Opinion of the Economic and Social Committee on the 'Proposal for a Council Regulation (EC) Establishing an Instrument for Structural Policies for Pre-Accession (ISPA)' (1)

(98/C 407/46)

On 4 June 1998 the Council decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for External Relations, Trade and Development Policy, which was responsible for preparing the Committee's work on the subject, set up a study group and appointed Mr Kenneth Walker as rapporteur.

At its 357th plenary session (meeting of 10 September 1998) the Economic and Social Committee appointed Mr Walker as rapporteur-general and adopted the following opinion by 76 votes to five, with no abstentions.

1. **Introduction**

1.1. In Agenda 2000, the Commission has made a series of proposals for the reinforcement of the pre-accession strategy for all Central and Eastern European applicant Countries (CEECs). The general objective of the strategy is to offer a coherent programme to prepare these countries for accession to the EU and to:

I) bring together the different forms of EU support within a single framework, the Accession Partnerships (APs);

II) familiarise the applicants with EU policies and procedures through participation in Community programmes.

1.2. Together with the Phare programme and aid for agricultural development, Agenda 2000 proposed Structural aid for the applicant countries amounting to some Euro 1 billion per annum over the period 2000-2006, or Euro 7 billion in total. This aid would be directed mainly towards aligning the applicant countries on EU infrastructure standards, particularly — and by analogy with the Cohesion fund — in the spheres of transport and the environment. The Luxembourg European Council of December 1997 endorsed the principle of creating such a structural instrument. Consequently, the Commission is now proposing a regulation on an Instrument for Structural Policies for Pre-Accession (ISPA), based on Article 235 of the Treaty.

1.2.1. Given its similar objectives, it is considered appropriate for ISPA to broadly follow the approach of the revised Cohesion Fund. It will provide assistance for:

I) environmental measures to enable the applicant countries to meet the requirements of the Community acquis.

II) transport infrastructure measures to promote sustainable mobility and, in particular, projects of common interest based on the criteria in the Council Decision (1692/96) establishing the TENs. This will include inter-connection and interoperability of national networks as well as with the trans-European networks, together with access to TENs.

1.2.2. In addition, measures for both sectors should also contribute to the objectives contained in the APs.

1.2.3. An appropriate balance will be struck between measures relating to the environment and to transport infrastructure.

1.3. The draft proposal provides for a project-based approach with a minimum project size of Ecu 5 million. Rates of assistance under ISPA can be up to 85 % and will be modulated to encourage investment leverage, especially from private sector co-financing.

1.3.1. Arrangements for financial management and control reflect the provisions of Title IX of the Financial Regulations relating to external aid from the Community. Projects will be covered by a Financing Memorandum between the Commission and the beneficiary country, which will also contain the provisions for management and evaluation systems.

1.3.2. As far as budgetary commitments are concerned, the proposal follows the system of annual instalments employed in the Structural and Cohesion funds. As this derogates from the Financial Regulation, it will require an Inter-institutional Budgetary Agreement.

1.4. ISPA will be subject to the conditionality rules laid down in the Regulation on APs and co-ordinated

(1) OJ C 164, 29.5.1998, p. 4.

with Phare and the preaccession agricultural assistance through the Regulation on the Co-ordination of Pre-Accession Assistance.

2. The Commission's proposals

2.1. *The eligible countries*

2.1.1. In accordance with the orientations of Agenda 2000 and with the conclusions of the European Council in Luxembourg, financial aid provided for by the structural and agricultural preaccession instruments will be granted to Central and Eastern European applicant countries. These countries are listed in Article I of the proposed regulation as:

Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

2.2. *The priorities*

2.2.1. Based on the provisions of Agenda 2000 and the amount of the financial envelope proposed, there is seen to be a need to be especially selective as to the sectors to be covered by the new instrument. Given previous experience with the infrastructure requirements of the new German Lander in this regard and its Opinions on the applicant countries, the Commission is proposing that the new instrument should limit its funding to environmental and transport projects. This would include measures, such as training and maintenance, to ensure the effective operation of the projects.

