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I

(Information)

COURT OF AUDITORS

SPECIAL REPORT No 3/91

on

financial and technical cooperation with Mediterranean non-member countries
accompanied by the replies of the Commission

(91/C 252/01)

(Observations pursuant to Article 206 (a) paragraph 4 of the EEC Treaty)

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1. INTRODUCTION

1.1. For several years the Court has been carrying out a programme of audit inquiries on financial and technical cooperation with the Mediterranean countries, in particular by making on-the-spot visits to a number of countries which are receiving Community aid.

In the course of this audit, the Court has taken account of the request made to the Court by the European Parliament, in its decision on the discharge for the implementation of the general budget for the financial year 1987 ⁽¹⁾, to assess financial and technical cooperation with the Mediterranean countries, in view of the under-utilization of budgetary appropriations in this sector.

1.2. By the end of 1990, the Council had reached an agreement on the general outline and the content of the policy of Community aid and cooperation in the context of the fourth series of Protocols to be concluded with the southern and eastern Mediterranean countries for the period 1992-1996. In addition to a substantial increase in the Community's financial commitment ⁽²⁾, the scope of this policy has been enlarged to include support for economic reforms in these countries, the financing of regional projects and cooperation measures covering several countries, aid to private undertakings, cooperation with Community companies and also better access to the Community market for certain agricultural products from Mediterranean countries. When it comes to draw up and implement the new Protocols, it is important that the Community take fully into consideration the lessons learnt from the preceding Protocols and endeavour to rectify the shortcomings which have been uncovered. This report aims to assist in this process.

1.3. This report deals with the implementation over a period of some ten years, from about 1979 to 1989, of financial and technical cooperation with the following ten countries:

- a) three Maghreb countries: Algeria, Morocco and Tunisia, hereinafter referred to as 'the Maghreb countries' ⁽³⁾;

- b) four Mashreq countries: Egypt, Jordan, Lebanon and Syria, hereinafter referred to as 'the Mashreq countries' ⁽⁴⁾;

- c) Cyprus, Malta and Turkey.

The total amount of aid made available to these countries during the period in question was 3 783,5 Mio ECU. Of that amount, 1 714,5 Mio ECU was financed from the general budget and 2 069 Mio ECU from the European Investment Bank's (EIB) own resources. *Table 1* gives a detailed breakdown of this aid. ⁽⁵⁾

1.4. This report relates only to operations involving budgetary resources; this includes sums disbursed by way of the global guarantee which the Community gives for loans made from the EIB's own resources. The actual operations which are financed from the EIB's own resources are excluded from this evaluation; that explains why this report does not deal with financial cooperation with Israel and Yugoslavia, which involves exclusively the latter form of financing ⁽⁶⁾. Furthermore, financial cooperation with those countries which have joined the Community (Spain, Greece and Portugal) is also not covered by this report.

1.5. After an introduction, in the second Chapter of this report, to the general framework of financial and technical cooperation, Chapter 3 makes an assessment of the actual system of Financial Protocols; it analyses their merits and their weaknesses, by comparing them in particular with the provisions governing Community aid to countries in other parts of the world. In Chapter 4, the quality of the management systems set up by the Commission is examined; for this purpose, a separate analysis is made of the measures whose management is entrusted to the EIB and of those of which the Commission remains directly in charge. Chapter 5 presents an evaluation of the implementation and results of the Community aid, and Chapter 6 contains a summary of the main conclusions of this report.

⁽¹⁾ OJ No L 247, 23. 8. 1989, p. 7.

⁽²⁾ Total financial aid from the Community under and in addition to the Protocols will amount to some 4 400 Mio ECU, of which 1 300 Mio ECU will be financed from budgetary resources, whilst 3 100 Mio ECU will be funded by loans by the European Investment Bank from its own resources.

⁽³⁾ Of the five Maghreb countries, Libya does not receive any Community aid and Mauritania, which is a signatory to the Lomé Conventions, receives funds from the European Development Funds (EDF).

⁽⁴⁾ Of the other Mashreq countries, Sudan, which is a signatory to the Lomé Conventions, receives funds from the European Development Funds (EDF), whereas Iraq and the countries of the Arabian peninsula do not receive any Community aid.

⁽⁵⁾ Tables 1, 2, 3, 4 and 5 do not include the budgetary effects of invoking the Community global guarantee for loans from EIB own resources mentioned in paragraph 5.11.

⁽⁶⁾ In the case of these countries there is nevertheless a possibility that budgetary resources may be used through the operation of the Community guarantee for loans granted by the EIB.

Table 1 — Community aid to Mediterranean non-member countries

(Mio ECU)

1	2	3	4	5	6	7	8
Country or geographical area	Period of application	Loans from EIB own resources	Aid from budgetary resources				Total aid
			Grant aid	Special loans	Risk capital	Total budgetary aid	
TURKEY							
3rd Protocol	1979-31.10.1981	90,0	0,0	220,0	0,0	220,0	310,0
Special aid	1.07.1980-30.06.1982	0,0	75,0	0,0	0,0	75,0	75,0
Total		90,0	75,0	220,0	0,0	295,0	385,0
CYPRUS							
1st Protocol	1.01.1979-31.12.1983	20,0	6,0	4,0	0,0	10,0	30,0
2nd Protocol	1.05.1984-31.12.1988	28,0	10,0	6,0	0,0	16,0	44,0
3rd Protocol	1.06.1990-31.12.1993	44,0	13,0	0,0	5,0	18,0	62,0
Total		92,0	29,0	10,0	5,0	44,0	136,0
MALTA							
1st Protocol	1.11.1978-31.10.1983	16,0	5,0	5,0	0,0	10,0	26,0
2nd Protocol	1.10.1986-31.10.1988	16,0	10,5	3,0	0,0	13,5	29,5
3rd Protocol	1.08.1989-31.10.1993	23,0	12,5	0,0	2,5	15,0	38,0
Total		55,0	28,0	8,0	2,5	38,5	93,5
NORTHERN MEDITERRANEAN		237,0	132,0	238,0	7,5	377,5	614,5
ALGERIA							
1st Protocol	1.11.1978-31.10.1981	70,0	25,0	19,0	0,0	44,0	114,0
2nd Protocol	1.01.1983-31.10.1986	107,0	28,0	16,0	0,0	44,0	151,0
3rd Protocol	1.03.1988-31.10.1991	183,0	52,0	0,0	4,0	56,0	239,0
Total		360,0	105,0	35,0	4,0	144,0	504,0
MOROCCO							
1st Protocol	1.11.1978-31.10.1981	56,0	16,0	58,0	0,0	74,0	130,0
2nd Protocol	1.01.1983-31.10.1986	90,0	67,0	42,0	0,0	109,0	199,0
3rd Protocol	1.11.1988-31.10.1991	151,0	162,0	0,0	11,0	173,0	324,0
Total		297,0	245,0	100,0	11,0	356,0	653,0
TUNISIA							
1st Protocol	1.11.1978-31.10.1981	41,0	15,0	39,0	0,0	54,0	95,0
2nd Protocol	1.06.1983-31.10.1986	78,0	37,0	24,0	0,0	61,0	139,0
3rd Protocol	1.05.1988-31.10.1991	131,0	87,0	0,0	6,0	93,0	224,0
Total		250,0	139,0	63,0	6,0	208,0	458,0
MAGHREB							
1st Protocol		167,0	56,0	116,0	0,0	172,0	339,0
2nd Protocol		275,0	132,0	82,0	0,0	214,0	489,0
3rd Protocol		465,0	301,0	0,0	21,0	322,0	787,0
Total		907,0	489,0	198,0	21,0	708,0	1 615,0
EGYPT							
1st Protocol	1.11.1978-31.10.1981	93,0	63,0	14,0	0,0	77,0	170,0
2nd Protocol	1.01.1983-31.10.1986	150,0	76,0	50,0	0,0	126,0	276,0
3rd Protocol	1.08.1988-31.10.1991	249,0	189,0	0,0	11,0	200,0	449,0
Total		492,0	328,0	64,0	11,0	403,0	895,0
JORDAN							
1st Protocol	1.11.1978-31.10.1981	18,0	18,0	4,0	0,0	22,0	40,0
2nd Protocol	1.01.1983-31.10.1986	37,0	19,0	7,0	0,0	26,0	63,0
3rd Protocol	1.02.1988-31.10.1991	63,0	35,0	0,0	2,0	37,0	100,0
Total		118,0	72,0	11,0	2,0	85,0	203,0
LEBANON							
1st Protocol	1.11.1978-31.10.1981	20,0	8,0	2,0	0,0	10,0	30,0
2nd Protocol	1.03.1983-31.10.1986	34,0	11,0	5,0	0,0	16,0	50,0
3rd Protocol	1.03.1988-31.10.1991	53,0	19,0	0,0	1,0	20,0	73,0
Total		107,0	38,0	7,0	1,0	46,0	153,0
SYRIA							
1st Protocol	1.11.1978-31.10.1981	34,0	19,0	7,0	0,0	26,0	60,0
2nd Protocol	1.02.1983-31.10.1986	64,0	22,0	11,0	0,0	33,0	97,0
Total		98,0	41,0	18,0	0,0	59,0	157,0
3rd Protocol Reserve	Earmarked for Syria	110,0	34,0	0,0	2,0	36,0	146,0
MASHREQ							
1st Protocol		165,0	108,0	27,0	0,0	135,0	300,0
2nd Protocol		285,0	128,0	73,0	0,0	201,0	486,0
3rd Protocol		475,0	277,0	0,0	16,0	293,0	768,0
Total		925,0	513,0	100,0	16,0	629,0	1 554,0
SOUTHERN MEDITERRANEAN							
1st Protocol		332,0	164,0	143,0	0,0	307,0	639,0
2nd Protocol		560,0	260,0	155,0	0,0	415,0	975,0
3rd Protocol		940,0	578,0	0,0	37,0	615,0	1 555,0
Total		1 832,0	1 002,0	298,0	37,0	1 337,0	3 169,0
MEDITERRANEAN		2 069,0	1 134,0	536,0	44,5	1 714,5	3 783,5

The difference of 54 Mio ECU between the total overall budgetary amount shown in column 7 (1 714,5 Mio ECU) and the amounts shown in Tables 2 and 4 (1 660,5 Mio ECU) is due to the fact that the latter do not include the Third Protocol with Cyprus (18 Mio ECU), which entered into force in 1990, or the reserve (36 Mio ECU) earmarked for the Third Protocol with Syria, which had not yet been signed as of 31.12.1989.

