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(Information)

COURT OF AUDITORS

SPECIAL REPORT No 5/2006

concerning the MEDA programme, together with the Commission's replies*(presented pursuant to Article 248(4), second subparagraph, of the EC Treaty)**(2006/C 200/01)*

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LIST OF ABBREVIATIONS

CSP	Country Strategy Paper
EC	European Community
ECU	European Currency Unit
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EuropeAid	EuropeAid Cooperation Office
GDP	Gross Domestic Product
MEDA	Measures to accompany the economic and social reforms in the Mediterranean non-member countries
MED-Committee	Advisory Committee of Member States for the Mediterranean region
NIP	National Indicative Programme
SAF	Structural Adjustment Facility
TA	Technical assistance

SUMMARY

I. In 1995 the EU and 12 Mediterranean countries decided on a new phase in their relationship, called the 'Barcelona Process' or the 'Euro-Mediterranean Partnership'. The main aim is to develop different aspects of the partnership, including the political, economic and financial, and social and cultural dimensions (see paragraphs 1 and 2).

II. The MEDA programme is the EC's main financial instrument for the implementation of the Euro-Mediterranean Partnership, with more than 8 000 million euro allocated for the period 1995 to 2006. At the end of 2005 about 7 000 million euro had been committed for different projects and programmes, and some 4 000 million euro had been spent (see paragraphs 3 to 5).

III. The Court has audited the MEDA programme, to determine whether it actually contributes to economic reform and social development in the partner countries, and whether the Commission's management of the programme is adequate (see paragraphs 6 to 11).

IV. **Regarding the MEDA programme's contribution**, the EC support has:

- been relevant to the needs of the countries concerned,
- focused on a limited number of sectors in two of the three countries examined,
- encouraged ownership by an increasing use of budget support,
- systematically included capacity-building measures (see paragraphs 12 to 26).

V. Concrete results, after more than 10 years of MEDA, are so far rather limited as many projects have not yet been completed. For most MEDA countries the impact of the EC support is to be found not so much in its financial importance as in its attempts to address sensitive policy reform issues and support poorer segments of populations (see paragraphs 27 to 31).

VI. **The Commission's management of the MEDA programme** has clearly improved since the early years and can be considered as satisfactory, as programming efforts now result in a more even allocation of resources over time, preparation periods are becoming shorter and disbursements have increased significantly. Contributing factors to these improvements are an increase in the number of projects and programmes, a larger share of budget support in the total programme and the overall positive effect of devolution on project preparation and implementation by delegations. Other improvements include more systematic monitoring and evaluation and more intensive dialogue and coordination with local counterparts and other donors. The most common cause of implementation delays remains procurement problems (see paragraphs 32 to 49).

VII. With the MEDA Regulation coming to an end in 2006 and the new European Neighbourhood and Partnership Instrument coming into effect in 2007, the Court recommends that the Commission should:

- ensure a smooth and quick transition to the new country programmes, to avoid negative consequences for future implementation; define more clearly in the new country programming documents its strategic objectives and establish appropriate indicators, to allow for better monitoring and evaluation of impact,
- continue to focus its support on a limited number of intervention areas to ensure coherence and to keep the programmes manageable,
- continue to search for best practices in managing projects to avoid delays.

INTRODUCTION

Background

1. After some 20 years of increasing cooperation, on trade and development issues in particular, between the EU, its Member States and the 12 Mediterranean countries concerned, the Conference of EU and Mediterranean foreign ministers held in Barcelona (November 1995) decided on a new phase of 'partnership', also called the 'Barcelona Process' or the Euro-Mediterranean Partnership ⁽¹⁾.

2. The Declaration adopted at the Barcelona Conference formulated three domains for the partnership, with the related key objectives, as follows:

- a political and security partnership, to establish a common area of peace and stability, based on fundamental principles including respect for human rights and democracy,
- an economic and financial partnership, to create an area of shared prosperity through the progressive establishment of a free-trade area, accompanied by substantial EC financial support for economic transition in the partner countries and for the negative social and economic consequences of this reform process,
- a social, cultural and human partnership, to develop human resources, promote understanding between cultures and develop free and flourishing civil societies.

3. The MEDA programme is the EC's main financial instrument for the implementation of the Euro-Mediterranean Partnership, the legal basis for which was provided by Council Regulation (EC) No 1488/96 of 23 July 1996 ⁽²⁾. The Regulation describes a wide array of support measures to be undertaken in support of efforts by Mediterranean partners to reform their economic

⁽¹⁾ The partner countries in 1995 were: Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, the Palestinian Authority, Lebanon, Syria, Turkey, Cyprus and Malta. Of these Cyprus, Malta and Turkey no longer receive bilateral assistance under MEDA, as Cyprus and Malta have become EU Member States, while Turkey receives special pre-accession assistance. Israel is considered to have too high a national income to qualify for bilateral assistance. All four countries may still benefit from the MEDA regional programme.

⁽²⁾ Council Regulation (EC) No 1488/96 of 23 July 1996 on financial and technical measures to accompany (MEDA) the reform of economic and social structures in the framework of the Euro-Mediterranean partnership (OJ L 189, 30.7.1996, p. 1). The term 'MEDA' actually comes from the French 'mesures d'accompagnement', but in practice, and also in this report, the programme as a whole is called 'MEDA'. Since Regulation (EC) No 1488/96, which covered the period 1995 to 1999, was amended and extended by Regulation (EC) No 2698/2000, covering the period 2000 to 2006, the two periods and the respective programmes are also referred to as MEDA-I and MEDA-II.

and social structures and mitigate any negative consequences which may result from economic development. A total reference amount of 3 424,5 million ECU was provided by the Regulation for the period 1995 to 1999.

4. Following an evaluation of the Regulation in 1999, it was amended by Council Regulation (EC) No 2698/2000 ⁽³⁾, which is generally referred to as the MEDA-II Regulation. This Regulation provides a reference amount for the period 2000 to 2006 of 5 350 million euro. The amendment also added another area of activities to be supported (Improvement of conditions for the underprivileged), and it streamlined certain decision-making procedures.

