

**Background Note:
The World Bank's Role in the EU8, Accession, Candidate, and Potential Candidate Countries**

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Summary of Purpose

Until the European Union (EU) enlargement of May 2004, the World Bank's support to eight central European and Baltic accession countries for the past several years focused on meeting their pre-accession reform needs. Currently, the World Bank cooperates closely with the European Commission (EC) in assisting new Member States in building their capacity to use EU structural and cohesion funds. For the remaining candidate countries—Bulgaria, Romania—as well as the so-called acceding countries—Croatia and Turkey—the Bank assists with complementary projects and provides analytical and advisory to support reforms that facilitate accession to and integration with EU. Looking ahead, Bank assistance will increase our ability to provide relevant aid in the in the EU accession (Bulgaria and Romania), candidate (Croatia, Turkey and Macedonia) and the potential candidate countries of the Western Balkans. This note describes the modalities of Bank support and details ongoing partnership activities with the EU.

Memorandum of Understanding with the European Commission

The World Bank and International Finance Corporation (IFC) have been closely cooperating with the European Commission and several Europe-based international financial institutions through a Memorandum of Understanding (MoU) concluded in 1998, focused on cooperation in the EU candidate countries of Central and Eastern Europe. Parties to the Memorandum include the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Nordic Investment Bank, the Nordic Environment Finance Corporation, the Council of Europe Development Bank, and the Black Sea Trade and Development Bank.

Based on a proposal by the EC, MoU signatories agreed during a meeting in Brussels on June 6, 2005 to amend the MoU, which now covers cooperation in two areas (i) Economic Development of the New EU Member States of Central and Eastern Europe, Cyprus and Malta, and (ii) Accession Preparation for the EU Candidate and Potential Candidate Countries.

As regards EU support for EU candidate and potential candidate countries, the MoU notes: *“EU assistance initiatives, 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 the view to increasing and better targeting financial support for these countries’ requirements.”*

Priority areas for support include:

- The development of the financial and enterprise sector (including small- and medium-sized enterprises) 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;
- Assistance to strengthen institutions and a regulatory framework that supports 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 for regional initiatives.

The MoU also refers to cooperation in the context of EU structural funds and the joint structure that the Regional Policy Directorate-General and EIB have set up to assist the Member States in preparing quality projects and project files. In the context of Structural Funds operations and as appropriate, the

MoU states that the Commission may involve the IFIs in its discussions with 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.

The World Bank's Overall Role in the New European Union Member States as well as in EU accession and potential candidate countries

Over the past 20 years, the World Bank has provided substantial assistance to eight of the ten countries that joined the EU in May 2004, reflected in the acronym **EU8**: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, and Slovenia. (The situation for Cyprus is somewhat different, as the Bank extended assistance to the country up until the 1990s.) Since the late 1980s, aid to these countries has included lending totaling US\$8.8 billion for 119 operations; and technical assistance (TA), for economic and social transformation and convergence. Slovenia and the Czech Republic have graduated from borrowing from the Bank, while the other six countries are still eligible for Bank financing if they so wish.

The World Bank is also providing sizeable support to Bulgaria (US\$1.821 billion) and Romania (US\$5 billion), the two accession countries, as well as to Croatia (US\$1.2 billion) and Turkey (US\$15.5 billion) to assist them in their efforts to meet the EU accession requirements. (These numbers are as of June 2005 and include TOTAL lending to the country.) Detailed examples of support for these countries are highlighted later in this paper. Strategic plans ensure that Bank support is closely integrated into country development plans (see Box 1).

