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

**2009 ANNUAL REPORT ON THE IMPLEMENTATION OF THE INSTRUMENT
FOR PRE-ACCESSION ASSISTANCE (IPA)**

SEC(2010) 1430

Summary

This report presents the activities undertaken for the implementation of the Instrument for Pre-accession Assistance (IPA) during the year 2009 and provides a general overview of developments, including some considerations on future perspectives.

The report outlines that, in 2009, the Commission has made concrete steps towards improving the IPA instrument's effectiveness, impact and sustainability by paving the way for a sector-based approach to strategic planning and programming, by enhancing donor coordination and by increasing beneficiaries' ownership. Better policy design and implementation will improve policy dialogue and help achieve better results in the EU integration process of the Western Balkans, Turkey and Iceland.

Details on programming and implementation activities for IPA beneficiary specific or multi-beneficiary programmes during the reporting period are available in the background document to the present report¹ (Sections I and II), followed by financial data (Section III). The general framework of the IPA financial instrument is also recalled in the introduction to the background document.

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1. THE YEAR IN REVIEW

1.1. Main evolutions of the enlargement process

2009 was a year of stability and security in the Western Balkans and in Turkey, with positive evolutions concerning mobility and neighbourly relations. In the wake of the world-wide financial and economic crisis, the Commission contributed to ensuring macro-economic stability in the region, *inter alia* by introducing a financial crisis package for the region, including direct budgetary support for Serbia, funded by IPA.

During the reporting period, new EU membership applications were submitted by Albania (in April), Iceland (in July)² and Serbia (in December) while Croatia made more progress towards reaching the final stages of accession negotiations. Montenegro, Serbia, and the former Yugoslav Republic of Macedonia achieved visa-free travel to the Schengen area, having fulfilled the conditions set in the visa liberalisation roadmaps. The Commission also continued to work with Albania and Bosnia and Herzegovina to achieve the lifting of their visa obligations.

However, challenges remained. In 2009 the countries of the Western Balkans and Turkey had still, to varying degrees, substantial work ahead in meeting the established criteria and

¹ Staff Working Document - Background document to the report from the Commission to the Council, the European Parliament and the European Economic and Social Committee - 2009 annual report on the implementation of the Instrument for Pre-accession Assistance (IPA)

² The Commission proposed to amend the IPA Regulation 1085/2006 in October 2009 with a view to include Iceland as an IPA beneficiary (subsequently approved in 2010, through Regulation (EU) No 540/2010 of 16 June 2010).

conditions for accession. The pace of reform was often slow and the international economic crisis added to the strains.

The Commission assessment on candidate countries' and potential candidates' progress towards meeting, respectively, the conditions for accession and the terms of the Stabilisation and Association Agreements was presented in the document "Enlargement Strategy and main challenges 2009-2010" and the accompanying progress reports³, published in October 2009. The findings and recommendations of this Commission Communication were broadly endorsed by the Council in December 2009.

1.2. Main strategic developments for an improved delivery of IPA assistance: learning the lessons of two years of implementation

In 2009, the Commission proceeded with its reflection on the effectiveness in planning and programming IPA assistance, leading to new approaches.

A donor coordination conference in Tirana on 2nd April took stock of the progress made in advancing donor coordination on the ground. The conference analysed the strengths and weaknesses of existing coordination mechanisms at the national and regional levels and came up with concrete recommendations to be followed in achieving better coordination and aid effectiveness. Also, the conference discussed the possibilities of enhancing strategic programming and aid harmonisation alongside the National Development and EU integration Plans adopted by IPA beneficiaries and in the MIPDs.

A conference on Effective Support for Enlargement, organised jointly by the Commission and the Swedish Presidency of the EU in Brussels on 19th October, examined broader aspects of the aid effectiveness agenda and concluded that an approach in programming assistance based on the beneficiary's needs and strategies could contribute to the advancement of the efficiency of pre-accession aid. It concluded that such an approach would be beneficial, not only in addressing the pre-accession priorities, but also in helping to overcome the impact of the financial crisis and, since some of the donors in the Western Balkans were better equipped to address those difficulties rapidly, close donor coordination would enable IPA to target its support in the most effective and complementary way.

Evaluation reports on programming and implementation of both IPA and earlier pre-accession assistance (cf. section 3 below) also proved to be a valuable source of reflection on better ways to ensure that overall assistance objectives will be met.

Lessons from these reports informed the Commission's efforts to **move pre-accession assistance increasingly from a predominantly project-based to a more comprehensive, policy-based approach** in order to increase its overall impact. In November the Commission took the decision to introduce progressively the **sector-based approach in the planning of IPA**. These efforts were developed in 2010 to feed into the strategic planning and programming of assistance (cf. section 3 below for details), and will continue in 2011.

In December 2009, the General Affairs Council gave a political backing to this new sector-based planning of IPA by endorsing the conclusions of the abovementioned conferences: *« The Council ...emphasises the essential link between enlargement policy priorities and financial assistance, in line with the results from the recent conferences designed to improve*

³ See in http://ec.europa.eu/enlargement/press_corner/key-documents/reports_oct_2009_en.htm

aid effectiveness,...,welcomes the efforts by the Commission to closely align IPA annual programmes with the priorities identified in the Progress Reports. »

Also in light of conclusions from the evaluation reports, IPA programming was already streamlined in 2009 with fewer, larger projects designed to make implementation easier to manage and increase its effectiveness and visibility. The main focus continued to be on Institution Building, in particular rule of law related areas, in line with the Enlargement strategy. Socio-economic development also remained an important priority, in particular in light of the economic crisis. A crisis response package was adopted for the Western Balkans and Turkey, and budgetary support was provided to Serbia, linked to an IMF agreement.

2. PROGRAMMING AND IMPLEMENTATION OF IPA: GENERAL OVERVIEW

2.1. Strategic Planning & Programming

2.1.1. Multi-annual Indicative Financial Framework (MIFF)

The following table provides the 2009 IPA allocations in million EUR by beneficiary and by component, as well as for the multi-beneficiary programme as updated in the 2011-2013 MIFF⁴. The figures take into account transfers made between components I and II during the course of 2009.

Table 1: 2009 allocations by beneficiary and by component (in current prices in million EUR)

IPA beneficiaries/ Components	I	II	III	IV	V	TOTAL
Albania	71.4	9.8				81.2
Bosnia and Herzegovina	83.9	5.2				89.1
Croatia	45.6	15.9	49.7	14.2	25.8	151.2
former Yugoslav Republic of Macedonia	39.3	4.4	20.8	7.1	10.2	81.8
Kosovo	106.1					106.1
Montenegro	28.6	4.7				33.3
Serbia	182.6	12.2				194.8
Turkey	239.6	3.0	182.7	55.6	85.5	566.4
Multi-beneficiary	166.1					166.1
TOTAL	963.2	55.2	253.2	76.9	121.5	1 470.0

Information concerning the basis for the allocations per beneficiary and per component can be found in the Commission Communication on the MIFF.

2.1.2. Multi-annual Indicative Planning Documents (MIPDs)

The 2009-2011 MIPDs were submitted for opinion to the IPA Management Committee in the first half of 2009, namely in March (Albania, Bosnia and Herzegovina, Serbia, the former Yugoslav Republic of Macedonia, Montenegro and Kosovo MIPDs) and April (Croatia, Turkey and the Multi-beneficiary MIPDs). With one exception due to abstentions, they

⁴ COM(2009)543 final of 14 October 2009

received a unanimous positive opinion by Member States and were all adopted by the Commission between June and July.

