

FRAMEWORK FOR FUNDING OF INVESTMENTS IN THE FIELD OF TRANSPORT INFRASTRUCTURE WITH ISPA

1. INTRODUCTION

At the European Council held in Copenhagen in June 1993 the Member States agreed that those countries in Central and Eastern Europe which wish to become members of the European Union, could do so. The Council stated that Membership in the European Union requires that an applicant country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

At the summit in Luxembourg in December 1998 the European Council endorsed a new strategy for preparation of applicant countries to enlargement. It made available substantial additional financial resources to assist membership in taking up the Community *acquis*, which was set to be prerequisite for full membership.

The ten Central and Eastern European countries that are candidates for membership of the European Union (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) are at present undertaking various activities to comply with the *acquis communautaire*.

In order to advance further and support this process, the European Union have decided to support the applicant countries (in addition to the existing Phare programme) by giving them assistance to prepare for accession. Part of this assistance will be provided by the ISPA initiative (Instrument for Structural Policies for Pre-Accession) managed by the EU Commission Regional Policy Directorate General. The ISPA initiative covers the environment and transport sectors only.

This document sets out a strategy for the identification and the selection, of transport projects to be funded under the European Union's ISPA financing instrument, in line with the Council Regulation (EC) 1267/99, dated 21 June 1999, which establishes ISPA.

The document consists of the following sections:

- a description of ISPA and its relationship to other pre-accession instruments
- the allocation of ISPA funds between the applicant countries
- the requirements for ISPA funding

2. THE FRAMEWORK OF ISPA

2.1. Pre-Accession Instruments

The strategy of the Commission on the enlargement of the European Union is laid down in Agenda 2000 and includes the reinforcement of the pre-accession support for the ten Central and Eastern European applicant countries. The general objective of the support is to offer a coherent programme to prepare these countries for accession to the EU and,

- to bring together the different forms of support provided by the Union within a single Framework, the Accession Partnership;
- to familiarise the applicants with Union policies and procedures through the possibility of their participation in Community programmes.

The Council has made available to the Commission for the period of seven years (2000 – 2006) three different pre-accession instruments for the ten candidate countries until their accession to the Union. These instruments are:

- **PHARE** (under the responsibility of the Enlargement Directorate General) which will focus on measures linked to the adoption of the *acquis communautaire* i.e. building up the administrative and institutional capacities of the applicant countries and financing investments designed to help them comply with Community law – Euro 1560* million per year. From 2000, PHARE will also support investment in economic and social cohesion, in the context of preliminary National Development Plans;
- **ISPA** (managed by Regional Policy Directorate General) for supporting infrastructure projects in the field of transport and environment – Euro 1040* million per year.
- **SAPARD** (managed by Agriculture & Fisheries Directorate General) for the modernisation of the agriculture and for rural development - Euro 520* million per year;

The activities carried out under these three instruments will be closely co-ordinated (in line with Council Regulation (EC) 1266/99, dated 21 June 1999 on coordinating aid to the applicant countries in the framework of the pre-accession strategy). The Commission has issued a note explaining how it intends to coordinate operations under the three instruments.

The overall framework for Community support to the candidate countries was established in the Accession Partnerships adopted by the Council in March 1998 and which are currently under review. The Accession Partnerships constitute a framework for all Community pre-accession assistance. They set out priority areas for further work for candidate countries on their way to accession, the financial means available for that purpose, and the conditions that will apply to that assistance. The revised Accession

* based on 1999 prices

Partnerships will be the framework for the assistance for the three new pre-accession instruments. All three instruments will focus on the priorities identified in the revised Accession Partnerships.

For ISPA the Regulation stipulates that :

A balance shall be struck between measures relating to transport infrastructure and measures in the field of environment.

Beside the global goals mentioned above, the main focus for ISPA in the transport sector is:

- to contribute to the financing of a necessary component of a future trans-European transport network (similar to the TENs in the Union)
- transport infrastructure measures which promote sustainable mobility, and in particular those that constitute projects of common interest based on the criteria of Decision 1692/96/EC
- measures which enable the beneficiary countries to comply with the objectives of the Accession Partnerships, including inter-connection and interoperability of national networks as well as with the trans-European networks, together with access to such networks.