2. THE FRAMEWORK OF FINANCIAL AND TECHNICAL COOPERATION

2.1. Preferential relations with the Mediterranean countries began to be established in the Sixties, in the form of Association Agreements based mainly on trade relations. In 1972 the Community started to introduce a policy based on an overall approach to the Mediterranean countries, in particular with the inclusion in the Agreements of a section devoted to financial and technical cooperation. Since 1976, Cooperation Agreements of unlimited duration have been signed with the Maghreb and Mashreq countries and with Malta and Cyprus. Relations with Turkey continue to be governed by the provisions of the 1963 Association Agreement.

2.2. With each of the partner countries, financial and technical cooperation has been the subject of Protocols by which the Community undertakes to make available to the country concerned an overall amount of aid which is intended to help finance projects or measures that contribute to the social and economic development of the recipient country; these Protocols lay down, amongst other things, the duration of their application and the volume and forms and field of application of financial and technical cooperation; in addition, they contain some provisions on the appraisal and carrying-out of the projects which are being financed. The framework of cooperation with Mediterranean non-member countries is to a large extent based on the main principles of the EDF system: the aid is multiannual, it is administered jointly and there are several financing instruments.

2.3. By the end of 1990, three series of Protocols had been signed (see *Annex 1*). As shown in *Table 1*, of the 1 714,5 Mio ECU granted from budgetary resources, 708 Mio ECU was for the Maghreb countries, 629 Mio ECU for the Mashreq countries and 377,5 Mio ECU for Cyprus, Malta and Turkey. *Graphs 1 and 2* illustrate how the aid from budgetary resources is divided up between the geographical areas and recipient countries concerned.

2.4. *Annex 2* briefly describes the framework for financial and technical cooperation. It gives details of:

- a) the period of application of the Financial Protocols;
- b) the financing instruments covered by the Protocols;
- c) the general objectives of Community aid during the three series of Protocols and the fields of application of the latter;
- d) the budgetary basis;
- e) the implementing provisions for the Protocols and the dividing-up between the EIB and the Commission of the power to administer the aid;
- f) the procedures for deciding the financing and for drawing up the agreements and financing contracts;
- g) the administrative methods used by the Commission and the recipient States for implementing the Protocols.

3. THE SYSTEM OF PROTOCOLS

Procedure for concluding the Protocols

3.1. The whole process of negotiating and concluding the Protocols is relatively slow and is sometimes affected by factors that are not directly linked to financial and technical cooperation.

3.2. Although they are based on Article 238 of the EEC Treaty, the First Protocols with the Maghreb and Mashreq countries and with Cyprus and Malta were nevertheless subject — unnecessarily — to ratification by the Member States. This delayed their entry into force by one and a half to two and a half years, depending on the case (see *Annex 1*).

3.3. The Second Protocols with the Maghreb and Mashreq countries were signed nine months to one year after the expiry of the previous Protocols (31 October 1981) and did not come into force until 14 to 19 months after their theoretical date of entry into force (1 November 1981). The delays were even longer in the case of the Second Protocol with Malta, the negotiations for which were impeded until 1985 by a number of Maltese legal constraints. The Protocol came into force in October 1986, i.e. virtually three years after the theoretical date (1 November 1983).

3.4. The entry into force of the Third Protocols with the Maghreb and Mashreq countries was spread out over the whole of 1988 (see *Annex 1*), one and a half to two years after the expiry of the preceding Protocols (31 October 1986). The fact that these negotiations proved to be particularly lengthy can be explained by the need to adapt the provisions of the agreements in the field of trade relations, following Spain and Portugal's entry into the Community; the subordination of financial and technical cooperation to factors which are not directly linked to it is particularly evident in the case of Morocco, where the preliminary to the negotiations concerned the conclusion of a new fisheries agreement.

3.5. The Third Protocols with Cyprus and Malta were no exception in this respect and came into force 17 months and nine months respectively after the expiry of the preceding Protocols (see *Annex 1*).

The consequences

3.6. Except for the First Protocols with Cyprus and Malta, the period of application is not fixed in relation to their date of entry into force but in respect of an expiry date (see *Annex 2*, paragraph 2). Any delay affecting their entry into force therefore means a reduced period of application. In fact, the latter is in most cases less than four years, and is sometimes reduced to three years or even less (see *Annex 1*).

3.7. These delays result, furthermore, in a break in the sequence of the Protocols. As already pointed out (see paragraphs 3.3 — 3.4), there are generally one to two years between the expiry of one Protocol and the entry into force of the succeeding one. For some countries, this means a break in the continuity of the cooperation. For countries such as Malta, Morocco or Tunisia, which arranged under the first two Protocols for the appropriations to be committed during the fixed period of application (see *Tables 2 and 3*), this means that the pattern of commitments is broken; during the period separating two Protocols, financial and technical cooperation is thus confined to carrying out approved projects.

Budgetary management

Spreading-out of commitments

3.8. According to the Protocols, the total amount of the individual sums that are to be committed each year should be spread as evenly as possible over the whole period of application; at the beginning of the period of application, commitments may nevertheless be made for proportionally higher amounts, within reasonable limits.

3.9. In practice, this provision is rarely complied with. The implementation of the Protocols follows a pattern of its own, depending mainly on the ability of the partner countries to present for financing projects which can be implemented immediately. *Table 2* and *Graphs 4 to 18* show in respect of several Protocols and several countries that financial years for which very considerable amounts of

appropriations have been committed are followed by periods where commitments are very low, or even non-existent.

3.10. Moreover, this provision loses a considerable amount of its significance because of the reduction which has been observed in the period of application of the Protocols: the aid measures and, consequently, the appropriations relating to them, are thus concentrated. It also impedes speedy implementation of the Protocols in countries which are able from the outset to present projects that take up a proportionally much larger part of the overall amount of appropriations granted.

3.11. Furthermore, the creation in 1987 of a single article (965) for all three Protocols with the Maghreb and Mashreq countries makes it much less necessary to ensure for each individual Protocol that the expenditure charged to the general budget is spread out.

3.12. Consequently, this provision should not be included in future Protocols. Instead, the Commission, together with the recipient countries, should rather bring its efforts to bear at the planning stage in order to draw up realistic plans for implementing financial and technical cooperation. Such planning cannot disregard budgetary constraints.

Utilization of the balance

3.13. The Protocols lay down that any funds not committed at the end of the implementing period 'shall be used, until exhausted'. This balance sometimes represents a considerable share of the overall budgets specified in the Protocols. This is the case in particular for the First and Second Protocols with Algeria and Egypt where it varies, according to case, by approximately 30 % to 50 % of the total sum earmarked (see *Table 3*). At the end of 1989, moreover, these Protocols had still not been closed.

3.14. The Protocols may be implemented with a measure of flexibility, in order to allow for adjustment to new circumstances which could not reasonably be foreseen at the outset. Nevertheless, in the form in which it is formulated and applied, this provision authorizes a commitment of funds for an indefinite period and deprives the multiannual framework in which the Protocols are theoretically set of all meaning.

3.15. The experience gained should be turned to account for future protocols. First of all, the budgetary amount allocated for financing under a particular protocol should be fixed by taking account of the actual chances of its being fully utilized during the implementing period. The utilization of any balance should form the subject of a well-defined procedure resulting in a formal decision by the

Table 2 — Changes in overall budgets, commitments and payments to 31.12.1989

(Mio ECU)