World Bank lending for the new member states as well as the EU accession and candidate countries supports growth and employment, competitiveness, social inclusion, and poverty reduction – all areas where the institution can bring unique global experience and advice to bear. **The Bank is striving to respond to middle-income country demands** such as the EU8 and the accession and candidate countries. There is greater use of national procurement standards and fiduciary controls in the design and implementation of Bank-supported projects. Termed as a move toward **'Country Systems,'** this change was agreed to recently by the World Bank's Board of Executive Directors. Examples where country systems are applied include the First and Second Poland Road Maintenance and Rehabilitation Projects, and the Poland Hard Coal Mine Closure Project, which were based on a **sector-wide approach, or SWap**. In a SWap, the Bank contributes funding to an entire sector, rather than to a standalone project. This usually requires a jointly agreed sector strategy or framework and involves co-financing from the Government as well as other donors. SWaps are gaining increasing acceptance by the European Commission (EC) and other European partner institutions.

Technical assistance (TA) tailored for the EU8 is available through a facility known as the Social and Institutional Development and Economic Management, or SIDEM, which is being tapped for an ongoing Slovakia Human Capital TA Loan, and may be used for a proposed TA for e-Government in Slovakia, and possibly for a Slovakia Innovation TA Loan for Rural Livelihoods Diversification.

Box 1: Country Assistance Strategies and Country Partnership Strategies

Country Assistance Strategies (CASs): Country Assistance Strategies are typically four-year plans that provide an overarching framework for Bank-supported projects. Designed in collaboration with country clients, CASs cover the current and anticipated economic situation, the country's medium-term priorities, reforms needed to achieve key development goals, and a Bank program to support the reforms. CASs are prepared in consultation with diverse stakeholders, including donors, and civil society organizations.

Country Partnership Strategies (CPSs): Introduced in FY2003, CPSs are designed to accommodate the requirements of middle-income countries, allowing the use of 'country systems' and other innovative instruments, such as Sector-wide Approaches. CPSs allow for more flexible support and put the country in the lead.

New Member States, EU candidate countries, and potential candidate countries in ECA with CPSs include Bulgaria (May Board), Poland, Romania (May/June Board), and the Slovak Republic. Those with CASs include Croatia, Latvia, Lithuania, and Turkey. To read the documents, visit the Europe and Central Asia website, <http://www.worldbank.org/eca> and click on an individual country website.

Evolving Forms of Collaboration with EU8 Countries

As EU8 countries mature and function increasingly as donors, the modes of Bank assistance to these governments has evolved beyond traditional lending and technical assistance. Recent collaboration has occurred through: 1) financial and advisory services, 2) the sharing of pilot efforts and lessons of successful reforms, and; 3) support for the development of PPPs.

I. Analytical and advisory services. Examples of this include:

- Cross-country analytical work, such as the EU8 quarterly economic reports and a EU8 financial management study;
- A multi-country EU8 public finance reform study covering health financing, tertiary education financing, pension reforms, public private partnership arrangements, public administration reform, decentralization, and tax reform;
- Advisory services related to the formulation of the National Development Plans, the operative instrument for purposes of EU funding over the next financing period, 2007-2013;
- Living Standards Assessments in Poland, Slovak Republic, and Latvia;
- A Knowledge Economy Assessment in Poland;
- “Judicial Systems in Transition Economies: Assessing the Past, Looking to the Future,” June 2005;
- Support for Corporate Governance in the Financial Sector through projects and workshops in the Czech Republic and Slovak Republic, and
- The Business Environment and Enterprise Performance Survey, or BEEPS, which polls business managers and enterprise owners and has been conducted every three years since 1999. Done jointly with EBRD, it is a key tool for gauging the investment climate from the firm perspective.

II. Sharing of Pilot efforts and lessons of successful reforms. Examples include:

- Pilot partnerships with the Czech Republic in the financial sector have promoted a better understanding of global financial architecture.
- Reports on the Observance of Standards and Codes (ROSC) as well as joint activities of ROSC and the Road to Europe-Program of Accounting Reform and Institutional Strengthening (REPARIS) are helping regulators as well as accountants in the private sector benchmark their countries against the relevant provisions of the acquis.
- The Center of Excellence in Finance in Slovenia and the Regional Center of Excellence on Real Property Rights and Land Market Development in Hungary are benefiting the Western Balkans, other countries in Eastern Europe, and the Caucasus.
- An EU8 Conference allowed countries to share experiences in higher education financing, science and technology, and quality assurances in higher education.
- A joint diagnostic program with the EC’s Directorate-General for Employment and Social Affairs on “Enabling a Better Environment for Corporate Social Responsibility in Central and Eastern European Countries” covering Estonia, Hungary, Latvia, Lithuania, Poland and Slovak Republic.

