



FROM
PRE-ACCESSION
TO ACCESSION

Thematic Evaluation

Phare Grant Scheme
Review

of Phare support
allocated in 1999-2002
and implemented until
November 2003



Phare Grant Scheme Review

*Interim Evaluation of Phare Support
Allocated in 1999-2002 and Implemented
until November 2003*

Thematic Evaluation Report

April 2004

This report has been prepared as a result of an independent review by the EMS consortium being contracted under the Phare programme. The views expressed are those of the EMS consortium and do not necessarily reflect those of the European Commission.

European Commission Directorate-General Enlargement
Directorate E – Evaluation Unit

ABSTRACT

Scope

This report is a review of the Grant Scheme Instrument used under the Phare Programme. It identifies key trends, conclusions and lessons learned to date. It also serves as an ex-ante evaluation to feed into the programming and design of Grant Schemes in remaining and future Candidate Countries. This report provides a horizontal perspective on the organisational aspects of the Grant Scheme Instrument. This perspective is complemented by other thematic reviews on ESC, CBC and Minorities that provide further information on Grant Schemes' results and impact in these respective sectors. It focuses on the Grant Scheme instrument and the pure delivery mechanism from Commission Services to end beneficiary of EU co-finance and examines bottlenecks in Grant Scheme delivery.

Key achievements and findings

Very few of the programmed Grant Schemes across Phare have been completely implemented. Delays exist in every country. The delivery process demands a higher administrative capacity than most administrations anticipated and has resulted in contracting extensions. Administrative capacity constraints in Bulgaria and Romania are particularly worrying and unless corrected, will continue to inhibit the efficiency and effectiveness of Grant Schemes. Implementation is generally speeding up due to the experience gained so far. Furthermore, the Grant Schemes process is overall considered to be good and does not require a complete overhaul. Bottlenecks identified in the financial and operational processes could be resolved.

The Financial Process to transfer Phare funds from the National Fund to beneficiaries is in place and functioning. However, there are process bottlenecks due to the large number of actors and layers involved in authenticating payments. The Financial Process therefore operates inefficiently for Grant Schemes. Liquidity management of the National Fund too can be of concern resulting from a lack of an effective management and information system at the level of National Aid Coordinator and National Fund to forecast financial flows. Subordination of the National Aid function to that of the Management of National Debt compounds this issue.

In practical implementation aspects, PRAG has been changed and is now more appropriate than in the past but is still particularly unsuited for some types of grants. For larger ESC Grant Schemes, there is a degree of country differentiation in the use of national rules for procurement below a defined threshold for works. It has simplified the transfer process of Phare funds but is not universally applied across acceding or candidate countries.

Guidelines are a source of delay due to poor design and programming. The Evaluation Process is also a general bottleneck and there are a number of proposals the report makes within the existing framework to improve efficiency.

Key recommendations

The following are overarching recommendations that cut across specific institutions or processes.

- Introduction of a better fit between measures and institutions under Structural Funds and preceding Phare financed equivalent Grant Schemes and institution building.
- Strengthen the multi-annual programming approach to fiscal management in pre-accession activities.
- Introduction of strong pre-conditions concerning administrative capacity (including European Commission Delegations). This is key to improvement of the Evaluation Process.
- Introduce clearer distinction between operational rules for small and large grants.

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GLOSSARY OF ACRONYMS

Acronym	Description
AC	Acceding Country
Bn€	Billion €
CARDS	Community Assistance for Reconstruction, Development and Stabilisation (Western Balkans)
CC	Candidate Country
CFCU	Central Financing and Contracting Unit
CR	Country Report
CBC	Cross Border Cooperation Programme
CS	Commission Services
CSF	Community Support Framework
DAC	Development Assistance Committee
DG	Directorate General
DIS	Decentralised Implementation System
EBRD	European Bank for Reconstruction and Development
ECD	European Commission Delegation
ECFIN	DG Economic and Financial Affairs
EDIS	Extended Decentralized Implementation System
EIB	European Investment Bank
ERDF	European Regional and Development Fund
ESC	Economic and Social Cohesion
ESF	European Social Fund
EU	European Union
FM	Financing Memorandum
FWC	Framework Contract
GNP	Gross National Product
GS	Grant Scheme
GSR	Grant Scheme Review
HoD	Head of Delegation
HR	Human Resources
IA	Implementing Agencies
IB	Institution Building
IFI	International Financing Institutions
ISPA	Instrument for Structural Policies for Pre-accession
JMC	Joint Monitoring Committee
MAP	Multi-Annual Programming
MIP	Multi-annual Indicative Programme
MS	Member State
NAC	National Aid Coordinator
NAO	National Authorizing Officer
NDP	National Development Plan
NGO	Non Governmental Organisation
NF	National Fund
OMAS	Office for Monitoring and Assessment Services
OP	Operational Programme
OVI	Objectively Verifiable Indicator
PAO	Project Authorizing Officer
PIU	Project Implementation Unit
PMU	Project Management Unit
PRAG	Practical Guide to PHARE, ISPA and SAPARD Contract Procedures
SAPARD	Special Accession Programme for Agriculture and Rural Development
SMEs	Small and Medium Enterprises
SMSC	Sectoral Monitoring Sub Committee
SPD	Single Programming Document
TA	Technical Assistance
TM	Task Manager
VAT	Value Added Tax
VET	Vocational Education and Training

PREFACE

The objective of the report¹ is to review the Grant Scheme (GS) Instrument under Phare. The aims are twofold to assess GS performance under Phare and also to assess the impact and lessons learned from the changing trajectory of acceding country administration readiness to absorb significantly higher multiples of post-accession structural and cohesion financing.

To our knowledge, this is the first such specific review, although GS have been evaluated within the broader context of Phare ex-post reviews.² This thematic review focuses on the experience thus far with GS under Phare, itself a mix of interim- and ex-post assessments as some programmes are finished and others, especially under ESC, ostensibly still under implementation. However, the study takes an ex-ante evaluation stance in distilling lessons learned for more effective programming of Phare GS for, in particular, Bulgaria and Romania and also for future Acceding Countries (AC).

The report is at the same time a stock-taking exercise describing past developments and concurrently a dynamic analysis. The conclusions and lessons learned are aimed at the Commission Services and NACs in beneficiary countries.

This report provides a horizontal perspective on the organisational aspects of the Grant Scheme Instrument. This perspective is complemented by other thematic reviews on ESC, CBC and Minorities that provide further information on Grant Schemes' results and impact in these respective sectors.

The report draws on the experience of the OMAS and EMS Consortia, which have successively been contracted by the Commission Services from 1996 to 2001 (OMAS) and from 2001 to 2004 (EMS) to implement the Monitoring and Interim Evaluation system. Furthermore, the report uses the analysis of a questionnaire distributed to a sample of stakeholders in order to provide data for the analysis of GS performance.

¹ The authors of this report are Jean Van Kerchove and Short Term Technical Expert Rupinder Singh and Harvey Susser. The report was reviewed by EMS Central Office, Richard Haines.

² Most recently, in the Phare Ex-Post Evaluation 1997-99, June 2003.

EXECUTIVE SUMMARY

Background

Since 1999 Phare support has shifted from a project-based to a programmatic approach in preparation for post-accession cohesion support under Structural Funds. The terminology “Grant Scheme” (GS) is equivalent to the “measure” under Structural Funds terminology.

Phare has supported the GS instrument since the early 1990s for the NGO and Civil Society Sector. The programmatic approach has increased the amount and proportion of annual Phare funding to ESC projects, the majority of which has been GS-based. Therefore GS now span a range of Institution Building and Investment sectors (the latter encompassing ESC).

This thematic review assesses the experience since 1999 of the GS in both the ESC and Institution Building products. The objective is to review the performance of the GS Instrument under Phare, with a view to identifying lessons learned applicable to new Member States (MS) in the post-accession context and to remaining and new candidate countries. The key evaluation questions are:

- How are GS programming and project design being performed?
- What has been the general performance of GS under Phare?
- What are the potential links between GS and SF support?
- How is the funding of GS carried out, and how can it be performed more efficiently?
- At an operational level: what are the main bottlenecks within the GS process?
- What could be fine-tuned or improved and what are the lessons learned for future use of the GS instrument?

Methodology

The report is based on an extensive review of existing documentation, collation of performance data for projects and programmes and interviews in a sample of three acceding countries (Estonia, Lithuania and Poland) and the two remaining CCs (Bulgaria and Romania).

General Findings

The GS product relies on two processes – financial and procedural. The Financial Process involves the Treasury mechanism for the transfer of funds from the Commission to the National Fund and on to the IA and the Final Beneficiary.

The procedural or operational process of the GS is based around the Call for Proposals and is key to all GS. Contracting is permitted until 2 years after the signature of the FM, and disbursement until after 3 years.

Observations

There is good commitment from key stakeholders across both EC and national administrations in making GS projects work, despite procedural bottlenecks and capacity constraints.

The Financial Process

The Financial Process works well in terms of financial control. Nonetheless, problems have been reported as regards size of advances and time taken for disbursements due to the large number of actors and layers involved in authenticating payments. The timing issue is particularly distressing for NGOs as they rely on external financial support. The Financial Process therefore operates inefficiently for Grant Schemes.

Liquidity management of the NF too can be of concern resulting from the lack of an effective management and information system to forecast financial flows at the level of NAC and National Fund. Subordination of resources to manage the National Aid function to Management of National Debt compounds this issue. There is also a general absence of a national system of inter-fiscal bridging finance.

The Operational Process

The 2 years during which contracting is permitted starts upon the signature of the FM. ESC GS can lose up to 50-60% of the contractual time available before effective implementation begins, reducing the time available for implementation. Too much time is lost from the signature of the FM through to the preparation and endorsement of the Guidelines for Applicants, particularly for first-generation GS.

Whilst guidance given in PRAG for grant schemes is considered insufficient by almost all stakeholders interviewed during this review, there is strong regard for the positive aspects of PRAG, in helping to introduce the sense of systemic checks and balances and reduction in potential fraud or irregularity. The new PRAG is considered to be friendlier towards GS.

The Evaluation of call for proposals is another major bottleneck and can take several months from closing the call for proposals until ECD approval of the evaluation report which identifies the projects which will be awarded a grant.

The make-up of the Evaluation Committee is an issue that varies in importance between beneficiary countries. The underlying concern is that evaluations should be fair, transparent and in time. The mix of local and foreign expertise – sectoral and functional – appears to be a good model for representation, although language can be an issue for foreigners.

The current system of geographical units in DG ELARG and ECDs is good from the point of view of country co-ordination but does not allow for a horizontal cross-flow of best practice on GS models.

Evaluation Results

- How are GS programming and project design being performed? (Relevance)

GS have generally been programmed and implemented in accordance with NDP priorities, or, since 2000, on the SPD (Single Programming Document) or OP (Operational Programme). Where this is the case, GS programming tends to be highly relevant because it is addressing core needs identified and specifically supported by one of the Phare core programming areas.

Whilst individual projects also have a high degree of relevance, aspects of the selection process need review. Guidelines need strengthening to reflect and develop the priorities identified in the project fiche and there is the need for support to applicants in project development. The PRAG rules for the administrative check are also less user-friendly than under SF.

Relevance in the context of Bulgaria and Romania is also tied to the multi-annual budgeting framework. Having a Multi-Annual Programming (MAP) framework which provides for a longer term horizon for the identification of priorities and related activities and strong related conditionality on raising capacity will raise the relevance of GS intervention.

GS programming and project design is good and increasingly based on needs analysis. Relevance is satisfactory.

- What has been the general performance of GS under Phare? (effectiveness, impact and sustainability)?

Overall, the performance of GS under Phare is good. If effectiveness of GS can be characterised by achievement of immediate objectives and quality of preparation for SF, then the evaluation is more positive for the second aspect but overall satisfactory and improving over the time. Impact and sustainability are potentially high. However, sustainability in the end-case will be judged on the smoothness of transition from Phare GS to SF measures.

- What are the potential links between GS and SF support?

Establishing the institutional structures and acquiring the appropriate skills and experience has been a key feature of the GS. These skills will be well suited to accessing SF even though procedures differ. However, in some cases important implementing agencies for GS have no significant role planned for them under SF. In these cases it is possible that the existing skills will not be put to their best use.

- How is the funding of GS carried out, and how can it be performed more efficiently (efficiency)?

GS implementation and financial delivery needs to be faster. Improved efficiency is key to successful GS intervention. Efficiency constraints exist in both the Financial and Operational Processes.

The funding of GS involves many more stakeholders than the theory suggests. It puts a major burden on the administration of the candidate countries, which bears no relation with the amounts distributed. Efficiency is particularly essential for the overall performance of GS and whilst overall just satisfactory, is put at risk by the numerous potential bottlenecks in both the Financial and Operational Process. There is scope for improvement there.

Efficiency varies from country to county and between GS but is generally higher where there is institutional memory and sufficient HR capacity to work out solutions to bottlenecks. Efficiency is a particular concern for Bulgaria and Romania, where substantial additional money will be allocated for GS interventions. Concerns must be raised over the administrative capacity of Bulgaria and Romania to implement a higher level of GS.

Conclusions and Lessons

The main conclusions are:

- The GS instrument works well despite all the misgivings and does not require a complete overhaul;
- GS are more labour intensive than other Phare products, requiring greater resources at all levels of national and EC input. Administrative capacity constraints in Bulgaria and Romania are particularly worrying and unless corrected, will inhibit the efficiency and effectiveness of GS;
- There are bottlenecks that can be resolved for both the financial and operational processes, which will help to raise the efficiency and effectiveness of Phare assistance;
- Discontinuity between ESC and SF intervention and structures is common;
- There is lack of opportunity to share experience and advice between countries on best practice in implementing GS;
- For Bulgaria and Romania the Multi-Annual Programming approach is a positive development but out of synch with national budget management and planning;
- Current PRAG rules are more flexible and appropriate for GS than earlier versions but operational rules need to distinguish more clearly between small and large grants;
- Using TA in the development of GS Guidelines reduces the time loss. TA is a good catalyst for reducing bottlenecks within the GS mechanism however it cannot replace the development of an appropriate administrative capacity;
- Many of the ex-ante evaluation aspects are relevant for remaining CCs but also apply to the programming and design for future ACs.

Recommendations

Recommendations have been provided for each key actor or process in the GS mechanism. 27 specific recommendations concern the National Fund, CFCU, Commission Services, the application to award process, guidelines for applicants and the Evaluation Process.

The key recommendations are:

National Fund – resolving resource issues (e.g. financial, human, organisational) should be a precondition for all further pre-accession financing.

CFCU – Consideration should be given to the use of specific TA to address resource issues.

Commission Services - ESC intervention should be fully consistent with the CSF or SPD if available or be based on sectoral needs analysis.

From Application to Award – Improve training and advisory services for GS applicants, introduce greater flexibility into the GS (e.g. segmentation of the selection and implementation rules according to the size of the projects).

Guidelines for Grant Applicants - Draft Guidelines should be programmed for preparation by signature of FM, supported through TA if necessary. A multi-annual approach for Bulgaria and Romania would unblock the problem.

Evaluation Process – Introduce a fast-track system and a MIP approach for Bulgaria and Romania. ECD representatives on Evaluations should be able to answer questions on interpretation or have access to HQ for on the spot clarification without delaying the Evaluation Process.

MAIN REPORT

1. INTRODUCTION

1.1. Objective of the Review

1. This thematic review focuses on the Grant Scheme (GS) instrument and assesses the experience since 1999 of the GS in both the ESC and other sectors.

2. The objective is to review the performance of the GS Instrument under Phare, with a view to identifying lessons learned applicable to new Member States (MS) in the post-accession context, characterized by significantly higher budgets of post-accession structural and cohesion funds, and to remaining and new candidate countries.

1.2. Key Evaluation questions

3. The following questions have guided this report:

- How are GS programming and project design being performed?
- What has been the general performance of GS under Phare?
- What are the potential links between GS and SF support?
- How is the funding of GS carried out, and how can it be performed more efficiently?
- At an operational level: what are the main bottlenecks within the GS process?
- What could be fine-tuned or improved and what are the lessons learned for future use of the GS instrument?