As in previous years and in line with Article 6.5 of the IPA Regulation, the main priorities under each component as foreseen in the existing 2008-2010 MIPDs were reviewed. **Continuity** prevailed, given the lack of developments in the EU, the region or elsewhere that might have justified substantial revisions. National authorities and other relevant stakeholders (Member States, International Financial Institutions (IFIs), potential beneficiaries, civil society) were consulted during the review process.

As far as the volume of assistance under component I was concerned, the ability to assume membership obligations/*acquis* implementation remained the priority for candidate countries, at an equal level with the political criteria as far as the former Yugoslav Republic of Macedonia was concerned. Civil society dialogue came second for Turkey, as did the political criteria for Croatia. Regarding potential candidates, economic criteria prevailed for Serbia, Montenegro and Kosovo, while the ability to assume membership obligations did so for Albania and Bosnia and Herzegovina, together with the political criteria as far as the latter was concerned. The political criteria came next for Serbia, Kosovo and Albania, while Montenegro gave equal focus to that and to European standards.

In the context of the IPA Management Committee, the Commission and Member States discussed ways to *pay greater attention to* the following aspects in programming documents:

- Apply the lessons learned from accreditation for decentralised implementation in candidate countries to the accreditation process in other IPA beneficiaries. In general, align decentralised management more to beneficiary systems, in order to strengthen ownership and absorption capacity. Refrain from setting a timeframe for accreditation;
- Highlight more explicitly results expected in relation to strengthening European integration structures, beyond EU-accession requirements. Involve European integration structures more in programming, for verification against national accession-related priorities. Align IPA assistance more closely to national strategic planning or, where the latter is lacking, focus on strengthening further governments' planning, budgeting and performance management systems;
- Pursue efforts undertaken to identify a reduced number of priorities, or 'top' priorities agreed with the government. Pay more attention to lessons learned, elaborate further objectives, expected results and measurable indicators;
- Where absorption capacity is an issue, consider revising programming accordingly taking into account the feasibility of the expected results within the MIPD timeframe; strengthen further the capacities for regional development.
- Further efforts to increase the division of labour and donor partnership, with major bilateral and multilateral assistance in key areas. Enhance further the consultation process with the beneficiaries based on a clear timetable, including early stakeholders' consultation prior to drafting the project fiches;
- Provide clearer guidelines for tackling cross-cutting issues, including sustainable development and specific objectives for gender issues and equality;

- Secure further support for projects related to the political criteria, judicial reform and the fight against corruption. Dedicate increased attention to public-procurement issues;
- Strengthen further the local administrative capacity and structures in the environmental sector and advocate the goal of gender equality for new environment jobs (Component III). Define more clearly the process for, and stakeholders' influence in, the analysis of social inclusion and related strategy definition (Component IV). Prioritise further the leaders' approaches and define more clearly horizontal issues (Component V);
- Reinforce local communication on the relevance of multi-beneficiary activities for accession, also as a way to increase national ownership of regional initiatives. Insist on securing regional ownership and involvement of regional cooperation structures in the programming process.

In line with these discussions, the Commission took measures to increase the consultation mechanism, reinforce the link between the MIPDs and national strategies and ensure beneficiaries' ownership to a higher degree than before. The MIPD structure will be further reviewed, in order to align it with progress towards a more sector-based approach to IPA financial assistance and to provide for a more comprehensive programming framework.

2.1.3. *Programming of assistance in 2009*

Programming activity in 2009 consisted mainly in the finalisation and adoption of IPA 2009 national/annual and multi-beneficiary programs under component I as well as starting the preparation of IPA 2010 programs. With regard to cross-border cooperation programmes, programming activity was limited to adding the 2009 financial allocations to the on-going multi-annual programmes adopted in 2007, while there were no revisions of substance to the programmes themselves. The same applies to the programming of components III for the former Yugoslav Republic of Macedonia and to component V, while there was no programming activity in 2009 neither under component III for Croatia and Turkey nor under component IV, as the existing multi-annual programmes were already covered for that year. Generally, **lessons learned** from past experience in all candidate countries and potential candidates informed the programming exercise under component I (project identification and definition). Lessons identified for IPA beneficiaries included the need to *pay greater attention to the following*:

- *project design and maturity* (in terms of, *inter alia*, the availability of needs analyses, designs, feasibility and market studies; underlining risks and assumptions; beneficiaries being established; simple implementation arrangements);
- *administrative and absorption capacity* of beneficiaries (*inter alia* based on past performance and existing workload of ongoing CARDS and IPA projects);
- *ownership*, to be increased by addressing also beneficiaries' own development strategies and action plans and through early beneficiaries' involvement in planning and programming of assistance as well as in implementation;
- *sustainability of results*, through careful planning, prioritization and timely sequencing of operations and attention to conditionality;

- *coordination at different levels*, i.e. among donors, with other linked activities, between central and local governmental bodies;
- *the number of key priorities*, to be limited and closely aligned with the beneficiaries' European reform agenda;
- *links to the budget* and the medium term expenditure framework;
- increased monitoring, impact, visibility, involvement of civil society and cross-cutting issues.

Project selection was based on various parameters reflecting the above lessons, including: i) consistency with strategic priorities and existing sector strategies, ii) the identification of needs, priorities and relevant stakeholders for project development and implementation, iii) the maturity and sustainability of projects, iv) beneficiary's implementation capacity, v) prioritization and careful sequencing in line with political and strategic priorities, vi) relevance and impact, vii) continuity and/or complementarities with past or ongoing assistance/other donors, viii) no duplication, and ix) new possible areas of assistance emerging from political and technical dialogue.

Highlights of the programming exercise in 2009 under component I were as follows:

- Twinning was the preferred implementation instrument for legal approximation-related projects in **Croatia** and its use was set to increase;
- There were fewer contracts than in the previous year's programme in **the former Yugoslav Republic of Macedonia**, although still in high number. Programming quality improved;
- 2009 programming in **Turkey** was based on a detailed definition of steps, criteria and deadlines (programming process document). The Commission called for coherent sector strategies to guide the programming process and stakeholders' involvement in the programming cycle through sectoral working groups. Ownership improved and civil society dialogue was given special attention as a response to the economic and financial crisis, together with the transfer of EUR 35 million from component I to the Multi-beneficiary Crisis Response Package - Energy Efficiency Facility and an exceptional contribution to support Turkey's participation to EU programmes. On the other hand, the beneficiary's agreement - in principle - with an earlier preparatory phase and with more sectoral working groups, as well as discussions on how to make programming more strategic and policy-linked, were not yet followed by an agreement on concrete measures. It was crucial for the beneficiary to maintain flexibility on an upcoming-needs basis concerning the sectors supported using the programming exercise to stimulate reform in all ministries. Initial project proposals were a third less than in 2008 (a trend confirmed in the 2010 programming process) and support from the Commission was still necessary to bring them to sufficient maturity;