III. Support for the development of Public-Private Partnerships (PPPs). Examples include:

- Technical assistance was provided to the Government of Poland to finalize new PPP Law regulations.
- 2nd Generation PPP study in the road sector in Poland - A Hybrid PPP scheme was developed using EU funds as public contribution, based on a recommendation in a regional study under Infrastructure, Economics, and Finance.
- Various seminars and workshops have taken place at the Slovenia Center for Excellence training workshop and the Hungary Trans Europe Motorway (TEM) Seminar.
- A regional conference on Public Private Partnerships was held in Prague (“Prague PPP Platform”).
- Various seminars and workshops on road infrastructure financing have been held in Croatia.

World Bank Lending for EU Accession

Bank lending is designed to further convergence and complement access by EU acceding and candidate countries to EU funds. A significant amount of World Bank assistance is channeled through policy-based lending, technical assistance (TA), and sector programs. Within this, one of the key vehicles of support is **policy-based lending** through Programmatic Adjustment Loans (PALs), which often pave the way for reforms essential for EU membership. World Bank help also comes through TA in connection with a wide range of operations related to EU accession requirements. Another mode of support is through sector programs, where World Bank support is leveraged through co-financing with the EC and other donors—a "syndication" approach.

Policy-Based Lending through Programmatic Adjustment Loans

There has been close collaboration with the EC on PAL policy content to ensure alignment with the EU accession and EU integration agenda in areas such as public administration and judicial reform, business registration, regulatory framework issues, and privatization. PALs in all countries have also included health and pension system reforms to modernize the financing of these sectors and to manage better the fiscal burden imposed by them.

PAL discussions with the **Croatian** authorities were ongoing around the time of the EU's April 2004 green light for an invitation to accession negotiations (see Table 1, page 6 for details of Croatia's broader program). The first Croatia PAL was approved by the Bank's Board in September 2005 and the program focused on reducing the size of and upgrading the efficiency of the public sector as well as improving the business climate. **Turkey** has also implemented a series of Programmatic Public Sector and Financial Sector Reform programs, initially in response to the financial crisis of early 2001, which have since shifted and evolved to focus on preparing Turkey for EU accession (see box, page 7).

Bank country teams have held "country days" (e.g. "Croatia Day", and "Western Balkans Day") with the EC and, separately with government counterparts, often in the context of the completion of Country Economic Memoranda (CEMs) that provide the analytical underpinning for reforms to be undertaken for EU accession.

The Bulgaria PAL program is well advanced, with PAL III approved by the World Bank's Executive Board on June 2, 2005. Areas of particularly close collaboration with the EC include insolvency, public administration reform, judicial reform, and deinstitutionalization of children. Active collaboration with the EC will be pursued in selected areas that may carry through from the PAL program, including the social sectors and follow up on business registration and judicial reform.

Romania's program is well under way, with PAL II due to the World Bank's Executive Board in fiscal year 2006, in the context of a 2006-2009 CPS focused on responding to the strategic framework of EU integration. Priorities in the first phase of Romania's new CPS correspond to the EU accession period requirements, and assistance for the second phase will cover the post-accession period. Romania's upcoming strategy also aims to gradually adopt the "use of Country Systems" mentioned earlier. The new CPS focuses on the following key areas relevant to EU integration:

- *Judicial and Governance Reform* being undertaken through PAL I and through a recently approved Judicial Reform Project. The project will be financed by a EUR 110 million loan, with the aim of helping the Government increase the efficiency of the courts and improve the accountability of the judiciary.
- *Reform of Public Expenditures* and establishment of a medium-term expenditure framework (Revenue Administration Project, Fiscal Review for EU Accession, PAL, TA from the Dutch Grant and the Private and Public Sector Institution Building Loan Project, and Municipal Finance Note);