2.3. *The environment*

2.3.1. As outlined in Agenda 2000, applicant countries are, on the whole, facing more acute environmental problems than the existing Member States, particularly in the fields of water and air pollution and in waste management.

2.3.2. Quantification of the effort required is complex and difficult, particularly given the need to make a number of assumptions regarding, for example, economic growth, consumption patterns and future behaviour. However, best available estimates suggest that the aggregate investment requirement for environmental acquis compliance in the ten applicant countries is of the order of Euro 100 billion.

2.3.2.1. This figure concerns solely investments related to meeting the requirements of the acquis in respect of Directives on drinking water supply, waste water treatment, air pollution and solid waste management. The estimate does not cover environmental improvements which, while they might be an essential pre-condition for economic development (such as reclaiming contaminated land), are not subject to EU legislation and for which therefore no investment is required in order to meet the acquis.

2.3.3. A major effort, including considerable EU financial and technical assistance, will thus be indispensable for enabling the CEECs to progress rapidly towards alignment to the EU environmental acquis. Assistance under ISPA will focus primarily on the areas of water, air quality and waste management; it will accordingly provide for environmental measures enabling the beneficiary countries to comply with the requirements of Community environmental legislation and the objectives contained in the APs.

2.4. *Transport*

2.4.1. Agenda 2000 highlights the urgent need for the up-grading and development of transport infrastructure in the candidate countries as well as the need to tackle the missing links between the latter and the EU. Without such investment, severe problems of traffic congestion are likely to arise, affecting the EU's overall traffic policies. For the countries concerned, improvements in traffic infrastructure are an essential part of their economic development programmes and, thus, of their capacity to cope with competitive pressures and market forces in the EU. Development of efficient transport systems is, therefore, an essential element in the pre-accession strategy. Such a strategy should pursue a balanced multimodal transport infrastructure development.

2.4.2. The future network should comprise the trans-European network of the present Union, the appropriate parts of the national networks in the applicant countries and the necessary connections between them. According to figures in the Commission communication, potential investment costs for establishing the EU's trans-European transport network in the CEECs have been estimated in the range Euro 50-90 billion over 15 years, merely for up-grading existing roads and railways to Western European standards and to meet the expected growth in traffic, without considering any new links.

2.4.3. The contribution under ISPA to future transport networks would thus be in providing transport infrastructure measures which promote sustainable mobility and, in particular, those that constitute projects of common interest, based on the criteria of Council Decision 1692/96, and which enable the CEECs to comply with the objectives of the APs. This would include inter-connection and interoperability of national networks, as well as with the TENs, together with access to such networks.

2.4.4. The results of the Transport Infrastructure Needs Assessment (TINA) process will also be taken into account in identifying suitable projects.

2.5. *Technical assistance*

2.5.1. A small part of the ISPA budget may be used to finance preparatory studies as well as technical assistance expenditure. A clear link will need to be established between the measures supported and the projects being financed under ISPA. A key role for this assistance will be to ensure a high quality of projects, including their effective management and implementation.

2.5.1.1. Total expenditure in this area, carried out at the Commission's initiative, will not exceed 2 % of the total financing under ISPA. Phare's Large Scale Infrastructure Facility (LSIF), which will focus primarily on the extension of TENs beyond EU borders and on accession-related environmental problems with trans-boundary impact, will also be used to help prepare projects which may subsequently be financed from assistance under ISPA.

2.5.2. It will be necessary to ensure close co-operation between ISPA, Phare and the pre-accession agricultural assistance in order to avoid any overlap in the types of operation to be financed. The committee envisaged under the proposal for a regulation on the Co-ordination of Assistance to Applicant Countries within the Framework of the pre-Accession Strategy [1] will have a key role in this respect.

2.5.3. As with all pre-accession assistance, ISPA will be subject to the conditionality rules laid down in the AP regulation.

