

AMENDED MEMORANDUM OF UNDERSTANDING

BETWEEN

THE EUROPEAN COMMISSION, IN LIAISON WITH THE EUROPEAN INVESTMENT BANK,
THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT,
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT,
THE INTERNATIONAL FINANCE CORPORATION,
THE NORDIC INVESTMENT BANK,
THE NORDIC ENVIRONMENT FINANCE CORPORATION,
THE COUNCIL OF EUROPE DEVELOPMENT BANK AND
THE BLACK SEA TRADE & DEVELOPMENT BANK

ON

COOPERATION IN

(i) ECONOMIC DEVELOPMENT OF THE NEW EU MEMBER STATES OF CENTRAL AND EASTERN EUROPE, CYPRUS, MALTA, AND (ii) ACCESSION PREPARATION IN THE EU CANDIDATE AND POTENTIAL CANDIDATE COUNTRIES

1. PRINCIPLES

This Memorandum of Understanding has been established in the context of the initiatives undertaken by the European Commission ("the Commission") in liaison with the European Investment Bank ("EIB"), and the relevant International Financial Institutions ("the IFIs") aiming at enhancing the effectiveness of their co-operation in supporting the economic development in the new EU member states Cyprus, Malta and the Member States of Central Europe¹, and the preparation of candidate² and potential candidate³ countries from the Western Balkans to accession to the European Union ("the EU") and the efforts of these countries to harmonise their standards with those of the EU. The aforesaid IFIs are the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development, the International Finance Corporation (World Bank Group), the Nordic Investment Bank (NIB), the Nordic Environment Finance Corporation (NEFCO), the Council of Europe Development Bank (CEB) and the Black Sea Trade & Development Bank (BSTDB). Each of these IFIs contributes to the above mentioned cooperation within its scope of action and statutory geographical or sectoral remit.

¹ As of 15 June 2005 these comprise the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and the Slovak Republic

² As of 15 June 2005 these comprise Bulgaria, Romania, Croatia and Turkey. It is understood that the present Memorandum would continue to cover any of these countries also after their accession to the European Union.

³ As of 15 June 2005 these comprise Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia and Montenegro (including Kosovo as defined by UNSCR 1244).

The IFIs have noted:

1. the inclusion by the European Community ("the EC") of the countries of Central and Eastern Europe, Cyprus and Malta in the assistance from the Structural / Cohesion Funds as of 1 May 2004, date of their accession as EU Member States;
2. the signature of Accession Treaties for Bulgaria and Romania respectively, the adoption of the Accession Partnership for Turkey, and of a European Partnership for Croatia, the orientation of assistance towards accession priorities, the substantial increase of pre-accession aid to Bulgaria, Romania and Turkey as from the year 2004, resp. 2005 for Croatia, and the introduction in the year 2000 of support for pre-accession measures for agriculture and rural development (SAPARD) and an Instrument for structural policies for pre-accession (ISPA) in the fields of the environment and transport infrastructure;
3. the adoption of "European Partnerships" also for the other countries of the Western Balkans (Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, and Serbia and Montenegro, including Kosovo as defined by UNSCR 1244) and the orientation of assistance, in particular the CARDS programme, towards European Partnership priorities;
4. the Commission's proposal to introduce a single pre-accession instrument (IPA) as from 2007 covering all candidate and the potential candidate countries.
5. the continuous efforts by the countries of the Balkans, their neighbours and the European Union to develop a regional approach in the area of infrastructure and energy, in particular through the signature of memoranda of understanding in the transport and energy sectors and the planned ratification of a treaty establishing a regional energy market.

It is noted that the EIB, whose role is defined in Art. 267 of the Treaty establishing the European Community, as the EU's long-term financing institution, will continue to work closely with the Commission in serving the EU's Policy Objectives, and therefore will also collaborate, whenever appropriate, with the IFIs in the spirit of this Memorandum. In this context and taking account of the above developments, the Commission, in liaison with the EIB and the IFIs, have agreed on the following.

In view of the consistency between EU regional policies in new Member States, and requirements and priorities set out in the Accession Partnerships and European Partnerships, on the one hand, and with the purpose and functions of the IFIs and of the shared desire to foster economic development and the reform process in the countries covered by this Memorandum of Understanding, on the other hand, the Commission and the IFIs intend to continue to co-ordinate their respective financial assistance instruments to provide for harmonised action and facilitate strengthened co-operation.

The Commission and the IFIs will seek to co-operate in co-financing suitable projects in the countries covered by this MoU, taking into account comparative advantages and

complementarities with the Commission, other official financial institutions and the private sector.

A mutually supportive approach will be sought. Ways of ensuring coherence between this approach and the countries' own national investment programmes and budgetary priorities and constraints and the need for sound macro-financial policy frameworks will also be sought on a systematic basis.