TURKEY		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	3rd Protocol	220,0	220,0	220,0	220,0	220,0	220,0	220,0	220,0	220,0	220,0	220,0	220,0
	Spec. aid	75,0			75,0	75,0	75,0	75,0	75,0	75,0	75,0	75,0	75,0
	Total	295,0	220,0	220,0	295,0	295,0	295,0	295,0	295,0	295,0	295,0	295,0	295,0
Commitments	3rd Protocol		12,1	18,1	220,0	220,0	220,0	220,0	220,0	220,0	220,0	220,0	220,0
	Spec. aid				46,0	46,0	46,0	46,0	46,0	46,0	56,0	75,0	75,0
	Total		12,1	18,1	266,0	266,0	266,0	266,0	266,0	266,0	276,0	295,0	295,0
Payments	3rd Protocol		4,0	4,2	61,2	76,0	108,7	137,7	153,5	200,7	209,0	216,6	217,5
	Spec. aid				0,0	4,0	13,4	19,9	34,7	41,8	45,8	46,3	46,3
	Total		4,0	4,2	61,2	80,1	122,1	157,7	188,3	242,5	254,8	262,9	263,9
CYPRUS		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0
	2nd Protocol	16,0						16,0	16,0	16,0	16,0	16,0	16,0
	Total	26,0	10,0	10,0	10,0	10,0	10,0	26,0	26,0	26,0	26,0	26,0	26,0
Commitments	1st Protocol		0,0	0,0	1,5	6,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0
	2nd Protocol							0,0	6,8	10,4	10,4	10,4	14,6
	Total		0,0	0,0	1,5	6,0	10,0	10,0	16,8	20,4	20,4	20,4	24,6
Payments	1st Protocol		0,0	0,0	1,5	1,5	2,4	5,4	7,9	9,3	9,9	9,9	10,0
	2nd Protocol							0,0	0,6	1,1	4,8	8,3	10,2
	Total		0,0	0,0	1,5	1,5	2,4	5,4	8,5	10,5	14,7	18,2	20,1
MALTA		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0
	2nd Protocol	13,5								13,5	13,5	13,5	13,5
	3rd Protocol	15,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	15,0
	Total	38,5	10,0	10,0	10,0	10,0	10,0	10,0	10,0	23,5	23,5	23,5	38,5
Commitments	1st Protocol		0,9	1,8	9,9	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0
	2nd Protocol									0,0	3,0	13,5	13,5
	3rd Protocol		0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Total		0,9	1,8	9,9	10,0	10,0	10,0	10,0	10,0	13,0	23,5	23,5
Payments	1st Protocol		0,4	0,7	5,7	6,2	7,4	8,8	9,2	10,0	10,0	10,0	10,0
	2nd Protocol									0,0	0,0	0,0	0,8
	3rd Protocol		0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Total		0,4	0,7	5,7	6,2	7,4	8,8	9,2	10,0	10,0	10,0	10,8
NORTHERN MEDITERRANEAN		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets		359,5	240,0	240,0	315,0	315,0	315,0	331,0	331,0	344,5	344,5	344,5	359,5
Commitments			13,0	19,9	277,3	282,0	286,0	292,8	292,8	296,4	309,4	338,9	343,1
Payments			4,4	4,8	68,4	87,7	131,8	171,9	206,0	263,0	279,5	291,1	294,8
ALGERIA		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	44,0	44,0	44,0	44,0	44,0	44,0	44,0	44,0	44,0	44,0	44,0	44,0
	2nd Protocol	44,0					44,0	44,0	44,0	44,0	44,0	44,0	44,0
	3rd Protocol	56,0										56,0	56,0
	Total	144,0	44,0	44,0	44,0	44,0	88,0	88,0	88,0	88,0	88,0	144,0	144,0
Commitments	1st Protocol		0,4	2,5	29,4	35,7	37,6	38,2	38,2	38,5	35,0	38,1	38,2
	2nd Protocol						0,0	6,4	18,1	24,0	42,2	42,2	42,2
	3rd Protocol											0,6	27,4
	Total		0,4	2,5	29,4	35,7	37,6	44,6	56,3	62,5	77,2	80,9	107,7
Payments	1st Protocol		0,0	0,1	2,1	4,8	7,4	11,3	18,1	18,8	21,6	22,1	23,1
	2nd Protocol						0,0	0,0	2,3	4,4	7,6	8,1	9,6
	3rd Protocol											0,0	0,4
	Total		0,0	0,1	2,1	4,8	7,4	11,3	20,3	23,2	29,2	30,2	33,1
MOROCCO		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	74,0	74,0	74,0	74,0	74,0	74,0	74,0	74,0	74,0	74,0	74,0	74,0
	2nd Protocol	109,0					109,0	109,0	109,0	109,0	109,0	109,0	109,0
	3rd Protocol	173,0										173,0	173,0
	Total	356,0	74,0	74,0	74,0	74,0	183,0	183,0	183,0	183,0	183,0	356,0	356,0
Commitments	1st Protocol		2,0	7,2	74,0	74,0	74,0	74,0	74,0	74,0	74,0	74,0	74,0
	2nd Protocol						37,4	86,6	108,3	108,3	108,3	108,3	108,3
	3rd Protocol											11,9	122,3
	Total		2,0	7,2	74,0	74,0	111,4	160,6	182,2	182,2	182,2	194,1	304,6
Payments	1st Protocol		0,1	1,3	25,3	42,8	67,7	68,5	70,7	71,5	72,7	72,7	73,2
	2nd Protocol						23,4	35,0	72,9	83,5	90,2	92,2	95,3
	3rd Protocol											0,0	0,0
	Total		0,1	1,3	25,3	42,8	91,1	103,5	143,6	155,0	162,8	164,9	168,5

TUNISIA		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	54,0	54,0	54,0	54,0	54,0	54,0	54,0	54,0	54,0	54,0	54,0	54,0
	2nd Protocol	61,0					61,0	61,0	61,0	61,0	61,0	61,0	61,0
	3rd Protocol	93,0										93,0	93,0
	Total	208,0	54,0	54,0	54,0	54,0	115,0	115,0	115,0	115,0	115,0	208,0	208,0
Commitments	1st Protocol		0,7	3,6	39,7	53,1	53,6	53,9	54,0	54,0	54,0	53,7	53,7
	2nd Protocol						0,0	2,9	15,5	60,7	60,7	61,1	61,0
	3rd Protocol											39,4	59,7
	Total		0,7	3,6	39,7	53,1	53,6	56,8	69,5	114,7	114,7	154,1	174,3
Payments	1st Protocol		0,4	1,1	12,6	18,2	33,1	40,1	43,9	44,3	51,4	52,4	53,1
	2nd Protocol						0,0	0,2	3,8	9,5	20,2	32,4	41,1
	3rd Protocol											10,8	13,2
	Total		0,4	1,1	12,6	18,2	33,1	40,3	47,7	53,9	71,6	95,6	107,4
MAGHREB		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	172,0	172,0	172,0	172,0	172,0	172,0	172,0	172,0	172,0	172,0	172,0	172,0
	2nd Protocol	214,0					214,0	214,0	214,0	214,0	214,0	214,0	214,0
	3rd Protocol	322,0										322,0	322,0
	Total	708,0	172,0	172,0	172,0	172,0	386,0	386,0	386,0	386,0	386,0	708,0	708,0
Commitments	1st Protocol		3,2	13,4	143,1	162,8	165,1	166,0	166,2	166,5	163,0	165,8	165,8
	2nd Protocol						37,4	96,0	141,9	193,0	211,2	211,5	211,5
	3rd Protocol											51,9	209,3
	Total		3,2	13,4	143,1	162,8	202,5	262,0	308,0	359,5	374,1	429,1	586,7
Payments	1st Protocol		0,5	2,6	40,0	65,9	108,3	119,9	132,6	134,6	145,6	147,2	149,4
	2nd Protocol						23,4	35,1	79,0	97,4	117,9	132,7	146,0
	3rd Protocol											10,8	13,6
	Total		0,5	2,6	40,0	65,9	131,7	155,0	211,6	232,1	263,5	290,7	309,0
EGYPT		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	77,0	77,0	77,0	77,0	77,0	77,0	77,0	77,0	77,0	77,0	77,0	77,0
	2nd Protocol	126,0					126,0	126,0	126,0	126,0	126,0	126,0	126,0
	3rd Protocol	200,0										200,0	200,0
	Total	403,0	77,0	77,0	77,0	77,0	203,0	203,0	203,0	203,0	203,0	403,0	403,0
Commitments	1st Protocol		2,0	2,2	53,5	67,9	76,0	76,2	76,2	76,3	76,3	76,5	76,5
	2nd Protocol						11,3	35,4	52,3	66,8	112,3	119,8	122,7
	3rd Protocol											33,9	44,3
	Total		2,0	2,2	53,5	67,9	87,3	111,6	128,5	143,0	188,6	230,2	243,4
Payments	1st Protocol		0,8	1,1	10,7	13,0	16,1	27,4	31,7	38,4	47,5	56,5	58,1
	2nd Protocol						0,0	0,9	2,7	10,6	22,5	32,4	54,2
	3rd Protocol											0,0	0,3
	Total		0,8	1,1	10,7	13,0	16,1	28,3	34,4	48,9	70,0	88,9	112,6
JORDAN		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	22,0	22,0	22,0	22,0	22,0	22,0	22,0	22,0	22,0	22,0	22,0	22,0
	2nd Protocol	26,0					26,0	26,0	26,0	26,0	26,0	26,0	26,0
	3rd Protocol	37,0										37,0	37,0
	Total	85,0	22,0	22,0	22,0	22,0	48,0	48,0	48,0	48,0	48,0	85,0	85,0
Commitments	1st Protocol		1,2	2,2	18,8	20,0	21,7	22,2	22,2	22,3	22,3	22,3	22,3
	2nd Protocol						7,8	10,8	14,6	22,1	22,9	24,0	25,0
	3rd Protocol											10,5	17,4
	Total		1,2	2,2	18,8	20,0	29,5	33,0	36,9	44,4	45,2	56,9	64,7
Payments	1st Protocol		0,8	1,1	6,8	9,6	14,5	17,6	20,8	21,6	21,8	21,8	21,8
	2nd Protocol						3,2	4,7	6,9	9,8	12,8	15,5	18,1
	3rd Protocol											0,0	2,1
	Total		0,8	1,1	6,8	9,6	17,7	22,3	27,7	31,4	34,5	37,3	42,0
LEBANON		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0	10,0
	2nd Protocol	16,0					16,0	16,0	16,0	16,0	16,0	16,0	16,0
	3rd Protocol	20,0										20,0	20,0
	Total	46,0	10,0	10,0	10,0	10,0	26,0	26,0	26,0	26,0	26,0	46,0	46,0
Commitments	1st Protocol		0,3	0,7	3,7	5,6	7,1	7,1	7,3	7,4	7,0	9,9	9,9
	2nd Protocol						0,0	0,0	16,0	16,0	16,0	16,0	16,0
	3rd Protocol											0,0	0,0
	Total		0,3	0,7	3,7	5,6	7,2	7,2	23,3	23,4	23,0	25,9	25,9
Payments	1st Protocol		0,0	0,6	1,3	2,5	3,7	3,8	4,0	4,6	4,8	5,4	5,5
	2nd Protocol						0,0	0,0	0,0	0,6	1,2	1,6	1,6
	3rd Protocol											0,0	0,0
	Total		0,0	0,6	1,3	2,5	3,7	3,8	4,0	5,2	6,0	7,0	7,1

