COMMISSION DECISION
OF 1999

Establishing a Multi-Beneficiary Large Scale Infrastructure Facility Programme part 3-
Project Preparation - in 1999,

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EEC) No 3906/89 of 18 December 1989 on
economic aid to certain countries of Central and Eastern Europe, as last amended by
Regulation (EC) No 753/96 of 22 April 1996 and in particular Article 9 thereof,

 Whereas Regulation No 3906/89 lays down the rules and conditions for the granting of
economic aid to certain countries of Central and Eastern Europe,

 Whereas the measures provided for by this Decision are in accordance with the opinion
of the Committee on Aid for Economic Restructuring in certain countries of Central and
Eastern Europe,

 HEREBY DECIDES AS FOLLOWS:

 Article 1

 The programme described in the Annex to the present decision is hereby adopted.

 Article 2

 The maximum amount of Community assistance shall be 0.7 M€ to be financed through
Budget line B7-500.

 Done in Brussels,
For the Commission
1. IDENTIFICATION

Programme Type: Multi-beneficiary
Year: 1999
Cost: 59 MECU
Implementing Authorities: various national implementing agencies, the IFIs and the Commission for the Project Preparation Facility.
Expiry date for contracting: 31 January 2001
Expiry date for payments: 31 December 2003
Sector: EN and IN
Group: L
Budget line: B7 - 500
Country Co-ordinator: Julian Wilson / Simon Mordue

2. SUMMARY

Within the context of the New Orientations of Phare, the creation of a Large Scale Infrastructure Facility (LSIF) was proposed in order to offer additional support from 1998 onwards to projects that are not sufficiently covered under the national Phare programmes and which have a clear transboundary impact.

This need for additional support for infrastructure in the accession countries has also been recognised in the proposal for the creation of an Instrument for Structural Policies for pre-Accession (ISPA) with an annual budget of ca 1 BECU from the year 2000.

The LSIF will thus serve as a precursor to ISPA and it is for this reason that LSIF focuses on environmental projects and transport infrastructure projects (cf article 3 of proposed ISPA facility). The balance between these two sectors will be roughly equivalent over the lifespan of the Large Scale Infrastructure Facility.

In order to gain maximum leverage from the limited Phare funds available, all projects will be co-financed with a relevant International Financing Institution.

The selection of projects for support under the LSIF was made upon the basis of a screening exercise by the European Commission which identified those projects being proposed by the IFIs and countries which best fit the specific selection criteria of this fund and in particular the criterion of relevance to the adoption of the acquis in conformity with the new Phare orientations.

1 This financing proposal is conditional upon the required budget being available in 1999.
The current Financing Proposal forms one of three financing proposals which will be presented to the Phare Management Committee on the LSIF. The current financing proposal proposes support for 7 projects and a project preparation fund amounting to a total EC contribution of 59 Mecu.

The implementation of the projects awarded support by the LSIF will be through the national implementation structures under the decentralised implementation system or through the IFI concerned on the basis of joint and parallel cofinancing.

3. STRATEGY

The European Council meetings in Copenhagen and Essen recognised that there is a clear role for Phare in facilitating major infrastructure networks in Central and Eastern Europe, especially as regards Phare acting as a catalyst to mobilise funds from the International Financial Institutions (i.e. EIB, IBRD, EBRD and NIB/NEFCO\(^2\)).

Agenda 2000 and the subsequent Accession Partnerships and National Programmes for the Adoption of the Acquis all point to the poor state of infrastructure in the candidate countries as being a limiting factor on enlargement, reinforcing the need for positive facilitating action by Phare in this area.

Poor infrastructure limits the candidate countries’ capacity to withstand the competitive pressures and market forces within the Community (one of the key Copenhagen criteria for membership). In the case of environment, this lack of investment to bring public and private sector infrastructure into compliance with the large body of the environmental acquis will inevitably cause problems in negotiations. In the case of transport, as trade flows increase, bottlenecks will develop as a result of infrastructural deficiencies, preventing the full benefits of integration being reaped by the enlarged Union.

The Commission’s reaction to this need in infrastructure takes two forms:

a) 1998 and 1999, the creation of the Large Scale Infrastructure Facility (LSIF) which will selectively boost Phare’s cofinancing in the infrastructure sector, complementing additional infrastructural work being undertaken under the Phare national programmes by focusing on critical transboundary and accession related investments.

b) post 2000, the creation of the Instrument for Structural Policies for Pre-Accession (ISPA) with an annual budget of circa 1 BECU which shall follow Cohesion Fund principles and priorities.