1.3. Methods and scope

4. The method has been to analyse each stage of the delivery cycle from donor to the recipient or final beneficiary according to the 6 key evaluation questions. In doing so, the team has paid considerable attention to the ex-ante evaluation implications of the findings for the design of GS for Bulgaria and Romania.

Methodology

5. A standard three-stage approach was utilised, involving the following steps:

I. Information Gathering and identification of trends:

a. main steps

- Existing Phare documentation and data (Phare programming guides, GS fiches, Financing Memoranda (FMs) if relevant etc.)
- Relevant IE information and assessment on a country-wide basis from EMS and OMAS reports
- Preparation of a uniform interview guide that can be used as a means to extrapolate either empirical data or ranking
- Preparation and dissemination of template to CS regarding statistical data needs and ideally, prior to field missions
- Relevant information and documentation for GS for post-accession social cohesion and structural fund support

b. main issues

- Selection of GS products at a design stage - programming
- Management and stakeholders
- Coordination with other stakeholders (national and international)
- Timing, particularly as regards the implementation stage
- Resources provided
- Conclusions (noting if possible where relevant to 5 Development Assistance Committee (DAC) criteria)
- Recommendations (noting if possible where relevant to 5 DAC criteria)

c. main potential written sources

- Reports pertaining to National Aid Co-ordinator (NAC)
- Reports pertaining to Access and other Civic Society and NGO programmes
- Reports on ESC
- Phare Ex-post Review
- Practical Guide to PHARE, ISPA and SAPARD Contract Procedures (PRAG), in particular Chapter 6 on GS
- Phare Programming Guides
- Relevant Directorate General (DG) REGIO Studies
- SF Regulations

II. Field Missions to a sample of Phare countries

- 3 Acceding countries: Estonia, Lithuania and Poland
- 2 Candidates countries: Bulgaria and Romania

III. Preparation of the Report

2. BACKGROUND

2.1. Importance of Grant Schemes in Phare

6. At a general level, Phare is itself an instrument of external aid based on grants and not loans. Since its inception in 1991, Phare has undergone significant changes in terms of design, focus and country-coverage. Eight of the present 10 beneficiary countries under the Phare programme will accede to the European Union (EU) in 2004 and 2003 marks the last year of programming for the acceding countries. However, the Phare programme will continue for the remaining two Candidate Countries (CC), Bulgaria and Romania.³

7. Phare financing includes a mix of Institution Building (IB) and Investment actions. IB is delivered through Technical Assistance (TA) and Twinning with Member State (MS) administrations. Phare also cofinances GS in beneficiary countries. Their purpose is a delivery mechanism alongside procurement and twinning and a pilot scheme for the preparation of the management of the Structural Fund (SF) after accession. This thematic review focuses on the success of GS support across the spectrum of GS products. Since 1999, Phare support has shifted from a project-based to a programmatic approach. The latter has meant greater reference to the National Development Plans (NDP) that aim to assess the current developmental status and map out the strategies, needs, gaps and action plans to improve socio-economic development and living standards in the medium-term. This approach was designed as a de-facto bridge to the post-accession world of economic and social cohesion support under SF. Indeed, the terminology “Grant Scheme” is broadly akin to the “measure” under Structural Funds terminology.⁴

8. The programmatic approach has led to an increase in the size of nominal and proportionate annual Phare funding to Economic and Social Cohesion (ESC) projects of which the majority has been delivered through a GS. Nonetheless, Phare has used GS since the early 1990s for the NGO and Civil Society Sector and therefore the spectrum of GS usage spans a range of sectors from Institutional Building to Infrastructure, where the latter encompasses ESC-based intervention.

9. The importance of GS in the delivery of Phare, in terms of sector coverage and overall budget, justifies, at the end of the pre-accession process, a review of the performance of the instrument. Such a review should draw conclusions and identify key lessons learned, which could influence the shape and magnitude of the instrument for the remaining and future CCs, and also identify key issues for the participation of the new MS in ESC after their accession. These considerations formed the basis of the key evaluation questions presented above.

³ The Transition Facility is available for ACs on the basis of Phare rules but excludes GS assistance.

⁴ Council Regulation 1260/1999, Article 9, j, defines a measure as “the means by which a priority is implemented over several years which enable operations to be financed. Any aid scheme granted by bodies designated by the MS, or any group of aid schemes or aid grants of this type of any combination thereof which have the same purpose are defines as a measure.”

2.2. Grant Schemes and the Copenhagen Criteria

10. The Copenhagen Council in June 1993 set out the basic parameters for eastern enlargement on the basis of economic and political conditions for a market economy in the framework of the European social model. The political conditions cover:

- i) A functioning democracy
- ii) Rule of law
- iii) Human Rights
- iv) Protection of Minorities

11. The economic requirements for accession require a functioning market economy which can cope with the competitive and market pressures of the Single Market

12. Phare has supported the fulfilment of the political and economic conditions and GS have been used to support the development of the nascent NGO in each of the four segments of the political criteria. In recent years, some GS programmes such as LIEN and Democracy have been replaced by a mix of horizontal programmes such as Access through to more country-variant GS projects on Civil Society, assistance to Minorities e.g. Roma and Protection of Children.

13. Although the major part of Phare assistance for the second economic criteria has been via IB and regulatory investment to help administrations shape up to the requirements to transpose and implement the acquis, the GS instrument has been used increasingly since 1999 under Investment through ESC projects, both in national and multi-country programmes.

Table 1: Phare Support, the Accession Process and Grant Schemes

	Accession Process	Phare	GS Products
1993	Copenhagen Criteria		
	Europe Agreements	TA, Investment with latter focussing on infrastructure projects	Information and soft grants
1994-1996	Applications for EU Accession by CEC10		E.g. Democracy, LIEN, Information
1998	-Progress Reports		
	-Accession Partnership -NPAA	Shift to deconcentration	
1999	Agenda 2000, shift to programmatic approach	Shift to decentralisation, IB (Twinning), TA and Investment	ESC, Access, Specific country needs
2004	Accession of 8 Phare countries	Shift to extended decentralisation	
2004	Extended Decentralized Implementation System (EDIS) Accreditation		
2007	Target Accession of Bulgaria and Romania		

2.3. Increasing Size of Budget Expenditure

14. The EU's financial planning for 2000 to 2006, adopted by the Berlin European Council in March 1999, includes Bn€ 22 devoted to 'pre-accession assistance' for infrastructure and institution-building (PHARE), environmental and transport infrastructure (Instrument for Structural Policies for Pre-accession: ISPA) and rural development (Special Accession Programme for Agriculture and Rural Development, SAPARD) in the applicant countries.

15. Amounts were also set aside at Berlin for spending (particularly on structural and agricultural policy) after the new members join, to help their economic development. This planning was based on the assumption that six new countries would join in 2002. Since the first accessions will in fact be later, the funding in the current financial perspective will be sufficient even though there are more countries. It is on this basis that the Commission developed its ideas for funding enlargement, for 'Common Financial Framework 2004-2006 for the Accession Negotiations'.

Table 2a: EU expenditures on Enlargement, 1990-2006 (M€)*

	1990-1999	2000-2003	2004-2006
Pre-Accession expenditures (for the ten countries joining in 2004)			
PHARE	6,767.16	6,240	4,680
ISPA		4,160	3,120
SAPARD		2,800	1,560
Sub-total	6.767,16	13,200	9,360
Post-Accession expenditures (for the ten countries joining in 2004)			
Agriculture			9,577
Structural Operations			25,567
Internal Policies			3,343
Administration			1,673
Sub-total			40,160
Total EU expenditures on Enlargement			
Total	6,767.16	13,200	49,520
Ave. total per annum	676.72	3,300	16,506.67
..as % of 1999 EU Gross National Product (GNP)	0.08	0.16	0.62
Ave. total per annum, as % of 1999 EU GNP	0.008	0.04	0.21

*2000 prices for pre- and 1999 prices for post-accession expenditures, 1990-1999 expenditures based on actual payments, post-1999 on commitments.

16. Phare financing has taken the lion's share of total available pre-accession EU aid in the pre-accession period, accounting for Bn€ 17.7 in 1999 prices of the available Bn€ 29.3, equivalent to 60% of the total.

17. The budgetary implications are significant for both global amounts and in terms of GS, with the size of Phare envelopes expanding rapidly, particularly for Bulgaria and Romania. This raises a host of questions:

- Can these additional funds be absorbed, when pre-accession funding under relatively softer pre-accession rules is difficult?
- In particular, what are the key policy issues that emerge as ACs graduate to post-accession instruments, particularly as regards management systems and shift to a system whereby Commission controls is restricted to ex-post control?
- How can programming be improved?
- Is there sufficient attention paid to national cofinance arrangements and more broadly, the need for strategic thinking and allied multi-annual fiscal frameworks?

18. The above set of questions highlight that a lucid assessment of the GS instrument is not possible without also an assessment of these wider considerations. The study will endeavour to look into both the narrower and wider issues in the following two chapters.

2.4. Grant Schemes as a Preparation for Structural Funds

19. Table 2b shows how GS products range from soft small grants typical of Access through to the larger allocation of hard infrastructure projects as under ESC and what is the equivalent set of SF instruments.

Table 2b: Correspondence between Phare GS and SF Measures

Phare: Grant Scheme	EU Structural Fund: Measures
Access, Minorities Protection of children	EQUAL
External Border Facility	INTERREG
CBC	INTERREG
Economic and Social Cohesion (ESC)	ESF

3. KEY EVALUATION FINDINGS

3.1. General issues

The phases of GS implementation

20. Contracting under a GS must take place within 2 years of the signature of the FM; disbursement within 3. These rules apply for all Phare projects. What distinguishes GS is the selection of bids from interested and eligible applicants on the basis of bids or proposals. There are two key phases in GS implementation. Phase 1 includes the Call for Proposals. This process initiates the market response for a given amount of finance allocated to the GS that is the de-facto market-setting signalling and market clearing process allocating a given supply of scarce funds to bids or offers from beneficiaries that express effective demand, where the latter is the basis of the disbursement. The first phase is analyzed further in the next chapter.

21. Phase 2 is the implementation of the successful bid. Disbursements take place during this phase, usually over 2 –3 payments – an advance up to 80% (usually found in an 80/20 payment structure), an interim payment and a final payment.

Data on GS

22. It has not been possible to identify precisely total funding through GS, distribution between investment and IB, and across countries. Data providing with this level of information are not collected as part of the Phare management system. In addition to the Interview Questionnaire (see Annex 2), requests were made to all Phare ECDs for information on the allocation of Phare funds for GS. The quality and quantity of feedback varied and a general theme emerged that it was difficult for ECDs to specify exactly which products could be classed as GS. This point is also made and analysed in the ESC thematic review. Moreover, many GS products – especially for Bulgaria and Romania – have yet to be implemented. Table 3 gives by example, the information for Bulgaria:

Table 3: example of Bulgarian GS

Project name	Stage	Implementing Agency	Implementing Authority (PIU)
BG-9915.01 Steel and Mining Areas Employment project (SMAEP)	finished Nov. 2002	MLSP**	MLSP
BG-0004.03 Vocational Training	finalising	MRSPW***	MLSP
BG-0102.05 Labour Market Initiatives	tendering	MRSPW & MES*	MLSP
BG-0102.06 Social Inclusion	tendering	MRSPW	MLSP
BG-0202.01 Clearing the Path to Employment for Youths	preparation	MLSP	MLSP
BG-0202.03 Life Long Learning and Vocational Education and Training	preparation	MLSP	MES
BG-0010 Access 2000	implementation	CFCU	BFI Consortium (NGO)
BG-0104.03 Civil Society Development	tendering	CFCU	Civil Society Consortium (NGO)
BG-0204.02 Civil Society Development	preparation	CFCU****	NGO (to be contracted)

*MES – Ministry of Education and Science

**MLSP – Ministry of Labour and Social Policy

***MRSPW – Ministry of Regional Development and Public Works

****CFCU – Central Finance and Contracts Unit

23. Moreover, sometimes a global grant may have been given via a de-facto direct agreement for one or more pre-selected Implementation Agencies (IA) for cofinancing a programme such as VET Education or language training or indeed via an international service tender.

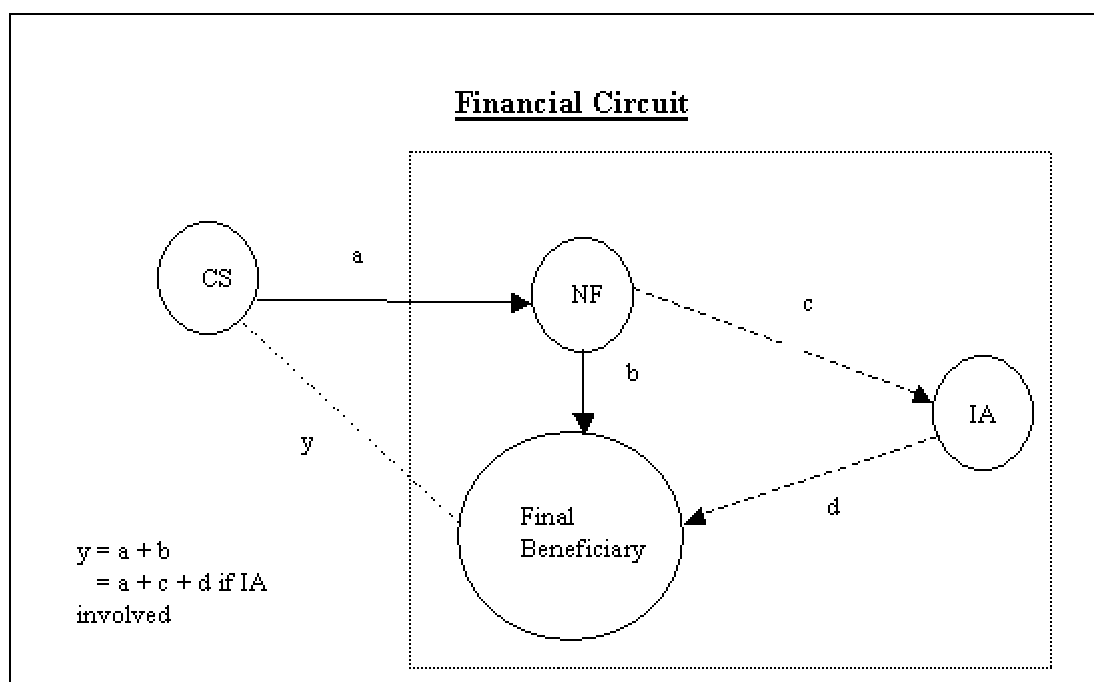
3.2. The Financial Process

Introduction

24. Figure 1 below exhibits the Financial Process or the flow of EU co-finance from its source at the EC to the final beneficiary. The key financial intermediary in the beneficiary country is the National Fund (NF), which is entrusted with receiving EU pre-accession funds transfers for Phare, ISPA and SAPARD. All payments are based on the relevant underlying FM. Both soft civil society and hard infrastructure GS fall within the Phare annual programme and therefore payments are tied to the respective FM. Figure 1 suggests that in principle the funds transfer is fairly direct, involving only the NF as the gateway of finance into the recipient country, before funds are transferred to the Final Beneficiary.

25. The dotted line between CS and the grant holder in Figure 3 suggests a smooth transfer of Phare money from CS to final beneficiary via the NF. In practice, transfer is less smooth and subject to delays. These delays tend to be based around the Request for Payments between the IA and the NF.