SYRIA		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	26,0	26,0	26,0	26,0	26,0	26,0	26,0	26,0	26,0	26,0	26,0	26,0
	2nd Protocol	33,0					33,0	33,0	33,0	33,0	33,0	33,0	33,0
	Total	59,0	26,0	26,0	26,0	26,0	59,0	59,0	59,0	59,0	59,0	59,0	59,0
Commitments	1st Protocol		1,6	2,0	18,2	19,5	19,9	25,3	25,5	25,7	26,0	26,0	26,0
	2nd Protocol						0,0	9,7	18,4	31,6	31,6	33,0	33,0
	Total		1,6	2,0	18,2	19,5	19,9	35,0	43,9	57,3	57,6	59,0	59,0
Payments	1st Protocol		0,3	0,6	2,9	6,2	11,9	16,0	18,5	19,5	19,9	19,9	20,2
	2nd Protocol						0,0	0,0	0,0	0,8	2,4	7,2	9,9
	Total		0,3	0,6	2,9	6,2	11,9	16,0	18,5	20,3	22,3	27,2	30,2
MASHREQ		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	135,0	135,0	135,0	135,0	135,0	135,0	135,0	135,0	135,0	135,0	135,0	135,0
	2nd Protocol	201,0					201,0	201,0	201,0	201,0	201,0	201,0	201,0
	3rd Protocol	257,0											
	Total	593,0	135,0	135,0	135,0	135,0	336,0	336,0	336,0	336,0	336,0	593,0	593,0
Commitments	1st Protocol		5,0	7,0	94,2	113,0	124,8	130,8	131,2	131,7	131,6	134,7	134,7
	2nd Protocol						19,1	55,9	101,4	136,5	182,9	192,9	196,7
	3rd Protocol											44,4	61,7
	Total		5,0	7,0	94,2	113,0	143,9	186,7	232,6	268,2	314,4	372,0	393,1
Payments	1st Protocol		1,9	3,5	21,7	31,3	46,1	64,8	75,0	84,0	94,0	103,7	105,6
	2nd Protocol						3,2	5,6	9,6	21,8	38,8	56,7	83,8
	3rd Protocol											0,0	2,4
	Total		1,9	3,5	21,7	31,3	49,3	70,4	84,6	105,8	132,8	160,4	191,8
SOUTHERN MEDITERRANEAN		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets	1st Protocol	307,0	307,0	307,0	307,0	307,0	307,0	307,0	307,0	307,0	307,0	307,0	307,0
	2nd Protocol	415,0					415,0	415,0	415,0	415,0	415,0	415,0	415,0
	3rd Protocol	579,0											
	Total	1 301,0	307,0	307,0	307,0	307,0	722,0	722,0	722,0	722,0	722,0	1 301,0	1 301,0
Commitments	1st Protocol		8,2	20,4	237,3	275,7	289,9	296,8	297,4	298,2	294,5	300,5	300,5
	2nd Protocol						56,5	152,0	243,3	329,5	394,0	404,4	408,2
	3rd Protocol											96,2	271,0
	Total		8,2	20,4	237,3	275,7	346,4	448,8	540,6	627,6	688,5	801,1	979,8
Payments	1st Protocol		2,4	6,0	61,8	97,1	154,4	184,7	207,6	218,6	239,6	250,9	255,0
	2nd Protocol						26,6	40,7	88,6	119,2	156,7	189,5	229,8
	3rd Protocol											10,8	15,9
	Total		2,4	6,0	61,8	97,1	181,0	225,4	296,2	337,8	396,3	451,2	500,8
MEDITERRANEAN		Overall budgets	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Overall budgets		1 660,5	547,0	547,0	622,0	622,0	1 037,0	1 053,0	1 053,0	1 066,5	1 066,5	1 645,5	1 660,5
Commitments			21,1	40,3	514,7	557,7	632,4	734,7	833,4	924,0	997,9	1 140,0	1 322,9
Payments			6,7	10,9	130,2	184,9	312,8	397,3	502,2	600,9	675,8	742,3	795,6

The difference of 54 Mio ECU between the total overall budgetary amount shown in this table (1 660,5 Mio ECU) and the amount shown in Table 1 (1 714,5 Mio ECU) is due to the fact that the above table does not include the Third Protocol with Cyprus (18 Mio ECU), which entered into force in 1990, or the reserve (36 Mio ECU) for the Third Protocol with Syria which had not yet been signed as of 31.12.1989. Due to the effects of rounding, some totals do not correspond exactly to the sum of the component items (e.g. Syria, 1988 and 1989 payments).

Table 3 — Utilization of overall budgets for Protocols at the end of the financial year in which the Protocols expired (%)

Country or geographical area	Protocol	Commitments contracted	Payments effected
Turkey	Third special aid	100,0 61,3	27,8 5,3
Cyprus	First Second	99,6 65,0	23,0 51,6
Malta	First Second	100,0 100,0	73,6 0,0
Algeria	First Second	66,9 54,5	4,7 10,0
Morocco	First Second	100,0 99,3	34,3 82,7
Tunisia	First Second	73,5 99,5	23,3 17,7
Maghreb	First Second	83,2 90,2	23,3 45,5
Egypt	First Second	69,4 53,0	13,9 8,4
Jordan	First Second	85,6 85,0	31,1 37,7
Lebanon	First Second	55,8 100,0	25,4 3,8
Syria	First Second	70,1 95,8	11,2 2,5
Mashreq	First Second	69,8 67,9	16,1 10,9
Southern Mediterranean	First Second	77,3 79,4	20,1 28,7

Association Council. This decision should be based on an examination of the situation regarding cooperation with the country concerned and should be taken on the expiry of the implementing period for the Protocol, or near to that time. Following this decision, the balance should either be transferred, in full or in part, to the finance allocated to the next Protocol or it should be cancelled, so as to put an end to the current series of unclosed Protocols.

Allocation of grant aid

3.16. The Protocols are drawn up in such a way that non-reimbursable aid, in the form of grants, financed from budgetary resources, is used in the first instance to satisfy EIB needs. The aim is to allow it to grant the interest-rate subsidies that are an essential precondition for and are automatically linked to the signing of loan contracts up to the maximum amount that the EIB is authorized to make.

The forward management of the financing packages is thus organized in such a way as to ensure that the EIB always has a source of funds from which to finance interest-rate subsidies.

3.17. The EIB is not, however, able to make its actual requirements known right from the outset of the implementation of a protocol, which makes it difficult to provide for strict planning of the financings and tends to defer the use of a part of the Commission's budgetary resources.

3.18. Fixing the overall amount of budgetary funds intended to finance interest-rate subsidies in the Protocol itself would be one way of getting round this difficulty. The Commission and the recipient country would thus have accurate information from the outset as to how much money was available for use in the form of interest-rate subsidies. It should be pointed out here that the EDF's budget contains an overall sum that is reserved for interest-rate subsidies.

The consequences as regards implementation

3.19. The implementation of the Protocols does not adhere to the theoretical five-yearly framework. As a result, there is a series of unclosed Protocols, the most blatant examples being those with Algeria and Egypt: the balance of uncommitted funds at the end of the implementing period for the first two series of Protocols with these two countries varies between 30 % and 50 % of their overall budgets (see *Tables 2 to 4* and *Graphs 8 and 12*). If this situation is to be prevented from worsening, it is up to the Commission to take the appropriate measures when concluding future Protocols.

3.20. The Court considers that, whilst a measure of flexibility should be retained (see paragraph 3.14), stricter provisions governing the timetable for using funds allocated for this purpose are required in order to put a stop to this uncontrolled drift. Whatever provisions may be adopted, they should include a mechanism for closing unclosed Protocols, which would lead to a formal decision as to the utilization of the balance (see paragraph 3.15).

Implementing Regulation

3.21. The absence of any implementing regulation until the beginning of 1987 (see *Annex 2*, paragraphs 14 — 17), i.e. for nearly eight years, was a major shortcoming. Besides the fact that it deprives the Commission of its managerial powers and responsibilities, use of the *ad hoc* procedure

during this period sometimes produced considerable delays in the adoption of projects on account of the need for a unanimous vote. Each Member State has a right of veto, which means that, if it so wishes, it can hold up the Commission's activities in order to settle a dispute with the country which is to receive the envisaged aid.

3.22. The implementing Regulation, (EEC) No 3973/86, makes specific references, in its recitals, to the Second Protocols with the Maghreb and the Mashreq countries and Cyprus and Malta only. At the very least a Council regulation should have extended the scope of Regulation (EEC) No 3973/86 to include the Third Protocols, and that need still exists. Appropriate provisions should, moreover, be immediately adopted as soon as the forthcoming Fourth Protocols have been concluded. The same applies to financial and technical cooperation with Turkey, which is still not covered by an implementing regulation (see *Annex 2*, paragraph 17).

Observations on the system of Protocols

3.23. A comparison may be made between this system of Protocols and the system that applies to the financial and technical aid that the Community gives to Asian and Latin American developing countries (PVDALA). This aid, which is financed from Chapter 93 of the general budget, has its sole legal foundation in Council Regulation (EEC) No 442/81 ⁽¹⁾, which lays down the general objectives, the forms, the fields of application as well as the Community's decision-making and internal management procedures.

3.24. The Protocols, which result precisely from the Community's wish to institute a policy based on a global approach, constitute an appropriate framework within which to provide, durably and with a pre-established overall budget, sectoral guidance for financial and technical cooperation of a form that meets the priority objectives for development adopted by each of the recipient countries. The planning stage is essential in this respect. The Third Protocols with the Maghreb and Mashreq countries and Malta and Cyprus did, moreover, constitute a considerable improvement on the previous ones. Their specific cooperation objectives are much more precise, they define the nature of the projects or measures likely to be financed and they require the drawing-up of an indicative programme committing both parties.