\(^2\) Nordic Investment Bank (NIB) and the Nordic Environmental Finance Company (NEFCO), a part of the NIB.
The LSIF can therefore be seen as a precursor to ISPA (and hence to the Cohesion Fund after membership) and it is for this reason that the focus of the LSIF will fall on environmental and transport infrastructure projects.

The LSIF shall provide additional resources to projects of particular accession priority which cannot be effectively covered under Phare national programmes because the project is in a sector which has a particularly low financial viability but is a high accession priority (e.g. environment) or because the project may involve heavy national investment but has a regional - rather than one country - benefit (e.g. projects linked to the extension of the Trans European Transport Networks - TENs).

Although in purely financial terms Phare can only meet a tiny proportion of the needs, it can play as a grant programme a key role in catalysing co-financing operations with partner countries and International Financing Institutions (IFIs) which will have a major impact.

It is essential to view the proposals put forward under the LSIF as a global package. A total of three financing proposals will be made in total for the LSIF. In 1998, two financing proposals will be put forward, the first covering projects to be supported under the 1998 Phare budget and the second covering projects to be supported under the 1999 Phare budget. The decision as to which project to include in which of the first two financing proposals has been made exclusively upon the basis of project maturity. For this reason, the first proposal contains exclusively transport projects and the second proposal a mixture of environment and transport projects.

It is the intention of the Commission to put the third financing proposal to the Phare management Committee in the second half of 1999 and this will contain the results of the screening exercise which will be carried out in early 1999.

It is the Commission’s intention to have a rough balance between transport and environment projects over the whole life of the LSIF and in view of the large number of transport projects proposed in 1998, it is thus already clear that the principal focus of the third financing proposal will fall upon environmental projects.

**Contribution to Accession Partnership:** The projects proposed for financing under the LSIF were closely screened for accession relevance, interpreted as leading to compliance with the acquis with a special emphasis on the short and medium term priorities in environment and transport as cited in each of the candidate countries’ Accession Partnerships and National Programmes for the Adoption of the Acquis.

In the case of environment, the LSIF projects, already identified, contribute to compliance on the water framework directive, the drinking water directive and the urban waste water directive. In addition, the projects have to varying degrees transboundary impacts on the Danube River Basin and Baltic Sea, both key environment problems facing the region and classified as “sensitive waters” by the Commission.
Since IFIs and countries are targeting municipal and water projects, these constitute the most ready projects and therefore form the majority of the second financing proposal. Projects relating to the acquis on air pollution and waste disposal should form a greater proportion of the projects which are the other key priority environmental area highlighted in the Accession Partnerships will feature more predominantly in the third financing proposal.

The LSIF transport projects all have significant transboundary impact and form part of the future extension of the TEN-T network as defined at the Third Pan-European Transport Conference held at Helsinki in 1997. The development of this network is cited in the NPAAs as a critical accession related project. In addition, the LSIF funds will have considerable leverage effect in terms of catalysing or facilitating loans from the IFIs.

4. OBJECTIVES AND DESCRIPTION

4.1 Overall and Specific Objectives

As part of the overall Phare programme, the overall objective for the LSIF is to facilitate the applicant countries efforts to join the European Union as soon as possible.

The LSIF has three specific objectives:

a) to facilitate priority investments in transport and environment with a significant accession and transboundary impact.
b) to facilitate loans from the participating IFI’s and cofinancing from the beneficiary countries.
c) to familiarise the applicant countries with the competitive application and selection process - and decentralised implementation procedures - which shall be used by the Instrument for Structural Pre-Accession which will come into force in 2000 and which will prepare applicant countries for the management and implementation of future cohesion funds.

4.2 Project Eligibility

The LSIF has a number of eligibility criteria which had to be met for a project to be considered for support:

a) be cofinanced with an IFI existing or planned loan in accordance with the Copenhagen criteria, and have the necessary commitment of cofinancing from the beneficiary.
b) complement existing financiers and not “crowd out” any existing cofinancing (termed additionality)
c) be ready for procurement after signature of the Financing Memorandum.
d) have a minimum Phare project size of at least 2 MECU.
4.3 Project Selection, Transparency and Consultation

As cofinancing with the International Financial Institutions (IFI’s) is a precondition of support under the LSIF, the selection process commenced with a request to the IFI’s for a long list of potential projects for cofinancing under the LSIF in both 1998 and 1999.