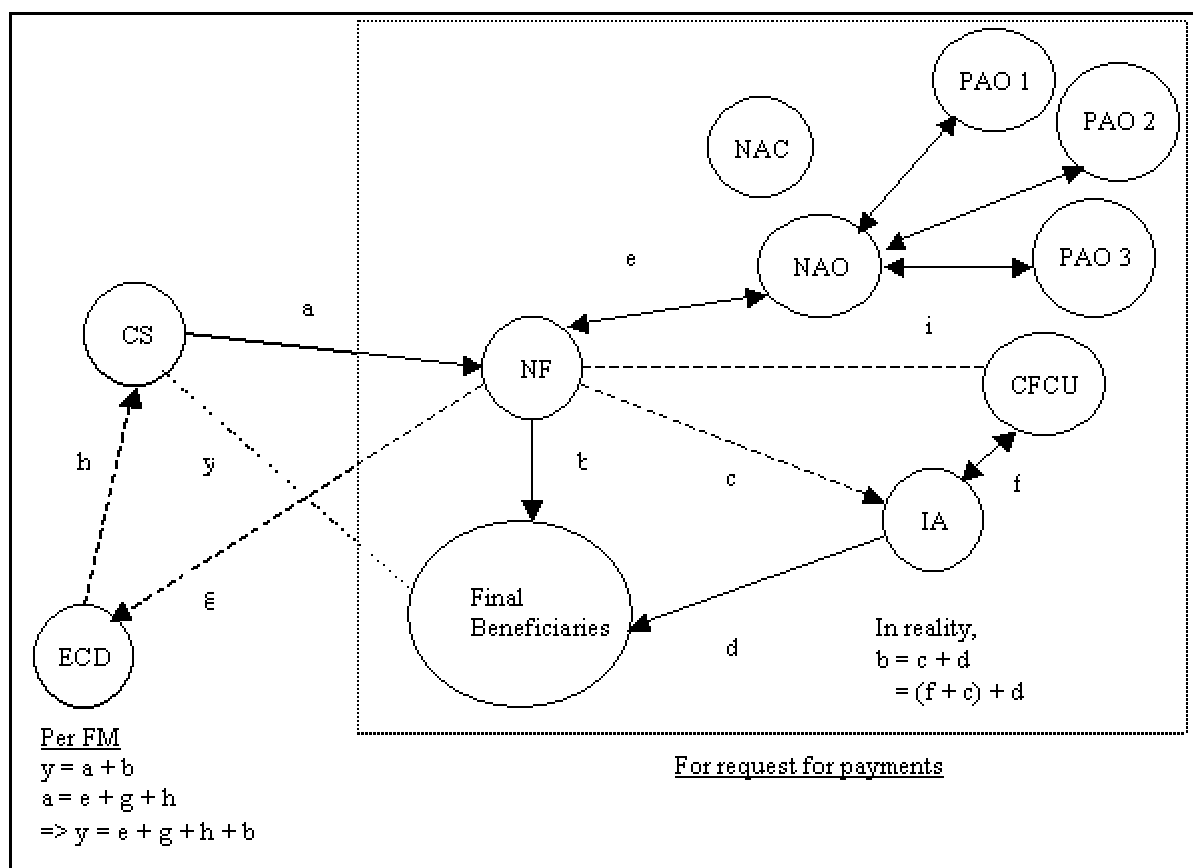
Figure 1: Simplified Financial Process



26. The main actors as described in Figure 1 in the flow of Phare funds are the CS, the NF and the Final Beneficiary or grant holders.

27. In practice, there are several more second-level stakeholders involved either directly or in terms of operational oversight within the visa system for any Request for payments from the NAC. The additional stakeholders involve the CFCU⁵ or other contracting bodies, the NAC and National Authorizing Officer (NAO) units and other Project Authorizing Officer (PAO) if the request for additional payments on the FM involves more than 1 PAO (e.g. Poland). Under the Decentralised Implementation System (DIS), the ECD retains the Commission's ex-ante control function and is also a key stakeholder. Figure 2 shows the actual schema that typically exists.

Figure 2: Financial Process



28. Figure 2 demonstrates that to achieve the effect of line y, a complicated process with a large number of interactions has to be initiated. In practice the Financial Process is far more complicated than the simple theoretical variant of Figure 2. In addition to the CS, NF and the Final Beneficiary, the NAC and NAO are involved for the beneficiary country and the ECD for the CS. The NF needs the sanction of the NAO who in turn (e.g. Poland) will deal with several PAOs that have projects within the same FM. Moreover, either the CFCU and/or another IA may be involved in the internal visa process that the NAO has before he signs of the Request for Funds.

29. This cumbersome structure, characterized by a complex paper flow and an important number of actors involved, is resulting in serious delays in processing the Requests for Funds.

⁵ The point should be made that whilst it is generally the CFCU which deals with grant schemes, in certain countries (e.g. the Czech Republic) other Implementing Agencies are involved.

30. This problem is amplified by the lack of an effective monitoring, information and management system at the level of the NAC and NAO. The following sections will focus on the key linkages posited in Figure 2 and highlight problems and solutions.

Bottlenecks in the Financial Process

The National Fund

31. The NF is akin to the national Treasury system that is the basis for effective control, management and distribution of state expenditure. The NF is therefore not surprisingly located in the key public finance institution, normally the Ministry of Finance.

32. In pure accountancy terms, the NF is the Commission's banking arm in the Phare countries. There are strict rules on the disbursement of funds on a project basis. Funds are FM specific and available for disbursement if held and within the n+3 disbursement schedule from the signature of the underlying FM. If the FM-tied Phare funds are exhausted, then the NAC can wait to instruct the NF for an additional request until the next interim payment is triggered or request for a special interim payment. However, it is understood that the possibility of using requests for special interim payments has almost never been used.

Key findings – Financial Process

- *NFs lack human resources.*
- *NFs have the capacities to perform financial oversight but lack strategic oversight.*
- *NFs lack a strategic approach to information management and financial forecasting.*
- *Data sharing and institutional cooperation too limited, preventing NFs from having the means to attest co-finance.*
- *AC to become aware of the need to create national co-finance bridging possibilities akin to Structural Funds norms.*
- *Lack of suitable Phare monitoring, especially in countries like Bulgaria.*

33. One general gap identified is the lack of any bridging option on the part of national authorities. Part of the problem is clearly the limitations of the annual budgeting approach. However, it should be possible for public finance units to create mechanisms that allow for liquidity support.

Multi-annual Fiscal System and IFIs-Co-ordination

34. To date, Phare financing has been annual. Indeed the Phare regulation itself is annually based. The shift from an annual to a multi-annual framework for Phare may be feasible from a Phare context via a Multi-Annual Programming (MAP) framework and annual disbursements. Programming for Bulgaria and Romania under Phare and Croatia under CARDS is currently MAP-based in principle. The rationale behind a MAP is twofold: firstly, to improve the bridge to SF assistance, and; secondly, in view of the rise in the Phare envelopes available for Bulgaria and Romania, to help maximise the absorption of the substantial funds over a medium-term period. Multi-annual based assistance underpinned by sound medium-term national, regional and sectoral planning has been shown to have more success of results, impact and sustainability.

35. Nonetheless, a multi-annual approach has wider fiscal dimensions in public finance. EU accession will require acceding countries to shift their focus from current annual budgetary platforms to medium-term fiscal planning and focus on fiscal balances across the business cycle and within the terms of the Stability and Growth Pact, i.e. to a multi-annual basis. National expenditure as a share of GDP averages 44% for acceding countries. National expenditure dwarfs the scale of EU pre-accession assistance, (including Phare which amounts

to under 0.5% of GDP) and will also dwarf post accession assistance under Structural Funds (Regulation 1260/99 targets 0.45% of GDP for ESC actions, where there is a ceiling is 4% of GDP on the basis of 1% of GDP in national cofinance). For many countries, national debt – domestic and foreign currency based – at up to 60% of GDP also significantly exceed the levels of EU pre-accession assistance. Several implications follow both in terms of pre-accession and post-accession financial assistance, design of fiscal frameworks, impact of expenditure assignments amid fiscal constraints nationally or imposed as part of International Financing Institutions (IFIs) -loan covenants, absorption capacity and donor-co-ordination.

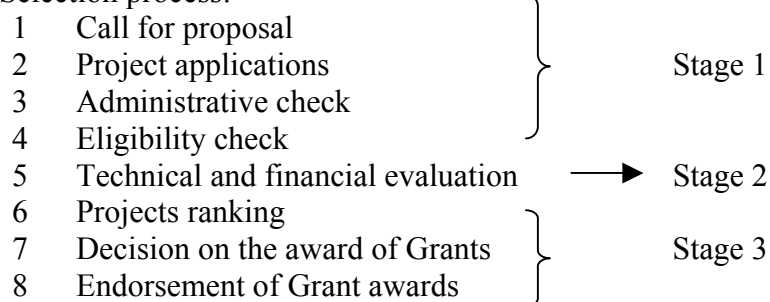
3.3. The Operational Process

From Application to Award of Grants

36. The classic GS process involves the actual underlying flow of non-financial or administrative activity. It is defined as the “Operational Process” and should be distinguished from the flow of funds described in the previous Section.

37. The GS mechanism from the point of launching a call for proposals to selection and endorsement of awards follows these successive steps:

Selection process:



38. The main points on the GS process line from FM to implementation are the development and approval of Guidelines of applicants, call for Proposal, and the Evaluation Process. Only then does effective implementation start. The time left for actual implementation is substantially shortened and this is a strong argument to extend the disbursement schedule to 4 years due to the specificity of GS. In general, externalising the development of GS Guidelines reduces the time loss, but the use of TA should itself be carefully designed and is not a substitute for administrative capacity. The ECDs approve the Guidelines.

39. Grants are typically allocated on the basis of the final ranking and allocation of funds down the list until the exhaustion of funds. The ECD might be present in the selection committee’s. It is possible however, for funds to be allocated on a pro-rata basis for a wider set of eligible proposals, which means reducing the amount of each award below the value applied for but increasing the number of grants awarded.

40. In case of excess supply of funds a second call for proposals may be undertaken. In the case of excess demand either the unsuccessful potential beneficiaries lose out or if fortunate, the ECD might be able to re-allocate savings from another Phare GS or product where there are savings. However it is rare for excess funds to be transferred between GS.

41. The selected proposals or offers are then notified that their proposal has been evaluated to be eligible and selected.

42. The ECD endorses a global list of final beneficiaries. The contracting is then between the contracting body and the grantees or final beneficiaries. In some cases, the contracting may be sub-delegated to a regional body (e.g. Poland). The contract is a standard Phare grant scheme contract with Specific Conditions added.

Table 4: Typical Selection and Rejection Rates

	Typical Selection rate of total at each stage	Implied Selection rate of original applications	Attrition Rate of Proposals (Accumulative)
Stage 1	50-75%	50-75%	25-50%
Stage 2	90-100%	45-75%	25-55%
Stage 3	30-100%	27-75%	25-73%

43. Table 4 gives a broad picture of the statistical picture that emerges from our sampling and interviews. The second column of Table 4 displays the selection rate at each stage in comparison to the original number of applications i.e. X in Figure 4. Column 3 derives the corresponding failure or attrition rates to column 2.

44. Most of the proposals pass the first stage. Proposals rated to be administratively compliant then go to stage 2 where even a higher percentage is successfully screened. The number of proposals found to be eligible and above the minimum threshold and awarded grant money has a wide probability of between 30-100% .

Key findings

- Excessively high rejection rates of potentially qualifying proposals at the stage of Administrative Compliance.
- Weaknesses regarding the supply of information to GS applicants: Insufficient training, support and information.
- The lack of information supply hinders more particularly the participation of new applicants and the implementation of soft GS.

45. Table 4 offers important indicators of where things go wrong in terms of inefficient processes. Before going into the process and bottlenecks in more detail, the simple statistical exercise highlights important findings worth re-emphasis:

- a. Whilst the majority of proposals pass Stage 1, nonetheless up to half of all proposals fail at this first hurdle – the administrative compliance check.
- b. In the case of strong demand, up to almost three-quarters of all proposals do not receive funding despite successfully meeting the Phare GS rules.

Key Findings on operation process – from application to award of grants

46. Procedures for the administrative check appear to be somewhat inflexible in comparison with the approach among MS for SF support, particularly beneficiaries in soft sectors where the know-how to comply with rules is thinner. Moreover, there appears to be substantial variation in approach across countries, from quite a rigid approach in Romania to a more less rigid one in Poland. Nonetheless, there have to be some minimal benchmarks and rules for the GS system to operate.

47. In the rigid approach the integrity of the process is maintained and chances for unethical manipulation of the Evaluation Process by giving more flexibility to some applicants than others, is reduced. In the flexible approach potentially strong applications are retained but results in an increased administrative burden on the process.

48. GS are a pre-accession instrument for know-how transfer to national systems, civil servants and potential final beneficiaries to learn before SF support. In general, the greater the success rate at each stage and accumulatively, or lower the attrition rate, the better the preparation for absorption of higher available budgets at accession.

49. Too many good proposals do not receive funding. In short there is excess demand. This is actually a “good problem” in some sense as it highlights the potential for greater absorption. However it also indicates a major “deadweight loss”. In some cases, a large number of applicants having gone through a lot of work to submit eligible proposals that goes unrewarded.

50. One of the most significant features of GS as a preparatory instrument for SF is the potential to reveal demand-led absorption capacity. Conversely it is one of the most significant weaknesses of the GS instrument thus far under Phare that it has failed to establish a systemic solution that converts excess demand into a future pipeline of proposals as under SF or establish a flexible funding approach to at least partially respond to excess demand.

51. Over-subscription of qualifying applications also raises a question over effective programming to determine a likely intervention range and demand. However, this should not be over emphasised. In some GS several hundred applications have been received. With this volume of applicants it is very difficult to predict the likely number, value and quality of applications.

52. As a related issue, the excess demand for GS reduces the incentive to allocate resources to raising the quality of projects proposed. At some point attention will need to be given to how to deliver support at the local level to establish a pipeline of stronger projects. This may be as simple as funding a network of GS liaison points at a suitable local level where a potential applicant can explore and develop their project concepts with someone who has experience of the GS product. It is likely that such a service would have to be independent from IAs or Project Implementation Units (PIUs) who are confined by the GS mechanism to dealing with procedural and administrative clarifications. As a mentoring service it would not aim to replace consultants active in the field and would stop short of doing any hard concept or proposal development. This is more of an issue for CC where the availability and culture of using consultancy services is less developed. By comparison, in AC there is already a market developing in consultancy services to support applications for SF.

From Contracting to Implementation

53. The process to contracting can take up to 18 months and in some cases close to the 2 year deadline. Two reasons for the long lead period to this point are the time taken for the Call for Proposals and for the Evaluation process once offers are received from applicants. This delay reduces the time for actual implementation which in turn reduces the potential impact of the Phare GS intervention.

54. Implementation is subject to different interpretations of Phare (i.e. PRAG) procurement rules. As highlighted in Chapter 3, contracting authorities may be overly-zealous in interpreting rules, although there are also instances of greater flexibility (e.g. Lithuania) and greater appreciation of the need for flexibility, particularly for the third pillar.

The CFCU (or other Contracting Bodies)

55. CFCUs are generally the sole contracting authorities for Phare, although there are country variations. In smaller CCs such as Estonia, there is only one contracting body while in larger CCs such as Bulgaria, Poland and Romania there are several. The main advantage of having a single body is that scarce administrative capacity for contracting and implementation is not diluted. On the other hand, and particularly for GS, the pre-accession run-in period is the right time to test and build institutional structures that will become Managing Agencies, IA or IBs under SF.

The Commission Services

56. Under DIS, the ECD retains the ex-ante control of decision-making. This means that the Head of Delegation (HoD) (through an internal visa system involving the sectoral Task Manager (TM), Head of Operations and/Phare, the FO and then the HoD) endorses all requests as regards contracting (not implementation and not disbursement to final beneficiaries).

57. Under EDIS, the ECD ex-ante visa will waive, although in effect it is devolved to the CFCU. However, the accreditation process is rather heavy in terms of effective commitment of resources required to in effect assume the responsibilities currently practiced by the Delegation. No AC has yet been granted EDIS accreditation.

58. There is a mismatch often between the bridging roles of ESC to SF intervention. The absolute and relative rate of absorption of SF support will be higher, the greater the fit between priorities defined under SPDs or CSFs and underlying measures and their preceding Phare financed equivalent grants. The general picture across all ACs visited is that programming of GS since 2001 has become more closely tied to the same national development plan as that which has been developed for SF measures, although there are also mismatches where Phare GS intervention does not accord fully with the priorities, needs or gaps highlighted in the post-accession blueprint for SF support. The mismatch implies inefficiency and sub-optimal effectiveness of GS, and lower impact and sustainability through lower take-up at accession of SF support. The lesson of ensuring minimal mismatch is particularly seminal for Bulgaria and Romania to ensure marginal efficiency of each EU euro aid when the overall financial allocation available is rising substantially in the current Financial Perspective to 2006.