3.25. The lack of multiannual planning until the end of 1990 within the framework of financial and technical aid to

the PVDALA and the artificial pressure of annual and budgetary timetables are recognized by the Commission as amounting to a considerable weakness. Plans exist to introduce multiannual planning as from 1991, which would make for improved utilization of financial resources.

3.26. Though, in principle, the Protocols do make for more efficient and effective utilization than a system with no planning, in practice, certain weaknesses may be observed.

3.27. First of all, the Protocols form an additional stage, compared with the system governing the financial and technical aid to the PVDALA. The slowness that is inherent in the process for negotiating and concluding Protocols (which only provide a legal framework for five years), which is sometimes affected by other factors that are not directly related to financial and technical cooperation (see paragraphs 3.1 — 3.5), has the effect of delaying implementation and even of interrupting the continuity of financial and technical cooperation (see paragraph 3.7).

3.28. The Protocols involve, moreover, a vast amount of identification work, the carrying-out of studies and the drawing-up of projects at the beginning of their period of application. This represents a considerable volume of work, both for the Commission and the recipient countries, which has to be completed in a very short space of time. The Court wonders whether some of the weaknesses found in the quality of the projects and measures financed are caused by the hastiness with which this preparatory work is carried out.

3.29. Moreover, by fixing a well-defined overall budget that is available for a specific period, the Protocols are likely to encourage competition between potential recipients in the countries concerned. This may result in projects that are badly or inadequately conceived and which, in part if not wholly, are aimed at keeping back a share of the overall amount made available by the Community for the bodies submitting them. This weakness is not found in financial and technical aid to the PVDALA because, while it is also necessary to choose between projects, given the limited volume of Community aid, their effects are more widespread since there is not this dual limit of an overall budget that is clearly determined and non-extendable and related to a multiannual implementing period.

3.30. One disadvantage of the system of Protocols concerns the impact on budgetary implementation of factors which, although alien to financial and technical cooperation, prevent its normal operation. The implementation of the Protocols with Turkey, Syria and Lebanon has been blocked for political reasons: the Community has not repudiated its commitments in respect of any of the recipient countries concerned, the implementation of the financial and technical cooperation has merely been postponed until such time as circumstances make it

⁽¹⁾ OJ No L 48, 21. 2. 1981, p. 8.

possible again. In the specific cases of Lebanon and Syria, the overall packages granted or earmarked for the Third Protocols will be added to those to be granted, normally at the end of 1991, within the framework of the Fourth Protocols, which is not likely to improve the rate of budgetary implementation. In the case of financial and technical aid to the PVDALA, the Commission may, under such circumstances, decide not to undertake any more commitments, i.e. not to take any more financing decisions.

3.31. Finally, as things stand, and mainly on account of the provisions governing the use of the balance (see paragraphs 3.13 — 3.15), the overall budget provided for in the Protocol is legally due to the recipient country and it may not be called into question by slow implementation. Financial and technical aid to the PVDALA makes it possible, on the contrary, to adapt the volume and rate of cooperation to each country's own absorption capacities. The Commission has the possibility of refusing to finance new projects when it finds that there are difficulties or delays in the utilization of the aid that has already been made available to the country concerned.

4. THE MANAGEMENT SYSTEMS

The accounting systems

Presentation of the systems

4.1. The Commission has two tools:

- a) the budgetary accounting system, with which to implement the budget correctly. For a given financial year and down to the level of individual accounting commitments, it gives the details of payments made and outstanding commitments at the beginning and end of the financial year. This is the information that is set out in the revenue and expenditure account;
- b) an auxiliary accounting system, known as FINPICS (Project Information and Control System), the aim of which is to meet the administrators' specific needs as regards the follow-up of projects and the implementation of Financial Protocols⁽¹⁾. It is a database

⁽¹⁾ The FINPICS system is not only for aid under the Financial Protocols; it is also used for aid to developing countries in Latin America and Asia financed under Chapter 93 of the general budget.

containing chronological details of the payments made for each accounting commitment.

Monitoring the implementation of the Protocols

4.2. Neither the budgetary accounting nor the FINPICS system in its present form provides constant and directly available information, in respect of each Financial Protocol, on the distribution of the amounts committed and the amounts paid, according to the nature of the financial instruments. These observations also hold true of a sectoral analysis of financial operations that the EIB carries out on its own initiative, in particular for the loans on special terms that it manages under a broad mandate (see *Annex 2*, paragraph 23). The Commission should consider, in any event as from the next Protocols, equipping itself with the means necessary to obtain easy access to this type of information.

4.3. The budgetary accounting system is not equal to the task of providing constant and direct access to information on the state of financial implementation of the Protocols. Some items of revenue, repayments made by the EIB of excess funds supplied by the Commission (on the payment of interest subsidies or when a loan instalment under special conditions is released) are not re-used for the project concerned and are credited to sundry revenue. In order to be able to make available to the EIB the whole amount agreed upon for the loan or interest subsidies, the Commission is then obliged to make further commitments from new appropriations. The budgetary accounts then show amounts committed and paid which are higher than those of the aid fixed and actually paid. As can be seen in *Table 4*, the total amount committed for a Financial Protocol, as reconstituted from the budgetary accounting system, is thus higher than the overall amount of the financing package (First Protocols with Malta and Jordan, First and Second Protocols with Syria).

4.4. The FINPICS system is established and updated incorrectly, in that it does not reconstitute all the accounting transactions. It does not include several commitments established in 1979, nor does it take account of possible revenue, whether re-used or not.

4.5. It thus makes it difficult to close the Financial Protocols if the Commission cannot retrace the debits and credits and is unaware of any balances available for re-use. To bring the FINPICS system up to scratch would not result in insuperable difficulties. It would involve incorporating all omitted commitments as well as revenue received. The Commission would then have a system providing it with a readily available and reliable picture of the financial implementation of a given Protocol.

Table 4 — Utilization of overall budgets for Protocols and validation of commitments entered into at 31.12.1989

Country or geographical area	Protocol	Overall budgets	Commitment situation			Payment situation				
			Commitments entered into	Unutilized finance 3 - 4	Utilization of finance 4 / 3	Payments effected	Unutilized finance 3 - 7	Utilization of finance 7 / 3	Outstanding commitments 4 - 7	Commitments validated 7 / 4
			(Mio ECU)	(Mio ECU)	(Mio ECU)	(%)	(Mio ECU)	(Mio ECU)	(%)	(Mio ECU)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
TURKEY	3rd	220,0	220,0	0,0	100,0	217,5	2,5	98,9	2,5	98,9
	Spec. aid	75,0	75,0	0,0	100,0	46,3	28,7	61,8	28,7	61,8
	Total	295,0	295,0	0,0	100,0	263,9	31,1	89,4	31,1	89,4
CYPRUS	1st	10,0	10,0	0,0	99,6	10,0	0,0	99,6	0,0	100,0
	2nd	16,0	14,6	1,4	91,4	10,2	5,8	63,6	4,5	69,6
	Total	26,0	24,6	1,4	94,6	20,1	5,9	77,5	4,5	81,9
MALTA	1st	10,0	10,0	(0,0)	100,0	10,0	0,0	100,0	0,0	100,0
	2nd	13,5	13,5	0,0	100,0	0,8	12,7	5,9	12,7	5,9
	3rd	15,0	0,0	15,0	0,0	0,0	15,0	0,0	0,0	0,0
	Total	38,5	23,5	15,0	61,0	10,8	27,7	28,0	12,7	45,9
NORTHERN MED-ITERRANEAN	Total	359,5	343,1	16,4	95,4	294,8	64,7	82,0	48,3	85,9
ALGERIA	1st	44,0	38,2	5,8	86,8	23,1	20,9	52,5	15,1	60,5
	2nd	44,0	42,2	1,8	95,9	9,6	34,4	21,8	32,6	22,8
	3rd	56,0	27,4	28,6	48,9	0,4	55,6	0,7	27,0	1,4
	Total	144,0	107,7	36,3	74,8	33,1	110,9	23,0	74,7	30,7
MOROCCO	1st	74,0	74,0	0,0	100,0	73,2	0,8	98,9	0,8	99,0
	2nd	109,0	108,3	0,7	99,4	95,3	13,7	87,4	13,1	87,9
	3rd	173,0	122,3	50,7	70,7	0,0	173,0	0,0	122,3	0,0
	Total	356,0	304,6	51,4	85,6	168,5	187,5	47,3	136,1	55,3
TUNISIA	1st	54,0	53,7	0,3	99,4	53,1	0,9	98,4	0,5	99,0
	2nd	61,0	61,0	0,0	100,0	41,1	19,9	67,4	19,9	67,4
	3rd	93,0	59,7	33,4	64,1	13,2	79,8	14,2	46,5	22,1
	Total	208,0	174,3	33,7	83,8	107,4	100,6	51,6	66,9	61,6
MAGHREB	1st	172,0	165,8	6,2	96,4	149,4	22,6	86,9	16,4	90,1
	2nd	214,0	211,5	2,5	98,8	146,0	68,0	68,2	65,6	69,0
	3rd	322,0	209,3	112,7	65,0	13,6	308,4	4,2	195,8	6,5
	Total	708,0	586,7	121,3	82,9	309,0	399,0	43,6	277,7	52,7
EGYPT	1st	77,0	76,5	0,5	99,3	58,1	18,9	75,5	18,4	76,0
	2nd	126,0	122,7	3,3	97,4	54,2	71,8	43,0	68,5	44,2
	3rd	200,0	44,3	155,7	22,1	0,3	199,7	0,1	44,0	0,7
	Total	403,0	243,4	159,6	60,4	112,6	290,4	27,9	130,9	46,2
JORDAN	1st	22,0	22,3	(0,3)	101,4	21,8	0,2	99,1	0,5	97,7
	2nd	26,0	25,0	1,0	96,3	18,1	7,9	69,6	6,9	72,3
	3rd	37,0	17,4	19,6	47,0	2,1	34,9	5,6	15,3	11,9
	Total	85,0	64,7	20,3	76,1	42,0	43,0	49,4	22,8	64,8
LEBANON	1st	10,0	9,9	0,1	99,4	5,5	4,5	54,9	4,5	55,2
	2nd	16,0	16,0	0,0	100,0	1,6	14,4	10,1	14,4	10,1
	3rd	20,0	0,0	20,0	0,0	0,0	20,0	0,0	0,0	0,0
	Total	46,0	25,9	20,1	56,4	7,1	38,9	15,4	18,8	27,4
SYRIA	1st	26,0	26,0	(0,0)	100,0	20,2	5,8	77,9	5,8	77,8
	2nd	33,0	33,0	(0,0)	100,0	9,9	23,1	30,1	23,1	30,1
	Total	59,0	59,0	(0,0)	100,0	30,2	28,8	51,2	28,8	51,2
MASHREQ	1st	135,0	134,7	0,3	99,8	105,6	29,4	78,2	29,1	78,4
	2nd	201,0	196,7	4,3	97,9	83,8	117,2	41,7	112,9	42,6
	3rd	257,0	61,7	195,3	24,0	2,4	254,6	0,9	59,3	3,8
	Total	593,0	393,1	199,9	66,3	191,8	401,2	32,3	201,3	48,8
SOUTHERN MED-ITERRANEAN	1st	307,0	300,5	6,5	97,9	255,0	52,0	83,1	45,5	84,9
	2nd	415,0	408,2	6,8	98,4	229,8	185,2	55,4	178,4	56,3
	3rd	579,0	271,0	308,0	46,8	15,9	563,1	2,8	255,1	5,9
	Total	1 301,0	979,8	321,2	75,3	500,8	800,2	38,5	479,0	51,1
MEDITER-RANEAN	Total	1 660,5	1 322,9	337,6	79,7	795,6	864,9	47,9	527,3	60,1