This indicative long-list was screened in inter-service consultation with the relevant Commission services (i.e. Directorate Generals of transport, environment and regional development). A resulting list of projects was drawn up which had a high impact on a priority area as highlighted in the Accession Partnership and NPAA’s and, in many cases, which addressed a key transboundary issue, notably regional interconnectivity in transport and the regional environmental problems of the Danube River Basin and Baltic Sea, both classified as “sensitive waters”.

This list was sent to the Phare National Aid Co-ordinators (NAC’s) who indicated their support for LSIF funding for the projects in either 1998 or 1999 and also proposed additional proposals for consideration under the LSIF.

The shortlist eligible for 1998 and initial 1999 LSIF support has been compiled on the basis of these responses from NACs and the relevant Dgs.

The identification of priority projects for LSIF support in joint collaboration with the IFIs also represents a new approach which recognises the limited financial resources of Phare.

Special emphasis was thus given to those projects which could lever maximum additional resources from IFIs, partner countries and the private sector and which facilitate the earlier financing of additional phases in the target projects which otherwise would not take place\(^3\). An analysis of the projects contained within the first two financing proposals indicates that the Phare contribution of 144 Mecu to the first phase of the LSIF will be associated with a total investment package of 1.3 billion ECU. This represents a leverage of 8 Mecu of further investment from 1 Mecu of Phare contribution.

Such an approach has ensured that significant additional loan resources, far beyond that which Phare could commit for such projects on its own, have been facilitated through the co-operation with the IFIs on key accession topics.

The Phare component of the projects as set out in section 4.5 was identified together with the relevant National authorities and the IFIs and has been selected from the overall project package because it either ensures compliance with a specific Community aquis or because it is the least financially viable component and thus helps turn an economically viable project into a financially viable project.

\(^3\) For example, LSIF support to the Budapest Waste Water Project will permit the municipality to commence preparation of the network rehabilitation and new collector system three years earlier than originally foreseen in Budapest’s overall waste water rehabilitation programme.
4.4 Final Selection for projects to be included in this Financing Proposal

The final list of projects presented in this Financing Proposal was drawn from the approved shortlist on the basis of each project’s readiness for implementation, another key criteria for support under the LSIF.

Two transport and five environmental projects are identified for financing under this financing proposal. The total of the financing proposal is 59 Mecu with 9 MECU and 45.3 MECU respectively for transport and environment and 4.7 Mecu support for a project preparation facility (4.7 Mecu) which will help finalise a number of further investment projects to be financed under the LSIF in 1999 at a later stage and which will also help prepare a project pipeline for the future ISPA. Section 4.5 gives a summary description of each project and the project fiches in annex provide detailed descriptions.

In terms of country allocations, the breakdown of this financing proposal is as follows: Estonia (11 Mecu), Hungary (16 Mecu), Latvia (6.6 Mecu), Lithuania (14.2 Mecu), and Slovenia (6.5 Mecu). In addition there is 4.7 Mecu for project preparation.

4.5 Description of Project Proposals

This section provides a summary of the projects to be financed under this financing proposal. Further details are provided in the accompanying project fiches in Annex 1. In addition, section 4.6 sets out the aims and objectives of the project preparation facility which will benefit from 4.7 Mecu of financial support.

4.5.1 Estonia

| Title: Tallinn-Narva and Tapa-Petseri Railway lines |
| IFI: EIB/EBRD |
| Phare: 5 Mecu |
| Outline: Project links Pan-European corridors and forms part of TINA backbone network, hence accession impact. Phare support would accelerate investment. |

| Title: Small Municipalities Environment Programme (SMEP I) Bolt on |
| IFI: NEFCO/ EBRD |
| Phare: 6 Mecu |
| Outline: Project upgrades various municipal water treatment facilities within this overall programme financed by NEFCO and EBRD and directly promotes compliance in these municipalities with the Water Policy Framework, Urban Waste Water Treatment and Drinking Water directives, a critical accession target which otherwise would not be achieved within the SMEP programme. |
4.5.2 Hungary

Title: Budapest Municipal Waste Water Programme
IFI: IBRD
Phare: 16 Mecu
Outline: Project directly promotes compliance with Water Framework and Urban Waste Water Treatment directives, reduces Danube trans-boundary pollution and facilitates municipality's ability to tackle new phases in the upgrade of Budapest waste water system.