The situation should improve following the adoption in July 2009 of a law defining the organisation and duties of the responsible implementing structure. The gradual introduction of sector approaches to the planning and programming of assistance should increase ownership and strengthen the links between financial assistance and political priorities. The definition of more relevant and measurable indicators and

benchmarks will also be sought, together with an increased focus on the results and impact of projects. The capacity of structures involved with IPA programming, implementation and monitoring shall be improved and the working of sectoral monitoring sub-committees shall be reviewed, as well as the new MIPD;

- There was higher beneficiary involvement in programming in **Albania**, leading to improved ownership. The quality of project fiches was improved and there was a trend towards fewer but bigger (infrastructure) projects, in response to the financial crisis;
- Programming in **Bosnia and Herzegovina** focused on measures aimed at alleviating the impact of the financial crisis. There was an increased proportion of assistance going into joint or indirect centralised management agreements with IFIs and with other national and international actors. A trend towards fewer, bigger projects was apparent also in this case;
- In **Kosovo** there was an increased involvement of beneficiary institutions in programming, with a higher number of project proposals presented than in the past (however showing somehow lack of prioritisation and filtering). Close co-ordination with the EU's Rule of Law Mission (EULEX) and the EU Special Representative / International Civilian Office (EUSR/ICO) ensured the complementarity of European Union action;
- Programming in **Montenegro** witnessed an improved quality of draft project fiches and an increased attention to conditionality (co-financing, land ownership and acquisitions for infrastructures) and the size of projects, consistent with the (small) size of the administration and its absorption capacity. Other features included enhanced complementarity and collaboration with other donors; improved civil society consultation; more leadership by the beneficiary for the 2010 programming (started in 2009) and the focus gradually shifting towards the economic criteria and the ability to assume membership obligations;
- In **Serbia**, the programming process was characterised by the close involvement of beneficiary institutions and good quality programming documents. Over 60% of the assistance under component I was provided in the form of budget support to protect structural reforms; general conditionality including a sustainable macro-economic and fiscal framework, supported by IFIs; administrative and financial circuits establishing a sound fiduciary environment; specific disbursement conditions related to sound public financial management; maintaining and developing the administrative capacity of relevant EU-accession related institutions and bodies. By the end of the reporting period, a new budget system law had been submitted to Parliament by the Government and the latter had adopted the public internal financial control strategy.

Detailed information on the content of each IPA 2009 national/annual programme and of the IPA 2009 Multi-beneficiary programme can be found in the background document (Part I and Part II). The same can be referred to for multi-annual programmes under Components II to V.

2.2. Implementation

2.2.1. Implementation Modalities and Structures

Assistance under IPA is designed to prepare candidate countries and potential candidates to assume full responsibility for the management of EU financial assistance. Therefore, decentralised management by the beneficiaries is the 'target' management mode, to be achieved as soon as their administrative capacities are considered sufficiently developed, and the appropriate management and control systems are in place to ensure sound financial management. For candidate countries, the medium term objective is fully decentralised management, i.e. with Commission *ex post* control only (whereas component V assistance is implemented in that way from the start). Each beneficiary must therefore have specific strategies, action plans and timetables in place for moving towards those objectives, while at the same time preparing national authorities to have adequate capacity for assuming the increased related responsibilities.

In 2009, **progress towards conferral of management powers for decentralised management** advanced at different speed in **potential candidates**. By the end of the reporting period, **Albania** made solid progress on component I (setting up of key structures, making key nominations and having staff in relevant implementing agencies trained) and promising progress on component V (preparing a draft roadmap to decentralised management without *ex-ante* controls), while still remaining at an early stage with regard to components II, III and IV. On the other hand there was little progress in **Bosnia and Herzegovina**, with only the nomination of the National IPA Coordinator within the Ministry of Finance, while the Central Finance and Contracting Unit (CFCU) and the National Fund remained not fully staffed. **Kosovo** remained at a very early stage in the preparation of a roadmap for decentralised management. There was some advancement in **Montenegro** for components I and II, with the 'gap assessment' mission, while for components III to V identification of the main implementing bodies was not yet followed up with other key steps, including roadmaps definition. Having last updated their roadmap to decentralised management in March 2009 and appointed all key actors by the end of the reporting period, **Serbia** was still not meeting its commitments in terms of number of staff in EU integration structures, due to budget restrictions.

With regard to **candidate countries**, in 2009 **Croatia** proceeded to strengthen its already accredited system for the decentralised management of IPA components I to IV, notably with regard to internal audit, the Audit Authority and control functions of the Operating Structures. Roadmaps for lifting *ex-ante* controls on components I, III and IV were prepared, the last one needing improvements. A new implementing structure was set up for component II, but the waiving of *ex-ante* controls was not yet achieved by the end of the reporting period. With regard to component V, management powers were conferred in 2009 for two out of seven measures. Other measures are expected to be accredited in 2010.

Plans for the conferral of management under component I in the **former Yugoslav Republic of Macedonia** in 2009 suffered a set back due to a number of high risks identified within the relevant implementation and control structures. Accreditation was instead conferred for the management of components III, IV and V and a roadmap towards decentralised management without *ex-ante* controls for component III was submitted to the Commission for consideration (while for component IV this was expected in the first half of 2010). There was no request for conferral of management under component II in 2009, while one was expected for 2010.

In 2009, management powers were conferred to **Turkey** for operational programmes under components III and IV, followed by the signing of the related four financing agreements. The country prepared roadmaps for full decentralisation, took legislative measures to strengthen the accredited structures under component I and prepared plans to address the remaining weaknesses in the management and control systems, although by the end of the reporting period it had not yet put them into operation. In the meantime the implementing agency of component I saw its capacity stretched as a result of the operating structures under components III and IV having delegated to it certain tendering and contracting functions up to 2010. There were no positive developments in 2009 regarding accreditation under component V, due to delays in the timetable for national accreditation caused by factors, such as the complex structure of the IPA rural development programme in Turkey and the lack of high level political commitment for the process. A revised action plan prepared in the year under review foresaw a national accreditation for 2010 that would allow for the conferral of management in 2011. Implementation of component V funds for 2007 and 2008 may be at risk as a result. Progress under component II under shared management was also limited.

Audit reports in candidate countries found that the progress made by the national systems was mixed. Systems audits conducted by the Commission in Turkey continued to show high-risk findings, albeit in smaller numbers than in previous years. In Croatia, the authorities had noticeably strengthened the management and control systems for IPA funds. However, concerns remained about the feasibility of the roadmap proposed by the National Authorising Officer for the waiver of the Commission's *ex ante* controls, leading the Commission to consider the possibility for partial waivers of individual controls.

2.2.2. Overview of IPA implementation in 2009

2.2.2.1. Component I

Table 2: Global Overview of IPA 2007-2009 Component I (annual programmes) amounts committed, contracted and paid as at 31 December 2009 per beneficiary, in million EUR

IPA beneficiaries	Committed	Contracted	%Contracted	Paid	%Paid
Albania	183.17	49.97	27.28%	14.67	8.01%
Bosnia and Herzegovina	196.99	58.59	29.74%	12.91	6.55%
Croatia	131.38	19.48	14.83%	13.48	10.26%
former Yugoslav Republic of Macedonia	109.12	21.98	20.14%	10.85	9.94%
Kosovo	348.30	149.95	43.05%	59.02	16.95%
Montenegro	79.10	32.74	41.39%	8.74	11.05%
Serbia	504.03	242.80	48.17%	83.50	16.57%
Turkey	716.88	247.80	34.57%	227.75	31.77%
Multi-beneficiary programme	597.88	421.50	70.50%	261.54	43.74%

Candidate countries

In Croatia, the contracting of IPA in 2007 and 2008 under component I reached 32% and 12% respectively by the end of the reporting period. There was no contracting activity under IPA 2009. Implementing IPA 2007 and 2008 programmes during 2009 was a challenge in

terms of administrative capacity for Croatia, although an increase in human resources in the implementing agency helped speed up procurement compared to the situation under the previous PHARE instrument. *Acquis implementation* (as opposed to adoption) and administrative strengthening in view of post-accession management of Structural Funds were the focus of activity, though results and impacts of assistance in these fields will be apparent only after accession.