5. Total actual commitments made for the years 1995 to 2005 amount to some 6 900 million euro, and actual disbursements for the same period to some 4 000 million euro. A more detailed overview of commitments and disbursements by country for the period 1995 to 2005 is included in *Annex I*.

Audit scope and approach

6. In the period August to December 2005 the Court carried out an audit of the MEDA programme, on the basis of the following questions.

- (a) Does the MEDA programme actually contribute to economic reform and social development in the participating Mediterranean countries?
- (b) Is the Commission's management of the MEDA programme adequate?

7. The main aspects examined under the first question include programme relevance and focus, degree of ownership, capacity-building and results achieved.

8. The main aspects considered for the second question are speed and efficiency of programming, preparation and implementation, monitoring and evaluation, and donor coordination.

9. Economic reform and social development include support for economic transition and the establishment of a Euro-Mediterranean free-trade area (e.g. trade improvements, job creation and private sector development), operations in support of reform programmes (e.g. in financial services and public administration), upgrading of economic infrastructures, particularly in the sectors of transport, energy, rural and urban development, and improvements to social services, especially in the areas of health, family planning, water supplies, sanitation and housing.

⁽³⁾ OJ L 311, 12.12.2000, p. 1.

10. The audit work included visits to Egypt and Morocco, where a selection of projects and programmes was audited and discussions were held with Delegation staff, local authorities, project managers, technical assistants and other donors. In addition a desk review of projects and programmes in Jordan was carried out. The audit focused on projects funded under MEDA I and II. Projects funded through the old Protocols ⁽¹⁾, the regional component of the MEDA programme, or through horizontal and thematic budget lines were not included in this audit. The complete list of projects and programmes examined under the audit is included in *Annex II*.

11. Finally, the audit also examined relevant evaluation reports, prepared on behalf of the Commission, including the Mid-term evaluation of the MEDA-II programme, which was completed in 2005. This evaluation has concentrated on two main questions, i.e. how relevant is the MEDA II programme and how effective/efficient are MEDA II management and implementation arrangements. These questions were divided into several sub-questions, for each of which an appropriate evaluation approach was designed, including an extensive documentary review and numerous interviews in the Commission's Headquarters and in the two countries visited (Tunisia and Egypt). The Court has analysed this evaluation in relation to its own audit and has concluded that it provides sufficient basis to use the evaluation results as corroborative evidence for its own audit findings (see also paragraphs 46 and 47). Where relevant reference is therefore made to this mid-term evaluation.

OBSERVATIONS

Does the MEDA programme contribute to economic reforms and social development in the participating Mediterranean countries?

Projects relevant to MEDA and country objectives but not always sufficiently concentrated

12. All projects examined in the three countries covered by the audit were relevant to the MEDA objectives ⁽²⁾ and in line with the respective country's national development objectives. Confirmation of this observation can be found in the Commission's own mid-term evaluation of the MEDA-II programme, which concluded that the relevance of the programme was satisfactory.

⁽¹⁾ During the period 1979 to 1995 financial and technical cooperation with the Mediterranean countries was based on a series of bilateral Financial Protocols.

⁽²⁾ The first MEDA Regulation states that the Community will support the Mediterranean partners' efforts to reform economic and social structures and mitigate any negative consequences which may result from economic development. The MEDA-II Regulation added to these areas a third one, namely to improve conditions for the underprivileged. The more detailed list of possible support measures is given in Annex II of the MEDA Regulation.

13. In all three countries the complete portfolio of EC support has been a mix of interventions aiming at economic reforms and social development, with Egypt and Morocco showing a fair balance between these two different areas, while in the case of Jordan the emphasis has been more on economic reforms.

14. However, because the MEDA objectives and possible support measures are rather widely defined in the MEDA Regulations, the question is whether in practice the Commission has focused its support, which could increase the coherence of the support.

15. In two of the three countries examined (Egypt and Jordan) there has been a clear tendency to focus support on a limited number of sectors and through a limited number of interventions. In the third country, Morocco, this has not really been the case, as EC support has been spread over a larger number of interventions covering many different sectors, particularly during the MEDA-I period and with a slight improvement during MEDA-II ⁽³⁾.

16. Meanwhile the Commission has formulated a new external relations policy towards the neighbouring countries called the European Neighbourhood Policy (ENP). Under this policy a new financial instrument (the European Neighbourhood and Partnership Instrument) should become effective in 2007, replacing several other instruments including MEDA. As a first step towards implementing the ENP, specific Action Plans are being drawn up for all the partner countries. Given that these Action Plans set out a full set of priorities covering all areas of cooperation ⁽⁴⁾, the forthcoming series of country strategy papers (covering the period 2007 to 2013) may have to focus on a more limited number of areas of intervention.

Ownership helps to achieve better results and is being encouraged through direct budget support

17. One of the generally accepted principles for effective aid is the encouragement of ownership (i.e. that the intended beneficiaries should have responsibility and control over projects and programmes at all stages) ⁽⁵⁾. Therefore, in considering whether the MEDA programme actually contributes to economic reform and social development in the participating Mediterranean countries, a second point of attention in the audit was whether the Commission has encouraged ownership of its programmes by the recipient governments.

⁽³⁾ As an indication, the number of projects/programmes approved under MEDA-I (support to EIB-interventions excluded) for Egypt was 4, for Jordan 6, and for Morocco 26. For the MEDA-II period up to 2005 the numbers are 14 for Egypt, 8 for Jordan and 19 for Morocco.

⁽⁴⁾ The Action Plans for Morocco and Jordan which have already been adopted, include 85 and 68 different actions respectively to be undertaken.

⁽⁵⁾ Organisation for Economic Cooperation and Development, DAC Principles for Effective Aid, 1992.