4.5.3 Latvia

Title: Latvia Drinking and Waste Water Programme - Leipaja/Madona Bolt-ons
IFI: IBRD/ NEFCO
Phare: 6,6 mecu
Outline: Overall project addresses the critical drinking and waste water problems in Latvia which is a major hot spot for Baltic Sea pollution. The Phare contribution brings two critical “hot spot” towns within this programme into compliance with Urban Waste Water and the Drinking Water directives, the costs of which would have made the projects’ financially unviable for the beneficiary.

4.5.4 Lithuania

Title: Marijampole Bypass, (Via Baltica road corridor n° 1)
IFI: EIB/EBRD
Phare: 4 Mecu
Outline: Project is located on Corridor 1, hence accession impact. Project will only be possible if Phare funding is granted, thus clear additionality.

Title: Klaipeda/Panevezys Environment Project – Bolt-on
IFI: EIB/IBRD
Phare: 10,2 Mecu
Outline: The Klaipeda project brings municipality into compliance with the Urban Waste Water and Drinking Water directives, reduces trans-boundary pollution into the Baltic Sea and facilitates municipality's ability to tackle new phases in the upgrade of its waste water system. The Panevezys project moves the municipality towards compliance with the Urban Waste Water directive, catalyses an EIB loan, reduces trans-boundary Baltic Sea pollution and frees up municipal tariff funding for new phases in the upgrade of the system.

4.5.5 Slovenia

Title: Maribor Waste Water Concession
IFI: EBRD
Phare: 6,5 Mecu

Outline: The project brings the municipality into compliance with Water Framework and Urban Waste Water directives, reduces transboundary pollution in the Danube basin and promotes the affordability of a concession with a supporting EBRD loan.

The environmental impact assessment procedures of the IFI and beneficiary country have been followed for each of the investment projects under the LSIF, details of which are provided in the individual project fiches.

Equal opportunity for men and women to participate in all projects will be ensured.

4.6 Project Preparation (4.7 Mecu)

The main objective of the Project Preparation Facility (PPF) is to prepare investment projects in the environment and transport sectors for future implementation. The Facility will thus support the development of a project pipeline. The proposals in this pipeline should require support for and be suitable for eventual support under the LSIF in 1999 or ISPA from the year 2000. Such preparatory measures are essential to ensure that the candidate countries are well prepared for ISPA and in a position to take advantage of the annual funding of ca 1 Becu which will become available from the year 2000 for transport infrastructure and environment projects.

The project preparation facility will thus seek to finance concrete actions which can significantly contribute to speeding up the implementation of the future projects. These will include:

- Preparation of long term project pipelines for future support under ISPA and identification of concrete activities that need to be carried out to prepare projects for financing under ISPA
- Project Designs (both Preliminary and Final)
- Environmental Impact Assessments
- Cost and Financial Engineering Work including cost benefit analyses
- Preparation of tender documentation

The fund will be contracted and managed centrally by the European Commission.

4.7 The LSIF 1999 Programme

In line with the approach taken on the Cohesion Fund and the approach to be taken on ISPA - for which the LSIF is a precursor - and in view of the large financial requirements for both areas, it is intended that a 50:50 split between the two target sectors of transport and environment shall be maintained over 1998 and 1999. Due to problems of project readiness on the shortlisted environment projects, the budget in 1998 heavily favoured transport. The balance while somewhat corrected by this current financing proposal still heavily favours transport. To maintain the 50:50 split, it is thus the Commission’s intention to allocate a greater share to environment under the third
LSIF financing proposal which will be presented to the Phare Management Committee in the second half of 1999.
5. **BUDGET**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation</th>
<th>Investment</th>
<th>Institution Building</th>
<th>TA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport Projects</td>
<td>9</td>
<td>9</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Environment Projects</td>
<td>45.3</td>
<td>45.3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Project Preparation Support</td>
<td>4.7</td>
<td>0</td>
<td>0</td>
<td>4.7</td>
</tr>
<tr>
<td>TOTAL of the FM 1999</td>
<td>59</td>
<td>54.3</td>
<td>0</td>
<td>4.7</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>92%</td>
<td>0%</td>
<td>8%</td>
</tr>
</tbody>
</table>