- *Social Inclusion of Vulnerable Groups*: A Social Inclusion Project will help upgrade policies and institutions impacting the elderly, disabled, and socially excluded to meet EU standards and practices.;
- *Regional and Local Integration*: Current Rural Development Loan, PAL Decentralization Agenda, Rural–Regional Integration Loan, Fiscal review for EU Accession

Table 1: The example of Croatia	
EU Accession Agenda	World Bank Group Instruments
Political Criteria	
Judicial Reform	PALs, Policy Workshops, Court and Bankruptcy Administration Project
Public Administration Measures	PALs, Policy Workshops
Protection of Minorities and Refugees	Croatia Living Standards Assessment, Social and Economic Recovery Loan
Economic Criteria	
Macroeconomic Stabilization and Fiscal Framework	PALs, Health Sector Reform and Investment Loan, Public Finance Review, Country Economic Memorandum
Enterprise Restructuring and Privatization	PALs, Regional Rehabilitation Loan, IFC investments and TA
Business Environment	PALs, Science and Technology Project, Investment Climate Assessment, Financial Infrastructure Study, Policy Workshops, IFC advisory services in corporate governance and environmental standards, IFC investment in infrastructure and utilities
Cadastre and Land Registry	PALs, Real Property Registration and Cadastre Project
Debt Management	Debt Management TA
Ability to Assume Obligations of EU Membership	
Financial Controls	PALs, Fiduciary Country Systems TA
Agriculture	PALs, Agriculture <i>Acquis</i> Cohesion
Transport and Customs	Trade and Transport Integration Project
Energy	Energy Sector Expenditure Reform and Investment Loan, IFC's post-privatization support, IFC and Multilateral Investment Guarantee Agency (MIGA) facilitation of private sector participation, IFC Balkans Infrastructure Development (BID) Facility
Environment	Environment Management Project, Environmental Strategy, Municipal Services Project, Coastal Cities II, IFC BID Facility, IFC investments
Human Resource Development	PALs, Education Sector Development Loan, IFC's advisory services for outsourcing selected health services to private sector
Regional Development	Social and Economic Recovery Loan, Regional Economic Rehabilitation Loan, Regional Development Study, IFC financing, IFC BID Facility

Box 2. Assisting with Turkey's EU Aspirations

Turkey has implemented a series of *Programmatic Financial and Public Sector Adjustment Operations* (PFPSAL series), initially in response to the financial crisis of early 2001, which have since shifted and evolved to focus on preparing Turkey for EU accession. In 2006 and 2007, the Bank's programmatic policy-based support will likely focus on continued public sector reforms and measures to support the creation of more and better jobs, a critically important issue for Turkey's EU accession.

The Programmatic Public Sector Development Policy Loans (PPDPLs) will aim at: (i) maintaining an enabling macroeconomic framework; (ii) supporting fiscal adjustment and improved public financial management, in particular through the reform of the social security system, including pensions, health insurance, and social assistance, and the continuation of public finance reforms; and (iii) extending social protection through the introduction of universal health insurance and improved targeting of social assistance. The preparation of the PPDPL operations has been based on the continued dialogue with the authorities under the PFPSAL series on public sector reforms, economic and sector work, including previous Country Economic Memoranda, the Poverty Assessment, the recently completed Labor Market Study, and technical assistance in modeling the impact of different pension and health insurance reform scenarios. The ongoing Public Expenditure Review will provide further analytical basis for the formulation of policies that would improve the quality of fiscal adjustment.