The differences of 54 Mio ECU between the total overall budgetary amount shown in column 3 (1 660,5 Mio ECU) and the amount shown in Table 1 (1 714,5 Mio ECU) is due to the fact that the above table does not include the Third Protocol with Cyprus, which entered into force in 1990, or the reserve (36 Mio ECU) for the Third Protocol with Syria which had not yet been signed as of 31.12.1989.

The figures in brackets in column 5 are negative because the amount of commitments is in excess of the overall budget. (0,0) indicates that the negative amount is less than 50 000 ECU.

Financial monitoring of the projects

4.6. The Commission has no information system showing the projects' actual state of financial implementation.

4.7. The information supplied in the statement of payments is inadequate in several respects. First of all, it takes no account of revenue (see paragraph 4.3). During its records-based audit of projects financed in Turkey, the Court had to reconstitute payments out and revenue received in order to establish what had actually been paid to the recipients. Moreover, there are sometimes abnormally long delays in the accounting for local payments made from the paying agent's account. In the case of projects financed in Egypt, these delays may be up to two years and involve several hundred thousands of ECU. Furthermore, delays in the decommitment of unused appropriations, apart from unnecessarily immobilizing appropriations, create the illusion, sometimes for several years, that a project is still being implemented when it has in fact been completed. This sort of situation was noted in the case of projects financed in Morocco, Egypt and Turkey. Sound financial management requires both the accounting for local payments and the decommitment of unused appropriations to be effected as quickly as possible.

4.8. Each project is normally covered by a single accounting commitment but often includes different types of measure (supply of equipment, technical assistance, construction work, etc.), which are defined, along with the estimated cost, in the financing agreement. Each of these measures then often gives rise to several contracts (separate batches, multiple contractors, etc.).

4.9. Whereas it has developed a system to manage the EDF, the Commission has not created anything comparable which would help it to monitor, by individual measure and contract, the situation regarding 'secondary' commitments entered into in respect of third parties (contracts signed, etc.) and the payments made. Such a monitoring device is, however, an essential prerequisite of sound financial management, and would, in particular, make it possible to detect immediately any specific implementation difficulties, such as overspending on a measure or delays or blockages affecting the implementation of certain measures or contracts.

4.10. The most conscientious administrators keep, on their own initiative and usually by hand, a record of secondary commitments and payments, by contract and, less frequently, by measure. Apart from the fact that they are not always correctly updated, these records are extremely heterogeneous and subject to errors or omissions.

4.11. The Court takes the view that the Commission should give absolute priority to setting up a harmonized system which meets the above-mentioned criteria and to making the information in this system available to all of its departments that are responsible for implementing the Protocols. To this end the Commission could well base itself on the computerized system that its Moroccan delegation has installed for its own needs. It should also be pointed out that the Commission is currently developing a similar system known as 'OLAS' (On-Line Accounting System) for the EDF. This basic requirement of sound financial management is not confined to financial cooperation with Mediterranean countries: financial cooperation with the PVDALA suffers from the same shortcomings.

The measures entrusted to the EIB

4.12. This section of the report is concerned more specifically with loans on special terms and under a broad mandate, in respect of which the EIB has been invested with the broadest responsibilities. The Court's objective is to examine whether the current procedures and systems enable the Commission to manage the Community's budgetary resources adequately.

Legal basis of the EIB mandates

4.13. The Court reiterates the reservations that it formulated in its annual report in respect of the financial year 1982 ⁽¹⁾, i.e. that it is worth enquiring whether the Commission in fact had the legal powers required in order to confer upon the EIB, in November 1978 (see *Annex 2*, paragraph 19), the management of certain appropriations entered in the general budget. The signed agreements are not in fact based on any text signed by the Council and the First Protocols make no mention of the distribution of responsibilities between the EIB and the Commission. Moreover, there are no implementing provisions defining them, and the 'ad hoc' procedure has not yet been established (see *Annex 2*, paragraphs 14 — 17).

4.14. The Agreement signed on 16 June 1987, which relates to the implementation of the Third Protocols with the Maghreb and Mashreq countries, refers to Article 3 of Regulation (EEC) No 3973/86. This Regulation, however, constitutes the implementing provisions for the Second Protocols (see paragraph 3.22). The second mandate was therefore given without a correct legal basis. This also applies to the extension, in November 1989, of this same Agreement to cover the Protocols with Cyprus and Malta.

⁽¹⁾ OJ No C 357, 31. 12. 1983, p. 100, paragraph 10.30.

The Commission's role

4.15. As regards the loans on special terms under broad mandate and operations concerning the formation of risk capital, the EIB has been given full responsibility for identifying, appraising and negotiating without the need for any intervention by or direct involvement of the Commission. The latter is, of course, consulted on the financing projects, but its prerogatives are in fact very limited. The financing proposals submitted to it do not contain sufficient details to allow the projects' technical merits to be assessed. After that it no longer has any control over the decision to grant finance. The 'ad hoc' procedure, which is based on the principle of unanimous voting, has left all the decision-making power to the Council for almost eight years, in an area which concerns day-to-day management. Regulation (EEC) No 3973/86 in its turn allows the Commission the right to oppose (Article 11(2)) any EIB financing proposal which leads to consultation of the Council, as the authority empowered to take the final decision. So the Commission's prerogatives are not thereby increased.

4.16. The situation is particularly worrying as regards interest-rate subsidies. Here again the 'ad hoc' procedure has the consequences referred to in paragraph 4.15. The decision-making procedure adopted by Regulation (EEC) No 3973/86 (Article 11(4)) leaves, in the absence of a favourable opinion from the Article 9 Committee, the power of final decision to the EIB's Board of Directors. In its Opinion No 2/86 ⁽¹⁾ on the draft implementing financial regulation, the Court has already criticized the fact that this mechanism does not allow the competent authority to maintain any control over the appropriations entered in the general budget, with a view to ensuring implementation.

4.17. The proposals for implementing financial regulations submitted by the Commission to the Council in 1977 and 1978 (see *Annex 2*, paragraph 16) and Regulation (EEC) No 3973/86 require the Commission to ensure that the EIB carries out its mandate and that the conditions under which the projects are used by the recipients are satisfactory. At present, the procedures and systems in force do not allow the Commission to comply with these requirements satisfactorily.

4.18. Under the terms of its mandate, the EIB is not bound to send the Commission the necessary documents, in particular the progress and inspection reports. Up until 1984 the Commission did not even have any copies of the financing contracts. The annual report that the EIB submits to the Commission boils down to a list of financing decisions and summary financial statements. On-the-spot inspections and visits of projects receiving finance are only carried out by representatives of the EIB itself.

4.19. As the Court discovered during a documentary audit of two projects financed in Turkey for a total amount of 160 Mio ECU under the Third Protocol, the result of this situation is a total lack of information in the Commission's files regarding the implementation and results of the projects. The EIB mandate, however, expressly limits its responsibilities 'to the sound implementation of the mandate, in accordance with banking practice'. The development objectives are not mentioned and remain the Commission's full responsibility. The latter should therefore procure, on its own initiative or via the EIB, the information that it requires for this purpose. In its special report ⁽²⁾ on the EIB's management of Community development aid funds, the Court has already commented on the inadequate nature of the Commission's files in respect of projects financed by the EDF or by the Protocols and managed by the EIB. The Court reiterated its observations in its annual report for the financial year 1985 ⁽³⁾.

4.20. The Commission does not make appropriate use of the financial information available to it. Thus, for the same two projects financed in Turkey referred to under paragraph 4.19, the absence of a statement of payments made to the EIB and repayments made by it made it difficult, at the time of the audit, for the Court to assess the extent to which accounting commitments had been validated and loans on special terms had been utilized.

4.21. The Commission does not attempt to keep up to date an aggregate statement of part payments against loans from EIB own resources which are receiving interest-rate subsidies. This would allow it, however, once the loans had been fully disbursed, to decommit immediately any appropriations not used for interest-rate subsidies. Under the present arrangement, the Commission waits to be informed by the EIB that a loan has been disbursed before acting. As the Court observed in the case of projects financed in Morocco, this may mean that the appropriations remain unnecessarily committed for several years.