EC assistance initiatives, and more particularly in the form of grants, will play an important catalytic role and, where possible, will be combined with financing from the IFIs and other sources, including the private sector, with a view to increasing and better targeting financial support for the candidate and potential candidate countries' requirements. In particular, this concerns:

- the development of the financial and enterprise sector (including SME's) and its adjustment to pre-accession requirements;
- environmental protection measures (and, where appropriate, nuclear safety);
- major infrastructure development;
- support for sustainable agriculture;
- rural and regional development;
- social development at large, including education, health, and social housing;
- cross-border and regional co-operation, including with neighbouring countries covered under the European Neighbourhood Policy;
- assistance to strengthen institutions, both at national and sub-national level, and regulatory framework that support the countries adoption of the EC "acquis";
- upstream support (e.g. non-project but strategically important analytical studies and project preparation) to the national authorities of the candidate and potential candidate countries, and in support to regional initiatives.

In the context of the implementation of the Accession Partnerships and of the European Partnerships, the Commission intends, as appropriate, to involve the IFIs concerned in its financial programming discussions.

Co-ordinated approaches on co-financing and project administration will be set out with a view to enhancing co-operation between the Commission and the IFIs. To the extent possible, consistent implementation rules and timetables will be applied for projects to be co-financed by the Commission and the IFIs for both parallel and joint co-financing.

As for financial support provided in the context of the Structural Funds, the co-operation with the IFIs will cover all the phases of programme and project life cycles. Joint development by the new Member States and accession countries, on the one hand, and the IFIs, on the other hand, of financial instruments for SME's and micro-credit is a priority objective. Concerning more particularly major projects to be co-financed by the ERDF and the Cohesion Fund, DG Regional Policy and the EIB are

setting up a joint structure to assist the Member States in preparing good quality projects and project files, to be submitted to the Commission in a timely manner.

2. IMPLEMENTATION:

2.1. Additionality, complementarity of financing and overall ceilings

Efficiency and the appropriate use of the EC and the IFIs' resources require that the various financing instruments be combined in such a way as to ensure:

- adequate complementarity with financing from national sources (both public and private) in the beneficiary country concerned;
- a mix of grants and loans that take due account of the financial sustainability and profitability of the projects concerned, so as to achieve the most judicious and economical use of scarce resources;
- compatibility with the rules and financing limits (as a proportion of the total project cost) applying to financing by the EC and the IFIs.

The following principles will normally apply in cases where co-financing is agreed between the Commission and the IFIs:

- finance provided by the Commission and the IFIs should not displace other financiers, in particular private, market-based financing provided on reasonable terms and conditions;
- in public sector projects, financial contributions by the Commission and the IFIs should be complemented by contributions from the beneficiary counterpart, taking into account the macroeconomic environment in which the funding is to take place; in all cases, a sufficient financial contribution from the partner country in the financing of any single investment's total project cost will be sought;
- in private sector projects, the contribution and financial exposure of project sponsors should be sufficiently large so as to ensure their sustained interest in the success of their projects;
- in the case of revenue generating projects, the grant/loan mix will be based on the principle of maximising economic benefits and cost-effectiveness; in principle grant financing would therefore concentrate mainly on investment projects with high net economic benefits yielding limited revenue;
- in the case of co-financing of industrial investments, the optimum combination of grants and loans will be tailored to the specific needs of the beneficiary enterprises (notably SME's) giving special attention to the implementation in the candidate and potential candidate countries of technical, environmental and other industrial standards and norms consistent with the Community "acquis";

2.2. Eligibility and selection criteria

When determining the eligibility of projects for Commission-IFIs co-financing, particular attention will be paid:

- to the financial and economic viability of the projects through transparent cost recovery pricing policies that will take into account social conditions;
- to the ability of the national authorities to ensure a sustainable development of the different sectors and projects (i.e. liberalisation and introduction of competition, etc.);
- to the degree of readiness of a project and the prospects for expediting its implementation.
- Moreover, in candidate and potential candidate countries, special attention shall be paid:
 - to the transition impact of the project and its contribution to the pre-accession strategy of the country concerned;
 - to the development of the priority areas set out in Accession Partnerships and European Partnerships;
 - to the existence of specific programmes for aligning the legal and regulatory framework to those of the EC;
 - to assist those countries in achieving progressively, in the framework of the Accession Partnerships and European Partnerships, full compliance with the relevant EC sector priorities, policies, regulations and standards (e.g. energy, transport, environment, etc.), including those related to regional cooperation. Where appropriate, minimum policy performance benchmarks will be considered by the Commission and the IFIs concerned for a specific sector.

2.3. Co-financing arrangements

The modalities for project co-financing will be examined on a case by case basis, in view of the characteristics of each particular investment project.

Parallel co-financing will be used on projects where the components to be financed respectively by the Commission and the IFIs are clearly separate. In these cases, to the extent possible, co-ordinated implementation rules and timetables will be agreed so as to ensure maximum consistency and efficiency.

