

## **APPENDIX 7**

# **Memorandum of Understanding between European Commission and international financial institutions**

**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, And**  
**The Council of Europe Development Bank**  
**The Black Sea Trade & Development Bank**  
ON  
**COOPERATION FOR ACCESSION PREPARATION**  
**OF CENTRAL AND EAST EUROPEAN COUNTRIES, CYPRUS, MALTA, AND**  
**TURKEY**

**PRINCIPLES**

The present 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 transition and/or catching up process in the countries of Central and Eastern Europe, Cyprus, Malta, and Turkey seeking accession (“the candidate countries”) to the European Union (“the EU”) and the efforts of the candidate 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).

The IFIs have noted the adoption by the European Community (“the EC”) of the Accession Partnerships for the candidate countries, the orientation of the PHARE Programme towards accession priorities, the EU Copenhagen Council's decision that as from the year 2004 pre-accession aid to Bulgaria, Romania and Turkey will be increased substantially and that the PHARE Programme to the countries of Central and Eastern Europe has been reinforced since 2000 by 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, whereas special accession programmes have been set up for Cyprus and Malta on 13.03.2000 (Regulation EC 555/2000) and for Turkey on 17.12.01 (Regulation EC 2500/2001).

In the light of these developments the Commission and the IFIs have agreed on the following, while noting that the EIB, whose role is defined in art. 267 of the Treaty establishing the European Community (TEC) as the EU's long-term financing institution, will continue to work closely with the Commission in serving the EU policy objectives, and therefore will also collaborate, whenever appropriate, with the IFIs in the spirit of this Memorandum of Understanding:

In view of the consistency of many pre-accession policy requirements and priorities set out in the Accession Partnerships with the purpose and functions of the IFIs and of the shared desire to foster the reform process in the candidate countries, the Commission and the IFIs intend 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 on the co-financing of suitable projects and programmes in the candidate countries, meeting the operational requirements of the Commission and the IFIs and fostering the adoption of the EC "acquis" i.e. building up the administrative and institutional capacities of these countries and financing investments designed to help them comply with EC law as soon as possible. Ways of ensuring coherence between this approach and the candidate countries' own national investment programmes and budgetary priorities in the context of sound macro-economic policy frameworks will also be sought on a systematic basis.

The Commission and the IFIs will seek to identify opportunities to co-finance suitable projects in the candidate countries, taking into account accession priorities, comparative advantages and complementarities with the Commission, other Official financial institutions and the private sector. A mutually supportive approach will be sought.

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 countries' pre-accession requirements. In particular, this concerns:

- the development of the financial and enterprise sector (including SME's) and its adjustment to requirements of the EC "acquis";
- environmental protection measures (including 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 co-operation, including with neighbouring countries;
- assistance to strengthen institutions 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 countries.

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

(iv) 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.

## **2. IMPLEMENTATION**

### **2.1. Additionality, complementarity of financing and overall ceilings**

Efficiency and the appropriate use of the resources of the EC and the IFIs 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; as a rule, the use of EC grants should be limited to cases where there are clear externalities or market imperfections;
- 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 macro-economic 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 of technical, environmental and other industrial standards and norms consistent with the Community "acquis";
- the specific arrangements on these matters will be appraised on a case by case basis by the Commission, the relevant IFI(s) and the National Aid Coordinators of the candidate countries.

## **2.2. Sectoral Policy performance benchmarks**

In the framework of the Accession Partnerships, projects supported jointly by the Commission and any of the IFIs will seek to assist candidate countries to achieve full compliance with the relevant EC sector policies and priorities set out in the Accession Partnerships (e.g. energy, transport, environment, etc.) and the principles and policies of the IFIs concerned. Where appropriate, minimum policy performance benchmarks will be considered by the Commission and the IFIs concerned for a specific sector in a candidate country.

## **2.3. Eligibility and selection criteria**

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

- to the existence of specific programmes for aligning the legal and regulatory framework in the different sectors (notably the environmental standards) to those of the EC; if necessary, and in addition to the EC programmes, the IFIs may assist the candidate country in establishing such programmes;
- 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;
- to the transition impact of the project and its contribution to the pre-accession strategy of the candidate country concerned;
- to the development of the priority areas set out in Turkey's Accession Partnership.

## **2.4. 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 Communities and to those applying to the different EC instruments and whenever 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, 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 and of the European Court of Auditors will be spelled out in detail in each Commission/IFI co-financing agreement.

## **2.5. Co-ordination procedures**

In order to ensure consistency of Commission, EIB and the IFIs interventions with national priorities and secure adequate complementary funding from national sources, appropriate co-ordination procedures with national and local authorities of the candidate countries will be established at all levels:

- (i) Regular contacts will be maintained at working level, in the countries of operations through Commission delegations and the IFIs' local offices as appropriate, with a view to monitoring implementation and ensuring timely availability of the funds.

When discussing priorities of EC's financial support with the national authorities in the context of the Accession Partnerships, in particular the revised Accession Partnerships with Bulgaria, Romania, and Turkey, 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.

- (iii) As appropriate, the Commission may involve the IFIs in its discussions with the national authorities on the terms and conditions for the implementation of these co-financing opportunities, taking into account investment priorities identified by these authorities.

In order to improve collaboration and ensure maximum synergy between the interventions of the Commission, the EIB and the IFIs, bilateral meetings will be held, as and when appropriate, to discuss on 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 IFIs will meet jointly at least once a year, to ensure cross fertilisation and to review a joint indicative list of projects that could be co-financed. A working group will

prepare such meetings and could meet when required to address any additional issues of common concern.

**3. REVISION AND TERMINATION**

The present amended Memorandum of Understanding cancels and replaces the original MoU signed on 31st March 2000. It may be reviewed at the request of any party in the light of developments in the accession process of the candidate countries and the evolution of the financial policies and instruments of the EC 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.