18. One way of doing that is to replace the traditional project support by general budget support, whereby the recipient government and the donor agree on certain activities to be implemented (often policy reform measures) but instead of being used to cover specific expenditure the donor funds are paid directly into the government treasury. The decision to use budget support also depends, of course, on fulfilment of certain conditions, such as the existence of a certain standard of public finance management⁽¹⁾. This method of delivering aid funds is generally considered to encourage a sense of ownership on the part of the recipient government, although it cannot ensure this (for an example of a budget support programme and the type of conditions involved, see Box 1).

Box 1

Example of budget support

Trade Enhancement Programme, Egypt (40 million euro)

Programme objectives

- Reduction of deadlines and costs associated with Customs import and export formalities and other checks and standards,
- strengthening of export incentives.

Implementation mechanism

In the Financing Agreement these objectives have been translated into a number of actions to be undertaken by the Egyptian authorities. In addition to sector-specific actions, a budget support programme may also contain some conditions relating to macro-economic policies or to public finance management performance. For every action the agreement specifies further details of the action, plus the indicators, documents and other sources of information that will be used to verify whether all the actions have actually been completed. Disbursement of the EC funds, in two tranches, is dependent on a positive assessment of whether actions have been completed.

Activities achieved

Before the first tranche of 20 million euro was released, in August 2005, actions undertaken and completed included the following:

- maintained prudent macro-economic policies in order to safeguard internal and external balances according to planned 2005-2007 objectives,
- achieved significant progress in fiscal consolidation and budget accounting,
- introduced an electronic clearance system in Customs,
- allowed Customs processing on a 24-hour basis,
- published a consolidated Customs compendium of all rules and procedures,
- opened a single window in Customs Offices to lodge complaints.

19. The audit showed that in all three countries there had been a clear increase in the use of the budget support instrument, and the statistical data included in the mid-term evaluation also confirmed that this was the case for all MEDA countries combined⁽²⁾. However, in Morocco there are also a large number of traditional projects, including a number of projects providing infrastructure and equipment, that by their very nature do not really encourage ownership, contrary to projects which are more concerned with training and institution-building.

20. As for the budget support operations completed so far, measures were implemented satisfactorily and disbursements were made without major delays or problems. From this one can conclude that in these cases local authorities have actually 'assumed ownership' of the reform programmes.

21. However budget support is not the only instrument for providing support. Policy reforms often need complementary actions, such as training or certain types of equipment, for which the traditional project approach is better suited, as is also the case when the objective is to provide targeted support for a certain population group or region, e.g. through rural development.

22. In such a project situation ownership can also be encouraged, not only ownership by local authorities, but also by the people benefiting from aid-supported activities. A positive example was found during the audit in Morocco, in the case of a rural development project in the Central Atlas mountains. A participative approach was followed vis-à-vis the local population, which meant that all local partners were fully involved in the whole process of preparing and implementing the local development plans. It was evident that this approach was contributing to the success of the project activities (see Box 2).

Box 2

Example of project support

Rural Development in the Central Atlas Mountains, Morocco

(Khénifra Project, 15 million euro)

Project objectives

- Contribute to the reduction of regional disparities in Morocco regarding social and economic development,
- contribute to the promotion of the role of rural women,
- contribute to the sustainable management of natural resources, the fight against erosion and the reduction of the effects of droughts.

⁽¹⁾ See also Special Report No 2/2005 concerning EDF budget aid to ACP countries: the Commission's management of the public reform aspect (OJ C 249, 7.10.2005).

⁽²⁾ The mid-term evaluation report, Table 2.3, shows that, when the MEDA-I and II periods are compared, the proportion of budget support has increased from 29 % to 40 %, while the proportion of project support has decreased from 53 % to 35 %. The balance is made up of regional projects and support to EIB activities.

Implementation mechanism

After the project's Financing Agreement has been signed, project management prepares a detailed work plan. When this is approved the Delegation will pay an advance to the project and implementation can start. Project accounts will be prepared, audited and submitted to the Delegation on a regular basis, after which a new advance can be released to the project.

Example of activities

During the first half of 2005 the main activities included:

- the Project Management Unit received computer and office equipment,
- contracts were signed with local management associations. 33 of these associations were operational,
- more than 250 000 fruit trees were distributed,
- six beekeeping units were supplied with equipment and training was given,
- poultry farming by women was encouraged by the provision of 10 000 chicks,
- work began on the irrigation of 468 hectares,
- work on 52,6 km for eight tracks to connect villages was completed and work on five other tracks was being carried out,
- 271 hectares had been re-forested,
- vaccinations of cattle for 200 owners were carried out,
- the project collaborated with two local management associations to set up livestock feeding centres.

23. In the end the decisive factor for increasing ownership lies not just in the aid delivery modality, but in local authorities openness to the idea and process of reform. This was also demonstrated by several projects/programmes included in the audit, where progress clearly improved after a beneficiary institution became fully involved or a new minister took a stronger interest in a particular programme.

Capacity-building is a significant element in MEDA programme

24. Another important factor that will affect whether the MEDA programme actually contributes to economic reform and social development in the participating Mediterranean countries is that of local institutional capacity to plan and implement reform programmes and other development activities. The audit examined whether the Commission contributes to the building up of this capacity.

25. Practically all projects/programmes audited in the three countries included capacity-building measures or components. In

a number of cases capacity-building within the participating institutions is even the main objective of the intervention ⁽¹⁾.

26. A specific area of an administrative nature where local institutional capacity has been in need of strengthening is procurement by government bodies, but applying EC procedures. As will be further discussed in paragraph 39, problems with procurement have been a major cause of delays in the implementation of projects.

Limited results from the aid so far

27. The audit has examined a sample of projects from the three countries (see *Annex II*) in order to assess whether the intended results, as defined in individual financing agreements, were being achieved.

28. Overall, the results after more than ten years of MEDA are so far rather limited, because many projects/programmes, including a substantial number of MEDA-I projects/programmes, were still ongoing at the time of the audit, and their final results could not yet be determined ⁽²⁾.