6. **IMPLEMENTATION ARRANGEMENTS**

While the LSIF 1999 is presented to the Management Committee as a horizontal facility, the projects shall be implemented through the Phare national programme structures or directly by the cofinancing IFI on the basis of a Parallel Cofinancing and Delegated Implementation Agreement (PCA) through which the IFI shall be responsible for implementation. The only exception to this is the Project Preparation Facility which will be managed by the European Commission in Brussels but which all beneficiaries will be able to benefit from.

This single Financing Proposal is presented to the Management Committee covering all the projects within the LSIF. Should a positive opinion be given, then the LSIF will be split on a project by project basis by signing 4 separate Financing Memoranda and one PCA, as set out in the following table, thereby allowing an optimal follow up in each individual country and a maximum efficiency in project implementation.

**Country Breakdown**

<table>
<thead>
<tr>
<th>Country</th>
<th>Financing Memo or Parallel Cofinancing Agreement</th>
<th>MECU</th>
<th>Project Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>ES 99 XX</td>
<td>5</td>
<td>Tallinn-Narva and Tapa-Petseri Railway lines</td>
</tr>
<tr>
<td></td>
<td>PCA Nefco/NIB</td>
<td>6</td>
<td>Small Municipalities Environment Programme</td>
</tr>
<tr>
<td>Hungary</td>
<td>HU 99 XX</td>
<td>16</td>
<td>Budapest Municipal Waste Water Programme</td>
</tr>
<tr>
<td>Latvia</td>
<td>PCA Nefco/NIB</td>
<td>6.6</td>
<td>Leipaja/Madona Environment Project – Bolt-on</td>
</tr>
<tr>
<td>Lithuania</td>
<td>LI 99 XX</td>
<td>4</td>
<td>Marijampole Bypass (Via Baltica road corridor n° 1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.2</td>
<td>Klaipeda/Panevezys Environment Project – Bolt-on</td>
</tr>
<tr>
<td>Slovenia</td>
<td>SN 99 XX</td>
<td>6.5</td>
<td>Slovenia Maribor Water Concession – Bolt-on</td>
</tr>
</tbody>
</table>

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4 N.B. In addition, the Project Preparation Facility will be managed by the European Commission in Brussels and will benefit from a budget of 4.7 Mecu.
6.1 Implementation through National Programmes

As indicated in the table overleaf, the bulk of the LSIF 1998 projects in question shall be implemented through the Phare National Programme system and, as such, the National Programme procedures will be applied subject to the implementation and funds flow arrangements specified in this Financing Proposal and in the Project Fiche which reflect the fact that the projects are being cofinanced by lead IFIs.

As for normal Phare National Programme projects, the funds flow shall be through the National Fund onto the CFCU or Implementing Agency, according to the normal national programme structures. Procurement and payments will be by the CFCU or Implementing Agency to the contractor. The beneficiary will be involved in the day to day supervision, reporting back on progress to the CFCU or Implementing Agency.

These projects will be managed in accordance with the Phare Decentralised Implementation System (DIS) procedures. These provide in the case of cofinancing with IFIs where Phare is the minority cofinancing partner (as in the case of all LSIF projects) that the implementation structures and systems of the cofinancing IFI will be followed as closely as possible (especially as regards procurement, supervision and monitoring through existing IFI project implementation units) while maintaining Phare’s rules of origin, transparency, advertising and eligibility in all procurement, however. This approach has been used to good effect on past projects, resulting in significantly enhanced implementation efficiencies.

The National Fund (NF), headed by the National Authorising Officer (NAO), will supervise the financial management of the Programme, and will be responsible for all aspects of financial control and financial reporting to the European Commission.