59. Phare structures do not explicitly or sufficiently allow for cross-country learning of GS experience. The scope for broad priorities and therefore design of schemes is similar across all transition countries. The DIS - and in future EDIS - systems are overweight in vertical structures from the regional unit in DG ELARG down to the country ECD and its relations with the national administration structures allocated Phare responsibility. Conversely, the

Key findings

- *CFCUs have a key role to play for the smooth contracting of GS activities.*
- *CFCUs' administrative capacity is too weak, notably to perform all GS financial requirements in an efficient manner.*
- *CFCU's efficiency reduced by a lack of understanding of GS specificities (particularly for soft GS), and low levels of staff remuneration.*
- *In some countries (e.g. Romania), lack of flexibility in the interpretation of contracting procedures and numerous internal approval layers add to implementation delays and to the dilution of resources and skills.*
- *The above problems tend to further hinder these applicants with the lowest project skills whose reliance on EU support is crucial*
- *GS design and scope lack consistency across the different CCs.*
- *Inconsistencies between the different approaches adopted by ECDs when dealing with GS.*
- *No dissemination of good practices between CCs on GS design and implementation.*

horizontal (cross Phare) dimension for the GS process at the CS level is relatively weak. A dedicated and sufficiently staffed horizontal GS unit at DG ELARG would help to improve cross-country consistency in approach and transfer of know-how and experience of operational schemes by: (i) accelerating the GS process and reducing time lags lost due to initial learning and implementation problems; and (ii) reduce the risk of mismatch between Phare and SF intervention.

Other Aspects of the Operational Process

Timing of Financing Memoranda and Guidelines for Applicants

60. Too much time is lost from the signature of the FM through to the preparation and endorsement of the Guidelines for Applicants, particularly for a first-generation GS. Part of the problem that a lot of time – up to 6-8 months – can be lost in preparing Guidelines for Applicants of a sufficient standard that the ECD can endorse.

Key Finding

- *Draft Guidelines take too long to prepare*
- *Too much cross-country deviation for similar GS*
- *Time inconsistency between signature of FM and effective GS*

61. Draft Guidelines could and should be front-loaded by the time of the FM signature and it is not clear why this is not systematically followed in all CCs. In terms of programming, using a PPF style product to assist GS seems to work best although there is evidence of some problems with this in Bulgaria where the Framework Contract (FWC) has not been successful in locating relevant EU expertise or the Draft Guidelines were found to be not fully relevant.

62. From the supply side, the current system of geographical units in DG ELARG and ECDs is good vertically but does not seem to allow for a horizontal cross-flow of best practice or GS models. The general thrust of GS intervention is similar for economic development, capital formation, Small and Medium Enterprises (SMEs) assistance, NGO support etc. and whilst country specificity is warranted, core templates should be considered. Whilst these are currently available the process is passive and a more robust approach could have prevented many of the same problems re-occurring elsewhere in another CC. A dedicated horizontal team within the horizontal unit dealing with GS alone could do much to provide a more systemic control and harmonisation of the GS issues.

63. For larger infrastructure works, the timing of the FM – typically late in a year – is often out of synch with the practicalities of works that can only begin in spring. This means, as in Poland, that the signature of an FM in December leads to a natural “deadweight” period until the literal thaw after spring. For Bulgaria and Romania, a MAP will allow getting around this bottleneck.

The VAT Issue

64. The introduction of a simple and effective mechanism for the supply of goods and services without Value Added Tax (VAT) on Phare countries does not seem to have taken place clearly or consistently. Although all EU aid is tax-free, this has often not officially made legally binding or where legal it has not been always been followed at an operational level for rebates or exemption. In Poland for instance, we understand the rules have been followed but then repealed and then amended once more. The uncertainty can inhibit demand for GS intervention and increase liquidity and possibly solvency problems for beneficiaries.

65. The VAT issue has become more topical in recent years of Phare financing as the focus has shifted away from IB toward investment and as a result of increasing interest from the EC on evidence and verification of cash cofinance. GS implementation is particularly sensitive to the VAT issue as the total financing for a proposal is often a mix of Phare, national and beneficiary cofinance monies and the VAT rebate is quite a sizeable financing gap for the grantee.

Box 3: Impact of VAT on GS - example

For example, suppose that a project has financing requirement of € 100 and the Phare grant totals € 75 (i.e. 75%) and the beneficiary may have to provide € 10 (i.e. 10%) cofinance to complement € 15 (i.e. 15%) from the state.

However, if the VAT rate is say 20%, the grantee is faced with the VAT bill of € 20 unless this is rebated. This means that without the rebate the true project cost is € 120 and not € 100 and the implied rate of cofinance for the grantee is 25% (i.e. € 30 inc. VAT of € 20) and not 10%. The implied Phare cofinance in reality then is not 75% but 62.5% (i.e. still € 75 out of total cost of € 120)

66. The VAT issue needs to be clearly resolved for the remaining CCs and future CCs. Willingness to resolve this issue would reflect a national level commitment to Phare requirements and GS needs in particular. One positive aspect for Bulgaria is that there appears to be a good exemption mechanism in operation already. In Romania for example grant holders need to take each procurement invoice to the local VAT inspector for exemption. Varying levels of familiarity and cooperation are found in the local VAT offices. Since a grant may involve many invoices, this is an ineffective solution. One solution might be that a general certificate is issued for all supplies under a grant award. The certificate could have a capped amount, the same as the procurement level of the grant. Consequently the VAT office would not be concerned that the exemption was being misused for more than the value of the grant.

Accumulated Experience

67. As already mentioned, significant delays have been encountered in implementation of 2000 and 2001 GS in many countries. In some cases programming has been lost or is at risk. In general however feedback from IAs and ECDs is that the ability of IAs and PIUs to implement GS is improving with experience. In most countries visited the institutional arrangements for implementation appear fairly stable and it is likely the same IAs already involved in GS will be the IAs for 2002 and 2003 programmes.

68. Further Consideration of the Evaluation Process is a standard approach for all GS under Phare, involving an Administrative Evaluation and then a Technical and Financial Appraisal. The time taken for the process to be completed is a substantial issue, which has been consistently raised during the review. There were sample differences with the issue not a major bottleneck in Estonia but larger in Lithuania and even higher in Bulgaria and Romania, with Poland somewhere in between. The main explanations are:

- a. The PRAG guide on the Evaluation Grid is considered to be too restrictive.
- b. There is a lack of a programmatic approach to the issue of Evaluations both at a per GS level and more horizontally within administrations in terms in capacity and expertise.
- c. There is a lack of a horizontal function for all GS at BXL to assist ECDs and beneficiaries in providing best-case models and consistency.

3.4. Evaluation Results

Introduction

69. The traditional EMS evaluation criteria evaluates against the measures of relevance, effectiveness, efficiency, impact and sustainability and this is the approach chosen to present the key findings, as the review is partly based on material from IE.

70. However, the key findings also provide answers to the key evaluation questions described in 1.2.

Relevance

71. GS were programmed and implemented in accordance with NDP priorities. The trend has accelerated since 2000 and design is more demand-driven and premised on the SPD (Single Programming Document) or OP (Operational Programme). Where this is the case, the GS tend to be highly relevant because they are addressing core needs identified and specifically supported by one of the core programming areas covered by Phare.

*How are GS programming and project design being performed?
GS programming and project design is good and increasingly based on needs analysis.*

72. Under the GS process, one of the most common causes of rejection of applications for administrative non compliance has been that they are outside of the criteria defined in the call for proposal guidelines – up to half of all applications fall at this first hurdle. The guidelines themselves must reflect and develop the priorities identified in the project fiche and in turn the NDP, but the associated dissemination and targeted training and assistance to applicants is often overlooked. The PRAG rules for the Administrative check are also less user-friendly than under SF. Notwithstanding these concerns, projects have a high degree of relevance even though the filtering process needs review.

73. In almost all cases observed, applicants pursue core objectives of their mandates and are usually undertaking projects that they would be unable to finance without the GS.

74. The scope for GS intervention has improved based increasingly on a Needs Analysis and associated gaps. However, two weaknesses are firstly the cross-country variation in design work in the form of feasibility studies, cost-benefit analysis etc. and secondly, a resultant poor fit of applied Phare GS assistance – there is either oversupply (funds exceeds demand) or excess demand (demand exceeds funds).

75. Finally, relevance in the context of Bulgaria and Romania is tied to two endogenous factors – availability of sufficient critical mass of administrative capacity and the existence or lack of the multi-annual budgeting framework. Having a Multi-Annual Programming (MAP) framework and strong conditionality on raising capacity will be mutually reinforcing in raising the relevance of GS intervention.

76. The overall score is 45%, or just below the 50% mark for satisfactory.

Relevance Rating – satisfactory

Effectiveness

77. Effectiveness of Phare GS has two aspects – achievement of GS objectives and secondly, the wider facilitation of CCs to successfully prepare for absorption of SF measures at accession. Five Country visits underlined the possible independence of the two aspects, that even where effectiveness in terms of meeting specific objectives and Objectively Verifiable Indicators (OVIs) for GS is not fully satisfactory that the capacity building and experience of stakeholders in sampling with GS has increased the readiness for SF actions and therefore is satisfactory for the second aspect. Put another way, both

satisfactory and unsatisfactory results may be found in the same country where GS are implemented through more than one institutional arrangement. The overall evaluation of effectiveness is therefore a difficult exercise empirically but is possible to assess qualitatively.

78. The experience from the countries visited identified very mixed results in the effectiveness of GS implementation. In some cases there is clear evidence of strong and competent institutional arrangements and a clear understanding of how to manage the grant scheme process. Other cases have been characterized by complications at almost every stage and with all the key actors of the GS process and mechanism.

79. Whereas most countries reviewed were very late in implementing 2000 programmes, often the last few days for contracting under the n+2 rule, 2001 programmes are generally on course to be implemented on a very slightly more relaxed timeframe. In some cases 2002 programme calls for proposals are being launched simultaneously, suggesting greater confidence in dealing with the grant mechanism.

80. In most cases reviewed, there have been year on year improvements in the capabilities of the implementing institutions and consequently the effectiveness of the GS implementation. This is largely a result of the skills and experience acquired during earlier implementation of 1999 or 2000 GS. Such learning by doing has been maximised where stable institutional structures and adequate human resources exist at the outset but has been less valuable where institutions are weak. The generally low effectiveness ratings applied under EMS evaluations are likely to improve over time on the basis of 2nd-generation GS products that in essence follow-up established state aid, although this will be mitigated if scarce human and administrative capital to intermediate the system is weakened or diluted – particularly through its re-allocation toward SFs.

81. Overall, there is a sense of less than satisfactory effectiveness of GS for the first aspect across the spectrum of underlying products from soft Access to hard ESC, and as confirmed by recent time series EMS sectoral interim-evaluations across countries. Notwithstanding this overview, the overall impression is that the effectiveness is higher for the second aspect in

What has been the general performance of GS under Phare?

Overall, good performance of GS under Phare. If effectiveness of GS can be characterised by achievement of immediate objectives and quality of preparation for SF, then the evaluation is more positive for the second aspect but overall satisfactory and improving over the time. Impact and sustainability are potentially high. However, sustainability in the end-case will be judged on the smoothness of transition from Phare GS to SF measures.

What are the potential links between GS and SF support?

Establishing the institutional structures and acquiring the appropriate skills and experience has been a key feature of the GS. These skills will be well suited to accessing SF even though procedures differ. However, in some cases important implementing agencies for GS have no significant role planned for them under SF. In these cases it is possible the skills that exist will not be out to their best use.

preparations for SF. Whilst it is difficult to quantitatively assess the overall combined score, the Report rates the overall score at 45% and therefore bordering on “satisfactory” or 50%.

Effectiveness Rating - Satisfactory

Impact and Sustainability

82. Impact and sustainability are generally only assessed in an ex-post context after the termination of Phare intervention. GS have been operation for support to the third-sector since the early 90s and there is strong evidence across countries that there has been strong impact across a range of interventions in the politico-socio-economic-environment spheres where NGOs have been supported. Often the sustainability of these NGOs is less secure simply due to the overwhelming reliance in areas where there is no other domestic source of financial support.

Overall, impact and sustainability are potentially high. However, sustainability in the end-case will be judged on the smoothness of transition from Phare GS to SF measures.

83. For ESC, impact and sustainability is higher where projects have finished. This is both in terms of the psychological barrier where beneficiaries need to “see to believe” EU GS support in action but also, in part due to binding constraints on national cofinance and need for strategic thinking, greater involvement and ownership of the process from national, in particular the fiscal and economic, authorities. The impact is therefore often higher as a result of positive-externalities that has seen in some countries launch of mirror nationally-funded GS to test models of regional or sectoral growth and a more cohesive and integrated approach to economic development, medium-term growth strategies and fit of national programmes with EU priorities.

84. However, sustainability in the end-case will be judged on the smoothness of transition from Phare GS to SF measures and the potentially higher financing of up to a factor of 6 in the current financial perspective to 2006. Whilst it is too early to assess this fully, it is clear that ACs are not ready for available SF assistance on January 1, 2004 due to delays in setting up systems and one clear implication, particularly for current CCs, is that the design of the transition-path from GS to SF measures needs to be even smoother, both in terms of systems and in terms of the potential overlap of schemes.

85. Establishing the institutional structures and acquiring the appropriate skills and experience has been a key feature of the GS and these are generally skills that will be well suited to accessing SF, albeit under a very different set of procedures. However, in some cases important implementing agencies for GS have no significant role planned for them under SF. In these cases it is possible the skills that exist will not be optimised. For CCs, impact and sustainability would be raised through support, particularly in the 2 years before accession, for bodies that are to function in a post-accession setting as IAs or even managing and paying bodies.

86. At the level of the beneficiary, in many cases GS are a major source of finance to the grant holder and usually their first contact with a grant based mechanism. Direct impact is reflected in the significance of the funding compared to other resources of grant holders and the scale and nature of the projects financed.

87. In almost all cases where the applicant has shown the skills required to access the finance the result has been a raised awareness of the EU programmes. Typically this is accompanied by advanced project preparation for future GS and active tracking and monitoring of calls for proposals.

88. In aggregate, all the Phare GS can only have limited impact on the needs they are addressing due to the large scale of the potential for financial support. However the Phare GS are often still amongst the early stage initiatives to address some of the needs being targeted and have an important mobilisation effect of co-finance, usually in cash. They can also have a major impact at the micro level where no other alternative project is running.

89. Impact and sustainability are also challenged by two additional factors. Firstly there is a tendency to award investment projects without adequate Needs analysis and supporting feasibility work to assess relevance. The result is that public buildings and infrastructure might be created but without a prior understanding of who is going to use the facilities and consequently how finance can be raised to maintain the facilities.

90. Many GS, particularly people to people actions, require a sustained presence over several years before they will have the chance to generate self sustaining revenues. By contract GS often preclude repeat or similar projects from the previous year.

91. The overall score given is 65% and is quite satisfactory.

Impact and Sustainability rating – satisfactory

Efficiency

92. Efficiency for GS intervention is strongly affected by the opportunity cost of time if there are delays. Unlike assistance to the public sector, GS implementation and financial delivery needs to be faster to end beneficiaries in the NGO or private sectors where environmental changes are more rapid. Improved efficiency is therefore a key to success of GS intervention. This review has identified constraints in both the Financial and Operational Processes which inhibit strong efficiency across the various GS products.

How is the funding of GS carried out, and how can it be performed more efficiently?

The funding of GS involves many more stakeholders than the theory suggests. It puts an important burden over the administration of the candidate countries, which bears no relation with the amounts distributed. Efficiency is particularly essential for the overall performance of GS and whilst overall just satisfactory, is put at risk by the numerous potential bottlenecks in both the operational and financial process. There is scope for improvement there.

93. There are country variations and product variations in efficiency assessment and generally efficiency is relatively higher where there is institutional memory and sufficient HR capacity to work out solutions to bottlenecks and where there is GS experience. Efficiency is a concern where GS have still to get off the ground and for Bulgaria and Romania, where substantial additional money is available and will see increased available budgetary allocation for GS intervention.