Measures will be of a sufficient scale to have a significant impact in the improvement of transport infrastructure networks. The total cost of each measure will in principle not be less than Euro 5 million.

2.2. The ISPA contribution

Community assistance under ISPA may take the form of non-repayable direct assistance, repayable assistance or any other form of assistance. The rate of Community assistance granted under ISPA may be up to 75% of the total public or equivalent expenditure (including expenditure by bodies whose activities are undertaken within an administrative or legal framework by virtue of which they are regarded as equivalent to public bodies). The Commission may also consider loans by International Financing Institutions to these governmental bodies to be equivalent to national public funds.

In exceptional cases for realising projects essential for achieving the general objectives of ISPA, the Commission may decide to increase the participation rate to up to 85%, after consultation with the ISPA Management Committee.

ISPA funds may not be combined with the other Pre-Accession Instruments. ISPA may also provide preliminary studies and technical support measures which may be financed exceptionally at 100% of the total cost including:

- Economic/financial feasibility studies

- Environmental Impact Assessments
- Reviews of design and project costing
- Assistance in the preparation of tender documentation
- Project management

The rates of assistance provided from the Community under ISPA will be set in order to strengthen the leverage effect of resources, promote co-financing and the use of private sources of finance and to take account of the capacity of measures to generate substantial net revenue. In this respect the Commission will seek close co-operation with the EIB, the EBRD the World Bank and other financial institutions.

The Commission will, however, take full account of the financial capacity of a beneficiary to take on additional debt service. The Commission is conscious that co-financing arrangements entered under ISPA must not in any way jeopardise a candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

Modulation of assistance in the context of the principle that the polluter should pay will follow the guidelines in place for Structural and Cohesion Funds, which according to a statement by the Council, should also be applied in the framework of ISPA.

2.3. Allocation between beneficiary countries

ISPA will be implemented in the period 2000-2006 with a budget of Euro 7.28 billion¹ over seven years . These funds will be distributed among the ten candidate countries divided equally between the transport and environment sectors.

The indicative allocation between the beneficiary countries of the total Community assistance under ISPA has been proposed by the Commission on the basis of the criteria of population, per capita GDP in purchasing power parities and surface area. This allocation may be adjusted to take account of the performance in previous years of each of the beneficiary countries in implementing ISPA measures. The following Table provides the basic data on the applicant countries and the indicative allocation announced by the Commission.

¹ based on 1999 prices

Table 1: Basic data on applicant countries and indicative ISPA allocation

| <i>Country</i> | | <i>Surface area (km²)</i> | <i>Population in 1997 (thousand)</i> | <i>Index of GDP* per inhabitant (average = 100)</i> | <i>Indicative allocation as a percentage of the total</i> |
|--|----------------|--------------------------------------|--------------------------------------|---|---|
| BG | Bulgaria | 111062 | 8312 | 67 | 8.0 – 12.0 |
| CZ | Czech Republic | 78864 | 10304 | 166 | 5.5 – 8.0 |
| EE/ | Estonia | 43431 | 1458 | 90 | 2.0 – 3.5 |
| HU | Hungary | 93030 | 10155 | 124 | 7.0 – 10.0 |
| LV | Latvia | 64589 | 2469 | 67 | 3.5 – 5.5 |
| LT | Lithuania | 65300 | 3706 | 76 | 4.0 – 6.0 |
| PL | Poland | 312685 | 38660 | 91 | 30.0 – 37.0 |
| RO | Romania | 238391 | 22546 | 84 | 20.0 – 26.0 |
| SK | Slovakia | 49035 | 5383 | 116 | 3.5 – 5.5 |
| SI | Slovenia | 20256 | 1986 | 175 | 1.0 – 2.0 |
| Total | | 1076643 | 104979 | 100 | |
| <i>Source: Eurostat</i> | | | | | |
| <i>Note: * based on the average of 1995-1997</i> | | | | | |

3. REQUIREMENTS FOR ISPA TRANSPORT PROJECTS

3.1. EU Transport Policy

The development of transport measures undertaken by the Commission in the Union itself is guided by the "Common Transport Policy", which sets out the basic approach to key issues such as traffic congestion, environmental impact and effects on industry costs and the creation of employment. In addition, the development of the Union's strategic transport networks is guided by the Trans-European Networks (TENs) programme.