4.22. The Commission is therefore not in a position to fulfil its responsibilities in respect of the implementation of the budget. It is impossible for the Commission to know whether budgetary funds allocated to finance measures managed under mandate by the EIB (see paragraph 4.12) have been utilized in accordance with the Financial Regulation and make it possible for the desired objectives to be achieved.

4.23. In conjunction with the EIB, the Commission should establish the procedures necessary for it to obtain sufficient information on projects managed under broad mandate by the EIB. As is, for example, required by the Committee for Development Banks, which manages aid to

⁽²⁾ Special report No 2/84, adopted on 10.5.1984. This report has not been published but is obtainable from the Court of Auditors.

⁽³⁾ OJ No C 321, 15. 12. 1986, p. 146, paragraph 73.

⁽¹⁾ OJ No C 302, 27. 11. 1986, p. 6, 6th recital.

the PVDALA on behalf of the Community, the Commission should at least be kept informed of the following:

- a) a detailed description of projects together with the technical and economic assessments;
- b) periodic reports on each project's progress;
- c) reports on on-the-spot inspections carried out by the EIB;
- d) any recommendations for technical changes sent by the EIB to the project managers.

The Commission should have full entitlement to participate in on-the-spot inspections by the EIB and should be free to make such audit visits as it desires on its own initiative, in accordance with procedures to be laid down jointly with the EIB.

Measures managed by the Commission

The aid management system

4.24. The quality of the information available in the Commission's files, like its monitoring of project implementation, was very uneven and generally insufficient.

4.25. The projects financed in Malta and Turkey were characterized by a shortage of information on implementation; there was nothing to indicate whether the development objectives had been, or would be, achieved. There was no fundamental difference in the case of projects financed in Egypt, over the achievement of which the Commission does not generally exercise enough control; in the case of the agricultural projects, the situation has improved recently, following staff changes in the delegation. Supervision of the projects financed in Algeria was similarly insufficient, and it was impossible for the Commission to evaluate the results of them.

4.26. The situation was less open to criticism in the case of Morocco, where information concerning the actual execution of the measures financed by the Community was generally available to the Commission; the information was incomplete, however, in that the flow stopped once the Community financial contribution had been used up, and

the information itself did not always cover measures financed by the Moroccan contribution; generally speaking, it was once again impossible for the Commission to assess the effectiveness of these projects.

4.27. There are various factors that give rise to situations of this kind. They all have their origin in the fact that the Commission has omitted to set up an adequate project management system.

The sharing of responsibilities

4.28. The provisions regarding the division of responsibilities between the various Commission departments (see *Annex 2*, paragraph 31) are not always as precise as they should be, and they are not always complied with. The system was seen to be blurred in outline and too complicated; the extreme sub-division of tasks made it difficult to prevent dilution of responsibilities. For example, execution of the credit operation on behalf of small farmers (Morocco) was monitored by neither the officer responsible for the geographical area nor by the officer responsible for the technical aspects, who was convinced that this was a project which was being managed by the EIB under mandate. In the case of the Beypazari lignite mines project (Turkey), the Commission sent invoices to the EIB for payment in November 1987, even though this project was not covered by the EIB's mandate either. Neither DG I nor DG VIII took responsibility for the Lignite prospecting project (Turkey) and a commitment of almost 160 000 ECU has been outstanding for five years, even though the expenditure to be borne by the Commission has been paid in full.

4.29. The Commission should ensure that the division of responsibilities between the various departments concerned is clear and that it is respected.

Instructions

4.30. The Commission had not issued any instructions regarding the structure and content of the files on the projects and measures financed or the nature, frequency or recommended form of the monitoring and of the information to be provided by the central departments and the delegations. These had been left to individual initiative, and in consequence the quality of the files and of the supervision was very uneven.

4.31. The delegations generally draw up annual reports with a special profile for each project or measure. Frequently the comments varied little from one year to the next, which raises questions as to the standard of the monitoring on which they are based; the Court, for its part,

has found such reports to be of limited use in preparing for missions to the countries concerned.

4.32. The files held by the geographical and technical officers were often poorly maintained or incomplete and were very difficult to use as a tool for ascertaining the state of progress of projects or measures, identifying particular weaknesses or problems and evaluating results. This was particularly true of the projects and measures financed in Egypt and Turkey which the Court examined.

4.33. A special effort must be made to improve the quality of these files. Guidelines should be issued, so as to harmonize the organization and presentation of them. A system of periodic follow-up cards (for example at six-monthly intervals) could be created. These cards would indicate, for example, in a very brief form, the state of progress of a project, particular weaknesses or problems encountered, action undertaken or envisaged and the results achieved or to be expected, as well as the extent to which the objectives were being achieved; the system of six-monthly reports and 'warning signals' introduced by the EDF is a useful example in this context. This approach should also be adopted for the annual reports compiled by the delegations, which in turn should be given the attention they need if they are to be of real value.

Work programmes and implementation reports

4.34. The Commission does not always ensure that the recipients fulfil their obligations to submit work programmes, which is, however, stipulated in the financing agreement. In the absence of work programmes it was impossible for the Commission to tell whether activities receiving finance were in fact part of projects, as in the case of the fodder improvement and fodder production improvement projects in Egypt.

4.35. Some financing agreements do not require the aid recipients to submit implementation reports to the Commission. This applied to the projects financed in Turkey up till 1987 under the special aid arrangements and to most of the projects financed in Malta. The Commission did not have a delegation in Turkey until 1987 and it has not always had a representative in Malta. Under these conditions, project monitoring becomes awkward, to say the least.

4.36. There is a similar obligation in the case of the projects financed in the Maghreb and Mashreq countries, but recipients frequently fail to comply with it. The Court was able to confirm this view when it reviewed a sizeable number of projects in Egypt and Morocco. The Commission was unusually unresponsive to such cases. It is also the case that, if the Community is providing the finance for a technical assistance measure for a project, both the Commission and the recipient tend to consider that the

reports compiled by the experts are a substitute for those which recipients are required to supply.

4.37. The financing agreements are very vague as to the nature and extent of the information which must be provided in the implementation reports. As a result, the quality of these reports is frequently inadequate. They are very often confined to a simple description of the work carried out using Community funds and say nothing about measures financed with the recipient country's own funds. In any case, they are rarely of any use as a management tool.

4.38. The Commission should ensure that recipients fulfil the obligations imposed on them under the terms of the financing agreements. The latter documents, moreover, should define far more precisely the nature and extent of the information which is to be included in the work-programmes and implementation reports. They should provide full information on both financial matters and on-site work, which means that they must cover all the measures proposed as part of the project, not just those financed with Community funds. These programmes and reports should also provide an evaluation of the state of progress of the project — both expected and achieved — in terms of the attainment of the development objectives; these objectives must be clearly set out and quantified in the financing agreement; furthermore, in view of the time-lag between the completion of a capital project and the point at which its effects begin to be felt, programmes and reports should continue to be submitted to the Commission even after the Community financial aid has been disbursed fully. If this were so, the Commission would have access to a proper information system which it could use in its project management and which would be a real tool for monitoring the execution of the projects and evaluating their end result. Finally, it should be clear to the recipients that failure on their part to meet their obligations in this area could result in the Community's reviewing its undertaking to provide financial aid.

Evaluation

4.39. Projects should be evaluated systematically during and at the end of implementation in order to assess the effectiveness of the Community aid, size up the difficulties encountered, apply the necessary corrective measures and draw any conclusions that may be of benefit for the future. Only recently, for the projects financed under the Third Protocols with the Maghreb and Mashreq countries, has the Commission begun to include provisions to that effect in the financing agreements.

Staff resources

4.40. As a result of the delays which affect projects, there is very often a succession of people with responsibility for the implementation and monitoring of them within the various Commission departments concerned. The consequence of that is that part of the information inevitably disappears with each person who leaves the department; each person tends to have only a partial knowledge of the project, confined to the phase with which he or she has been associated; if problems arise it is difficult to establish responsibilities. Because of the delays in finding replacements, which sometimes takes several months, there is no continuity of monitoring. The high level of staff mobility makes it even more imperative that instructions be drawn up and adequate supervision established for the officials who are responsible for managing project files.

4.41. Financial and technical cooperation is only one aspect of the agreements signed with the non-member countries of the Mediterranean area. The other main aspect is trade relations, which are even more important in the case of the Maghreb countries. Moreover, delays in implementing the Financial Protocols have also led to an accumulation of projects which are in the process of being carried out. There is no certainty that the Commission departments concerned will be able to carry out their responsibilities under adequate conditions in view of the increase in their workload, and the imminent conclusion of the Fourth Protocols with the Maghreb and Mashreq countries (in principle at the end of 1991) will only aggravate the situation.

The role of the delegations

4.42. The Commission delegations in the recipient countries are required to play an important part in the implementation of cooperation agreements, as it is they who provide the contact with local partners and maintain a direct dialogue with them. The delegations are not free of the weaknesses that have been mentioned above and the negative effect of the latter is aggravated by the geographical distances involved. In particular, it should be pointed out that there were no Commission instructions regarding the precise responsibilities conferred on the delegations, the form of monitoring they are to provide, or the nature of the information they are to provide and the frequency with which they are to provide it.

4.43. In the absence of a reference framework, the quality of the delegation's monitoring of project implementation is very variable and largely dependent on the initiative and conscientiousness of the people in charge of the files. Egypt offers a very good illustration of this. The monitoring of the agricultural projects in that country was rather poor, until

it was realized that there was a need for stricter control (see paragraph 4.25). As part of the effort which should be made to establish an adequate aid management system, to ensure that the central departments and the delegations work together and to increase the effectiveness of the projects, the Commission should pay particular attention to providing a clear definition of the delegations' responsibilities during the execution and monitoring of projects and should consider ways of checking the quality of their work.