94. In some cases TA facilities have been used to assist with implementation of the GS, and the general thematic trend observed across countries is that effectively designed TA to the GS process is a catalytic driver to the efficiency.

95. The GS instrument and process is more labour intensive than for other Phare instruments whilst the marginal product of labour is lower for GS and consequently GS suffer operationally from de-prioritisation in favour of large stand-alone IB or Investment projects. This reduces efficiency and highlights the need to ensure that there is sufficient and dedicated capacity to handle GS.

96. Efficiency is also negatively affected by the Financial Process and delays in the Treasury mechanism of speedily transferring funds and there are clear lessons that emerge in terms of process, information management and ownership of the process by beneficiaries and which are particularly valid for Bulgaria and Romania.

97. Our overall score is 45% and give the broad rating to be just satisfactory.

Efficiency rating – just satisfactory

4. CONCLUSIONS AND RECOMMENDATIONS

98. This thematic Grant Scheme Review (GSR) has focused on the delivery mechanism, distinguishing between the financial and non-financial processes. GS cover a number of Phare grant products that range from relatively small grants of a few thousand euros for Access style projects through to large infrastructure grants under ESC at the other end of the spectrum, with products such as CBC in between.

Main conclusions

99. The main conclusions are that:

- The GS instrument works well despite all the misgivings and does not require a complete overhaul; (reference: paragraphs 71, 73, 74, 80)
- GS are more labour intensive than other Phare products, requiring greater unit man time at all levels of national and EC input (reference: paragraphs 29, 39, 95). This should be a concern in particular for Bulgaria and Romania where there is both greater comparative weakness in administrative capacity and increasing available Phare financing.
- There are problems that can be resolved for both the Financial and Operational Processes and help to raise the efficiency and effectiveness of Phare assistance; (reference: paragraphs 60, 66)
- Multi- Annual Programming (MAP) for accession support programmes is a sensible approach in view to accession, especially concerning the remaining CCs, but would require that national budgets are also multi-annual and also that co-ordination between CS and IFIs is improved, notably in order to improve co-ordination of debt aid in the CCs, to accelerate the development of multi-annual fiscal arrangements in the CCs, and to support the development and implementation of financial control and audit functions in the CCs. (reference: paragraphs 34, 35)
- There is a mismatch often between the bridging role of ESC to SF intervention and Phare structures do not explicitly nor sufficiently allow for cross-country learning of GS experience; (reference: paragraphs 47, 51, 59)
- There is a need for a horizontal function at Commission Services that deals only for GS and can help in a more consistent approach to GS, advice and best practice or schemes; (reference: paragraphs 55, 59, 62)
- Many of the ex-ante evaluation aspects are relevant for remaining CCs but are also apply to the programming and design for future ACs.

100. The delivery mechanism is uniform for all GS, in terms of the Financial Process and the PRAG-rules that define its contracting and implementation. It is recommended that consideration be given to having a more distinct approach to smaller and larger GS, that a more robust approach to programming take place that is premised on needs, gaps and identification of the basis for GS intervention and scale of demand. It is further suggested that the Evaluation Process be improved – both in terms of the allocation of human resources and time allocation and the switch to a multi-annual approach be accelerated for Bulgaria and Romania. (reference: paragraphs 34, 47, 68).

Specific conclusions

101. The specific conclusions presented below are a distillation of the general conclusion and relate to the gaps and problems identified by the Review in the Financial and Operational Process. This chapter together with the following (Recommendations) provides answers to the last two evaluation questions (see 1.2: At an operational level: what are the main bottlenecks within the GS process?; What could be fine-tuned or improved and what are the lessons for future use of the GS instrument?).

Financial Process – the NF

102. The NF is regarded as sound in terms of financial oversight from an accountancy perspective but poor in terms of strategic oversight and management systems.

103. Administrative capacity at the NF remains weaker than required, though not as pressing as in CFCUs. The marginal impact per additional worker at the NF is extremely high given the key financial interface of the NF.

104. Institutionally, there are more problems and delays in processing Requests for funds where the NF and the NAC are at different ministries.

105. Where the NAC or NAO has responsibility for national debt management (particularly external) they give priority to this role over Phare funds issues due to the much larger amounts usually involved.

106. There is lack of a strategic approach to information management and forecasting flow of funds. One complaint made is that the NF is often not even able to use the Perseus System information that is available for management purposes. Lacking this forward looking approach, the NF is reactive to liquidity demands rather than proactive.

107. In general the extent of co-operation and sharing of Treasury data on line ministerial financial allocations, commitments and forecasting is very poor. This means that the NF may not be fully using available fiscal data to attest cofinance. It means also that there is no policy- or strategic-assessment function to pick up issues such as the need to create national cofinance bridging possibilities akin to the SF norms.

108. The dialogue between the NF, the CFCU and the Monitoring Function – where it functions – is also a point of weakness and the cofinance data may simply reflect a bottom-up approach of adding declared use of cofinance at the project level without any cross-check.

109. Co-operation between the stakeholders is particularly key for GS, where national and beneficiary's own cofinance is often mixed and as part of the checks to calculate reimbursable VAT on Phare GS.

110. The lack of effective, quality and timely Phare monitoring (e.g. Bulgaria) exacerbates the problem as there is no backward looking information to assess trends and policy issues or for Quality Management Control.

Contracting (CFCU)

111. Lack of sufficient and well remunerated administrative capacity is a major bottleneck generally and marginally as the level of funding rises for ACs.

112. The institutional model of where the CFCU resides and its official status leads to variations in CFCU performance.

113. Retention of scarce institutional capacity is a general problem, but particularly for Bulgaria. This issue is especially vital for reducing contracting issues related to GS. The lack of institutional understanding about GS specificities, particularly for soft NGO type grants leads to inefficiency in implementation. As n+2 deadlines approach under each programming cycle, contracting authorities and IAs give lower priority for soft and small scale products than for larger single projects, typically large investment projects.

114. Contracting Units are not consistently able to ensure financial soundness of GS procedures and systems.

115. Local factors affecting a CFCU may lead to reluctance to be flexible in the interpretation of contracting procedures and the introduction of excessive layers of internal ratification before documents or instructions can move between the CFCU and the ECD or grant holder.

116. This can lead to major delays in implementing GS, as in Romania. Applicants with below average linguistic, management or financial control skills are most vulnerable to this source of delay, yet these are the types of organisations that tend to be most heavily reliant on EU financial support.

117. Skills and resources become diluted across the administrative structure where there are several contracting units.

Contracting (CS)

118. There is a lack of consistency in design and scope of GS across Phare countries and intra-CC know-how transfer on the design and implementation of GS.

119. Mismatches between the bridging role of ESC to SF intervention under ERDF and ESF, implying lower rate of endogenous change under pre-accession Phare ESC, that in turn mean slower potential to take up post-accession SF transfers.

120. The existing programming and ECFIN documentation on PCM and Feasibilities is carried out inconsistently across Phare countries.

121. There is inconsistency of approach between ECDs in forwarding Requests for Funds to DG ELARG, some act much as a post office, whilst others undertake more involved verification.

Operational Process – from application to award of grants

122. GS reveal excessively high rejection rates of potentially qualifying proposals at the Stage of Administrative Compliance check. The current approach to training and support is not adequate. Preparatory activities for GS usually involve a seminar or presentation by the IA on the application process, after which follow up is often dealt with by email and disseminated by a FAQ section of the web site. This is insufficient for new applicants to GS, who require a resource they can speak to directly.

123. A difference in approach exists amongst CCs in degree of flexibility to provide additional information.

124. There is a lack of differentiation for softer GS which have de facto higher marginal compliance requirements.

Other aspects of Operational Process:

- Draft Guidelines take too long to prepare.
- Too much cross-country deviation for similar GS.
- Time inconsistency between signature of FM and effective GS start – works.
- There is insufficient evaluation expertise and time amongst potential evaluators.
- Scope exists for potential bias in selections and rejection of Evaluation Reports by ECD.
- A higher volume of proposals and higher marginal time for lower quality proposals can be expected in future.
- Inconsistencies in interpretation are common from one country to another.
- PRAG rules are unclear and unstable.

125. The following 6 tables present the specific conclusions and related recommendations.

Table 5: Recommendation Tables:**1. FINANCIAL PROCESS, NATIONAL FUND**

	Conclusions	Recommendations
1	The NF is regarded as sound in terms of financial oversight from an accountancy perspective but poor in terms of a strategic oversight and management systems.	A systems audit should be undertaken, in particular for Bulgaria and Romania.
2	Administrative capacity at the NF remains weaker than required, though not as pressing as in CFCUs. The <u>marginal impact per additional worker at the NF is extremely high</u> given the key financial interface of the NF.	A HR gap assessment is recommended on the back of a systems and perhaps performance audit. Plugging this human capital deficit should be a precondition for all further pre-accession financing and if necessary Phare funds should be used for CCs to call on additional expertise or external support.
3	Institutionally, there are more problems and delays in processing Requests for funds where the NF and the NAC are at different ministries.	For Bulgaria, Romania and future ACs, the CS should ensure binding and stable institutional arrangements, and guide the institutional set-up of the bodies in the same ministry.
4	Where the NAC or NAO has responsibility for national debt management (particularly external) they give priority to this role over Phare funds issues due the much larger amounts usually involved.	The roles should be separated to different officers unless the responsibility can be effectively delegated.
5	There is lack of a strategic approach to information management and forecasting flow of funds. One complaint made is that the NF is often not even able to use the Perseus System information that is available for management purposes. Lacking this forward looking approach, the NF is reactive to liquidity demands rather than proactive.	This is a major concern as it also ties into the transition of the NF toward the Paying Agency role for SF and shift of financing toward a multi-annual framework For remaining and future ACs, this issue should be further reviewed both as regards systems, tools and procedures as well as financial control, and should be linked with the EDIS assessments.
6	In general the extent of co-operation and sharing of Treasury data on line ministerial financial allocations, commitments and forecasting is very poor. This means that the NF may not be fully using available fiscal data to attest cofinance. It means also that there is no policy- or strategic-assessment function to pick up issues such as the need to create national cofinance bridging possibilities akin to the SF norms.	The increasing evaluation logic to expenditure alignment under the new FR will further raise the need for increased co-ordination and planning, monitoring and forecasting national and EU finance. Both the above, together with the move to MAP should be linked with IMF and World Bank assisted reforms in public finance and Treasury systems. The possibilities of bridging possibilities should be further assessed.
7	The dialogue between the NF, the CFCU and the Monitoring Function – where it functions – is also a point of weakness and the cofinance data may simply reflect a bottom-up approach of adding declared use of cofinance at the project level without any cross-check.	This horizontal gap should be highlighted within the frames of the EDIS gap assessment, especially for Bulgaria, Romania and future ACs as well as raised at the Joint Monitoring Committee (JMC) level. ECDs should undertake spot-checks to verify cofinance and GS management capacity where not already undertaken.
8	Co-operation between the stakeholders is particularly key for GS, where national and beneficiary's own cofinance is often mixed and as part of the checks to calculate reimbursable VAT on Phare GS.	For GS, the VAT rule should be decided and sanctioned first by the government before future GS are programmed.
9	The lack of effective, quality and timely Phare monitoring (e.g. Bulgaria) exacerbates the problem as there is no backward looking information to assess trends and policy issues or for Quality Management Control.	An operational monitoring system within the JMC structure should be a priority and Phare funds e.g. FWC funds used to accelerate this if needed.

2. FINANCIAL PROCESS, CENTRAL FINANCE AND CONTRACTING UNIT (CFCU)

	Conclusions	Recommendations
1	Lack of sufficient and well remunerated administrative capacity is a major bottleneck generally and marginally as the level of funding rises for ACs.	Needs analysis of staff should be tied to funding and current performance for all contracting agencies in Bulgaria and Romania, and tied (i.e. conditional upon) hiring of experts, should be a pre-condition to all Phare and all GS FMs. GS are particularly labour intensive and need to have greater average resource allocation. There is strong evidence that Phare financing of top-up fees (ex-EE) and financing of experts (Bulgaria) has a major catalytic effect with significant returns to Phare investment and should be continued if not extended in Bulgaria and introduced in Romania. By corollary, it makes sense to introduce the idea at the outset for future CCs.
2	The institutional model of where (institutionally) the CFCU resides and its official status leads to variations in CFCU performance.	The general experience in Phare countries is that the model of a quasi-public entity such as a "Foundation" is adequate as it segregates the unit from the civil service and payment structures and allows for the hiring and retention of high quality, motivated and well paid personnel. This approach works well in Lithuania and in Poland. Institutionally, experience suggests that the CFCU should be based in the Ministry of Finance and close to the NF – as is the case in most countries.
3	Retention of scarce institutional capacity is a general problem, but particularly for Bulgaria. This issue is especially vital for reducing contracting issues related to GS. The lack of institutional understanding about GS specificities, particularly for soft NGO type grants leads to inefficiency in implementation.	The experience for ISPA and the programming of a large TA block for the Cohesion Fund should be noted – which explicitly acknowledged the lack of sufficient critical mass of internal capacity and programmed strong supporting TA of up to 7% of the total available aid. The use of EU TA should be seriously considered in Bulgaria and Romania for contracting units, but tied to the strong pre-condition of additional hires by the institutional beneficiary of the TA.
1	Lack of sufficient and well remunerated administrative capacity is a major bottleneck generally and marginally as the level of funding rises for ACs.	Needs analysis of staff should be tied to funding and current performance for all contracting agencies in Bulgaria and Romania, and tied (i.e. conditional upon) hiring of experts, should be a pre-condition to all Phare and all GS FMs. GS are particularly labour intensive and need to have greater average resource allocation. There is strong evidence that Phare financing of top-up fees (ex-EE) and financing of experts (Bulgaria) has a major catalytic effect with significant returns to Phare investment and should be continued if not extended in Bulgaria and introduced in Romania. By corollary, it makes sense to introduce the idea at the outset for future CCs.
2	The institutional model of where the CFCU resides and its official status leads to variations in CFCU performance.	The general experience in Phare countries is that the model of a quasi-public entity such as a "Foundation" is optimal as it segregates the unit from the civil service and payment structures and allows for the hiring and retention of high quality, motivated and well paid personnel. This approach works well in Lithuania and in Poland. Institutionally, experience suggests that the CFCU should be based in the Ministry of Finance and close to the NF – as in most countries.

	Conclusions	Recommendations
3	Retention of scarce institutional capacity is a general problem, but particularly for Bulgaria. This issue is especially vital for reducing contracting issues related to GS. The lack of institutional understanding about GS specificities, particularly for soft NGO type grants leads to inefficiency in implementation. As n+2 deadlines approach under each programming cycle, contracting authorities and IAs give lower priority for soft and small scale products than for larger single projects, typically large investment projects.	Retention of staff is another general and horizontal issue tied to the first 2 points and further study into the issue is warranted. The experience for ISPA and the programming of a large TA block for the Cohesion Fund should be noted – which explicitly acknowledged the lack of sufficient critical mass of internal capacity and programmed strong supporting TA of up to 7% of the total available aid. The use of EU TA should be seriously considered in Bulgaria and Romania for contracting units, but tied to the strong pre-condition of additional hires by the institutional beneficiary of the TA.
4	Contracting Units are not consistently able to ensure financial soundness of GS procedures and systems.	The EDIS process might identify certain procedural gaps but there is lack of consistency in application by ECDs as far as programmed or under-implementation GS are concerned. It may simply not be credible or time consistent to insist on this issue at this late stage of pre-accession – TA might again offer a second-best solution. For Bulgaria and Romania, DG ELARG should take the lead – a major gap (see CS below) is the lack of a horizontal function specifically dealing with GS issues.
5	Local factors affecting a CFCU may lead to reluctance to be flexible in the interpretation of contracting procedures and the introduction of excessive layers of internal ratification before documents or instructions can move between the CFCU and the ECD or grant holder. This can lead to major delays in implementing GS, as in Romania. Applicants with below average linguistic, management or financial control skills are most vulnerable to this source of delay, yet these are the types of organisations that tend to be most heavily reliant on EU financial support.	The CS should undertake a careful follow-up in Romania where the issue of corruption and financial irregularity reduces the incentive of senior officers to sanction contracts. Clearly defined job descriptions and revised internal procedures within the CFCU for signing off documents might relieve this problem. The remit of national judicial and police authorities to intervene on Phare financed (but nationally cofinance) GS should also be clarified.
6	Skills and resources become diluted across the administrative structure where there are several contracting units.	The CFCU should be fully operational and staffed in ACs until implementation of Phare is underway but plans for re-allocation of staff as the Phare load declines is desirable (although the Transition Facility will require on-going administration oversight) as part of the medium-term HR needs and framework for future SF IA bodies.