Implementation activity under component I continued in 2009 in **the former Yugoslav Republic of Macedonia**, with IPA 2007 allocations under the first financing agreement fully contracted by the deadline of 30 October. Contracting proceeded also under the second financing agreement. By the year end, two-thirds of IPA 2007 allocations were contracted. With regard to IPA 2008 and IPA 2009 programmes, there was virtually no contracting in 2009, while activity concentrated on project preparation, under decentralised management as far as IPA 2009 was concerned. Institution/capacity building activity under the TAIEX instrument was intense, particularly in the fields of agriculture, internal market and justice and home affairs.

Following the ratification of the IPA Framework Agreement in late 2008, the implementation of IPA could finally start in **Turkey** in 2009. Two financing agreements for implementation of IPA 2008, worth 256 million EUR, were signed in March and April. By the end of the reporting period, contracting of IPA 2007, 2008 and 2009 had reached, respectively, a third, a fourth and over two fifth of committed funds. Results on the ground are not yet available to report on, as the implementation of contracts started towards the end of the reporting period. Nevertheless, noteworthy under component I is a twinning project related to children's rights that started towards the beginning of the year for which progress was visible and expected results appeared to be on target. Also worth mentioning, for its positive impact on institution/capacity building, is the intense activity under the Technical Assistance and Information Exchange (TAIEX) instrument that took place during 2009. A very high participation to the Lifelong Learning and Youth in Action programmes is also to be mentioned for its contribution towards enhancing mutual EU-Turkey knowledge and understanding.

Potential candidates

By the end of the reporting period 52% and 43% of – respectively - IPA 2007 and IPA 2008 allocations were contracted in **Albania**. Although there were no projects reaching completion and therefore no related results to report on, the implementation of some relevant capacity building projects started in the second half of the year, supporting the Albanian authorities in (re)designing and/or implementing the whole spectrum of the Albanian Police's activities, the decentralised management roadmap, the Cross Cutting Strategy against Corruption, SMEs policy and support measures. More capacity building activities started also in relation to the Rural Development strategy and measures against animal diseases. A work contract related to rural roads infrastructure was signed at the end of the year. Various calls for proposals for twinning projects were launched in 2009, mainly covering the finance sector, while none was signed yet by the year's end. TAIEX and SIGMA activities also took place.

As already reported in 2008, implementation under IPA 2007 in **Bosnia and Herzegovina** could not start until 2009, due to delays in adopting tax-exempting legislation for IPA-funded contracts. Additional delays accumulated in 2009 with relation to the signature of financing agreements, bringing about limited progress in implementation both with regards to IPA 2007 and IPA 2008. There was improvement in contracting with 45 contracts signed under IPA in

2009 as against 6 in 2008. By the end of the reporting period, the contracting of IPA 2007, IPA 2008 and IPA 2009 had reached – respectively - 70%, 13% and 14% of available funds. Four twinning projects were launched in different sectors, but none were implemented yet. SIGMA also provided institution building support. Because of the above delays, there are no concrete results to report on under Component I during the reporting period yet.

There was good progress in IPA implementation in **Kosovo** in 2009, with contracting by the ECLO hitting target at 90% and almost 40% of IPA 2007 and IPA 2008 funds, respectively. Positive results were already visible under ongoing projects (including completion and handing over of reconstructed or new houses for minority returnee families in one of the four municipalities concerned; 44 students granted scholarships to be trained at EU universities; sports and playground facilities opened in four municipalities) while other projects (e.g. on sustainable resettlement and reintegration of Roma, Ashkali and Egyptian communities) were launched by the end of the reporting period.

75% of IPA 2007 and 45% of IPA 2008 were contracted by the year end in **Montenegro** (47 contracts were concluded) and tenders for the remaining funds were ongoing. There were various relevant projects under implementation in 2009 under IPA 2007, in fields such as anti-corruption/organised crime and justice reform (twinning), policy and institutional reform in education and training (an institution building project), the transport sector (works and technical assistance and detailed design). Other relevant IPA 2007 funded actions for which implementation started in 2009 related to *acquis* approximation in various fields. A call for proposals under a large civil society project (IPA 2007) was launched in March 2009, leading to 8 projects starting activities (on Roma issues; social care for the elderly; social policy at national and local level; tourism development; traditional architecture). More projects were implemented under IPA 2008, on durable solutions for refugees and displaced persons and support to the transformation of radio television into a public service broadcaster. TAIEX activity was also strong in Montenegro in 2009, as well as SIGMA activities and twinning (6 of them were under implementation in 2009).

In **Serbia**, activity under component I was intense, with 190 contracts signed under IPA 2007, 2008 and 2009 Part I and tenders prepared under IPA 2008 and 2009, while there was no contracting under Part II of IPA 2009 national programme, as the related financing agreement was not signed. By the year end, 63% of IPA 2007, 24% of IPA 2008 and 57% of IPA 2009 were contracted, the last figure due to budget support. Activities in various sectors (health, municipal support, statistics) started or continued and in some cases started to deliver their expected outputs/outcomes (e.g. equipments and training delivered, laws and by-laws drafted or amended, awareness raised through conferences and workshops, courses developed). Activities in other areas (energy, regional socio-economic development, refugees and internally displaced persons, education) were at inception and results were not yet visible. Operating grants were awarded to regional development agencies as well as to agencies supporting integration of refugees and internally displaced persons. Implementation of environment-related projects progressed, with various contracts signed during the year, including twinning and design, master plan, strategy and information technology-system development services. Various calls for proposals for twinning projects were launched in sectors such as environment, agriculture and rural development, justice and home affairs, public finance and transport, and three were approved. It remains to be seen if the improved absorption capacity of the Serbian government will be sufficient to handle all ongoing activities, but positive developments were visible in terms of twinning coordination. 2009 witnessed also a substantial increase in requests for TAIEX activities and an increased participation to the events organised.