2.6. *Financing arrangements*

2.6.1. By analogy with the Cohesion Fund, the approach for IPSA will be by project or groups of projects (called measures), which should be of a sufficient scale to have a significant impact in the field of environmental protection or in the improvement of transport infrastructure networks. Experience with the Cohesion Fund, especially to avoid disproportionate administrative burdens, suggests that projects should be of a minimum size of Euro 5 million. The minimum size also needs to take into account the small size of some of the applicant countries.

(1) COM(1998) 150.

2.6.2. Project selection and approval will be based on national programmes for transport and the environment included within the National Programme for the Adoption of the Acquis, which is one of the main elements of the AP. These programmes will contain specific strategies for transport and the environment and address the trans-national dimension necessary for the development of future trans-European networks. The proposed Regulation also specifies a number of criteria designed to ensure the high quality of projects, including their leverage potential and degree of readiness.

2.6.3. The indicative allocation of resources under ISPA to the beneficiary countries will be made by the Commission based on the criteria of population, per capita GDP in purchasing power parities (which most realistically reflects the wealth of the countries concerned) and surface area.

2.6.3.1. Allocations will be on the basis of an upper and lower range in order to provide a degree of financial flexibility. Due account will also be taken of the respective deficiencies of each country in environmental and transport infrastructure. These allocations may be adjusted subsequently to take account of the performance in previous years of each of the beneficiary states in implementing ISPA measures.

2.6.4. It is deemed important that, wherever possible, ISPA should have a strategic catalytic impact relating to a country's overall investment needs rather than subsidising ad-hoc investments. Agenda 2000 also calls for an increased multiplier effect from structural resources by the greater use of forms of assistance other than direct grants. In particular:

I) scarce public sector resources should have a leverage effect, especially by mobilising private sector cofinancing;

II) assistance from ISPA should not 'crowd out' other potential financing, including local sources and project-generated revenues.

2.6.5. The Commission will be seeking to maximise the multiplier effect of ISPA by promoting increased recourse to sources of loan and equity financing and in particular from the private sector. An emphasis on seeking alternative sources of funding will help to dispel any tendency to always expect a high rate of subsidy and might also be considered as important in supporting the efforts made by the applicant countries to move towards market economies.

2.6.5.1. The aim, therefore, is to differentiate the rate of EU assistance under ISPA according to the type of project and financial package involved. This will be up to 85 % of public or similar expenditure; the precise level of support will also take account of:

I) the overall Community interest in seeing a specific project implemented;

II) a project's capacity to generate revenues;

III) the application of the 'polluter pays' principle.

2.6.5.2. Such an approach gives the flexibility to use a lower rate of assistance for those projects where loan finance is a possibility, with the upper limit allowing the Commission to modulate the rate on a case-by-case basis.

2.6.6. The ISPA articles on financial management reflect the provisions of Title IX of the Financial Regulation applicable to the general budget of the EU, which contains detailed financial rules relating to external aid. In essence, this means that projects adopted by the Commission would be covered by a Financing Memorandum to be drawn up between the Commission and the beneficiary country. The details of the payment mechanisms for projects, as well as the management, evaluation and control systems, would also be incorporated in the Financial Memoranda. Where permitted by the Financial Regulation, these mechanisms and systems will be similar to those of the Cohesion Fund.

2.6.6.1. However, with respect to budgetary commitments, a simpler and more efficient system will apply under ISPA; this will operate on the basis of multi-annual projects. The initial commitment will be made when the decision to grant EU assistance is made by the Commission. Commitments in respect of subsequent annual instalments will be made at the start of each budgetary exercise and at the latest by 1 April of the year in question.

2.6.6.2. Whilst improving the management of multi-annual measures, this exception to the Financial Regulation, whereby budget appropriations are authorised for the duration of one financial year, will have to be included in the Inter-institutional Agreement. In order to avoid too large a difference between the level of commitments and payments, and as an incentive to the efficient use of resources, assistance granted to a project where work had not begun within the contractual period scheduled in the Financial Memorandum would automatically be de-committed.