29. For those projects and programmes that started under MEDA-I (1995 to 1999), and had been completed or were nearing completion, the intended results are generally being achieved, although not 100 % in all cases. Most projects/programmes under MEDA-I got off to a very late start, partly because the regulatory framework for MEDA-I was only ready at a late stage, but also because many projects experienced delays during their start-up phase as a result of long tendering procedures. They subsequently ran out of time, and needed one or more extensions to the original project duration (10 out of 11 projects/programmes examined) in order to accomplish (most of) the planned activities. Ten of the 11 MEDA-I projects/programmes examined were still being implemented at the time of the audit (end of 2005).

30. For most of the MEDA-II projects/programmes it was still too early to make a proper assessment of their results at the time of the audit. The budget support operations were usually proceeding according to schedule, but projects, that needed to procure technical assistance services, and sometimes also equipment or works, were easily susceptible to delays. Several projects examined were already expecting time constraints to develop as a result of the so-called D+3 rule, which restricts the period during which contracts can be signed (see further information in paragraph 41).

⁽¹⁾ Examples are the vocational training project in Morocco, the trade enhancement programme in Egypt, the Institutional support to the Aqaba Special Economic Zone Authority in Jordan, and the support to the implementation of the Association Agreement in all three countries.

⁽²⁾ For example, in the case of Egypt, three of the four MEDA-I programmes (on health, education, and industrial modernisation) were still ongoing, with their project durations extended, at the time of the audit.

31. For most of the MEDA countries, the impact of EC support cannot be attributed to its financial importance as the total EC support is only very limited in comparison with these countries' GDP and usually represents less than 1 % of the government's budget. This is certainly the case for two of the three countries covered by this audit ⁽¹⁾. The impact of the EC support lies more in its attempts to address and support reform issues (e.g. health finance system, industrial modernisation, banking sector reform, Customs improvement) and to encourage Governments to tackle such issues, as well as in its willingness to support the poorer, underprivileged segments of a population. The EC support is therefore often of a qualitative and innovative nature, the impact of which is difficult to quantify.

Is the Commission's management of the MEDA programme adequate?

Programming, preparation and implementation have all improved

Programming

32. For the MEDA-I period programming and project preparation started late. The MEDA Regulation itself was only adopted in 1996, and the first indicative programmes covered the

years 1996 to 1998. As a result, the commitments were concentrated in a few years, and sometimes in a few large projects or programmes only, e.g. the four MEDA-I commitments for Egypt ranged from 100 to 250 million euro, commitments for Jordan included two structural adjustment facilities (SAF) of 100 and 80 million euro respectively, and Morocco's commitments included a SAF of 120 million and a road project of 80 million euro.

33. The MEDA-II Regulation, which came into effect in 2001, included new programming rules. These rules were meant to speed up the process of programming, by allowing the proposed commitments for a particular year to be submitted to the MED-Committee once a year, in an annual financing plan with short project summaries attached (instead of individual project proposals submitted at various points in time).

34. In addition a new series of Country Strategy Papers (CSP) was produced in 2001, covering the period 2002 to 2006, as well as new National Indicative Programmes (NIP) for 2002 to 2004. Since 2002 the actual commitments have followed these programming documents closely. In particular, from the 2002 to 2004 NIPs onwards project proposals have been formulated in a much more continuous manner, as can be seen in the *Table*. Total commitments for all countries together also show a more even distribution from 2000 onwards.

Table

Commitments and disbursements for Egypt, Jordan, Morocco, and all countries (including regional programmes), 1995 to 2005

(in million euro)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Egypt												
Commitments	—	75	203	397	11	13	—	78	104	159	110	1 150
Disbursements	—	—	2	88	67	64	62	26	57	151	133	650
Jordan												
Commitments	7	100	10	8	129	15	20	92	42	35	58	516
Disbursements	—	60	45	2	2	84	11	50	47	51	43	393
Morocco												
Commitments	30	—	236	219	176	141	120	122	143	152	135	1 472
Disbursements	—	1	31	42	54	40	41	102	102	158	213	783
All countries												
Commitments	173	370	911	809	797	569	603	612	615	698	735	6 888
Disbursements	50	155	213	217	240	318	318	454	498	801	781	4 043

Source: EuropeAid and Delegation data (minor differences are due to rounding).

⁽¹⁾ See 'Evaluation of the European Commission's Country Strategy for Egypt', Volume 1, Final report February 2004, paragraph 2.3; and 'Evaluation de la Stratégie de la Commission européenne pour le Maroc', final report, July 2003, paragraph 4.1.

Preparation

35. The whole project preparation process involves a number of steps, starting from first identification, through detailed preparation, presentation to the Member States' advisory committee (the MED-Committee) to the Financing Decision taken by the Commission and up to the signing of the Financing Agreement by the Commission and the beneficiary authorities. The review of the projects/programmes included in the audit (see *Annex II*) showed that for the MEDA-II period this process was generally completed faster than it had been before ⁽¹⁾. Contributing factors are the Commission's devolution of responsibilities from Headquarters in Brussels to its delegations, which has certainly increased their involvement in the preparation process, the whole streamlining of the programming process as described in paragraphs 33 and 34, and also a number of other management changes which have been part of the overall external aid reform ⁽²⁾.

36. The audit has shown that procurement of services at the start of a project, usually for technical assistance (TA), takes necessarily a minimum of eight months from issuing the call for tender to signing the contract, but can sometimes take up to two or even three years ⁽³⁾. This can be the case when the tender fails, e.g. for lack of a sufficient number of valid offers, and has to be repeated. Start-up of TA-related projects therefore remains a time-consuming process, which is easily susceptible to delays. In this respect there is not much difference between MEDA-I and MEDA-II.