Multi-beneficiary

IPA implementation advanced rapidly in 2009 under the IPA **Multi-Beneficiary** programmes, with contracting rates standing at 79% of IPA 2007 allocations, 85% of IPA 2008 allocations and 53% of IPA 2009 allocations by the year end. Implementation of 2008 and 2009 funds related to the Crisis Response Package and Municipal Investments was fast-tracked in order to help IPA beneficiaries mitigate the impact of the economic crisis. Highlights of Multi-Beneficiary initiatives in 2009 include the following:

- *The Regional Cooperation Council (RCC)*, which became fully operational and is working towards fulfilling its strategic role to promote regional co-operation on the basis of a strategic programme for 2011-2013 prepared in 2009 with Commission support. The RCC was also involved in programming of Multi-beneficiary assistance, to ensure that regional priorities and needs were addressed. Financial support of its activities in the future was under discussion in 2009;
- *The Regional School for Public Administration (ReSPA)*, established in May 2009 and aimed at boosting regional cooperation in Public Administration reform, strengthen administrative capacity and develop human resources. By the end of 2009, four out of seven founding members had ratified the international agreement for its establishment in Montenegro (it shall enter into force upon a fifth ratification). ReSPA has worked as a virtual school so far (via the OECD first and then via the European institute of Public Administration) and by the end of the reporting period it had reached cruise speed, providing 2500 participant days of training on an annual basis. As a spill-over effect, this initiative directly leveraged local development in the town where ReSPA is located (Danilovgrad);
- *Fight against organized crime*: two projects are worth highlighting, on 1) judicial cooperation (support to the prosecutor's network), with an upgraded memorandum of understanding broadening the scope of cooperation by including also other forms of serious crime and 2) on police cooperation in the fight against illicit drug trafficking and prevention of terrorism (a grant contract was signed for fostering police cooperation in the region and strengthen established law enforcement coordination units, also assessing the requirements for setting up coordination units in Kosovo and Turkey);
- *The Civil Society Facility (CSF)*: a single facility for the benefit of all IPA beneficiaries, to strengthen civil society organisations (CSOs) and their role in the political process, enhance local capacity for civic mobilisation, encourage networking and promoting cooperation and transfer of know-how. A technical assistance office (TASCO) was established in mid 2009 for training and advice to local organisations, needs assessments, analysis of local legal and financial environment, as well as support to identification and selection of projects at local level. Local advisory groups were established to discuss needs and strategic issues. The CSF supported also people-to-people events, with high participation from CSO representatives and very positive feed-back on the usefulness of such events for understanding EU policies and programmes as well as for networking;
- *The Western Balkans Investment Framework (WBIF)*: officially launched in December 2009, ensures a coordinated cooperation among IFIs (EIB, EBRD, CEB and others) against a background of high investment needs in the region and scarce

resources available. The WBIF provides a single entry point for the region for funding requests in support of infrastructure investments, where IPA funds are pooled with other IFI funds. Benefits include increased ownership by beneficiaries and better alignment with national/regional priorities, donor coordination and leveraging of grants with IFI loans.

In addition, in 2009 there was general progress under other regional and horizontal activities addressing the political, economic and European standards axes of IPA component I, namely in the fields of refugee return, social inclusion, social security coordination, participation in the Union for the Mediterranean, public administration, justice, freedom and security, civil society development and dialogue, IFI cooperation and competitiveness in support of infrastructure investments, energy efficiency and private investments, competitiveness and trade, education, youth, quality infrastructure, industrial and intellectual property rights, food safety, veterinary and phyto-sanitary policy, energy, customs and taxation, statistics, the environment (including climate change) and nuclear safety and radiation protection.

2.2.2.2. Component II

Table 3: Global Overview of IPA 2007-2009 Component II amounts committed, contracted and paid as at 31 December 2009 per beneficiary, in million EUR

IPA beneficiaries	Committed	Contracted	%Contracted	Paid	%Paid
Albania	25.09	0.68	2.71%	0.62	2.47%
Bosnia and Herzegovina	14.12	0.39	2.76%	0.31	2.20%
Croatia	40.32	0.44	1.09%	0.18	0.45%
former Yugoslav Republic of Macedonia	12.61	0.13	1.03%	0.00	0.00%
Kosovo	-	-	-	-	-
Montenegro	13.07	0.58	4.44%	0.25	1.91%
Serbia	31.91	1.84	5.77%	0.88	2.76%
Turkey	8.02	0.06	0.69%	0.04	0.55%

Candidate countries

Contracting activity in **Croatia** in 2009 was also limited under component II of IPA 2007 (5%). Grant award procedures started for all programmes, but for most of them contracting did not take place by the end of the reporting period.

Implementation activity under this component also started in 2009 in **the former Yugoslav Republic of Macedonia**, with the first call launched in August for the CBC programme with Albania. The financing agreements for the 2008 CBC programmes with Albania and with Greece were signed in December 2009, opening the way for launching calls combining 2007 and 2008 funds in 2010. No contracts were signed yet though under those two programmes. Only two contracts were signed under the CBC programme for South-East Europe. By the end of the reporting period, 30% of the European Regional Development Fund (ERDF) Programme allocations under IPA 2007 were contracted.

In **Turkey** 2009 saw the start of grant award procedures under this component (European Neighbourhood Policy Instrument (ENPI) Black-sea Basin programme and Bulgaria-Turkey cross-border cooperation programme), although somehow delayed by lengthy administrative procedures on the Turkish side of the Bulgaria-Turkey CBC. The situation is however expected to improve following changes at the level of the responsible management structures.

Potential Candidates

Under component II, implementation of cross-border activities started also in **Albania** in 2009, with the first calls for proposals under the intra-Western Balkans programmes (Albania-Montenegro and Albania-the former Yugoslav Republic of Macedonia) published in the summer (over a year after the first financing agreements had been signed) and closed in September/October. Selection is to be completed in 2010, when it is expected to contract the whole 2010 allocation. In 2009 there was preparatory work also for a call for proposals for the Programme with Greece, to be launched in 2010. Three contracts with Albanian beneficiaries were signed under the ERDF South-East Europe transnational programme. 26% of IPA 2007 component II allocations were contracted by the year end.

Implementation under this component continued in 2009 in **Bosnia and Herzegovina**, with the first calls under IPA 2007 and IPA 2008 intra-Western Balkans programmes being

launched in the summer, after the management structures were set up, about one year after signature of the first financing agreements. Project selection should be concluded in the course of 2010, when the entire 2007 and 2008 appropriations should be contracted. Calls for proposals were launched also under programmes at borders with Member States, also to be concluded in 2010. Contracts were signed under the ERDF transnational programme ‘South-East Europe’, absorbing all IPA 2007 funds, and calls were launched under the Mediterranean programme.

As in previous years, in Kosovo, there was no cross-border-projects related activity in 2009, due to the necessary conditions not being in place yet.

In **Montenegro**, four calls for proposals were launched in 2009 under this component, three of which covering 2007 and 2008 IPA funds, to be completed in 2010.

In **Serbia**, the first calls for proposals were launched in 2009 covering 2007, 2008 and 2009 allocations for all cross border programmes with neighbours. Contracting is to take place in 2010, except for the ERDF South-East Europe Programme, under which 17 contracts were signed in the last quarter of 2009 and a second call for proposal was launched in November.

Generally, there was higher participation than expected to the calls in both candidate countries and potential candidates, particularly under the intra-Western Balkans programmes, witnessing how cross-border programmes are seen as offering an opportunity for reconciliation and good neighbourly relations, as well as for local capacity-building.

2.2.2.3. Component III

Table 4: Global Overview of IPA 2007-2009 Component III amounts committed, contracted and paid as at 31 December 2009 per beneficiary, in million EUR

IPA beneficiaries	Committed	Paid	%Paid
Croatia	142.35	42.80	30.07%
former Yugoslav Republic of Macedonia	40.50	12.15	30.00%
Turkey	524.00	157.20	30.00%

Implementation activity in **Croatia** also **started** in 2009 under Component III, mainly concentrated on the appraisal and approval of projects and starting of tendering activity, while contracting remained low, due to lengthy and complex tender procedures for infrastructure programmes. About 30% of the allocations under this component were paid out by the end of the reporting period.