3. FINANCIAL PROCESS, COMMISSION SERVICES

	Conclusions	Recommendations
1	There is a lack of consistency in design and scope of GS across Phare countries and intra-CC know-how transfer on the design and implementation of GS.	The DIS (and EDIS) system is vertically overweight and lacks a guiding horizontal GS unit at HQ. It should be strongly considered to provide further help to improve cross-country parity in approach and transfer of know-how and experience of operational schemes between AC to CC by (i) accelerating the GS process and reducing time lags lost due to initial learning and implementation problems, and (ii) reduce the risk of mismatch between Phare and SF intervention.

	Conclusions	Recommendations
2	Mismatches between bridging role of ESC to SF intervention under ERDF and ESF, implying lower rate of endogenous change under pre-accession Phare ESC, that in turn mean slower potential to take up post-accession SF transfers.	ESC intervention should be fully consistent with the CSF or SPD if available or be based on a sectoral needs analysis.
3	The existing programming and ECFIN documentation on PCM and Feasibilities is carried out inconsistently across Phare countries.	Whilst a horizontal unit could help in the design of GS on the basis of earlier generation schemes in other ACs (particularly relevant for Bulgaria and Romania), effective programming requires improved assessment of needs and demand. Otherwise there is a serious danger of "adverse selection" of GS due to excess Phare funding.
4	There is inconsistency of approach between ECDs in forwarding Requests for Funds to DG ELARG - some act much as a "post office", whilst others undertake more proactive and through verification.	CS to provide instructions to FOs in ECDs on the uniform approach that should be used.

4. OPERATIONAL PROCESS, FROM APPLICATION TO AWARD

	Conclusions	Recommendations
1	GS reveal excessively high rejection rates of potentially qualifying proposals at the Stage of Administrative Compliance check. The current approach to training and support is not adequate. Preparatory activities for GS usually involve a seminar or presentation by the IA on the application process, after which follow up is often dealt with by email and disseminated by a FAQ section of the web site. This is insufficient for new applicants to GS, who require a resource they can speak to directly.	Ensure a sufficient preparatory phase exists for potential beneficiaries in the form of training and access to information about GS. This should be either built into GS fiche or externalised through a complementary PPF instrument.
2	A difference in approach exists amongst CCs in the degree of flexibility to provide additional information	The rule used by some of 48 hours to submit missing documentation seems sensible although it could be made a range e.g. 48-192 hours depending on type of GS. The issue should be reviewed to compare with SFs. Flexibility should be entirely with the authority of the implementing agency and should not involve the ECD as sometimes has been the case. Alternatively IAs or PIUs could pre-screen applications for administrative compliance. This should reduce attrition rates and speed up evaluation.
3	There is a lack of differentiation for softer GS which have de facto higher marginal compliance requirements	Segmentation of rules for ESC from other, particularly small project funds for NGOs, Roma etc. is advisable. Consideration should be given to rigidity of rules dependent on size of funding, with relatively lower rigidity the lower the sum e.g. below € 10,000.

5. OPERATIONAL PROCESS, GUIDELINES FOR GRANT APPLICANTS

	Conclusions	Recommendations
1	Draft Guidelines take too long to prepare	The basic draft summary is a precondition for the fiche at the programming stage. The Draft Guidelines should be programmed for preparation by signature of FM, ideally through externalisation via PPF type facility, particularly if first generation GS.
2	Too much cross-country deviation for similar GS	Establish a horizontal unit that could build a database of good practice and operational models in advanced CCs – of particular relevance for Bulgaria and Romania.
3	Time inconsistency between signature of FM and effective GS start – works	Multi-annual approach for Bulgaria and Romania would help to unblock the problem.

6. OPERATIONAL PROCESS, EVALUATION PROCESS

	Conclusions	Recommendations
1	There is insufficient evaluation expertise and time amongst potential evaluators.	Allow hiring of non civil-servant experts on commercial terms – local and foreign. Evaluation should take place in a concentrated period of time for one-shot evaluation in a location that provided privacy and avoidance of other disturbances. An accredited list of experts could be used in each country
2	Scope exists for potential bias in selections and rejection of Evaluation Reports by ECD	As above, the structure of the evaluators needs to be clarified. In particular, the role of the Chairman and his profile needs to be pre-screened. A greater level of confidence in the composition of the evaluation committee should reduce the likelihood of issues over the evaluation. ECDs should be present as observer in all Evaluations – however, given resource pressures at ECDs this is easier if one-time or on sample basis
3	A higher volume of proposals and higher marginal time for lower quality proposals can be expected in future.	A fast-track system would cut this link and a MIP style approach for Bulgaria and Romania would be a significant advance. The role of ECD representation in opening envelopes should be discontinued as it is not value adding or a good use of scarce ECD human capital.
4	Inconsistencies in interpretation are common from one country to another.	Horizontal function needed for GS in CS. ECD representatives on Evaluations should be able to answer questions on interpretation or have access (e.g. conference call) to HQ for on the spot clarification without delaying the Evaluation Process.
5	PRAG	The idea of different models for hard and soft GS should be reviewed.

5. LESSONS LEARNED AND GOOD PRACTICE

126. Lessons learned are presented with reference to the Financial and the Operational Processes.

The Financial Process

127. The main lesson is that GS implementation is very labour intensive and requires strong administrative capacity, particularly at the NAC and NF beneficiaries.

128. One of the major problem, the timing problem for payments, relates often to management problems. A general pattern among acceding and remaining candidate countries is for the management of External Aid to be in the same department as that dealing with External Debt and a general lesson is that this tends to lead to greater management time and expertise applied to debt management and recommendations are made to break this pattern as poor management of Phare Aid in the area is one reason for the payment bottlenecks.

129. There is an almost universal absence of a national system of providing intra-fiscal bridging finance. Whilst there is some thinking on the issue in terms of development for structural funds by using for instance the banking system to provide liquidity to grantees, a similar innovation should be feasible in the pre-accession period. GS often involve cofinance from final beneficiaries and create potential for double taxation if the banking system is used for bridging.

The Operational Process

130. The broad trend for both soft and hard ESC GS is the loss of up to 50-60% of the contractual time available before effective implementation begins. Given the finite time period for contracting, the effect is to reduce the available time for implementation.

131. The 2 year horizon starts upon the signature of the FM. Improved programming and feasibility assessment can help the design process. Tied use of TA within the project fiche helps to reduce time lost by bringing in external assistance.

132. A key lesson emerging from the country visits and interviews is that the Evaluation process could be clearer, more transparent and more flexible and the report makes a number of recommendations to meet this aim. The make-up of the Evaluation Committee is an issue that varies in importance between beneficiary countries. The mix of local and foreign expertise – sectoral and otherwise – appears to be a good baseline model for representation, although language can be an issue for foreigners. The time issue is best handled again by a commercial approach.

133. The PRAG guide on the Evaluation Grid is considered by the users to be too restrictive. This issue should be considered and again the existence of a dedicated horizontal unit could help in this aim.

134. In order to avoid market distortion an ex-ante analysis needs to be undertaken before the start of a Grant Scheme. It will also determine if GS the proper instrument to the right target in terms of sector and amount of grant.

ANNEXES

ANNEX 1. LIST OF INTERVIEWS

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Brussels		
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Bulgaria		
Ministry of Regional Development and Public Works 17-19 Kiril I Melodli Str. BG – 1202 Sofia	Todor Chobanov Contracting Manager Tel.: +359 2 9405505 Fax: +359 2 9865387 tchobanov@mrrb.government.bg	11/11/2003
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	Hristo Medarov Head of ESC IA Department Phare Implementing Agency Tel.: +359 2 9405237 Fax: +359 2 9885387 hmedarov@mrrb.government.bg	11/11/2003
	Irena Nikolova Senior Financial Expert Phare Implement Agency Tel.: +359 2 9405336 Fax: +359 2 9887584 inikolova@mrrb.government.bg	11/11/2003
	Vladimir Penevski Head of ESC Sector Programming Department Tel.: +359 2 9405294 Fax: +359 2 9877450 vpenevski@mrrb.government.bg	11/11/2003
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	Antonio Izquierdo First Secretary	11/11/2003
	Laura Parker Task Manager Social Policy Tel.: +359 2 9335281 Laura.parker@cec.eu.int	11/11/2003
	Konstantinos Soupilas Task Manager/Advisor – Regional Development & Cross Border Co-operation Konstantinos.soupilas@cec.eu.int	11/11/2003

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American University in Bulgaria C/0 Ellen Center for Education and Culture Studentski grad BG – 1700 Sofia Tel.: +359 2 9601921 Fax: +359 2 9616010	Eng. Zhivka Nikolova Former Executive Director of Agency Regional Development & Business Center, VIDIN zhnikolova@aubg.bg	12/11/2003
Ministry of Finance, Management of EU Funds Directorate 102 Rakovski Str 1040 Sofia Tel.: +359 2 9859 2908 Fax: +359 2 9859 2928	Ivan Davidov Junior Expert I.Davidov@minfin.bg	12/11/03
Regional Business Center for SMEs Ul. Ranko Daskalov 4 Pernik 32 Tel :+359 76 601343 Fax: +359 76 601386	Simeon Iliev Executive Director rbc_pk@abv.bg	13/11/03
Ministry of Foreign Affairs Ministry of Foreign Affairs 117, Evlogy Georgiev Blvd. Tel: 948 27 99	Kiril Dramov Project Manager, programming Tel: +359 2 9482799	12/11/ 2003
Ministry of Economy 8 Slavyanska Str Sofia 1000 Tel: +359 2 940 7303 Fax:+359 2 988 55 32	Anamas Krichev Head of Pre-accession Programmes and Projects Directorate a.krichev@mi.government.bg Project Managers: Lubov Gergova, Lilia Ignatova, Marielea Koeva,; Vladima Popova	12/11/ 2003
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	Ms. Ieva Vilimene Procurement Officer Ieva.vilimena@cpma.lt	18/09/2003
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ANNEX 2. QUESTIONNAIRE

Interview guide/interview list

Two broad processes should be kept in mind – the FINANCIAL PROCESS that involves the flow of funds and the OPERATIONAL PROCESS which is the activity based process involving the various stakeholders. Evaluators should also be aware of the institutional aspects under the existing DIS system (EMS to attach monitoring diagram and DIS system diagram that shows the flow arrangements of NAC –NAO – through to final beneficiary, and ECD). These apply uniformly to all thematic reviews underway.

Each CC has slight variations in these institutional arrangements and larger administrations may lead to greater “friction” in paper-flow and communications.

The Set of interview questions are designed to ensure consistent coverage of the key issues and thereby ensure that sampling can take place effectively, leading to meaningful assessment of any trends and qualitative assessments.

Nonetheless, interviewers must remain vigilant for discretion. Any additional information or insights should be captured beyond the proposed template of questions. An oft-made complaint in the predecessor model for Interim Evaluation was the “in the box” thinking. Whilst the present exercise is not pure evaluation work and is more thematic in overview and lessons learned, it is this additional insight that is often value-adding.

The data should be screened prior to a country visit. The schema of questions is broadly equivalent for both the ECD and the national authority. In the case of the latter, the interview should be held jointly with the programmer, implementer – CFCU, and monitoring specialist. For the IA and beneficiary, the set of questions is less technical and more as regards speedy delivery of intervention and quality service.

FINANCIAL PROCESS

EC – NF – BENEFICIARY

OPERATIONAL PROCESS

PROGRAMMING – FP – FM (n+2 rule starts for contracting) and (n+3 rule for disbursement) – GUIDELINES FOR GRANTS (i.e. guidelines for applicants, various procedural and operational manuals, evaluation and selection criteria, rules for co finance) – APPROVAL OF LATTER BY CFCU+ECD – CALL FOR PROPOSALS WITHIN 60 DAYS – EVALUATION – SELECTION – NOTICE TO WINNERS – CONTRACTING.

Questions/Issues to the ECD and National Authority (Programming, CFCU and Monitoring)

Time Series Coverage: Overview closed programmes since 1998.

Context and Overview

1. From the data provided (our template) explain any trends that are obvious – e.g. Increasing proportion of Phare allocation to Investment and within this to ESC.

Programming & Design

2. Who was responsible for programming – ECD, Geographical Unit or both? Did this change in recent years? – e.g. Clarity from HQ about responsibility of Delegations in programming, Programming Guides, ex-ante checks on cofinance?
3. Are the lines of responsibility clearly determined on programming between HQ and ECDs? Have there been instances – particularly for grant products – of disagreements? How were they settled and in whose favour? The focus here is to ascertain who was effectively leading the programming and design stages.
4. For ESC based products, was any pre-design work carried out – ex ante evaluation in Structural Funds terminology, was there any needs analysis carried out, pre-feasibility or feasibility work? Was there any Cost-benefit assessment in line with the ECFIN requirements for project investment? Were there any checklists available either from HQ or internally developed? Was an Environmental Impact Assessment ever a requirement? In each case if yes, who did this? If no, any lessons from the experience of projects thus far.
5. At the design stage, to what extent was DG Regio or other relevant DGs e.g. EMPLOYMENT actively engaged in the project design? Has this changed in recent years? Was there an ESC or other SF-equivalent grant project designed in 2002 and 2003? Is there any overlap with preparation for Structural Funds?
6. What is the situation w.r.t. the identification of national level cofinance generally and for grant instruments? Is the ECD responsible for a-priori checks? Does the ECD have the competence to carry this out? Is cofinance cash based or non-cash.
7. At what point does cofinance kick in, how is it verified or controlled, if at all? Is the monitoring data capturing cofinance? If yes, is there any audit trail either nationally or under the auspices of the NAC, internal audit function or State Auditor? Have any irregularities been uncovered? How has this been absorbed into the design of subsequent projects including grants?
8. In the ECD, what is the role of the TM in the programming stage? To what extent is the FO involved, if at all in cross-checking either the contracting or financial aspects? Has this changed?

Proposal Process

9. Was there any supporting finance for assisting the pipeline of project applications for grants through e.g. a project preparation facility or access to external consultants financed by Phare, national funds or cofinance?
10. Were any project proposals rejected by the Commission but retained after pressure from national authority?
11. Was there any pressure to commit funds?
12. Have any grants been awarded to private beneficiaries? How did this happen as Phare was designed only for public bodies?

Management

13. What is the efficient size of a grant scheme and grant from the experience thus far? Any rules of thumb for the degree of flexibility in terms of reporting or financial control for grants that are either below a certain threshold or in a specific area e.g. NGOs, healthcare/Aids, Access?
14. For grant products that proved difficult to implement assess the degree of difficulty provided by pre-conditions. Also, was the structure ok (e.g. quick to disburse?) or top-heavy with other non-grant components in the fiche e.g. twinning or TA?