2.6.6.3. Such an approach will make it possible to take a coherent overall view of the operations to be undertaken for each project as well as facilitating a degree of decentralisation, thereby safeguarding management, control and evaluation. This means that, to the extent permitted by the Financial Regulation and agreed in the respective Financial Memoranda, the implementation of projects would be the responsibility of the CEECs, under the supervision of the Commission. As of 1 January 2000, and in any event not later than 1 January 2002, the beneficiary countries should have created the required management and control systems. Recourse, as necessary, to outside assistance would be possible until 1 January 2002.

2.7. *Monitoring and evaluation*

2.7.1. Evaluation and monitoring mechanisms for ISPA will be carried out jointly by the applicant country in question and the Commission, through procedures established in the Financial Memoranda. In particular, monitoring will be carried out by reference to quantified physical and financial indicators relating to the specific character of the project concerned and its objectives. During the implementation of projects, and after their completion, evaluation will similarly assess whether the original objectives can be, or have been, achieved. The evaluation capacity of the implementing and monitoring bodies in the CEECs will also be strengthened, as appropriate, by technical assistance.

2.8. *Committee assisting implementation*

2.8.1. In implementing the ISPA regulation, the Commission would be assisted by an Advisory Committee composed of representatives of the Member States and chaired by the Commission representative. The Committee would deliver opinions on matters referred to it by the Commission, where appropriate by taking a vote. The European Investment Bank (EIB) would participate in a non-voting capacity.

2.9. *Timetable*

2.9.1. The adoption of the draft ISPA regulation, together with its subsequent negotiation and consultation within the other EU institutions, will be undertaken in line with the overall timetable for approving the other pre-accession instruments in Agenda 2000.

3. **General comments**

3.1. In line with its previous Own-Initiative Opinion [1], the ESC broadly welcomes the Commission

(1) Re-inforcing the pre-accession strategy, OJ C 157, 25.5.1998, p. 58.

proposals for the reinforcement of the pre-accession strategy by offering a coherent programme to the CEECs to prepare them for accession to the EU.

3.1.1. The Committee agrees with the general objective of bringing together the different forms of support provided by the EU within the single framework of the APs and familiarising the CEECs with Union policies and procedures, inter alia, through the opportunity of participating in Community programmes.

3.1.2. The Committee further approves the decision to concentrate this assistance on measures relating to the environment and transport infrastructure, in line with the approach adopted for the revised Cohesion Fund.

3.1.3. The Committee has always stressed the importance of environmental issues and is concerned at the general lack of progress which has been made in this field. It notes that the candidate countries are, on the whole, facing more acute environmental problems than the existing Member States and wholeheartedly endorses the selection of the environmental acquis as one of the priority areas for ISPA assistance.

3.1.4. The Committee also endorses the choice of transport infrastructure as the second priority area. It considers that it is essential to create a coherent network out of the current patchwork of transport links and to achieve safe and speedy connections between countries in order to increase the efficiency of the Single Market and maximise the potential of European trade.

3.1.4.1. As Commissioner Kinnock has stated, ‘Borders cannot open properly and goods and people will not move freely unless the roads, railways, airports and ports of Central and Eastern Europe are functioning effectively. The outline network is a first major step towards ensuring that this can be achieved’.

3.2. The Committee notes that best available estimates suggest that the total investment needs for environmental acquis compliance in the ten CEECs is of the order of Euro 100 billion.

3.2.1. The Committee also notes that the transport infrastructure investment required has been estimated at Euro 50-90 billion over 15 years and that this relates solely to the cost of upgrading existing road and rail facilities to EU standards and to meet the anticipated growth in traffic, without considering any new links.

3.2.2. Against this total requirement of some Euro 170 billion, it is proposed that the EU provide assistance of Euro 1 billion per annum over the period 2000-2006 — a total of Euro 7 billion or about 4 % of the anticipated investment needs.