Implementation under this component - mainly projects preparation - could start in **the former Yugoslav Republic of Macedonia** only in the second half of the reporting period, following conferral of management powers and signing of the financing agreement.

Following the signature of financing agreements for the three operational programmes in September and November 2009, IPA implementation in **Turkey** could start also under component III, with a call for applications registering a much wider interest than expected (applications under the regional competitiveness operational programme totalling over 17 times the available funds). Contracting was still limited by the end of the reporting period. Towards the end of 2009 the Commission approved two major infrastructure projects, under the transport and environment operational programmes, for which implementation just started

in one case only. Delays in preparation and publication of tender documents were a cause of concern.

2.2.2.4. Component IV

Table 5: Global Overview of IPA 2007-2009 Component IV amounts committed, contracted and paid as at 31 December 2009 per beneficiary, in million EUR

IPA beneficiaries	Committed	Paid	%Paid
Croatia	38.28	12.7	33.18%
former Yugoslav Republic of Macedonia	16.30	4.89	30.00%
Turkey	158.70	47.61	30.00%

In 2009, IPA implementation started in **Croatia** under component IV with the launching of 8 grant schemes, following the entering into force of the financing agreement in March. By the end of the year about 33% of commitments under this component had been paid.

In the **former Yugoslav Republic of Macedonia**, conferral of management powers under this component was given in October 2009, followed by the signing of the financing agreement in November and the pre-financing payment in December. Implementation was still moving very slowly, causing serious risks that funds might need to be de-committed in 2011. Approval of the operating structures was an issue in 2009, a situation that improved in 2010 but with approval of two relevant structures (out of 15) still remaining pending and raising concerns, given the absence of a clear perspective for them.

Five calls for proposals were launched in 2009 in **Turkey** under the operational programme under this component, in relevant human resources development fields such as girls education. Participation was altogether very successful, to the point of posing a challenge to the Turkish authorities for the smooth management of the evaluation process. There were no contracts signed by the end of 2009.

2.2.2.5. Component V

Table 6: Global Overview of IPA 2007-2009 Component V amounts committed, contracted and paid as at 31 December 2009 per beneficiary, in million EUR

IPA beneficiaries	Committed	Paid	%Paid
Croatia	76.90	0.00	0.00%
former Yugoslav Republic of Macedonia	19.00	0.00	0.00%
Turkey	159.20	0.00	0.00%

There was no implementation activity in 2009 in **Croatia** under Component V for the two measures that have been accredited, while activity centred on the accreditation of the remaining measures. The preparation of public procurement rules registered some progress, but delays in implementation were still persisting by the end of the reporting period, putting at risk 2007 and 2008 funds. Therefore efforts were concentrated on conferral of management and calls for applications. There were no disbursements under this Component.

Also in the **former Yugoslav Republic of Macedonia**, final preparations were made in 2009 for implementing Component V, but there was no tendering or contracting activity. The management and control system for this component was finally set up and conferral of

management powers was granted in December. Implementation started for three out of four measures under the programme. The multiannual financing agreement was finalised and entered into force.

There was no implementation under this component in **Turkey** in 2009, due to delays in national accreditation of the necessary structures. The Commission continued to support the process by providing capacity building assistance.

3. EVALUATION RESULTS

The main objective of evaluation is to support decision-making in the planning and implementation of pre-accession assistance and in the formulation of policies and strategies by assessing the performance of the financial support in achieving pre-accession objectives. Evaluation mainly focuses on a level higher than projects (sectors, programmes, strategic objectives, etc). Evaluation also provides the Commission with an assessment of actions according to their results, impacts and the needs they aim to satisfy, and provides accountability with respect to value for money and the use of pre-accession funds. In addition, support is given to the development of local evaluation capacity as a means to strengthen beneficiaries' capacity to manage and control pre-accession aid.

In 2009 sector, thematic and ad-hoc evaluations were completed as part of the Interim Evaluation (IE) scheme in Turkey and Croatia. These evaluations mainly covered the pre-accession financial instrument (Turkey) and PHARE and CARDS (Croatia). During 2009, the IE was replaced by a new interim evaluation tool at programme level (Country Program Interim Evaluation - CPiE) covering both IPA and pre-IPA assistance in the three candidate countries. The CPiE is more focussed on programme level approaches, compared to the previous sector level approach, but it continues to serve as a management tool for programme managers namely by providing inputs for decision-making. The CPiE is also conceived as an instrument to provide relevant and timely capacity-building to IPA beneficiaries to help them meet the IPA Implementing Regulation requirement that beneficiaries should take responsibility of interim evaluations under IPA Component I after the conferral of management.

For Croatia, the CPiE⁵ was already completed by the end of the reporting period. For Turkey⁶ and the former Yugoslav Republic of Macedonia⁷, the CPiE will be completed during 2010. The CPiE Croatia reviewed a series of horizontal issues concerning the programming, management, monitoring and evaluation of assistance and analyzed the relevance, efficiency, effectiveness, impact and sustainability of initiatives funded under the PHARE 2005 and 2006 and IPA 2007 and 2008 programs. The main findings, clearly positive on a number of aspects while also pointing to room for improvement on others, were the following:

- *Intervention logic*: The assessment of the intervention logic showed good alignment between national programmes and the MIPDs, while there was room for

⁵ 2009 Country Program Interim Evaluation on Pre-accession Assistance to Croatia; Contract No IPA/2009/215-223

⁶ 2009 Country Programme Interim Evaluation of EU Pre-accession Assistance to Turkey; Contract No. IPA/2009/218-310

⁷ 2009 Country Programme Interim Evaluation of EU Pre-accession Assistance to the former Yugoslav Republic of Macedonia; Contract No. IPA/2009/224-311

improvement at the project level, particularly regarding the definition of objectives and indicators;

- *Management of Assistance:* The programming mechanism has shown signs of improvement over time, but a more stringent screening of project proposals could be introduced, based on more substantive and less formal aspects. At the level of project implementation, significant improvements were made in the tendering and contracting process and the ‘implementability’ of projects also showed signs of improvement;
- *Monitoring:* The monitoring system was functioning fairly smoothly, but the existing configuration of Sectoral Monitoring Sub-Committees (SMSC) (which were originally set up in 2006 to ensure the monitoring of CARDS and PHARE decentralised assistance) needed to be re-aligned with the priorities of IPA assistance, as the latter was structured differently from PHARE and followed different priorities. This resulted in an unbalanced distribution of workload among the committees. Also, the low participation levels of high-ranking officials in SMSC meetings limited their potential as a tool for decision-making. There was also significant room to improve the content and quality of monitoring reports prepared by the Croatian administration;
- *Evaluation:* While the level of addressees' endorsement of the recommendations from European Commission evaluations has been quite satisfactory, the mechanism to follow up on their implementation needed to be improved.
- *Performance of assistance:* The vast majority of projects showed a high degree of *relevance*, in that they were well-aligned with the multiple needs of accession. *Effectiveness* and prospects for *impact* were in general positive in areas related to specific *acquis* requirements while results varied in areas related to administrative capacity and public administration. Prospects for the *sustainability* of results were mixed. The main issue related to the inadequate staffing of beneficiary institutions and especially to the difficulties in the retention of personnel, as many institutions experienced a constant outflow of qualified staff, often trained with EU assistance.