The Programmatic Employment Generation Development Policy Loans (PEGDPLs) will be designed around four pillars and will be supported by an extensive analytical and advisory program. The four pillars and activities to support them are as follows:

- (i) The investment climate. Support includes an ongoing Investment Climate Assessment, a Report on Standards and Codes on Accounting and Auditing, Doing Business Surveys, and an ongoing assessment of the collateral regime.
- (ii) The functioning of the financial sector, including continued banking sector reform. A planned joint World Bank-IMF Financial Sector Assessment Program will make a major contribution in particular to the second operation.
- (iii) Performance of the labor market. The Labor Market Study, which recommends a package of reforms aiming at finding the balance between encouraging job creation and protecting workers, will be particularly useful.
- (iv) Labor productivity through technology adoption and upgraded skills. An Education Sector Assessment and the ongoing Tertiary Education Study will provide important input.

Finally, a Country Economic Memorandum on EU accession will also assist in designing specific elements of the PEGDPLs.

Both series of Development Policy Loans are being designed working closely with the authorities and in collaboration with the EC to ensure that they best serve Turkey's EU accession agenda.

Technical Assistance

Many Bank operations have benefited from complementary grant financing by the EU's PHARE program and other sources of funding for technical assistance. This support has been critical to achieving the institution building objectives of the loans, which cover a range of sectors, including energy, cadastre/land registry, and child welfare. **Country-specific** project examples are shown below to illustrate the richness of the collaboration with the Commission:

Romania:

Public & Private Sector Institution Building Loan (ongoing): This is significantly leveraged by the EC's TA grant support, the continuation of which will be especially important during the next 18 months to help Romania address capacity constraints in areas critical to achieving accession by 2007—e.g., public finance, energy, and social inclusion.

Electricity Markets Project (ongoing): This includes EU co-financing for a TA component and an earlier EU/PHARE project. A midterm review was carried out in February 2005, and progress is generally satisfactory. The findings have been shared with the EC's Delegation in Bucharest.

General Cadastre and Registration Project (ongoing): This US\$25.5 million loan is running parallel with a complementary 2003/2004 EU PHARE-supported project. PHARE funding of about EUR 12 million, managed by the EU delegation in Bucharest, is financing technical services, goods, and TA and training through a twinning contract. The two project teams meet about every 6 months, and the Bank team is in regular contact with the TA and training twinning consultants from Italy and Austria.

Social Inclusion Program (proposed): Still at the early stages of project preparation, this project aims to help Romania implement its commitments under the Joint Inclusion Memorandum. The World Bank had discussions with the EC and with the Romanian authorities regarding possible support for (a) capacity building for preparing inclusive programs/projects at the local/regional level; (b) leveraging access to EU structural funds; and (c) scaling up EU pilots for access to education by Roma. Project appraisal is planned for early 2006.

Public Expenditure Review (PER) for EU Accession (ongoing) assists in improving the planning and management of public resources in the early years of EU accession. Specifically, it examines the evolution of the patterns of public expenditure over the National Development Plan period 2007-2013, with reference both to the special needs of accession and to the experience of the EU 25, and especially of the new member states. The PER will investigate the special budget planning problems posed by the prospect of absorbing the substantial grant money available under the EU Structural and Cohesion Funds. (Annually, these grants could amount to as much as 4 % of gross domestic product, but would also necessitate incremental amounts of co-financing from the countries themselves.)

Revenue Administration Project (proposed): This \$50-\$100 million project would assist in the modernization of Romania's revenue collection capacity through improvements in the institutional framework, operational procedures, and systems of the National Agency for Fiscal Administration (NAFA) established under the Ministry of Finance to consolidate the responsibility for revenue collection in the country.

District Heating Project (proposed): The Commission and the Bank provided assistance to the Romanian Government to prepare a national strategy for district heating, which was completed and formally approved by the Government in June 2004. The Bank hopes to be able to provide investment financing support by mid-2006 in selected cities. The financing needs as formulated by the line ministry are in the range of EUR 3.6 billion for the next four years.

Bulgaria:

Child Welfare Reform Loan (ongoing): A TA sub-component was almost fully financed by the EU, in the amount of EUR 3.5 million. This was the first case in Bulgaria of parallel planning and use of Bank, EU PHARE, and Government of Bulgaria resources with a common reform objective and agenda. The PHARE funds were allocated through a twinning project between the Ministry of Labor and Social Protection and a parallel Austrian agency, for capacity building of the State Agency for Child Protection and for training of the staff of the Child Protection Department. The work has been successfully completed.