3.2.2.1. The ESC notes that the proposed structural action funding under the EU Regional Policy and Cohesion Funds has been increased for the period 2000-2006, as compared with the period 1993-1999, on the following scale (in billions of Euros):

	1993-1999	2000-2006
Structural Funds:		
Objective 1 regions	119	140
Other Objective regions	59	70
Total Structural Funds	178	210
Cohesion Fund	17	20
Total existing Member States	195	230
Applicant countries:		
Pre-Accession	—	7
Post-Accession	—	38
Total Applicant Countries	—	45
Total	195	275

3.2.2.2. The ESC considers that consideration should be given to re-apportioning the amount of Euro 45 billion allocated to the applicant countries between the pre-accession and post-accession phases. It would point out that it is currently considered unlikely that any of the applicant countries will be admitted until well into the funding period and the number of countries gaining entry in the first wave may be limited. The period during which post-accession funding will be available will, therefore, be restricted and only a few countries may be eligible to benefit from it.

3.2.2.3. In the light of this situation and in view of the desirability of bringing the applicant countries into line with the environmental acquis and up-rating their transport infrastructure as soon as possible, the ESC would recommend that a greater proportion of the Euro 45 billion should be allocated to the pre-accession phase; if this were increased to, say, Euro 2,5 billion per annum, or Euro 17,5 billion in total, this would go some way towards closing the present gap between the investment required in the pre-accession period and the funds available.

3.2.3. Additional funding sources will be available from the European Investment Bank, the European Bank for Reconstruction and Development, the World Bank, public sector financing within the CEECs and the application of the 'polluter pays' principle in the field of environmental improvement within each applicant country.

3.2.3.1. It is also important that parallel funding should be available from individual Member States.

3.2.3.2. Nevertheless, it seems likely that the aggregate funding available from all of these sources will fall far short of the total investment required, particularly in respect of compliance with the EU's environmental acquis, and it has to be questioned whether sufficient private sector financing can be attracted to permit completion of these objectives within an acceptable timescale.

3.2.3.3. The ESC believes that, in order to attract the maximum level of private sector co-financing, it will be necessary to develop a genuine industrial partnership strategy. In particular, there should be an avoidance of excessive pre-programming in order not to stifle private sector initiative and to provide scope for an innovative private-sector approach.

3.2.3.4. Efforts should be made to increase the availability of new sources of funding by, for example, putting banking systems within the applicant countries on a sound footing and strengthening stock markets, thereby helping to attract domestic and external private capital.

3.2.3.5. The ESC would also point out that the investment required is not only financial but technological. It will, therefore, be essential to establish fixed rights of ownership, protection of industrial intellectual property and legislation and practices in the field of competition which conform to EU standards.

3.3. In view of the likely shortfall in available funds, the ESC considers that ISPA assistance should be concentrated on those projects and areas which offer the prospect for making the greatest impact and not be dissipated over too wide a range of projects.

3.3.1. For this reason, the ESC approves the decision to limit ISPA assistance to projects with a minimum value of Euro 5 million.

3.3.2. The ESC notes that the estimates of funding required for the transport infrastructure do not include any new links and would point out that, while the upgrading of existing facilities will produce certain benefits, the impact on trade flows within the CEECs, between CEEC countries and between the CEECs and the EU Member States will be limited without the provision of new links and the beneficial effects on the economies both of the CEECs and the existing Member States will be reduced.

3.3.2.1. Efficient transport systems are essential for the Union's economy and to ensure that the basic EU principle of free movement of goods and people can function. These issues also have a direct bearing on human safety and the environment. Very few of the candidate countries have put road transport high on their list of priorities although they have experienced a marked increase in car ownership. Insufficient national funds are available to make the necessary infrastructure improvements to meet the additional burdens being placed on transport systems. Modern trans-European transport networks are vital for European competitiveness, sustainable long-term growth and employment; they are also essential for candidate countries to be able to develop competitive economies that are capable of coping with the demands and exploiting the opportunities of the Single Market.