On a less positive note, an evaluation on Public Administration Reform (PAR) in ‘Croatia and beyond’⁸, delivered in 2009, found insufficient political commitment and ownership, together with a weak strategic approach, to have undermined a wider impact and sustainability in Croatia. Beyond Croatia, the report also found that a lack of explicit strategy and methodology for handling political criteria issues (including PAR) meant candidates were not clear on their obligations in this respect.

A further evaluation on the intervention logic for programming pre-accession assistance to Turkey under IPA was also completed in 2009⁹. The evaluation concluded that IPA programming was predominantly focused at the project level. While most projects were

⁸ “Supporting Public Administration Reform in Croatia and beyond”, Thematic Report No. R/ZZ/ PAR/0811

⁹ “Ad Hoc Evaluation of the European Commission’s Intervention Logic for Financial Assistance in Candidate Countries and Key Lessons for MIPD 2010-2012 Revision - a Case Study – Turkey”. Thematic Report as part of Interim Evaluation of the EU pre-accession programmes in Croatia and in Turkey and Central Office Activities, Contract no. PHARE/2007/142-454

relevant to accession, a comprehensive multi-annual programming was not in place. The three-year MIPD was a first step in the direction of establishing a more strategic programming framework – but it still did not provide a comprehensive framework for covering all accession needs in time for accession and to allow for efficient project selection and sequencing.

Beneficiaries concerned addressed the findings and recommendations from the evaluations in 2009 and continued to do so in 2010. For its part, the Commission intensified its regular monitoring of progress in the actions undertaken by the beneficiaries to address the findings of evaluations. In light of recommendations of the 2009 IPA conference and the December 2009 Council conclusions on IPA, the Commission also set out to improve further the intervention logic of IPA assistance in a number of ways that are already under way in 2010, namely:

- the structure and content of MIPDs are being reviewed, to provide a more strategic multiannual programming framework linking more clearly financial assistance to political priorities and to help further IPA beneficiaries meet the accession criteria, as well as allowing for more efficient project selection and sequencing;
- programming is being complemented with a more sectoral approach where appropriate, with sector strategies aiming at improving further both ownership and impact;
- future projects will have clearer objectives and indicators that will result in an improved intervention;
- the use of clearly defined conditions will be strengthened when necessary to provide stronger assurance that beneficiaries implement commitments necessary for financial assistance to achieve results and impacts;
- monitoring systems will be further improved together with authorities in the beneficiaries, to increase further the focus on results and impact of projects under implementation;
- further action will be taken to address outstanding recommendations to strengthen the management and control systems for decentralised implementation that will improve the supervision and control of funds;
- additional specific audits, evaluations and close monitoring will ensure that improvements are effective and further adjustments to the system are made if necessary.

4. DONOR COORDINATION WITH MEMBER STATES AND BILATERAL DONORS

As mentioned above, high-level conferences related to pre-accession assistance were held in Tirana in April 2009 and in Brussels in October 2009 on the subject of donor coordination and effective support for enlargement. At these conferences, the Commission and Member States, together with IFIs and non-EU donors, agreed to pursue enhanced donor coordination and more effective management of funds in line with the spirit and principles of the Paris Declaration on aid effectiveness, the Accra Agenda for Action and the EU Code of Conduct on Division of Labor. Given that the major part of aid to the region comes from the European

Union and a limited number of bi-lateral donors, with many other donors providing only a very small amount of funding to a single beneficiary, it was agreed that complementarity and division of labor between donors should be substantially enhanced.

The conclusions of these conferences encouraged the EU and donors *inter alia* to fully support beneficiary's ownership of donor coordination and to work towards a sector-based approach, with the following aims: to help improve the effectiveness and impact of IPA and other donor funds; to organise joint training on aid effectiveness and methods of cooperation; to include aid effectiveness in their own management objectives and reporting systems; and to ensure adaptability and predictability of aid. Beneficiaries were encouraged to strengthen donor coordination structures, ensure coherent use of external assistance and internal budgetary resources and make further progress in establishing the structures and the ownership necessary for ensuring effective decentralised management of IPA.

In general, during 2009 consultation mechanisms for discussion of IPA strategic documents (such as the MIPD) and programming documents (such as project lists and national programmes) have been strengthened, to include Member States, other donors, local offices of IFIs and in some cases civil society representatives. Coordination, coherence and complementarity was ensured to a large extent by such meetings to exchange on the planning, programming and implementation of assistance. In many cases, there was increasing leadership by the beneficiary, for example in Albania where one Government Department was responsible for national, sectoral and crosscutting development strategy coordination as well as for donor coordination. However there is still work to do on supporting beneficiaries to take a stronger lead on donor coordination. Equally important is the need to increase the capacity of donor coordination to achieve more practical outcomes and improvements in aid effectiveness. Coordination meetings need to become more geared to agree on operational and practical steps in support of programming for results, on the implementation of decisions on division of labor and on support for beneficiaries to develop sector strategies and have in place the building blocks of a sector approach.

In Kosovo, progress was made on developing an Aid Management Platform to ease the sharing of information on ongoing and planned projects across the donor community. The Governments of the Former Yugoslav Republic of Macedonia and Serbia also collated data on donor-funded projects. Albania and Bosnia Herzegovina produced donor-mapping reports. Donor-mapping reports are particularly useful, given that over 2009 the donor landscape began to show signs of change in the Western Balkans and Turkey. Due to pressures at home because of the financial crisis, there have been shifts in donor presence. Some EU Member States announced plans to scale down bilateral programmes or to withdraw, particularly from candidate countries. While information sharing on donor resources and medium term donor presence has occurred, more efforts are needed to assist beneficiaries with planning medium term expenditure frameworks and to assist donors in planing more coherent programmes. A clear appreciation of the medium-term plans of all donors (including China and Russia in some cases) will be important for delivering on the EU Code of Conduct on Division of Labor and for supporting sector approaches. China and Russia initiated some significant investments and soft loans in the region in support, for example, of the energy and transport sectors. These investments will need to be taken into account alongside those of the IFIs, especially the EIB and the EBRD.

There have been some notable advances made in the context of division of labor in Albania and on sector or programme based approaches in the former Yugoslav Republic of Macedonia. Both countries were selected for the implementation of Fast Track Initiative (FTI)

Division of Labor, which is designed to foster the implementation of the EU Code of Conduct on Complementarity and the Division of Labour in Development Policy. The EU Operational Framework on Aid Effectiveness (November 2009) aimed to achieve better development results through more effective collaboration on the ground, less overlap and lower transaction costs. The Government of Albania's Department of Strategy and Donor coordination (DSDC) has led on FTI Division of Labor, which is embedded in Albania's National Harmonisation Action Plan and which has added value to other existing coordination mechanisms. Throughout 2009 a joint analysis was carried out so as to agree a common definition on roles and responsibilities of lead donors, and to begin the task of allocating donors lead in specific sectors.

The Former Yugoslav Republic of Macedonia developed plans and a methodology for the programme based approach with strong support from the World Bank and the EU, and fledgling sector working groups in Serbia have also begun to demonstrate that effective coordination can deliver results.