Implementation

37. Overall disbursements under the MEDA programme have improved as from 2000, and even more clearly from 2002 onwards (see *Table*). The annual average disbursements over the MEDA-I period 1995 to 1999 reached 175 million euro per year, a figure which has tripled to an average of some 528 million euro for the six-year period 2000 to 2005. For 2004 and 2005 total disbursements were higher than the total new commitments made in these years, which means that from 2004 for the first time since the start of MEDA the cumulative total of outstanding commitments ⁽⁴⁾ has been reduced. For MEDA-I, after six years

(1995 to 2000) cumulative disbursements reached 38 % of cumulative commitments, while for MEDA-II this percentage had increased to 46 %, also after six years (2000 to 2005). This is an indication that the speed of implementation has improved under MEDA-II. The MEDA-II Mid-term evaluation comes to a similar conclusion when it states that 'the programme is reaching maturity in terms of its level of operations' ⁽⁵⁾.

38. Explanatory factors for this improved implementation are:

- (a) the total portfolio of MEDA projects/programmes under implementation has steadily increased;
- (b) many MEDA-I projects/programmes experienced a slow start and really only started to disburse funds from 2000 onwards. For the years 2004 and 2005, some 40 % and 30 % respectively of total disbursements were still resulting from projects/programmes which started under MEDA-I. The devolution process has certainly been a contributory factor in getting these projects to speed up implementation, thereby increasing overall disbursements. There is therefore a certain element of 'catching up' involved;
- (c) under MEDA-II, as mentioned in paragraph 19, a larger percentage of new projects/programmes apply the budget support instrument, which generally allows for a quicker first disbursement, as well as larger disbursements than traditional projects.

39. This overall positive assessment does not mean that implementation is always without problems. Procurement problems are the main cause for delays in implementation. Of the projects/programmes examined in the audit, practically every one that includes a procurement component (for works, supplies or services), has experienced problems, and often delays, in this respect, for a variety of reasons. Many calls for tenders have had to be cancelled and repeated for lack of a sufficient number of technically valid offers. Procurement procedures are generally considered to be complicated and local project management units and tenderers are not always fully acquainted with them. In Egypt, for instance, small local contractors had problems complying with the administrative requirements for tenders, because all tender documents were in English. The rule that supplies have to be of European or Mediterranean origin poses another regular problem, especially when computer or electronic equipment is involved.

40. The audit has shown that as a result of devolution Delegations, with their specialised finance and contracts staff now on the spot, can and do play an important role by helping project managers and local administrations to deal with the procedural aspects of procurement. For example, it was found that the Delegation in Morocco now organises information meetings prior to

⁽¹⁾ The MEDA-II mid-term evaluation presents data, compiled by EuropeAid, showing that one step in the whole preparation process, i.e. the time between the Financing Decision and the signing of the Financing Agreement, has been shortened, from some ten months on average for 1995 to 1999 to about six months for the period 2000 to 2004.

⁽²⁾ These include for example the establishment of EuropeAid, the establishment of Quality Support Groups in EuropeAid, preparation of guidelines and standard formats for project documents.

⁽³⁾ For example the Trade Enhancement Programme-A in Egypt, where it took about two years and the Support for Regulatory Reform and Privatisation project in Jordan where it took three years after the signing of the Financing Agreement before the TA contracts were signed.

⁽⁴⁾ The so-called RAL = reste à liquider.

⁽⁵⁾ See Mid-term evaluation, paragraph 6.2.

launching calls for tenders and has provided support to various parties concerned at different stages of the procedure. In Egypt the Delegation also helped to supervise and guide the tender process for an important construction component, which might otherwise have been cancelled for lack of time within the remaining project period. In addition the Delegation in Egypt was in the process of examining the possibility of having tender documents translated into Arabic.

41. For most of the MEDA-II projects the so-called D+3 rule applies, which requires contracts for works, supplies or services to be concluded not later than three years after the date of the budgetary commitment ⁽¹⁾. As a result of this rule several new projects that were about to start implementation at the time of the audit and include considerable procurement components and/or calls for proposals, appear to have only limited time left to complete these activities.

Monitoring and evaluation have become more systematic

42. Systematic appraisals are carried out at the macro-level by the EC's Delegations (e.g. quarterly macro-economic reports, regular trade reports, assessments for budget support programmes) and by others (World Bank, IMF), using standard macro-economic indicators, but it is difficult to assess the impact of the Commission's own support at this level.

43. It is also very difficult to assess the Commission's impact at the level of the EU's strategic objectives as defined in the individual country strategy papers (CSPs), particularly when these objectives are described in fairly general terms, such as supporting the process of economic transition and supporting sustainable and balanced socio-economic development, and when no concrete indicators of achievement have been determined.

44. The main monitoring by the Commission is at the level of individual projects/programmes, where systematic monitoring and evaluation efforts are undertaken and indicators are often used in the logical frameworks. The system of external monitoring visits now covers the majority of projects/programmes and provides a regular, external, assessment of project design, results, impact and chances for sustainability. Mid-term reviews and end-of-project evaluations are also carried out systematically for most projects/programmes.

45. A good initiative has been to carry out evaluations of individual country strategies, as was done for Morocco in 2003 and for Egypt in 2004. This has provided useful information that can be taken into account in preparing the next country strategy papers and indicative plans. However, this exercise was so far limited to these two countries only.

⁽¹⁾ See Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1), Article 166.

46. According to the MEDA Regulation the Commission has to evaluate the programme every three years. A mid-term evaluation for the MEDA II programme was therefore commissioned in early 2004, and a final report produced in July 2005 ⁽²⁾. A final evaluation for the MEDA programme is now scheduled for the second half of 2007.

47. The main conclusions of the study, which coincide with the Court's own findings in most respects, are:

- (a) the relevance of the MEDA programme as the Community assistance instrument supporting the Barcelona Process and the bilateral Association Agreements is judged to be satisfactory. It has improved from the MEDA-I to the MEDA-II period;
- (b) the effectiveness and efficiency of MEDA management and implementation arrangements are improving but are still not fully satisfactory.