15. Were there any national grant schemes in operation prior to Phare intervention? Was there any instance where a national scheme was rejected and if so why? Was there any experience of national authority withdrawing a project – possibly to launch under Structural Funds for the 2003 programme? Why?
16. How many of the projects in the data received extensions i.e. Beyond the n+2 rule for contracting and n+3 for disbursement?
17. What is the approximate number of dossiers that go through Phare? What percentage relates to grant instruments? Is this top-heavy on a marginal per-project comparable basis?
18. What is the rate of rejection generally and what is the rejection rate of dossiers R – do you mean applications here? for grant-based projects? What is the turn-around time for grant-based rejections? What are the main causes of these rejections – cosmetic (R – for cosmetic, do you mean administrative compliance reasons?), content or structural? Could these problems have been minimized through more effective programming? How?
19. In the structural domain, to what extent is the issue of PRAG a concern? What is the experience of PRAG – old and the new variant – w.r.t grant schemes? What are the contradictions or problems? How have they been resolved?
20. Has the lead in resolution of PRAG based problems been ECD based or CFCU or IA? How is the matter of sub-contracting handled (R – sub contracting between who and who?) and does PRAG provide guidance?
21. What will happen for programmes already programmed but not yet launched in the DIS-EDIS transition? What is the EDIS situation for Phare? Does the CFCU have the HR and skills to take-over the effective implementation of grant projects? Is the HR competence in the CFCU for management of grant products sufficient – staff turnover, institutional memory, financing (is it a quasi-private or state body or fully a civil service dept)?
22. If EDIS is granted to the CFCU and the NF, what will happen as regards tendering and contracting? Which rules will be followed – PRAG or national? What is the stage of national procurement rules – has DG Market sanctioned the national legislation to be in line with EU acquis requirements (i.e. Title IX)? What about second-level legislation? Is there a Practical Guide equivalent prepared in the national language?
23. How much attention was paid to the evaluation cycle – committee membership, internal-external expertise, time allocation, evaluation grid, selection criteria e.g. regional splits in funding or by sector? Where were the bottlenecks and how have these been tackled each year, if at all? What more could have been done? Is funding fairly allocated or heavily biased in favour of 1 region or sector? Why – is this due to policy or quality of bids?
24. How is the funding carried out – in the form of joint or parallel financing? If joint, which rules apply – Phare? How is the joint financing carried out – via the NF or via another mechanism? What is the role of the IA? How much finance is provided by the final beneficiary?
25. What is the situation as regards taxes? Is all Phare money tax exempt? How is the cofinance joined but VAT exempted? Is there an audit trail? Per grant or on a sampling basis? Is an audit certificate required? What is the role of internal audit, if any? Has any audit been carried out independently by the ECD – spot check – or by national audit bodies for grants?
26. Have any audits been carried out for grant instruments by the Court of Auditors or other Commission Services?

Conclusions and Recommendations

What recommendations would you suggest for improving the GS mechanism for implementation of your remaining programmes and other CCs.

Implementing Agency

The nature of an IA will vary from country to country and from sector to sector. For those IAs dealing with the standard grants in the domain of tackling economic asymmetries, most of the above questions apply and questions should be marked accordingly. In addition,

Institutional Overview

- 1) When was the IA founded? Is it a public body – fully or partially e.g. foundation? Will the IA have a role as an IA under SFs? How many grant schemes under control? Current status of these.
- 2) What is the staffing cover for Phare and SF preparation? What proportion of man-time on Phare and SF?
- 3) How funds the IA? Are the salaries in line with civil servants? Quality of staff key here.

Grant Scheme Experience

- 4) Experience with grant products thus far. Trend? Better, worse or same? What experience with Phare previously and with national or international grant schemes?
- 5) What are the main bottlenecks in dealing with the ECD? Is this directly or via the CFCU? Is the CFCU a post-box or does it make strong and consistent decisions? What about the ECD? What is the relationship with the TM at the ECD?
- 6) Has the design of grant schemes improved on the lessons from earlier Phare financed schemes? Has the experience been beneficial as regards the know how, project pipeline and preparation for SFs?
- 7) What is the information service for potential beneficiaries/applicants? Is there a web link, press coverage, seminars etc.? Who pays for this? Can Phare do more?
- 8) What activities did you undertake to develop good projects?
- 9) What is the rate of rejection for grant-based projects? What is the turn-around time for grant-based rejections? What are the main causes of these rejections –administrative compliance reasons, content or structural? Could these problems have been minimized? How?
- 10) How would you rate the projects completed so far (achieved their objectives / partially achieved / unsuccessful). In what ways are the projects sustainable?
- 11) What recommendations would you suggest for improving the GS mechanism for implementation of your remaining projects and other CCs?

Final Beneficiaries (Ideally a mix of those selected and those rejected)

- 12) Your status? Public body, quasi-public e.g. foundation or private? When did you apply? How did you find out about the grant? What are your resources – people / annual expenditure?
- 13) Describe project, background, cofinance obligations, how/why did you become involved. Process entered into, what were your expectations, how were they fulfilled?
- 14) Was the information available adequate? Did you have recourse to an information officer?
- 15) Did you receive any guidance or training or have access to independent consultants? Was this government paid or did you pay for this? Was this useful.
- 16) How was your experience with the application form and process? Was it easy to understand and comply with? Were you successful? If yes, any lessons in the design stage thus far?
- 17) If unsuccessful, when did you hear about the decision and was the explanation clear? Did you complain or seek further explanation? In writing or otherwise? How was the complaints procedure?

- 18) How much cofinance did you have to provide, and how much was cash? Is this reasonable?
- 19) Have you received the grant? How much? Any conditionality attached?
- 20) What is your relationship with the IA? Do you have dealings with the CFCU and the ECD and if so in what capacity? What contact have you had with interim / ex post evaluation or audit?
- 21) What administrative costs have you incurred in obtaining and executing the grant in relation to the grant size? How have these costs been met?
- 22) Will you be bidding for other grant schemes or for funds under Structural Funds? What preparatory activities have you been involved in for SFs
- 23) Have you accessed other Grant Schemes and how do they compare?

ANNEX 3. FINANCIAL DATA

Financial and Contractual Data: Bulgaria

Programme	Project Title	Project Number or Code	Phare Finance (€)	National Cofinance (€)
ESC Grant Schemes				
2000	SME Quality Management Systems	BG 0004.01	5,000,000	3.890.000
2000	Vocational Training	BG 0004.03	4,700,000	1,251,000
2001	Development of the Bulgarian Cultural Tourism	BG 0102.03	5,000,000	1,600,000
2001	SME Services and Technology Grant Scheme	BG 0102.01	4.700.000	4.400.000
2001	Labour Market Initiatives	BG 0102.05	6,300,000	2,014,000
2001	Social Inclusion	BG 0102.06	3,700,000	1,163,000
2001	High-tech Business Incubators	BG 0102.02	5.600.000	4.850.000
2001	Development of the Bulgarian Cultural Tourism	BG 0102.03	5,000,000	1,600,000
2002	Development of Bulgarian Eco-tourism	BG 0202.02	3,800,000	1,100,000
2002	Development of Bulgarian Eco-tourism	BG 0202.02	3,800,000	1,100,000
Other Grant Schemes				
2000	Joint Small Project Fund between Bulgaria and Romania	BG0007.04.01	465,000	not applicable
2001	Joint Small Project Fund between Bulgaria and Romania	BG0107.05	465,000	not applicable
2001	Joint Small Project Fund between Bulgaria and Greece	BG0106.07	465,000	not applicable
2002	Joint Small Project Fund between Bulgaria and Romania	2002/000-623-04	465,000	not applicable
2002	Joint Small Project Fund between Bulgaria and Greece	2002/000-624-05	850,000	not applicable

Financial and Contractual Data: Czech Republic

Programme Number	Programme Title	Expiry Date for Contracting	Expiry Date for Disbursement	Allocation (in M€)	
				Phare	Cofinancing
CZ-0010.02	Investment in Target Region NUTS II North-West Bohemia	31.10.2002	31.07.2004	9.212.000	9.212.000
CZ-0010.02.01	Productive Sector Investment Fund, Grant Scheme	31.10.2002	31.07.2004	2.390.000	2.390.000
CZ-0010.02.02	Support of Business Related Infrastructure, Grant Scheme	31.10.2002	31.07.2004	4.030.000	4.030.000
CZ-0010.02.03	Human Resources Development Fund, Grant Scheme	31.10.2002	31.07.2004	2.792.000	2.792.000
CZ-0010.03	Investment in Target Region NUTS II Moravia-Silesia	31.10.2002	31.07.2004	10.056.000	10.056.000
CZ-0010.03.01	Productive Sector Investment Fund, Grant Scheme	31.10.2002	31.07.2004	2.980.000	2.980.000
CZ-0010.03.02	Support of Business and Tourism Related Infrastructure, Grant Scheme	31.10.2002	31.07.2004	2.129.000	2.129.000
CZ-0010.03.03	Human Resources Development Fund, Grant Scheme	31.10.2002	31.07.2004	3.420.483	3.420.483
Employment and Social Affairs					
CZ-0208.02	Equal Initiative	31.10.2004	31.10.2005	4.000.000	4.000.000
	Total				

Source: Interim Evaluation No. R/CZ/ESC/02034

Financial and Contractual Data: Estonia

Programme Number	Programme Title	Expiry date for contracting	Expiry date for disbursement	Allocation (in M€)	
				Phare	Co-financing
ES 0002	Special Programme for Strengthening the Civil Society and preparing for Accession of Estonia (Access 2000)	30.11.2002	30.11.2003	0.900	0.185
ES 0006.01	Support to the Balanced Development of the Labour Market Services	31.12.2002	31.12.2003	1.800	0.306
2002/000-579.08.02	Special Programme for Strengthening the Civil Society and preparing for Accession of Estonia (Access 2002)	30.11.2004	30.11.2005	0.700	0.229
2002/000-579.04.01	Enhancing employment opportunities for people with Disabilities	30.11.2004	30.11.2005	0.410	0.027
ES 0012	Baltic Sea Special Action / Small Project Fund	15.12.2002	15.12.2003	1.000	0.200
2002/000-636	Phare CBC Programme in the Baltic Sea region in 2002	30.11.2004	30.11.2005	3.000	0.600
	Total			7.81	1.547

Source: Interim Evaluation No. IE/EE/ESC/03.009

Financial and Contractual Data: Hungary

Programme Number	Programme/Component Title	Expiry Date for contracting	Expiry Date for disbursement	Allocation (in M€)	
				Phare	Co-financing
HU-9906.01	Promotion and Development of SME in Hungary	30/09/2001	30/06/2003	9.02	10.16
HU-9906.01.01	Extension of Micro-Credit Scheme	30/09/2001	30/06/2003	5.55	6.32
HU-0008.04	Development of the Human Resources of SME	30/09/2002	30/09/2003	2.00	0.40
HU-0105.04	E-commerce as a Tool for the Development of SME	30/11/2003	30/11/2004		
HU-0105.04.02	Grant Scheme	30/11/2003	30/11/2004	1.00	1.00
	Total			19.57	19.88

Source: Interim Evaluation No. R/HU/ESC/02057

Financial and Contractual Data: Lithuania

Programme Number	Programme Title	Contracting Deadline	Disbursement Deadline	Allocation (M€)	
				Phare	Co-financing
LT-00.14.01	Small Project Fund	15/12/2002	15/12/2003	1.000	0.000
LT-01.11.01	Innovation Capacity	31/10/2003	31/10/2004	0.800	0.005
LT-01.16	CBC Programme for the Baltic Sea Region	31/10/2003	31/10/2004	3.000	0.000
LT-2002/000-620.01.01	Support to Business Development	30/11/2004	30/11/2005	6.300	2.100
LT-2002/000-620.02.01	Promotion of Adaptability, Skills and Social Inclusion	30/11/2004	30/11/2005	2.650	0.750
LT-2002/000-637	CBC. Special Action in Favour of the Baltic Sea Region	30/11/2004	30/11/2005	3.000	0.600
	Total			20.663	4.863

Source: Interim Evaluation No. R/LT/ESC/03115

Financial and Contractual Data: Latvia

		Allocation M€		1. Previous Monitoring report cut-off date: 14-Sep-01				2. Current Monitoring report cut-off date: 1-Sep-02				Expected performance at next cut-off date: Feb-04				Expiry Date ⁶
		Phare	Co-finance	Phare %		Co-finance %		Phare %		Co-finance %		Phare %		Co-finance %		
Component Number ⁷	Start Date ⁸			com	dis	com	dis	com	dis	com	dis	com	dis	com	dis	
ACCESS 1999	13-Oct-99	1.60	n.a.	n.a.	n.a.	0	0	n.a.	n.a.	0	0	100	100	0	0	31-Dec-02
LE 00.02 (ACCESS 2000)	22-Dec-00	1.12	n.a.	100	0	0	0	100	0	0	0	100	100	0	0	30-Nov-03
LE 01.03.02 (ACCESS 2001)	29-Dec-01	1.00	0.11	-	-	-	-	0	0	n.a.	n.a.	100	75	100	50	30-Nov-04
Component 1		0.20	0.02	-	-	-	-	0	0	n.a.	n.a.	100	50	100	50	
Component 2		0.80	0.09	-	-	-	-	0	0	0	0	100	80	100	50	
Total		3.72	n.a.	93 ⁹	0 ¹⁰	0 ¹¹	0 ¹²	93 ⁵	0 ⁶	0 ⁷	0 ⁸	100 ⁵	75 ⁶	100 ⁷	50 ⁸	

Source: Interim Evaluation No. IE/LV/CIV/02071

Financial and Contractual Data, per project: Poland

Sector	Number	Title	EU Budget
	9811-01-02	Coal and Steel Restructuring	27,000,000
ESC	9903-01-01	Alleviation of social costs	27,200,000
FHC	9906-03-01	Joint Phare/EBRD dairy facility	3,506,988
ENV	9909-01-01	Mazury and Podkarpacie Development	10,967,059
OTHER	9911-02-01	CZ-PL Joint Small Project Facility	400,000
TRA	9913-03-01	Euroregion Small Project, Small Infrastructure Projects	2,743,379
?	9917-02-01	Baltics-PL Joint Small Project Facility	1,000,000
OTHER	0002-01-01	Access 2000	5,661,660
SME	0003.07.05.01/02/03	National SME Development - Introduction to Quality Programme/Innovation and	16,000,000

⁶ last day for disbursement⁷ Identical with numbers in sector description tables⁸ date of first commitment⁹ = total of committed PHARE funds for this sector divided by total allocated PHARE funds in %¹⁰ = total of disbursed PHARE funds for this sector divided by total allocated PHARE funds in %¹¹ = total of committed funds from co-financing sources for this sector divided by total allocated funds from co-financing sources in %¹² = total of disbursed funds from co-financing sources for this sector divided by total allocated funds from co-financing sources in %

Sector	Number	Title	EU Budget
		Technology for Business Development Programme/Fit for Business in Europe	
INT	0003-12-01	National export development	4,348,322
CBC	0005-06-01	Eastern border small projects fund	907,528
SME	0008-01-02	Warmia i Mazury - SME Development	3,394,509
ENV-INT	0008-01-06	Warmia i Mazury - Small scale infrastructure investments	2,631,131
SME	0008.02.02	Podlaskie SME Development - Investment Grant Scheme	3,516,407
ENV-INT	0008-02-06	Podlaskie - Small scale infrastructure investments	2,825,903
SME	0008-03-02	Lubelskie - SME Development	8,256,682
ENV-INT	0008-03-06	Lubelskie - Small scale infrastructure investments	3,841,227
SME	0008-04-02	Podkarpacie - SME Development	8,093,672
SME	0008-05-02	Slaskie – SME Development	6,472,906
ENV-INT	0008-05-05	Slaskie – Small scale infrastructure investments	3,490,867
CBC-ENV	0009-16-01	Small Project Fund	9,049,757
CBC	0010-03-01	Joint Small Projects Fund (JSPF)	519,148
CBC	0011-03-01	Joint Small Projects Fund	912,112
CBC	0014-01-01	Baltic Sea Special Action	969,927
CBC	0101.10.02	Promotion of European Integration with NGOs Programme	2,950,000
POL	0101.11.02	Civil Society Development - Small Grants Facility	960,000
POL	0101.11.03	Civil Society Development - Medium Projects Scheme	960,000
CBC	0103-07-01	Eastern Border Small Projects Fund	2,000,000
SME	0106-09-02	Promotion of SME development	32,850,000
ESD	0108-20-01	Scheme for business related infrastructure	2,000,000
ESD	0108-21-01	Small Project Fund	1,910,000
INT	0109-03-01	Joint Small Projects Fund	500,000
INT	0110-03-01	Joint Small Projects Fund	400,000
INT	0111-01-01	Small Project Fund	2,990,000
TRA-INT	0112-01-01	Flood Damage Reconstruction Programme 2001	14,678,689
Health-SME	2002/000-196.01.04.01	Occupational health and safety in the SME sector - grants	3,500,000
INT	2002/000-580.01.05.02	Co-ordination of labour market institutions - grants	1,000,000
INT	2002/000-580.03.04	Eastern border small projects fund	2,000,000
INT	2002/000-580.03.05	Eastern border Small Infrastructure Project Fund	4,000,000
ESC	2002/000-580.06.01.03	Promotion of employability of young job seekers	12,000,000
ESC	2002/000-580.06.01.04	Social and market integration of the risk groups	3,000,000
SME	2002/000-580.06.05	Regional support programme for SMEs	21,180,000
INT	2002/000-606.20.01	Small Project Fund	2,000,000
INT	2002/000-607.03.01	Joint Small Projects Fund	500,000
INT	2002/000-639.01.01	Small and Medium Project Fund	3,000,000