However, efficiency and effectiveness gains from donor coordination structures which are capable of implementing development effectiveness principles should be better tracked by both the beneficiaries and donors. Further efforts should still be made by all donors to reduce duplication and transaction costs, e.g. through joint analytical work; improvement in and shared use of beneficiary monitoring and evaluation mechanisms; improved beneficiary capacity to develop sector policy and to implement sector strategies.

5. CO-ORDINATION WITH IFIS

The Commission is committed to closer coordination with European and International Financial Institutions (IFIs) supporting modernisation and socio-economic development in the Western Balkans. Closer coordination with IFIs is pursued at the policy/institutional level as well as at the level of financing.

The **International Financial Institutions Advisory Group** (IFIAG) consists of representatives from the Commission, the World Bank Group (IBRD/IFC), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Council of Europe Development Bank (CEB), the Regional Cooperation Council (RCC), the Nordic Investment Bank, the Nordic Environment Finance Corporation and the Black Sea Trade and Development Bank. The IFIAG held a plenary session in January 2009 to discuss remedial actions for the Western Balkans and Turkey in light of the financial and economic crisis. Participants agreed that the IFIAG should continue to closely cooperate in monitoring the economic and financial situation in the region and coordinate adequate responses to the crisis.

In 2009, the Commission worked closely with the European Central Bank and the IFIs to set up a Crisis Response Package of EUR 160 million funded under IPA 2009. EU grants combined with IFI loans under the package to accelerate the implementation of highly needed municipal infrastructure investments and energy saving investments.

The need to follow up at beneficiary and sector level was recognised. The Commission set up a regional project in joint management with the European Central Bank as part of a larger package aimed as a response to the financial crisis. Support for the supervision of the regional banking sector (micro and macro-prudential) was set up to strengthen capacity and cooperation between the national central banks of the Western Balkans and Turkey and 14

national central banks of the Eurosystem. This project will, for two years, coordinate the contribution of the major international financial actors such as the Basel Committee of Banking Supervisors, the Ljubljana Centre for Excellence in Finance, the Joint Vienna Institute, the International Monetary Fund and the World Bank. As of 2009, the secretariat of the IFIs Advisory Group was taken over by the Commission following the closure of the Joint European Commission -World Bank Office in Brussels.

The Commission also co-operated with the OECD Investment Compact for South East Europe for measures to increase the competitiveness of the economies in the context of the Crisis Response Package as from the autumn 2009.

In December 2009, the Commission, the EIB, the EBRD and the CEB established the **Western Balkans Investment Framework** (WBIF) to further enhance harmonisation and cooperation in financing of investments for socio-economic development in the region. The WBIF comprises two instruments: a Joint Lending Facility (JLF) and a Joint Grant Facility (JGF). The JLF brings together in a common pipeline for priority investments joint lending from the EBRD and EIB (indicatively totalling 1 billion EUR) as well as from CEB and other bilateral financial institutions of Member States that are contributing to the European Western Balkans Joint Fund (EWBJF). The JGF pools grant funds from the EU (IPA budget), the participating partner IFIs (CEB, EIB, EBRD) and the EWBJF, to which contributions from Member States and other potential donors may be made.

Examples of enhanced cooperation include: the improved visibility over IFI's project preparation pipelines; joint efforts to harmonize IFI investment priorities with the EU accession priorities by sector; improved representation of the IPA beneficiaries in the project selection process; streamlining of preparation and implementation concentrating on projects requiring IFI support, and participation of member states with bilateral grants.

Significant efforts were also made during 2009 to continue the implementation of the three strands of cooperation with IFIs: private sector development and micro, small and medium-sized enterprises (SMEs), energy efficiency and infrastructure.

- *Strand I - Private sector development*: on the supply side, EU assistance to promote access to finance for micro and small-sized enterprises is mainly channelled through the European Fund for South East Europe (EFSE), which consolidated the previous micro-credit schemes throughout the region into one single instrument. EFSE provides for long term sustainability and leveraging of funds by offering risk cover to attract private capital to invest in micro-lending. EFSE has been rolled out successfully. By December 2009, the Commission subscription to EFSE, through the European Investment Fund (EIF), amounted to EUR 96.4 million and the total value of the portfolio was increased to EUR 579 million. The outstanding sub-loan portfolio amounted to EUR 450 million spread across 115,600 sub-borrowers. Total disbursements since the EFSE's inception reached 216,000 loans amounting to EUR 1.1 billion.

- *Strand II – Energy efficiency*: this strand aims at promoting investments in energy efficiency and renewable energy in small and medium enterprises, housing and the public sector by capitalising on actions supported by the national programmes, including increasing public awareness regarding energy efficiency and the potential for energy savings, implementing legislation with regards to the Directives on energy performance of buildings¹⁰ and on the energy end-use efficiency and energy services¹¹ (including renewable energy). The promotion of energy efficiency investments meets the recommendation of the European Commission Green Paper on Energy Efficiency¹², encouraging IFIs to provide long-term funding to finance energy efficiency investments. In the building and industry sectors, further support to financial intermediaries and end-borrowers was provided under the Energy Efficiency Finance Facility by offering opportunities for higher energy savings and reduction of CO2 emissions. In addition, as part of the 2009 Crisis Response Package, the European Commission undertook its participation in the Southeast Europe Energy Efficiency Fund, a public-private partnership initiated by the EIB and Kreditanstalt für Wiederaufbau (KfW) and involving IFIs, donors and private investors. The Fund will provide investments in energy efficiency and renewable energy through dedicated financial support and technical assistance to businesses, energy services companies, households, municipalities and other public institutions. In 2009, the Facility has supported two local banks in Bosnia and Herzegovina and Serbia with the development of their investment portfolio in the field of energy efficiency and renewable energies. These projects were extended an EBRD total financing of EUR 20 million combined with EUR 4.6 million of EU grant as

¹⁰ Directive 2002/91/EC of the European Parliament and of the Council of 16 December 2002

¹¹ Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006

¹² COM(2005) 265 final of 22 June 2005

investment incentives to end-borrowers and administration fees to the participating bank.

- *Strand III – Promotion of infrastructure investments:* adequate infrastructure networks and services in the transport, energy, environment and social sectors are crucial in ensuring sustained socio-economic development and stability in the region. Among the key factors hindering improvements in infrastructure are: inefficient use of financial resources; lack of beneficiaries' experience in project preparation for IFIs and other donors' funding; or funding gaps hampering projects' bankability. This strand included the setting up of a multi-sector, multi-beneficiary Infrastructure Projects Facility (IPF). The IPF supports institutions at the national, regional and municipal levels to prepare and implement infrastructure investment projects financed by IFIs and/or other donors. The aim of the mechanism is to pool funds to enable project implementation. The IPF is providing expert technical assistance services for the execution of projects such as pre-feasibility studies, feasibility studies, preliminary and detailed design, support for tendering process, implementation works, etc. The IPF is also co-financing investments in municipal infrastructure which are ready for implementation by the IFIs. The IPF was incorporated in the Western Balkan Investment Framework in December 2009. By the end of the reporting period there were 65 projects supported through this mechanism for a volume of grant support of EUR 123 million and estimated total investments of EUR 1 billion. For instance, in Albania, a EUR 4.7 million EU grant leveraged a EUR 12 million loan which, added to the national contribution and other grant support from bilateral sources, enabled a water supply and treatment investment of EUR 21.7 million.