Donor coordination efforts have intensified

48. The audit has shown that the Delegations in the three countries are all quite active in the process of coordination with other donors as well as with the beneficiary authorities. This is undoubtedly a result of the increase in staff capacity provided as part of the devolution process. In all the countries concerned regular meetings take place between the Commission and EU Member States. In addition there are similar systems of donor group meetings with thematic sub-groups, in which the Commission's Delegations often play an active role by chairing one or more such donor groups, depending on the specific sectors of interest.

49. So far many of the coordination activities consist mainly of exchanging and compiling information on individual donor interventions and considerable scope exists for further coordination efforts in areas such as programming, implementation, monitoring and evaluation. However the Delegations have taken various initiatives to develop donor coordination and harmonisation activities further.

CONCLUSIONS

Contribution of the MEDA programme

50. The EC support provided through the MEDA programme to economic reform and social development in the Mediterranean partner countries has been relevant to the specific needs of the countries concerned and the objectives set for the Euro-Mediterranean Partnership. In two countries, Egypt and Jordan, support has been clearly focused on a limited number of sectors,

⁽²⁾ Mid-term evaluation of the MEDA II programme. Final report. Rotterdam, 18 July 2005.

but this was not the case in Morocco. As the new Action Plans under the European Neighbourhood Policy cover all areas of cooperation, further focusing will be necessary at the level of the country programming documents. The Commission has encouraged ownership through its increased use of budget support, but the project support modality will still be needed when a more specific, targeted type of assistance is required. Capacity-building measures are systematically included (see paragraphs 12 to 26).

51. The overall results after more than ten years of MEDA are so far rather limited, as many of the early projects had a slow start, needed extensions and are not yet completed, while for most of the MEDA-II projects it is still too early to be able to assess their potential results (see paragraphs 27 to 30).

52. Even when the total MEDA funds available are substantial, for most of the MEDA countries the impact of the EC support derives less from its financial importance and more from its attempts to address sensitive policy reform issues and support poorer segments of populations, where its impact is difficult to quantify (see paragraphs 31 and 43).

Commission management

53. The Commission's management of the MEDA programme has clearly improved since the early years and can now be considered as satisfactory, also taking into account procedural and external constraints. Programming efforts have resulted in a more even allocation of resources over time, preparation periods have become shorter, and overall disbursements have increased to a significantly higher level compared to the early MEDA period (see paragraphs 32 to 37).

54. Contributing factors to these improvements are an overall increase in the number of projects/programmes under implementation, a larger share of budget support within the total programme, and the generally positive effect of devolution on the process of project preparation and implementation by delegations (see paragraph 38).

55. The most common cause of implementation delays remains procurement problems, although Delegations have been actively looking for ways to contain such problems (see paragraphs 39 and 40).

56. Because the Commission's management of the MEDA programme has exercised both patience and flexibility, by allowing project extensions and changes to designs where necessary, MEDA-I projects and programmes have generally achieved or will in the end achieve satisfactory results. The so-called D+3 rule, which has applied to projects since 2003, may prevent such long term commitment and flexibility, thereby reducing the chances of economic reform and social development producing sustainable results (see paragraphs 29, 30 and 41).

57. Other improvements in the Commission's overall project management consist of more systematic monitoring and evaluation efforts and more intensive dialogue and coordination between Delegations and local counterparts and other donors (see paragraphs 42 to 49).

RECOMMENDATIONS

58. With the MEDA Regulation coming to an end in 2006 and the new European Neighbourhood and Partnership Instrument coming into effect in 2007, the Commission should:

- ensure a smooth and quick transition to the new country programmes, to avoid negative consequences for future implementation; define more clearly in the new country programming documents its strategic objectives and establish appropriate indicators, to allow for better monitoring and evaluation of impact,
- continue to focus its support on a limited number of intervention areas to ensure coherence and to keep the programmes manageable,
- continue to search for best practices in managing projects to avoid delays, e.g. through further capacity-building efforts in the area of procurement, by simplifying procurement procedures where possible and by allowing more decentralised management of projects by national authorities.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 31 May 2006.

For the Court of Auditors
Hubert WEBER
President

ANNEX I

MEDA COMMITMENTS/DISBURSEMENTS 1995 to 2005*(million euro)*

	1995 to 1999		2000 to 2005		1995 to 2005	
	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements
<i>Bilateral</i>						
Algeria	164	30	273	114	437	144
West Bank/Gaza	111	59	430	421	541	480
Egypt	686	157	463	493	1 150	650
Jordan	254	108	262	285	516	393
Lebanon	182	1	101	131	283	132
Morocco	660	128	812	656	1 472	783
Syria	101	0	158	64	259	64
Tunisia	428	168	447	400	875	568
<i>Total bilateral</i>	2 586	651	2 946	2 564	5 533	3 214
<i>Regional</i>	471	223	884	606	1 355	829
Total	3 057	874	3 831	3 169	6 888	4 043

The total amount available under MEDA I + II = 3 424 + 5 350 = 8 774 million euro. From this an amount of about 852 million euro has been committed for Turkey during 1996 to 2002 (minor differences are due to rounding).

Source: EuropeAid.

ANNEX II

PROJECTS/PROGRAMMES INCLUDED IN THE AUDIT

EGYPT

Title	Type of Intervention	Status end 2005	Year of Financing Decision	Amount allocated (million euro)	Amount ⁽¹⁾ disbursed (million euro)
MEDA-I					
(total commitments 686 million euro)					
Education Enhancement Programme (EEP)	Mixed	Ongoing	1997	100	85
Industrial Modernisation Programme (IMP)	Mixed	Ongoing	1998	250	220
Health Sector Reform Programme (HSRP)	Mixed	Ongoing	1998	110	56
Total MEDA-I				460	361
MEDA-II					
(total commitments up to 2005: 463 million euro)					
Trade Enhancement Programme — A (TEP-A)	Project	Ongoing	2002	20	7
Trade Enhancement Programme — B (TEP-B)	Budget Support	Ongoing	2003	40	20
Trade Enhancement Programme — C (TEP-C)	Project	Ongoing	2003	6	1
Financial and Investment Sector Cooperation — agricultural component (FISC Rural)	Project	Ongoing	2003	18	0
Social Development and Civil Society: Children at Risk	Project	Ongoing	2003	20	1
South Sinai Regional Development Programme	Project	Ongoing	2004	64	0
Spinning and Weaving Sector Support Programme	Budget Support	Ongoing	2004	80	20
Total MEDA-II				248	49

(¹) Includes disbursements up to end 2005.