The Commission will transfer the funds to the NF in accordance with the Memorandum of Understanding signed between the Commission and the Ministry of Finance. Funds will be transferred following requests from the NAO. A payment of 20% of each project that is managed locally by each National Fund will be transferred to the NF following signature of the Financing Memorandum. Four Replenishments will be made of up to the equivalent to 20% of the project. The first replenishment will be triggered when 10% of the budget has been disbursed by the IAs and the CFCU. The second replenishment may be requested when 30% of the total budget in force has been disbursed. The trigger point for the third replenishment is 50%, and for the final fourth instalment when 70% is disbursed. Save for express prior authorisation from the Commission HQ, no replenishment request may be made if the aggregate of the funds deposited in the NF and the IAs exceeds 10% of the total budget in force of the commitment. Exceptionally the NAO may request an advance payment of more than 20% in accordance with the procedures laid down in the aforesaid Memorandum of Understanding.
Implementation Arrangements\textsuperscript{5}

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Funds Flow</th>
<th>Implementing Agency</th>
<th>Procurement and day to day supervision</th>
<th>Overall Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia Tallinn-Narva and Tapa-Petseri Railway lines</td>
<td>National Fund to IA</td>
<td>Ministry of Transport Estonian Railways</td>
<td>Estonian Railways Technirail</td>
<td>Ministry of Transport</td>
</tr>
<tr>
<td>Estonia SMEP I</td>
<td>NEFCO through a Parallel Cofinancing Agreement</td>
<td>NEFCO</td>
<td>Eesti Veevark I Estonia under direct guidance and control of NEFCO</td>
<td>Beneficiary Municipalities and Ministry</td>
</tr>
<tr>
<td>Hungary Budapest Waste Water</td>
<td>National Fund to IA</td>
<td>Ministry of Transport, Telecoms and Water</td>
<td>IBRD’s PIU within municipality of Budapest</td>
<td>Ministry of Transport, Telecoms and Water and Municipality of Budapest</td>
</tr>
<tr>
<td>Latvia Leipaja/ Madona Waste Water</td>
<td>NEFCO through a Parallel Cofinancing Agreement</td>
<td>NEFCO</td>
<td>NEFCO / IBRD Project Implementation Units in municipalities under direct guidance and control of NEFCO</td>
<td>Ministry of Environment and municipality</td>
</tr>
<tr>
<td>Lithuania Marijampole Bypass, (Via Baltica road corridor n° 1)</td>
<td>National Fund to IA</td>
<td>Ministry of Transport Lithuanian Road Administration</td>
<td>Lithuanian Road Administration PMU Ministry of Transport</td>
<td>Ministry of Transport</td>
</tr>
<tr>
<td>Lithuania Klaipeda and Panevezys Waste Water Projects</td>
<td>National Fund to CFCU</td>
<td>CFCU</td>
<td>PIU in municipalities of Klaipeda and Paneveys</td>
<td>Ministry of Environment with the relevant municipality</td>
</tr>
<tr>
<td>Slovenia Maribor Waste Water</td>
<td>National Fund to CFCU</td>
<td>CFCU</td>
<td>CFCU</td>
<td>Ministry of Environment and municipality</td>
</tr>
</tbody>
</table>

The National Fund will transfer funds to Implementing Agencies (IAs), including the Central Financing and Contracting Unit (CFCU), in accordance with Financing Agreements (FAs) signed between the NFs and the IAs/CFCU where applicable. In cases where the NF is itself the paying agent for the CFCU there will be no transfer of funds from the NF to the CFCU. The CFCU and the IAs will each be headed by a Programme Authorising Officer (PAO) appointed by the NAO after consultation with the NAC. The PAO will be responsible for all the operations carried out by the relevant CFCU/IA.

\textsuperscript{5} N.B. The Project Preparation Facility which will be managed by the European Commission in Brussels.
A separate interest bearing bank account, denominated in ECU, will be opened and managed by the NF in a separate accounting system in a Bank agreed in advance with the Commission. Interests will be reported to the European Commission; if the Commission so decides, on the basis of a proposal from the NAO, interests may be reinvested in the Programme.

The NAO and the PAOs will ensure that all contracts are prepared in accordance with the procedures set out in the DIS Manual’s procedures on IFI/Phare cofinanced projects.

6.2 Implementation through the Cofinancing IFI

In the case of the following LSIF projects, the Commission will transfer funds in tranches according to a disbursement schedule directly to the appropriate International Financial Institution which, in co-operation with the IFI’s loan borrower in question, shall handle procurement and financial management on behalf of the European Commission according to the procedures set down in a Parallel Cofinancing and Delegated Implementation Agreement (PCA) signed between the IFI and Commission:

a) SMEP Estonia with NEFCO (sister organisation of NIB)
b) Latvia/Leipaja Waste Water Project in Latvia with NEFCO

In these two cases, the procurement and implementation procedures of the cofinancing IFI shall be followed but the EU Phare rules of eligibility and origin shall be applied.