Sector	Number	Title	EU Budget
INT	2002/000-640.03.01	Joint Small Projects Fund	400,000
?	2003/004-379.01.01	NGOs for sustainable development	3,000,000
CBC	2003/004-379.03.02	Eastern Border SIPF	4,000,000
SME	2003/004-379.05.02	SME and Innovation sectoral programme	11,500,000
INT	2003/004-379.05.04	Regional support programme for SMEs	22,802,000
INT	2003/005-078.03	Joint Small Projects Fund	500,000
TRA	2003/005-681.01	Business related infrastructure grant scheme	3,600,000
INT	2003/005-681.02	Joint Small Projects Fund	400,000
INT	2003/005-708.19	Small Infrastructure Project Fund	2,620,000
INT	2003/005-708.2	Small Project Fund	2,000,000
CBC	2003/005-710.06.01	Eastern border BRIPF	4,000,000
cBC	2003/005-710.06.02	Eastern border SPF	4,000,000

Financial and Contractual Data: Romania

Programme/Component Title	Allocated M€	Committed M€	Disbursed M€
RO 9711.01 SME Small Fund Credit Scheme	5.75	5.75	5.75
RO 9711.02 TA for SME Credit Scheme	0.25	0.25	0.25
RO 9809.02.02 MARR Main Contract Grants	6.00	6.00	1.83
RO 9904 RICOP			
3. Active Employment Measures	9.00	0.00	0.00
4. Small Business Finance	30.00	30.00	0.00
5. Social Measures	10.00	0.00	0.00
RO 0002.04 Cross-Border Co-operation Romania - Bulgaria	0.70	0.00	0.00
RO 0002.04.01 CBC/RO/BG Joint Small Fund Project	0.50	0.00	0.00
RO 0003.03.01 CBC RO/HU Socio-economic Dev.: Small Project Fund	0.50	0.00	0.00
RO 0007 Economic & Social Cohesion			
RO 0007.02 Economic & Social Cohesion Investment	75.00	0.60	0.36

Source: Interim Evaluation No. R/RO/ESC/02105

Financial and Contractual Data: Slovakia

Programme Number	Programme Title	Expiry Date for contracting	Expiry Date for disbursement	Allocation (in M€)		Phare Funds		Co-financing	
				Phare	Co-financing	Commitment	Disbursement	Commitment	Disbursement
<i>Cross Border Co-operation</i>									
SK-0017	Cross Border Co-operation Slovakia/Austria	30/12/2002	30/12/2003	6.050	1.772	5.998	1.076	0	0
SR-0113		30/11/2003	30/11/2004	6.000	2.486	0.200	0.160	0	0
2002/000642.01-.03		30/11/2004	30/11/2005	6.000	1.940	0	0	0	0
SK-0011	Cross Border Co-operation Slovakia/Hungary	30/11/2002	30/11/2003	2.000	0.527	1.945	0.046	0	0
SR-0102		30/11/2003	30/11/2004	2.000	2.370	0	0	0	0
2002/000-603.01 & .02		30/11/2004	30/11/2005	2.000	0.600	0	0	0	0
SK-0015	Cross Border Co-operation Slovakia/Poland	31/12/2002	31/12/2003	4.075	1.564	4.000	1.503	1.564	0.865
SR-0101		30/11/2003	30/11/2004	4.000	2.975	0	0	0	0
2002/000-635.01-.03		30/11/2004	30/11/2005	4.000	1.557	0	0	0	0
<i>Economic and Social Cohesion - 2002 Grant Schemes</i>									
2002/000-610.12	Industry Development Grant Scheme	30/11/2004	30/11/2005	3.500	1.100	0	0	0	0
2002/000-610.13	Local and Regional Development Grant Scheme	30/11/2004	30/11/2005	3.500	1.278	0	0	0	0
2002/000-610.14	Tourism Development Grant Scheme	30/11/2004	30/11/2005	3.500	2.200	0	0	0	0
2002/000-610.15	Human Resources Development Grant Scheme	30/11/2004	30/11/2005	3.500	1.100	0	0	0	0
Total									

Source: Interim Evaluation No. R/SK/ESC/03.046

Programme Number	Programme Title	Expiry Date for contracting	Expiry Date for disbursement	Allocation (in M€)		Phare Funds		Co-financing	
				Phare	Co-financing	Commitment	Disbursement	Commitment	Disbursement
SR-9904	Minority Development Programme	31/12/2001	31/03/2003 (extended)	2.000	0	1.992	1.830	0	0
SR-9905.01	Civil Society Development Programme	31/12/2001	31/05/2003 (extended)	2.500	0	2.469	2.270	0	0
SK-0002	Improvement of the Situation of the Roma in the SR	31/12/2002	21/12/2003	3.800	0.309	3.694	0.205	0.231	0
SR-0103.01	Support to the Roma Minority in the Educational Field	30/11/2003	30/11/2004	1.700	0.675	0.189	0.145	0.202	0
SR-0103.02	Infrastructure Support for Roma Settlements	30/11/2003	30/11/2004	8.300	8.400	0.185	0.148	0	0
SK-0013	ACCESS 2000	31/12/2002	30/11/2003	0.900	0	0.900	0.680	0	0
2002/000-610.03	Further Integration of the Roma Children in the Educational Field and Improved Living Conditions	30/11/2004	30/11/2005	1.000	0.050	0	0	0	0
	Total			20.200	9.434	9.429	5.278	0.432	0

Source: Interim Evaluation No. R/SK/CIV/03045

Financial and Contractual Data: Slovenia

Programme number	Programme title	Expiry date for contracting	Expiry date for disbursement	Allocation in M€/% of total			
				Phare		Co-financing, including in kind	
Business Development							
SL-9914.01.01.0001	FS for business incubator network	31/12/2001	31/12/2002	0.200	100%	0	0
SI-0004.01	Business Incubators Network in Pomurje	31/12/2002	31/12/2003	2.000 ¹³	38%	3.318	62% ¹⁴
SL-9914.01.01.0002	FS for strengthening the Guarantee Fund in Zasavje	31/12/2001	31/12/2002	0.050	100%	0	0
SI-0004.03	Economic Restructuring of Zasavje Region	31/12/2002	31/12/2003	1.000	62.5%	0.600	37.5%
SL-9914.01.01.0004	Strategic possibilities for development of Tourist Centres in Slovenia	31/12/2001	31/12/2002	0.149	100%	0	0
SL-9914.01.01.0005	FS for 'Conversion of Slovenia/Italy border crossing areas – Sežana/Vrtojba'			0.179	100%	0	0
SL-9914.01.01.0006	Strategic possibilities for development of technological centres in Slovenia			0.164	100%	0	0
SL-9914.01.01.0007	Strategic possibilities for the development of ...spin-off incubators in Slovenia			0.146	100%	0	0
SL-9914.01.01.0009	Strategic possibilities for the development of business zones in Slovenia			0.190	100%	0	0
Human Resources Development and Employment							
SL-9914.01.01.0003	FS for activating employment potentials at the local level	31/12/2001	31/12/2002	0.174	100%	0	0
SI-0004.02	Activating employment potentials at the local level	31/12/2002	31/12/2003	2.000	52.5%	1.810 ¹⁵	47.5%
SI-0106.01	Lot A - Social Inclusion (Grant Scheme)	15/12/2003	15/12/2004	1.920	75%	0.643	25% ¹⁶
Environment							
SI-0106.02	Lot B - Local Infrastructure (Grant Scheme)	15/12/2003	15/12/2004	1.580	20%	6.309	80% ⁴
Institution Building							
SL-9914.01.01.0008	Operating the aid scheme ... Strengthening Slovenia on the local level	31/12/2001	31/12/2002	0.145	100%	0	0
SL-9914.01.01.0010	Operating aid schemes ... National Development Plan 2001-2006			0.072	100%	0	0
SL-9914.01.01.0011	Amendment of JPD for Slovenia-Hungary CBC 2000-2002 and Support for Establishment of the Administrating System			0.130	100%	0	0
	Total			10.099		12.680	

Source: Interim Evaluation No. R/SI/REG/02.136

¹³ M€ 0.7 for twinning, M€ 0.3 for the Co-operation Facility Fund, and M€ 1.0 for works.

¹⁴ Of which M€ 1.734 (52%) is provided in kind and M€ 1.584 (48%) in cash. From the National budget, M€ 0.4 will be allocated for supply of equipment and M€ 0.8 for services, and local co-financing will provide M€ 0.384 for works. The NARD will provide M€ 0.277 for VAT (see 42). The in kind contribution is a building in Odranci valued at M€ 0.243, a building in Ljutomer valued at M€ 0.351, and land in Murska Sobota valued at M€ 1.141.

¹⁵ M€ 0.715 will be allocated from the National budget for contracts with the MoLFSA, M€ 0.060 for supply, and M€ 1.035 for the grant scheme.

¹⁶ including VAT.

Programme Number	Programme Title	Expiry date for contracting	Expiry date for disbursement	Allocation (in M€)	
				Phare	Co- financing ¹⁷
SI-0004	Economic and Social Cohesion 2000	31/12/2002	31/12/2003	5.000	3.887
SI-0106	Economic and Social Cohesion 2001	15/12/2003	15/12/2004	3.500	6.952
SI-0205	Economic and Social Cohesion 2002	30/06/2004	30/06/2005	3.510	0.287
SI-0209	Economic and Social Cohesion 2002	25/10/2004	25/10/2005	3.060 ¹⁸	0.741 ¹⁹
Total				15.070	11.867

Reference: Report R/SI/REG/03.052

¹⁷ Co-financing in most cases consists of provision of office space, office support, salaries for counterpart staff, and travel tickets for counterpart staff for study visits in EU countries - in an amount that reflects the conditions under twinning, service or other Phare rules.

¹⁸ Including an allocation under SI-0209.06 'Preparation for a fully integration to the Interreg Community Initiative' project of M€ 0.310

¹⁹ Including co-financing of SI-0209.06 'Preparation for a fully integration to the Interreg Community Initiative' project of M€ 0.078.

ANNEX 4. EFFICIENCY MIX BETWEEN GRANTS AND LOANS

This annex briefly addresses the issue of overall financing that includes both external aid and the use of debt by national or sub national authorities in CCs. This annex is written in response to the request during the debriefing in February 2004, in particular by the Romania team, for further elaboration on the issue to assist the programming of Phare. However, the broad issue of efficient mix and synergies between debt and aid is universally applicable to Bulgaria and also future CCs. The context here is the GSR angle although generalities beyond the GSR are discussed. It is strongly recommended that the issue be further analysed as part of a separate study, in particular within the scope of the ex-ante evaluation scope – rather than that of an interim or thematic angle.

In simple terms, aid is a budgetary transfer if in monetary form from the EU to the recipient country. Since Phare actions are focussed on IB and Investment for the beneficiary State – including Regulatory investment needs, the transfer is less a global monetary but more a “tied aid transfer”. The aid is premised on prescribed intervention based on the defined gaps in the IB and investment areas in the country; gaps which are in turn broadly judged against the capacities to legislate and implement the acquis. The financial and institutional mechanisms to receive, absorb, monitor and report use of funds is also a requirement. The institutional structures include the NAC, NF, CFCU, PAOs etc.; the financial mechanism is based around the transfer of funds to the NF and then onward to final beneficiaries and; the PRAG sets the grounds for implementation, including tendering and contracting.

Loans or debt may be at market rates of interest or at concessionary rates. In general, debt has far less pre-conditions than aid in the use of funds. The exception to this generalisation is the use of IMF credits for Balance of Payments support or particular World Bank support for the reform of sectoral or budgetary support mechanisms, but even here the overall thrust is less rigorous than under external aid, such as Phare. Debt finance is based on the ability to service the debt and repay the principal.

In theory, there is an efficiency curve that can be established for economic entities for an efficient mix of debt and equity. The economic literature however focuses more on micro level dimensions for the individual or company and the mix between equity and debt. Less is forthcoming on the national level interplay between debt and external aid. However, this should not be a major issue since in fact, debt finance in ACs and CCs is generally substantially in excess of the aid total. Even though public debt (sum of domestic and external debt) for many countries is below the 60% of GDP set out by the Maastricht criteria for entry to the Euro zone, the general aid figure tends to be comfortably below 1% of GDP in flow terms and a few percentage points in stock terms from the start of the Phare programme. In short, there is no evidence of reliance by beneficiary countries on external aid.

Moreover, total debt in a country is often in excess of the public debt as it excludes private debt. This is important, particularly for hard GS, as the cofinance requirements often require at least some own finance by the final beneficiary. For SMEs and other established corporate or municipal organisations, access to bank finance for cofinance or for meeting liquidity needs – e.g. when there may be a delay in the Request for payment – is feasible and indeed followed in many ACs.

How to determine the Efficient Mix for GS?

A clear lesson that emerges from the GSR is that even though there has been a noticeable improved shift in the quality of the programming, in particular for the scope of GS intervention, there are enormous asymmetries in the extent of proper ex-ante evaluation, and therefore readiness to successfully implement schemes. A thorough ex-ante evaluation would scope out the needs and justification for intervention by use of EU funds. It would also provide a rate of return using the Commission's guidelines for cost-benefit analysis. However, this is rarely followed through and if so in full detail.

A through needs analysis would also allow the CS to assess the potential distortion of the market for a given market segment. A grant is a subsidy and can distort the free market if the subsidy supports only a proportion of the overall segment population.

The particular areas of concern for potential distortion of the market and therefore inefficient use of grants are often in the spheres of finance and support for SMEs. Multi-country schemes support the financial sector, often via a grant element sponsored by the Commission, but managed by the EBRD or EIB. Unless directly supporting a bank's lending operation through a grant that, in effect, reduces its cost of funds it on-lends, Phare funds will typically threaten to distort the market where the grant is directed to end-beneficiaries that can or might otherwise access the credit market for the same end.

In fact, both the above stated examples might lead to market distortion or a poor mix of global IFI and CS financing of grants and loans. There is evidence, for instance, that multi-country programmes under the aegis of the IFIs take too much a "one size fit all" approach and potential distortion of leasing operations in the Baltics when the market there is saturated by favouring the given financial intermediary in receipt of this financial instrument. On the other hand there may well be a need for such assistance in other countries with less mature financial systems. The key issue again is a lack of effective ex-ante evaluation to determine country specificity, but on this occasion by the IFIs. The lesson therefore is that the CS should indeed insist on the presentation of this before sanctioning any CS support.

For the second type of example mentioned concerning SME support, there is no simple rule to determine the threat without advance analysis of the area of support. SME support can vary between financing for established firms through to support for nurturing new start-ups – particularly in high unemployment areas, akin to SF actions. Donor co-ordination is key to determine potential overlap or additionality of finance. Whilst there is often notional interaction between the various donors, in practice this can be less than sufficient to ensure that the potential overlaps are minimised, or indeed, to ensure that the mix of grant and debt approaches could work in combination.

In summary, there is no substitute for effective up front analysis. A dedicated sector study should be undertaken for any new GS and for any possible area of Phare intervention in the financial sector, as part of the ex-ante evaluation. The ex-ante evaluation should include a through address of the issue of loan finance and the degree of potential overlap or distortion of the market. The input of the IFIs should be sought, including perhaps that of the Resident offices of the UN, World Bank and IMF to gather a more sound and total overview of donor finance and degree of overlap.

If debt finance is justified then there is no room per se for Phare intervention and scarce Phare funds should be redirected elsewhere. The exception is where a grant-and-loan instrument can be together packaged or where there a clear cut-off can be designed.

This interim evaluation has been launched
by the European Commission,
Directorate-General for Enlargement,
and carried out by the EMS Consortium.
The EMS Consortium bears the full responsibility
for the report and its conclusions.