JORDAN

Title	Type of Intervention	Status end 2005	Year of Financing Decision	Amount allocated (million euro)	Amount ⁽¹⁾ disbursed (million euro)
MEDA-I					
(total commitments: 254 million euro)					
Industrial Modernisation Programme (IMP) (additional commitment made in 2003: 5 million euro)	Project	Ongoing	1999	40	34
Project Management Unit (PMU) for the Greater Amman Water Sector Improvement Programme (additional commitment made in 2003: 2 million euro)	Project	Ongoing	1999	5	5
Protection and Promotion of Cultural Heritage in the Hashemite Kingdom of Jordan	Project	Ongoing	1999	4	1
Total MEDA-I projects selected				49	40
MEDA-II					
(total commitments up to 2005: 262 million euro)					
Support for Regulatory Reform and Privatisation (SRRP)	Project	Ongoing	2001	20	5
Support to the implementation of the association agreement (SAAP I)	Project	Ongoing	2002	20	13
Institutional Support to Aqaba Special Economic Zone Authority (AZESA)	Project	Ongoing	2002	10	3
Structural Adjustment Facility III — SAF III	Budget Support	Ongoing	2002	60	60
Support to Poverty Reduction through Local Development — Jordan	Budget Support	Ongoing	2004	30	6
Total MEDA-II projects selected				140	87

⁽¹⁾ Includes disbursements up to end 2005.

MOROCCO

Title	Type of intervention	Status end 2005	Year of Financing Decision	Amount allocated (million euro)	Amount ⁽¹⁾ disbursed (million euro)
MEDA-I					
(commitments total: 660 million euro)					
Appui à la mise à niveau de l'enseignement technique et de la formation professionnelle au Maroc	Project	Ongoing	1998	38	30
Appui à la gestion du secteur de la santé (PAGSS)	Project	Ongoing	1998	20	10
Appui aux institutions financières de garantie aux PME (PAIGAM)	Project	Ongoing	1998	30	27
Eau et assainissement en milieu rural — PAGER	Project	Ongoing	1997	40	25
Routes et pistes rurales au Nord du Maroc	Project	Closed	1997	30	27
Total MEDA-I				158	119
MEDA-II					
(commitments up to total jusque 2005: 812 million euro)					
Développement rural et participatif dans le Moyen Atlas Central — KHENIFRA	Project	Ongoing	2000 2005	9 6	5
Programme d'appui Budgétaire à la réforme du secteur des Transports au Maroc (PAB Transports)	Budget Support	Ongoing	2003	96	76
Programme d'appui à la réforme de l'Administration Publique au Maroc	Budget Support	Ongoing	2004	79	60
Appui à la mise en oeuvre de l'Accord d'Association	Project	Ongoing	2002	5	3
Total MEDA-II				195	144

(¹) Includes disbursements up to end 2005.

THE COMMISSION'S REPLIES**SUMMARY**

V. In spite of the delays which occurred at the start of the programme, partly because the regulatory framework for MEDA-I was only ready at a late stage, the situation under MEDA-II has improved considerably since 2000. Accordingly concrete results cannot yet be fully gauged as many projects have not been completed. While the EC financial support to Mediterranean partner countries is limited in relation to the government's overall budget, it is often very significant in relation to the budget for social policy reforms to address basic needs.

VI. The occasional implementation delays observed are in fact often attributable to the need to comply with the procedural rules for public procurement. The rules vary, and the average duration depending on the nature of the operation is six to eight months. The corollary of this is strict compliance with the principles of equality and non-discrimination. The Commission recently undertook a major simplification exercise resulting in the production of a practical guide to contract procedures in the field of external aid that came into force on 1 February 2006.

VII.

(First indent) The Commission agrees with the Court's recommendation. Under the European Neighbourhood and Partnership Instrument (ENPI) programming exercise, the strategic objectives as defined in the Country Strategy Papers will be in line with the Action Plans.

At the stage of programming, indicators are generally linked to the government reform agenda. Specific results indicators are defined at the identification phase and form the basis for monitoring and evaluations.

(Second indent) The definition of priorities under the European Neighbourhood and Partnership Instrument (ENPI) will be based on the objectives of the European Neighbourhood Policy (ENP) and the priorities of the ENP Action Plan. The coherence will be ensured by the focus on the reforms of policies, legislation and regulation in selected areas of political, economic and social spheres in the partner countries. Support will be provided through a limited number of programmes.

(Third indent) The search for best practices in managing projects remains a priority for the Commission. The Commission will continue to promote a growing role of partner countries in the selection of the most appropriate cooperation instruments and activities. At implementation level, the Commission will continue and, where possible, accelerate the transition from traditional projects to sector support operations as well as increase cooperation with civil society.

OBSERVATIONS

15. The Commission acknowledges that its support to Morocco has been allocated to a larger number of projects than in Egypt and Jordan. Nevertheless, also in Morocco the Meda programme has been focused although it sought to meet a wider area of recognised and agreed needs. The new programming exercise building upon the experience and results of the past will focus specifically on the social and economic dimension clearly referred to in the Action Plan.

16. The Commission takes note of the Court's suggestion as regards the forthcoming generation of Country Strategy Papers. The definition of priorities under the European Neighbourhood and Partnership Instrument (ENPI) will be based on the objectives of the European Neighbourhood Policy (ENP) and the priorities of the ENP Action Plan. The coherence will be ensured by the focus on the reforms of policies, legislation and regulation in selected areas of political, economic and social spheres in the partner countries. Support will be provided through a limited number of programmes.