The principles of the PCA are:

a) the IFI takes on responsibility to manage the implementation of the Phare component, using the structures and procedures set up to manage its loan.
b) the funds are channelled through the IFI concerned and released in tranches against signed contracts
c) the IFI’s procedures and documentation throughout the implementation cycle are used for the Phare component. Using the IFI’s procedures and documentation considerably eases the administrative burden on the implementing authority. Both Phare and IFI documentation and procedures on works contracts are based on FIDIC procedures (Federation of International Consulting Engineers) and so both systems involve the same efficiency and security in implementation.
d) While the IFI’s procedures and documentation on procurement will be used, the Phare regulations on advertising, rules of eligibility, rules of souring and origin and transparency will still be followed.
e) the IFI takes on responsibility to monitor and report to the Commission on implementation of the Phare component.
f) the Commission and European Court of Auditors reserve their rights to audit records concerning the Phare component and to conduct independent monitoring and evaluation missions.

6.3 General Conditions
All contracts must be concluded within the first 24 months of the programme’s duration. All disbursements on all projects must be made within the first 60 months of the programme’s duration.

The Commission shall take a direct role and provide expertise in supporting and overseeing the procurement and implementation process on LSIF projects because of the importance of the programme, because of the urgency of the contracting deadlines and because the CFCUs and National Funds are only now being put in place and getting up to full speed. This is a critical aspect if the contracting and disbursement deadlines are to be met. If the relevant national structures are not established in time to meet the commitment schedules set down in annex to this proposal and the project fiches, contracting may be undertaken centrally by the Commission.

Any funds not used by the expiry date of the programme will be recovered by the Commission.

For those contracts with funds retained for a warranty period extending beyond the end of the disbursement period of the programme, the overall total of funds related to those contracts, as calculated by the PAO and established by the Commission, will be paid to the Implementing Agency before the official closure of the programme. The Implementing Agency assumes full responsibility of depositing the funds until final payment is due and for ensuring that said funds will only be used to make payments related to the retention clauses. The Implementing Agency further assumes full responsibility towards the contractors for fulfilling the obligations related to the retention clauses. Interests accrued on the funds deposited will be paid to the Commission after final payment to the contractors. Funds not paid out to the contractors after final payments have been settled shall be reimbursed to the Commission. An overview of the use of funds deposited on warranty accounts - and notably of the payments made out of them - and of interests accrued will annually be provided by the NAO to the Commission.

7. MONITORING AND ASSESSMENT

On a country by country basis, a Joint Monitoring Committee (JMC) will be established. It will include the NAO, the NAC and the Commission. The JMC will meet at least once a year to review all Phare funded programmes - including the LSIF projects in their countries - in order to assess their progress towards meeting the objectives set out in Financing Memoranda and the Accession Partnership. The JMC may recommend a change of priorities and/or the re-allocation of Phare funds.

The JMC will be assisted by Monitoring Sub-Committees (MSC) and will include the NAC, the PAO of each IA (and of the CFCU where applicable) and the Commission Services. The MSC will review in detail the progress of each programme, including its components and contracts, on the basis of regular Monitoring and Assessment reports produced with the assistance of external consultant (in accordance with the provisions of the DIS Manual), and will put forward recommendations on aspects of management and
design, ensuring these are effected. The MSC will report to the JMC, to which it will submit overall detailed reports on all Phare financed programmes.

Given the special nature of LSIF projects, implementation will also be closely monitored by the Commission centrally.

8. **AUDIT AND EVALUATION**

On projects implemented through Phare National Programme structures, the accounts and operations of the National Fund, and, where applicable, the CFCU and all relevant Implementing Agencies may be checked at the Commission’s discretion by an outside auditor contracted by the Commission without prejudice to the responsibilities of the Commission and the European Union’s Court of Auditors as referred to in the General Conditions relating to the Financing Memorandum attached to the Framework Agreement.

On projects where implementation is delegated to the cofinancing IFI, the Commission maintains the same rights of access to IFI financial records concerning the Phare funds for auditing purposes, as indicated above under the National Programmes.

The Commission services shall ensure that an ex-post evaluation is carried out after completion of the Programme.