Road Transport Infrastructure Project (proposed): The project would assist the Government in defining a prioritized road investment program within a medium term expenditure framework taking into account different financing options including budgetary resources, EU grants, and IFIs including the Bank. In addition, the project would have an investment component focusing on secondary roads to facilitate regional development and access to markets. This investment component would be coordinated with transport projects supported by the EU and other IFIs.

Municipal Infrastructure Development Project (proposed): The project would support the establishment of a sustainable mechanism for financing municipal infrastructure, including improving the capacity to absorb EU funds, to enable Bulgaria to meet its commitments to the EU. The project would look into EU co-financing of prepared projects at the regional level.

Social Inclusion Program Support Project (proposed): The project would support programs that address the needs of vulnerable groups consistent with the *Joint Inclusion Memorandum* signed by Bulgaria and the EC. The project would aim at co-financing EU-funded programs focusing on social inclusion of people with disabilities, de-institutionalization of children, support for the poor or vulnerable job seekers, and improved access to services especially for the Roma.

Modernization of the Judiciary (proposed): The project would focus on those reform areas which have been identified in the EU 2005 Comprehensive Monitoring Report as well as the Government's own update of the Program for Implementing the Strategy for Reform in the Bulgaria Judicial system for 2006-07 under preparation. The project would supplement resources to be provided by the EU.

Regional Development Project (proposed): The project would strengthen capacity to manage the programming and strategic allocation of EU structural funds and integrate them into the overall public expenditure management and intergovernmental system fiscal system. The project would build capacity at the local and level to prepare projects that would be eligible for financing by EU structural funds.

Croatia:

Real Property Registration and Cadastre Project (ongoing): This has had strong donor support and collaboration since its preparation. The EU has directly supported the project and Croatia's overall land administration program through two Bank-administered trust funds (EUR 4.9 million and EUR 1.96 million). A third trust fund (EUR 4.4 million) is currently under preparation. These trust funds have allowed Croatia to fully integrate the funds from the EU and the Bank loan into one program, although the EU funds are designated for particular parts of the overall program. This has also allowed the government to use one set of procurement and financial management rules. Regular reporting, communication, and coordination among the Bank team, the EU office in Zagreb, and the project partners ensure that the funds are used appropriately. Joint Bank/EU supervision missions are held twice a year.

Turkey:

Railway Reform Project (ongoing): The EU has been providing TA for the drafting of a new railway reform law which will be supported under the Bank loan by implementation of the law once enacted.

Sector Programs

Sector programs constitute the Bank's newest form of collaboration with the EC in Bulgaria, Romania, Croatia, and Turkey. The programs aim to leverage Bank support through co-financing by the EC and other donors at the sector level, and to facilitate EU accession, economic growth, and human development. This approach is well under way in **Romania's** transport and energy sectors and is being launched in the municipal services/water sector there as well. A three-year reform program in the social sectors is anticipated, with reforms in all three sectors—health, education, and social protection/labor—implemented gradually over the period. Bank/EC collaboration on sector programs in **Croatia** has focused thus far on education and agriculture, with a SWAp for the former approved by the World Bank Executive Board in September 2005. As Croatia progresses in its accession and reform agenda, the Bank plans to engage at the sector program level on health, energy, and transport.

In **Bulgaria**, the areas of collaboration will be in the infrastructure, municipal services, judicial reform, and the social sector – these are the areas targeted by the Bank's proposed lending program. In addition, the AAA work in several areas will also be coordinated with the EU, including possibilities of joint work: Public Finance Review focusing on absorbing EU funds, Energy Sector Advisory emphasizing EU compliance, Municipal Finance for EU Integration, and Accounting/Auditing Systems for EU membership.

In **Turkey**, sector approaches in the Energy Community of South East Europe and in the municipal services areas are being coordinated closely with the EC. In the financial sector, regular country-level Investment Climate Assessments, Financial Sector Assessment Programs (FSAPs), and FSAP Updates provide insight into a country's economy and help guide the World Bank's program in that country.

