million.

PART IV: FINANCIAL DATA

In 2007, € 1218.4 million was allocated from the EU budget to operational programmes under the Instrument for Pre-Accession assistance. Overall the execution rate was 100 %, although € 50.2 million (4 %) of this was carried forward to the 2008 Budget and committed by March 2008. This related to 8 programmes¹⁶ for which preparations were finalised towards the very end of the year following which there was no time for adoption in 2007.

Due to the adoption of most of the IPA programmes late in the year, the consumption of payment credits was lower than the forecasts made in the PDB 2007. As a result of this, payment credits of several IPA budget lines were returned in the Global Transfer exercise. No payments were executed under the IPA CBCs since the Commission Decision adopting these programmes was carried forward to 2008. Concerning the IPA Institutional Building component, € 2.7 million were paid for Bosnia & Herzegovina, € 18.6 million for Kosovo as well as € 8 million under the IPA Regional programmes. No payments were executed for Albania, Croatia, FYROM, Montenegro, Serbia or Turkey."

1. IPA FUNDS BY YEAR

Year	Funds Committed
2007	€ 1,218,407 million

¹⁶ Programmes carried-forward were: CBC Hungary-Croatia; CBC Slovenia-Croatia; CBC Hungary-Serbia; CBC Romania-Serbia; CBC Bulgaria-Serbia; CBC Adriatic; SIGMA 2007; additional funds for participation in the European Fund for Southeast Europe]

2. IPA FUNDS BY COUNTRY 2007 (IN EURO)

Partner Country	Commitments (1)	Contracts (2)	Payments (3)
<i>Albania</i>	61,000,000		
<i>BiH</i>	62,100,000	5,697,918	2,706,511
<i>Croatia</i>	141,227,000		
<i>Former Yugoslav Republic of Macedonia</i>	58,500,000		
<i>Kosovo</i>	68,300,000	20,704,005	18,633,605
<i>Montenegro</i>	31,400,000		
<i>Serbia</i>	189,700,000		
<i>Turkey</i>	497,200,000		
<i>Multi-beneficiary</i>	108,980,000	22,676,232	7,996,785