9. **VISIBILITY / PUBLICITY**

The appropriate Programme Authorising Officer will be responsible for ensuring that the necessary measures are taken to ensure appropriate publicity for all activities financed from the programme. This will be done in close liaison with the Commission Delegation. Further details are at annex 5.

10. **SPECIAL CONDITIONS**

In the event that agreed commitments are not met for reasons which are within the control of the implementing authority concerned or the IFI with whom the project is co-financed, the Commission may review the programme with a view, at the Commission’s discretion, to cancelling all or part of it and/or to reallocate unused funds for other purposes consistent with the objectives of the Phare programme.
Annexes

1. Project fiches

2. Cumulative quarterly contracting and disbursement schedule

3. Visibility / Publicity

4. Article 118 summary for the Official Journal
Annex 1.
Project fiches
Annex 2.
Cumulative quarterly contracting & disbursement schedule

- Table 1: Cumulative quarterly contracting & disbursement schedule for the PHARE LSIF 1998 Programme.

- Table 2: Summary implementation time chart
Annex 2

See Excel table
Table 2: Detailed Implementation time chart for Projects:

<table>
<thead>
<tr>
<th>Components</th>
<th>Implementation schedule (quarters)</th>
<th>PLANNED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia Environment</td>
<td></td>
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<tr>
<td></td>
<td>D</td>
<td>C</td>
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<tr>
<td>Estonia Railways</td>
<td>D</td>
<td>D</td>
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<tr>
<td>Hungary Environment</td>
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<tr>
<td>Latvia Environment</td>
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<td>D</td>
</tr>
<tr>
<td>Slovenia Environment</td>
<td>D</td>
<td>C</td>
</tr>
</tbody>
</table>

Legend:
D = design of projects
C = contracting
I=implementation
Annex 3.
Visibility / Publicity

To be provided by DG IA.B-1
Annex 4.
Article 118 summary for the Official Journal

Phare Large Scale Infrastructure Facility 1999

The Commission has agreed a financing proposal for the **Phare Large Scale Infrastructure Facility for 1999**. The European Community will contribute up to a maximum of **59 MECU** from budget line B7-5000 to this programme, which must be implemented by **31 December 2003**.

Within the context of the New Orientations of Phare, the creation of a Large Scale Infrastructure Facility (LSIF) was proposed in order to offer additional support from 1998 onwards to projects that are not sufficiently covered under the national Phare programmes and which have a clear transboundary impact.

This need for additional support for infrastructure in the accession countries has also been recognised in the proposal for the creation of an Instrument for Structural Policies for pre-Accession (ISPA) with an annual budget of ca 1 BECU from the year 2000.

The LSIF will thus serve as a precursor to ISPA and it is for this reason that LSIF focuses on environmental projects and transport infrastructure projects (cf article 3 of proposed ISPA facility).

In order to gain a maximum of leverage from the limited Phare funds available, all projects will be co-financed with a relevant International Financing Institution.

The selection of projects for support under the LSIF was made upon the basis of a screening exercise by the European Commission which identified those projects being proposed by the IFIs and countries which best fit the specific selection criteria of this fund and in particular the criterion of relevance to the adoption of the acquis in conformity with the new Phare orientations.

The current Financing Proposal forms one of three financing proposals which will be presented to the Phare Management Committee on the LSIF. The current financing proposal proposes support for projects amounting to a total EC contribution of 59 Mecu.

The implementation of the projects awarded support by the LSIF will be through the national implementation structures under the decentralised implementation system or through the IFI concerned on the basis of joint and parallel cofinancing.

In addition, support is foreseen within this current financing proposal for project preparation activities.

**Further information about this programme can be obtained from:**

(a) the Phare Internet service at : [http://europa.eu.int/comm/dg 1a/phare](http://europa.eu.int/comm/dg 1a/phare);

(b) the European Commission, DG IA Information Unit - Phare
    Fax : +32 2 299 17 77 or
    Email : phare.info@dg1a.cec.be.

**Further tender opportunity details will be available as follows :**
(a) for service tenders from the Phare Internet service at the above address.
(b) for all supply tenders over 300,000 ECU and for all works tenders above 1 MECU from the Official Journal of the European Communities. Tenders opportunities below these amounts will also be published, but this may be done only locally.
Expressions of interest for tenders may be made when the relevant details have been published.