Subject to the rules and procedures of the financial regulation of the European Communities⁴ and to those applying to the different EC instruments and whenever

⁴ Regulation (EC) 1605/2002 of 25 June 2002 and, in particular, article 53 providing the possibility of joint management of the Communities budget between the Commission and international organisations and, where appropriate, Title IV relating to external actions.

significant administrative efficiencies are to be gained, in particular in the case of parallel co-financing, the Commission could delegate to the IFIs administration and/or supervision responsibility for the Commission's financial contribution. In such cases, the Commission will provide agreed financial compensation for the additional administrative burden and responsibility assumed by the IFIs concerned.

In cases where the EC is clearly the minority co-financing partner and for emergency assistance, the possibility of joint co-financing will be explored, consistent with the relevant EC and IFIs regulations and operational policies.

Where neither joint co-financing nor delegated administration is possible, the Commission and the IFIs will, at a minimum, aim to use the same administrative unit within the same administration authority in the relevant country, to exchange technical reports and information, subject to any applicable confidentiality requirements, while using the relevant IFI procurement documentation, and to undertake joint monitoring and evaluation missions.

In the case of delegated administration or joint co-financing, the implementing modalities concerning the tendering procedures of projects and the audit rights of the Commission, the European Court of Auditors and OLAF will be spelled out in detail in each Commission/IFI co-financing agreement.

2.4. Co-ordination procedures

In order to ensure consistency of Commission, EIB and the IFIs interventions with national priorities, taking well into account the needs for a regional cooperative approach in some sectors, and to secure adequate complementary funding from national sources, appropriate co-ordination procedures with national and local authorities of the new Member States, the candidate and potential candidate countries will be established at all levels:

- (i) Regular contacts will be maintained at working level, including in the countries of operations through Commission delegations or offices and the IFIs' local offices as appropriate, with a view to monitoring implementation and ensuring timely availability of the funds.
- (ii) In the context of Structural Funds' operations and as appropriate, the Commission may involve the IFIs in its discussions with the national authorities on the terms and conditions for the implementation of co-financing opportunities, taking into account regional development and investment priorities identified by these authorities.
- (iii) When discussing priorities of EC's financial support with the national authorities in the context of the Accession Partnerships and European Partnerships, the Commission, on the basis of indicative allocations of EC budgetary support to the various eligible categories of projects (e.g. compliance with EC norms, infrastructures, structural actions, etc.), will liaise with the IFIs, so as to identify co-financing for both upstream and investment opportunities.
- (iv) In order to improve collaboration and ensure maximum synergy between the interventions of the Commission and the participating signatory IFIs, bilateral

or multilateral meetings, as and when appropriate will be held, to discuss matters of common interest, and will consider before the end of each year the annual work programme for the following year (including objectives, investment priorities and identification of projects that could be co-financed). Within the overall co-ordination framework of these meetings, direct technical contacts on sectoral issues between the IFIs and the appropriate Commission services will be established.

Furthermore, high level representatives of the Commission, the EIB and the participating signatory IFIs will meet jointly at least once a year, to ensure cross fertilisation of ideas, and to review a joint indicative list of projects that could be co-financed for the candidate and potential candidate countries. A working group will prepare such meetings and could meet when required to address any additional issues of common concern.

3. REVISION AND TERMINATION

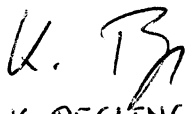
This amended Memorandum of Understanding cancels and replaces the amended MoU signed in May 2003. It may be reviewed at the request of any party in the light of developments in the accession process of the candidate and potential candidate countries and the evolution of the financial policies and instruments of the EC, the EIB and/or of the IFIs. Any amendment following any such revision will be done in writing.


Any party has the unconditional right to terminate this Memorandum of Understanding at any time by giving the other parties written notice to this effect.


Done in the headquarters of each International Financial Institution, last signatory being the European Commission on ~~11 APR. 2006~~ 2006.


For the European
Commission

For the European
Investment Bank


K. REGLING


M. LEIGH

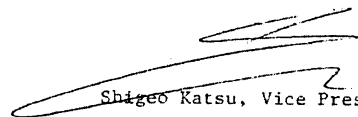

T. E. HACKETT


G. HUETZ

For the European Bank for Reconstruction
and Development

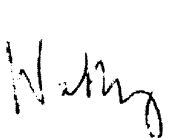
For the International Bank for
Reconstruction and Development




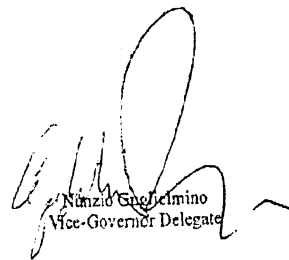

Shigeo Katsu, Vice President, Europe &
Central Asia

For the International Finance
Corporation

For the Council of Europe Development
Bank



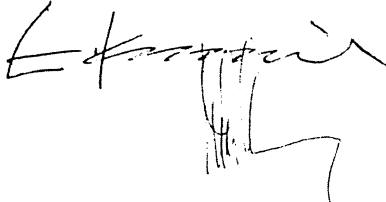




Nunzio Guajalmino
Vice-Governor Delegate

For the Nordic
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For the Nordic Environment
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Harro Pitkänen
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