Given the specific and extensive technical requirements associated with the EU in the areas of agriculture, rural development, and the environment (including regulatory requirements for pollution control), a **separate section** on that topic appears on page 11.

Romania:

Transport Restructuring Project (ongoing) and Transport SWAp (proposed): The Government's Transport Sector Operational Program (TSOP) reflects transport priority investments and their financing sources beyond Cohesion and Structural Funds.

Municipal Services Project (proposed): The EC concurs with the proposed approach of the Project, which aims to help Romania meet EU directives and increase absorption of EU Structural/Cohesion Funds. Co-financing options between the Bank, the EC, EIB and other European partners are being explored. The first generation project will serve as a replicable model in other municipalities using EU grants and EIB and WB investment funding.

Health Sector Reform Adaptable Program Loan 2 (ongoing): The project was approved by the World Bank Executive Board in December 2004. The project provides emergency medical care, rural primary health care, and more accessible services of increased quality and with improved health outcomes for those requiring maternity and newborn care. The EIB is working with the Government of Romania to co-finance a substantial portion of the project costs

Bulgaria:

Comprehensive Water and Wastewater Sector Financing Study (completed): In close cooperation with the EU and other IFIs, this study developed a comprehensive financing plan for Bulgaria's water and wastewater sector. It touches on issues related to tariffs, effective use of EU grants, and when to

tap the central budget for certain investments. The Bank and the Commission will continue the joint dialogue with the Government to discuss implementation of the recommendations of the report.

Programmatic Human Development Development Policy Loans (proposed): The DPL series would support the completion of unfinished reform agenda in the social sectors, including aligning the education and health sectors as well as labor market policies to support growth, improving the efficiency of the social assistance system, and supporting policies to promote social inclusion and improve access to basic social services for the poor and vulnerable. The sector program would complement other efforts to improve competitiveness and implement the Joint Inclusion Memorandum.

Croatia:

Education Sector Development Program (ongoing): This US\$85 million loan was approved by the WB's Executive Board in September 2005, and implementation is due to begin in early 2006. The loan will support strengthening the quality of teaching and learning in Croatian classrooms. Much of the focus is on primary and secondary curricula, school-leaving examinations, and moving to single-shift schools to strengthen quality. The loan complements the efforts of the EC. Through successive Community Assistance for Reconstruction, Development and Stability (CARDS) projects under implementation between 2003 and 2007, the EC is investing a total of EUR 7.6 million to continue development of secondary vocational education and training and adult learning. The Program is available to co-finance the efforts of additional donor partners in education, should the Government so decide as structural funds become eventually available.

Turkey:

As part of its dialogue, the Bank has adjusted its assistance program to meet the government's EU accession objectives. Besides the regular consultations in Ankara, a programmatic EU accession Country Economic Memorandum series is the main vehicle for Bank engagement on EU issues, the first such report to be published in early 2006. Other analytical work on accounting standards, banking laws, regional development, rural finance and capacity building, and environment management is being undertaken in close collaboration with the EC. At the project level, for the time being the key word is complementarity rather than co-financing of operations (e.g. Secondary Education Reform), although a number of projects are being worked on involving joint Bank-EIB financing. The World Bank Institute is also supporting face-to-face learning events between Turkish officials, the EC, and new member states to facilitate Turkey's planning for accession negotiations.

Regional:

First-phase Energy Community of South East Europe Adaptable Program Loan (ongoing): The Bank is working closely with the EC to support development of Southeastern Europe's Energy Community. A \$1 billion regional facility was approved in January 2005: Two loans from that facility were approved for Romania and **Turkey**. By 2014, **Romania** will have to invest about \$1 billion in desulphurization so that its lignite and coal-fired power stations will meet the EU's environmental standards within the time frame agreed with the Commission. The Government is seeking Bank financing for part of these investments.