Decision *No 1692/96/EC* provides guidelines for the Trans-European Transport Network. The principles enshrined in this decision will also be applied for ISPA. The enlarged network must:

- ensure the sustainable mobility of persons and goods within an area without internal frontiers under the best possible social and safety conditions, while helping to achieve the Community's objectives, particularly in regard to the environment and competition, and contribute to strengthening economic and social cohesion;
- offer users high-quality infrastructure on acceptable economic terms;
- include all modes of transport, taking account of their comparative advantages;
- allow the optimal use of existing capacities;
- be, insofar as possible, interoperable within modes of transport and encourage intermodality between the different modes of transport;
- be, insofar as possible, economically viable.

Taking into account these objectives the ISPA priorities are:

- establishment and development of the connections, key links and interconnection needed to eliminate bottlenecks, fill in missing sections and complete major routes;
- establishment and development of infrastructure for access to the network, making it possible to link island, landlocked and peripheral regions with the central regions; (based on the criteria of Decision N° 1692/96/EC)
- the optimum combination and integration of the various modes of transport;
- integration of environmental concerns into the design and development of the network;
- gradual achievement of interoperability of network components;
- optimisation of the capacity and efficiency of existing infrastructure;
- establishment of and improvement in interconnection points and intermodal platforms;
- improved safety and network reliability;
- the development and establishment of systems for the management and control of network traffic and user information with a view to optimise use of the infrastructure;
- studies contributing to improved design and better implementation of the network.

3.2. Enlargement and TINA

The Commission's strategy on enlargement is laid down in the Commission proposal for Agenda 2000. In the transport sector, this highlights the urgent need for the development and up-grading of transport infrastructure in accession countries as well as the need to tackle missing links with the existing Union Member States.

The Transport Infrastructure Needs Assessment (TINA) recommended by the Council was taken up by the Commission with a view to identifying the components for the future Trans-European Transport Network on the territory of the candidate countries for accession. The Commission implemented TINA as a cooperative process run by a Group of Senior officials from the candidate countries and the EU Member States. For the countries concerned, improvements in transport infrastructure are seen as an essential part of their economic development strategies and thus their capacity to cope with the competitive pressures and market forces in the future Union. As indicated in the Commission Communication on co-operative transport policy (Com (97)172), the future trans-European transport network will eventually serve the transport needs of the Union's regions to ensure the free movement of people, goods and services, giving appropriate access to European centres, while ensuring respect for the environment. This strategy will pursue a balanced multi-modal transport infrastructure development.

As a result of the TINA process a transport network has been identified, which comprises the routes of ten multi-modal Pan-European transport corridors, endorsed at the third Pan-European Transport Conference at Helsinki in June 1997 on the territory of the candidate countries for accession, and additional network components selected on the basis of the criteria of Decision N° 1692/96/EC. In its final report the TINA senior

Officials Group suggests that the components of this network should be considered as the necessary components for a future Trans-European transport network, notably on the territory of the 10 candidate countries of central Europe. In its recommendations the Senior Officials Group also suggest giving investment priority to those components which complete the Pan-European transport corridors.

4. APPLICATION FOR PROJECT FUNDING

4.1. Strategy papers

On the basis of the Community priorities, each of the 10 applicant countries will prepare country-specific ISPA strategy papers for the environment and transport sectors with a medium term planning horizon.. On the basis of Community priorities the countries should elaborate their national priorities to fulfil the *acquis* and taking into account their national developments plans. The strategy paper should include general priorities but also identify projects that are envisaged to be implemented with ISPA support.

For the transport sector is it expected that these national strategies would take full account of the Common Transport Policy, the standards developed for the Trans-European Networks and the agreed TINA network. As these ISPA projects will form part of the future Trans-European Network they must have a certain level of standards. Therefore it seems to be reasonable to apply these standards, although this might be done in phases. Technical norms have been developed for the elements of the TENs, based on EU, UN/ECE or UIC documents.

The national strategy paper should contain a financial outlook giving an overview of the volume of investment that is necessary for implementation of the proposed measures and the proposed share of funding to be supported by the organisation itself, the State, IFIs and the EU.