26. See the reply to paragraph 39.

28. In spite of the delays which occurred at the start of the programme, partly because the regulatory framework for MEDA-I was only ready at a late stage, the situation under MEDA-II has improved considerably since 2000. Accordingly concrete results cannot yet be fully gauged as many projects have not been completed

30. The d+3 rule laid down in Article 166 of the Financial Regulation brings in a time constraint for the management of external aid in that the individual contracts and agreements (with the exception of audit and evaluation) implementing financing agreements must be concluded no later than three years after the date of the budgetary commitment (the n+1 time limit is included in the d+3 limit). The consequences of this rule will be felt for the first time this year as the Financial Regulation came into force on 1 January 2003.

31. In general terms, the EC financial support to Mediterranean partner countries is limited in relation to the government's overall budget but is often very significant in relation to the budget for social policy reforms to address basic needs.

39. Public procurement procedures in connection with external aid can be completed within six to seven months for service and supply contracts and seven to eight months for works contracts. But as these are procedures involving open competition governed by the strict rules of the Financial Regulation, its implementing rules and the case law of the CJEC, they require a degree

of formality that guarantees application of the principles of equality and non-discrimination. The Commission has accordingly made a substantial effort to simplify understanding of the procedures. A practical guide to contract procedures in the field of external aid has accordingly been produced by Commission departments and came into force on 1 February 2006. This guide sets out all the relevant rules and clarifies their implications: for example, a valid offer must now be considered to be one that arrived on time and satisfies the formal tendering requirements. On the issue of origin, it should be pointed out that even if the principle is still that origin determines eligibility for the contract, derogations are possible, in particular when products and equipment are not available on the market in question.

41. It is true that the d+3 rule is sometimes seen as posing a number of problems in the management of external aid. However, to change this rule would mean amending the Financial Regulation, which is a Council act. The Commission departments concerned are looking at the matter from that angle.

43. Under the European Neighbourhood and Partnership Instrument (ENPI) programming exercise, the strategic objectives defined in the Country Strategy Papers will be in line with the Action Plans.

At the stage of programming, indicators are generally linked to the government reform agenda. Specific results indicators are defined at the identification phase and form the basis for monitoring and evaluations as described by the Court in paragraph 44.

47. (b) The mid-term evaluation of MEDA by independent experts in 2005 was positive on important aspects of the programme, in particular the political relevance, the policy orientation, the financial performance during the last five years, the instrument switch to sector operations, the success of the devolution process and the revision of the MEDA regulation in 2000. Nevertheless, the Commission is aware that certain aspects need attention. This concerns the relatively low level of financial resources, the task division in the programming cycle, ensuring the appropriate profile of staff and the feedback from lessons learnt. These necessary improvements must be addressed in the general framework of the transition to the new ENPI instrument which will replace MEDA as from 2007.

CONCLUSIONS

50. Also in Morocco the Meda programme has been focused although it sought to meet a wider area of recognised and agreed needs. The new programming exercise built upon the experience and results of the past will focus specifically on the social and economic dimension clearly referred to in the Action Plan.

51. In spite of the delays which occurred at the start of the programme, partly because the regulatory framework for MEDA-I was only ready at a late stage, the situation under MEDA-II has improved considerably since 2000. Accordingly concrete results cannot yet be fully gauged as many projects have not yet been completed.

55. The occasional implementation delays observed are in fact often attributable to the need to comply with the procedural rules. The rules vary, and the average duration depending on the nature of the operation is six to eight months. It should be borne in mind that the corollary of what is sometimes seen as an excessive duration is strict compliance with the principles of equality and non-discrimination. The Commission recently undertook a major simplification exercise resulting in the production of a practical guide to contract procedures in the field of external aid that came into force on 1 February 2006.

56. The d+3 rule laid down in Article 166 of the Financial Regulation brings in a time constraint for the management of external aid in that the individual contracts and agreements (with the exception of audit and evaluation) implementing financing agreements must be concluded no later than three years after the date of the budgetary commitment (the n+1 time limit is included in the d+3 limit). The consequences of this rule will be felt for the first time this year as the Financial Regulation came into force on 1 January 2003.

It is true that the d+3 rule is sometimes seen as posing a number of problems in the management of external aid. However, to change this rule would mean amending the Financial Regulation, which is a Council act. The Commission departments concerned are looking at the matter from that angle.

RECOMMENDATIONS

58.

(First indent) The Commission agrees with the Court's recommendation. Under the European Neighbourhood and Partnership Instrument (ENPI) programming exercise, the strategic objectives will be in line with the Action Plans.

At the stage of programming, indicators are generally linked to the government reform agenda. Specific results indicators are further defined at the identification phase and form the basis for monitoring and evaluations.

(Second indent) The definition of priorities under the European Neighbourhood and Partnership Instrument (ENPI) will be based on the objectives of the European Neighbourhood Policy (ENP) and the priorities of the ENP Action Plan. The coherence will be ensured by the focus on the reforms of policies, legislation and regulation in selected areas of political, economic and social spheres in the partner countries. Support will be provided through a limited number of programmes.

(Third indent) The Commission recently undertook a major simplification exercise resulting in the production of a practical guide to contract procedures in the field of external aid that came into force on 1 February 2006.

The search for best practices in managing projects remains a priority for the Commission. An analysis of best practice gave the following insights for project success: the project provides a holistic approach, has a very solid operational partnership and is

well managed. It also provides ex-post follow-up in order to build sustainability and provides advocacy actions. To reach these objectives, the Commission will continue to promote a growing role of partner countries in the selection of the most appropriate co-operation instruments and activities. At implementation level, the Commission will continue and, where possible, accelerate the transition from traditional projects to sector support operations as well as increase cooperation with civil society.