Trade and Transport Facilitation in Southeast Europe II Projects (proposed): There is much room for cooperation, especially at the country level. A high level meeting of the potential member countries for the Projects was held June 16, 2005 in Zagreb, with the EC participating. The Infrastructure Steering Group (ISG) headed by the European Commission will play a key role. **Bulgaria** has started preparing the Project, and **Croatia** has initiated work on improving the Port of Ploce as the exit point of Corridor Vc through Bosnia and Herzegovina.

Looking ahead, the joint EU-WB Romania Joint Procurement Assessment Mission and the WB's Croatia fiduciary harmonization work, both of which were completed in mid-2005, provide the basic building blocks for deeper collaboration at the sector level in the future.

Cooperation on Agriculture and Rural Development

EU agricultural policy has posed several **challenges** for the new member states. Many of them have failed to fully benefit from the Special Accession Program for Agriculture & Rural Development (SAPARD) and post-accession funds because of capacity constraints. Phyto-sanitary and food safety requirements are especially challenging and were underestimated by several new member states. EU accession programs require different approaches to inter-ministerial coordination, which require time to develop (e.g. Turkey is still working on these).

On the other hand, World Bank and EU cooperation present several **opportunities**. **Poland** has a large Bank-supported rural development program assisting with rural infrastructure, employment, and social development. **Slovakia** has a TA project under preparation that will focus on agro-environmental measures and LEADER programs (the EU's locally-based approach to solving rural problems). **Croatia** has a new investment operation focusing on compliance with the EU agricultural acquis (e.g. farmer registration, establishment of paying agencies, food safety agencies, and phyto-sanitary monitoring). The **Romania** program envisions an agricultural project and a rural/regional project that would focus on land consolidation, land markets, and absorption of EU funds.

Cooperation on Environment (including 'brown' environmental issues)

The "acquis communautaires" pose several challenges to the new member states. Countries need financial support for investments and capacity building, and compliance with the heavy investment portion of the acquis (wastewater treatment, hazardous and solid waste management) poses a special challenge for lower-income European countries.

In response to these challenges, the EC now commissions detailed studies on the costs of complying with the EU environmental acquis in the candidate countries, which help guide and prioritize investments. The EC has worked with the Regional Environment Centre (REC) and Ministries of Environment in identifying priorities, but investments that are priorities for Ministries of Environment may not always be the most financially sustainable. The Bank has an ongoing environment TA (in the form of advisory services) in **Croatia** and is discussing with the **Romanian** Government an Environmental TA project – both these initiatives are linked to the countries' EU obligations and are closely coordinated with the EU.

Progress and Cooperation:

In **Croatia** and **Romania**, the Bank and other IFIs are investing substantially in municipal services for the environment. In Romania, investments have been made in municipal services and transport.

The World Bank supports broad-based investment programs, using "country systems" in these sectors for fiduciary and safeguards compliance. Broad agreement has been reached on consistency between EU and World Bank systems, with areas of difference (mostly minor) also agreed upon.

Bank investments and non-lending support are helping candidate countries develop improved approaches to environmental management. Support in many countries is helping countries pilot compliance with the EU nitrate directive through the Global Environmental Facility (GEF)-supported Danube/Black Sea (DABLAS) program, through improved agricultural practices, wetland restoration, and wastewater treatment. Projects in Romania cover forestry, biodiversity, flood management, and disaster mitigation.

The future brings increasing opportunities to work together, with each institution applying its strengths. For example, the EC's expertise in public administration is ideal for capacity building, the

WB's global practice in "public good" investments lends itself to issues such as natural disaster risk mitigation, and the EBRD focuses on investments that have more direct financial returns. The Infrastructure Steering Group (ISG), which was established under the Stability Pact for Southeastern Europe and for which the Joint Office for Southeast Europe of the European Commission and the World Bank provides the secretariat, has expanded its mandate to cover the environment, providing a forum for cooperation. The focus has been initially on municipal water and wastewater, but cooperation can be extended to areas such as flood management, natural resource management, and control of industrial pollution.