3.3.3. The ESC therefore considers that the strategy of upgrading transport infrastructure within the CEECs must be reinforced by the construction of new links between the CEECs and the EU Member States. It notes that access to the TENs forms part of the ISPA programme but that the cost of providing this has not been included in the estimates of funding requirements. Given the disappointing lack of progress with the existing TENs projects, this raises the question of how such links are to be financed.

4. Specific comments

4.1. The ESC endorses the Commission's view that the commitment of scarce public sector resources should have a leverage effect, particularly in terms of attracting private sector co-financing, and that the application of ISPA assistance should not displace other sources of finance.

4.2. The ESC approves the proposal to maintain flexibility in the rates of assistance, depending on the availability of alternative financing, but notes that rates of assistance can be up to 85 % of project cost and would advocate that, in view of the relatively small amount of ISPA funding available, this rate should be regarded as an upper limit and not allowed to become the norm.

4.2.1. In order to maximise the synergy effect, efforts should be made to link ISPA projects to established projects in the beneficiary countries, thereby creating better co-ordination with national budgets and improving the prospects for private-sector financing.

4.3. The ESC welcomes the Commission's pragmatic approach to project selection in applying the criteria of the overall Community interest in seeing a particular project implemented, the capacity of the project to generate revenues and the application of the 'polluter pays' principle.

4.4. The ESC notes that assistance given under ISPA may take the form of non-repayable grants, repayable loans, loan-guarantee provisions, interest-rate subsidies, risk-capital participation or other forms of financial arrangement. In this, it differs from the Cohesion Fund, which disburses non-repayable direct assistance. The Committee approves this departure on the grounds that it will improve the flexibility of operation and permit appropriate financing to be provided on a case-by-case basis in the light of individual project requirements. In particular, repayable loans have an enhanced multiplier effect since, when they are repaid, the funds can be recycled to other projects.

4.4.1. The Committee also approves the fact that the European Investment Bank will be asked for its advice on the type of financial package which is most appropriate for each project.

4.5. The Committee gives its approval to the fact that funding will be allocated to the beneficiary countries on the basis of population, land area and per-capita GDP in purchasing power parities, with those countries having the lowest per-capita GDPs receiving the greatest assistance. It also welcomes the fact that due account will be taken of the deficiencies of each country in environmental and transport infrastructure.

4.6. The ESC agrees with the Commission on the need to ensure the proper monitoring, evaluation and control of projects. It notes that the requisite management and control systems should have been established in the beneficiary countries by 1 January 2002 and recommends that the prior creation of these mechanisms should be a pre-requisite for any ISPA funding. It also considers that the overall functioning and effectiveness of the ISPA programme should be reviewed on a regular basis.

4.7. The ESC approves the use of a simpler and more efficient system of budgetary commitment and particularly the provision that assistance granted to a project where work has not begun within the specified financial period will be automatically decommitted.

4.8. The Committee notes that, where industrial regeneration or rural development projects under the Phare programme require transport infrastructure improvements, these will be financed by the Phare programme. It also notes that funding may be provided under ISPA for feasibility studies and technical assistance to projects which will be financed under the Phare programme. The Committee accepts the logic of this but would underline the need to ensure that this over-lapping does not lead to any confusion or duplication of funding between the two programmes.

4.9. With regard to technical assistance, the Committee recommends that due attention should be given to the development of human resources, administrative capacity and the constructive participation of the social partners and other representatives of civil society in the transition process.

5. **Conclusion**

5.1. The ESC approves the Commission's proposals for an ISPA and agrees with the need for it to have a strategic catalytic impact but is concerned at the disparity between the scale of the assistance being provided and the total amount of funding required. It therefore believes that the Euro 45 billion allocated to the applicant countries for the period 2000-2006 should be more evenly divided between assistance in the pre-accession and post-accession phases.

Brussels, 10 September 1998.

The President

of the Economic and Social Committee

Tom JENKINS