4.2. Principles for ISPA investment support

All ISPA support for investment will have to respect the following principles:

- (1) Catalytic: ISPA support should act as a catalyst for a priority, accession-driven action which would otherwise not take place, or which would only take place at a later date
- (2) Co-financing: all investment projects supported by ISPA should have national contributions. Every effort should be made to attract co-financing from other sources. The Commission will continue to work closely with the European Investment Bank and the International Financial Institutions to identify suitable projects for co-financing.
- (3) Displacement: ISPA support should not displace other financiers, especially from the private sector or from the international financial institutions.
- (4) Sustainability: the investment actions to be supported should be sustainable beyond the date of accession. All projects must comply with EU norms and standards, be coherent with the sector policies of the EU and respect the principle of sustainable and environmentally sound

development enshrined in Article 2 of the Treaty. All projects must also be financially sustainable to cover future maintenance and operating costs.

- (5) Adequate scale of projects: The ISPA Regulation states that measures shall be of a sufficient scale to have a significant impact in the field of transport infrastructures. The total cost of each measure shall in principle not be less than EUR 5 million.
- (6) Public Procurement: all actions financed must respect the competition and state aid provisions

4.3. Criteria for the selection of proposals

- In appraising the measures, the following criteria are to be applied, using appropriate quantified indicators, to ensure their high quality:
- contribution of measures to Trans-European networks, the TINA network and common transport policies;
- economic and social benefits, including their potential for leverage of private financing, which will be commensurate with the resources deployed; an assessment will be made in the light of a cost-benefit analysis;
- arrangements for ensuring effective management of the measures;
- priorities established by the Accession Partnerships for the areas of intervention;
- contribution which measures make to the implementation of Community policy on the environment and the result of the environmental impact assessment;
- consideration of possible alternative forms of financing.

The Commission may invite the EIB, EBRD or World Bank to contribute to the appraisal of measures as necessary. The Commission is to examine applications for assistance to verify in particular that the administrative and financial mechanisms are adequate for the effective implementation of the measure.

The Commission's choice of projects will reflect the following considerations:

- All modes of transport infrastructure are eligible for assistance from ISPA.
- Projects, which are on the Backbone Network, as identified by TINA, will have priority for investment but ISPA support will not be confined exclusively to the Network. Projects, which improve the interconnection and interoperability of the network, will also have priority. Some of the TINA 'additional proposals' may also be candidates for assistance but strong justification will have to be provided for projects if they are not on the major corridors.
- Promotion of railway transport will be favoured on the grounds of encouraging sustainable mobility while taking account of the great need for reinforcing the road network in the beneficiary countries.
- The Commission may attach conditions to the assistance, on a project-by-project basis. For example, it may be considered essential for the efficient operation of assistance to rail projects that the rail organisation is restructured to allow a

separation of infrastructure and operations. Although ISPA cannot provide assistance for activities like company restructuring, it may be possible for Phare to do so.

- Projects, which provide important or strategic access to the TINA Network, will also be considered.

Intelligent transport systems (e.g. navigation, communication, traffic management systems) will be eligible for assistance.

5. Co-ordination of Pre-accession Instruments amongst themselves, with other Community Funds and with IFIs

5.1 In beneficiary countries

All actions assisted by the pre-accession must be properly co-ordinated. The beneficiary countries in their investment planning and in the framework of their national development plans should pay particular attention of the integration of measure in their long term priorities and development plans.

Beneficiary countries are in particular responsible to seek compatibility of measures assisted under ISPA which are located in an INTERREG area with the operations under an INTERREG (Phare CBC) programme (The planning, timing and implementation of ISPA measure does, however, not fall under the remit of the INTERREG management structure and of the programme monitoring committee. ISPA funds are allocated to entire beneficiary countries and not to particular areas, including cross border zones or other INTERREG strands).

5.2 Pre-accession instruments and IFIs

The Commission has established guidelines for the co-ordination of the three instruments, and intends to co-ordinate its actions with the operations of the EIB, the EBRD, the World Bank and other financial agencies. In pursuit of this obligation the Commission has decided to exchange with the EIB and the EBRD all relevant information relating to ISPA.

For guiding their co-operation the Commission and the IFIs have signed a memorandum of understanding. Where appropriate, specific co-operation agreements will be entered into, which should provide the implementing services of Commission access to expertise available in the Banks.