5. THE IMPLEMENTATION AND RESULTS OF FINANCIAL AND TECHNICAL COOPERATION

Audits by the Court

5.1. The following section of the report is based particularly on the results of the audit work carried out by the Court between 1986 and 1990 ⁽¹⁾. *Table 5* provides an overview of the projects and measures audited by the Court, with the amount of aid granted for them by the Community. In total they represent a financial package amounting to slightly more than 500 Mio ECU, 55 % of the total budget finance for the Protocols concerned.

5.2. The representativeness of the sample of projects and measures examined by the Court was, in fact, higher, as it is the state of budgetary implementation at the time of the audits, rather than the total financial package, that should be taken as the reference point.

(1) The Court made on-the-spot visits to the following countries:

- a) Egypt, first in September/October 1986 and again in January 1990;
- b) Jordan, October 1986;
- c) Malta, September/October 1987;
- d) Algeria, June 1988;
- e) Tunisia, November 1988;
- f) Morocco, October 1989.

In the case of the projects financed in Turkey, a documentary audit was carried out at the Commission at the beginning of 1990. The on-the-spot visits were preceded by a review of the files in the various Commission departments responsible. The visits including working meetings with the Commission delegations, discussions with representatives of national and local authorities, the organizations responsible for implementing projects and technical assistance teams, as well as visits to the parts of financial projects that were already under way, and interviews with recipients (farmers, trainees, etc.).

Table 5 — List of projects and measures audited by the Court on the spot or on the basis of documents 1986-1990

	Third Protocol (Mio ECU)	% of overall budget	Special aid (Mio ECU)	% of overall budget
TURKEY				
1. Karakaya hydroelectric complex	85,0			
2. Elbistan thermal power station	75,0			
3. Beypazari lignite mines			22,0	
4. Lignite-related prospecting			8,0	
	160,0	72	30,0	40
	First Protocol (Mio ECU)	% of overall budget	Second Protocol (Mio ECU)	% of overall budget
MALTA				
5. Technical assistance and training programme	4,60			
6. Port of Valetta	5,00			
	9,60	96	— ⁽¹⁾	—
ALGERIA				
7. Establishment and extensions of vocational training centres	11,70			
8. Ministry of Commerce support	2,20		2,75	
9. Executive training in the public works sector			4,00	
10. Executive training for heavy industries				
	13,90	31	6,75	15
MOROCCO				
11. National veterinary vaccine production laboratory	2,36			
12. Lexar lexicographical database	0,40			
13. Haouz Central improvement	16,00			
14. Institute of applied technology — vocational training	15,30		19,00	
15. Aït Chouarit dam			42,00	
16. Credit operation for the benefit of small farmers			26,56	
17. Sale slum clearance scheme			18,00	
	34,06	46	105,56	96

⁽¹⁾ At the time of the Court visit, the state of budgetary implementation did not merit audit.

	First Protocol (Mio ECU)	% of overall budget	Second Protocol (Mio ECU)	% of overall budget
TUNISIA				
18. Establishment of vocational training centres	3,90			
19. Training scheme for the benefit of the Institut de financement et de développement tuniso-algérien (IFID)	0,23			
20. Marine science research programme	0,24			
21. Agricultural loans scheme BNDA			18,07	
22. Technical assistance for the BNDA			0,67	
23. Finance for small and medium-sized agricultural and agroindustrial measures — global loans			14,13	
24. Finance for 10 trawlers BNDA			3,02	
25. Economic and technical survey for the establishment of date-palm groves in the Réjim-Maatoug region			1,90	
26. Technical assistance for the IFID			0,27	
27. Increased research capacity Water resources directorate Ministry of Agriculture			1,00	
28. Inventory of southern Tunisian soil resources			0,40	
29. Improvement of irrigation management			2,50	
	4,37	8	41,96	68
EGYPT				
30. University cooperation	2,85			
31. Investment promotion	2,00			
32. Agency for the development of renewable energy sources, Egypt	7,70			
33. Helwan sewerage	32,04		20,30	
34. Agricultural storage at Daqahlia	6,00		4,00	
35. Sinaï water resources studies	2,08		3,00	
36. University cooperation on marine sciences			3,00	
37. Fodder improvement			2,40	
38. Improvement of fodder production			1,30	
	52,67	68	34,00	27
JORDAN				
39. Agricultural loan to small farmers — Agricultural Credit Corporation	3,70		1,66	
40. Jordan Valley Authority seedling production unit	0,95			
41. Assistance to the Royal Scientific Society	0,98			
42. Assistance to the Science Faculty of Yarmouk University	2,50		2,50	
43. Assistance to the Engineering and Technology Faculty of the University of Jordan	6,68			
	14,81	67	4,16	16

Total budgetary aid for the projects/measures examined : 511,84 Mio ECU

Total overall budget for the Protocols concerned : 942,00 Mio ECU

Proportion of the overall budget examined : 55 %

5.3. With the exception of Turkey, it was not possible to audit any projects financed under the Third Protocols, as implementation of them was only just beginning at that point. The Court did not carry out any audits of project financing in Lebanon because of the internal situation there, or in Syria, in view of the state of relations between the Community and that country. For similar reasons, financial and technical cooperation with these two countries was virtually at a standstill. As the Court stated in its Annual report concerning the financial year 1987 ⁽¹⁾, it was unable to carry out an on-the-spot audit in Cyprus because the Cypriot authorities refused permission for the audit, on the grounds that the EIB had opposed it.

5.4. The observations made by the Court in this section of the report are concerned with the Protocols covering the projects audited. This therefore rules out the Third Protocols, with the exception of the Protocol with Turkey. The Court's observations and findings refer to the state of projects at the time of the audits.

Budgetary implementation

General observations

5.5. *Table 2* traces, by country and geographical area, the changes in the financial packages provided from budgetary resources in accordance with the provisions of the protocols, as well as the commitments entered into and the payments effected. These figures are illustrated by *Graphs 4-18*. *Table 4* shows the position with regard to the utilization of the sums allocated and the execution of commitments at 31 December 1989.

5.6. Overall, the rate of budgetary implementation of the Protocols is slow. As of 31 December 1989, commitments amounted to approximately 1 322,9 Mio ECU, 79,7 % of the total financial package; payments effected amounted to approximately 795,6 Mio ECU, or 47,9 % of the total and 60,1 % of commitments entered into.

5.7. In the case of the countries of the northern Mediterranean (Turkey, Cyprus and Malta), 95,4 % of the financial package had been committed and 82 % disbursed. It must be remembered, however, that Turkey accounted for the major part of the finance available for this area (more than 80 %) and that it had been granted the aid in question around ten years earlier.

5.8. The sums allocated to the First and Second Protocols with the Maghreb and Mashreq countries were almost fully committed, with the exception of the First Protocol with Algeria. The payments effected represented 83,1 % of the total finance for the First Protocols, and 55,4 % of that for the Second Protocols. In the case of the Third Protocols, which took effect during 1988 and were therefore almost halfway through their period of implementation at the review date, commitments represented slightly less than half (46,8 %) the financial package; it should, however, be noted that the level of utilization was markedly higher for the Maghreb countries (65 %) than for the Mashreq countries (24 %). The payments were only just beginning then and amounted to only 2,8 % of the amount of the total financing and 5,9 % of the amount of commitments entered into.

5.9. Taking the table showing the utilization of the various financial packages at the end of the period of application for each of the expired Protocols (see *Table 3*), it will be seen that a significant proportion had still not been committed at that point; the residue amounted to more than 20 % for the Maghreb and Mashreq countries as a whole and fluctuated between 30 % and almost 50 % in the cases of Algeria and Egypt.

5.10. At the same dates, between 70 % and 80 % of the total finance allocated remained to be paid out, although the rate of payment was faster for certain countries, such as Cyprus, Malta (First Protocol), Morocco and Jordan. Thus, as can be seen from *Table 2* and *Graphs 4-18*, in the case of these countries it takes about five to eight years to disburse the financial package for a given Protocol; for the other countries, and Algeria, Egypt, Lebanon and Syria in particular, the rate of payments is so slow that it sometimes takes more than ten years. The observed variations are the result of the particular, and highly dissimilar, situations within each of these countries (see paragraphs 5.12 — 5.19).

5.11. The Community global guarantee for loans granted by the EIB from its own resources to the ten countries discussed in this report (see *Annex 2*, paragraph 6) represented around 789,7 Mio ECU at 31 December 1990, which was the full amount of loans granted. The guarantee has been invoked on several occasions since 1988, to cover obligations that Lebanon and Syria were unable to meet. As at 31 December 1990 the total amount for payments effected in this way from the general budget was around 21,6 Mio ECU; Lebanon and Syria have already repaid some 8,3 Mio ECU of this total.

Turkey

5.12. Following the *coup d'état* in Turkey in September 1980, the Commission froze the residual 29 Mio ECU of special aid, which then remained frozen until 1986 (see *Table 2* and *Graph 4*). In certain cases the implementation of projects that had been approved before the freeze was

⁽¹⁾ OJ No C 316, 12. 12. 1988, pp. 135-136, paragraphs 9.6 - 9.8.

also affected; the start of the Bepazari lignite mines project was delayed by two years because a parallel technical assistance and training project was held up. On account of the human rights situation and the Cypriot problem, the Fourth Protocol, which was initialled in June 1981, has still not been sent to the Council.

Malta

5.13. The relative speed with which the First Protocol with Malta was implemented (see *Table 2* and *Graph 6*) was due to the fact that the Community financial aid had been granted for measures which were already substantially under way, not to say completed. It was a matter of reimbursing expenditure which was deemed to be eligible and could be identified and examined very quickly. There was a marked difference in the case of the Second Protocol: the overall budget was indeed committed in full over a period of two years, but the payments did not begin to filter through until 1989.

Algeria

5.14. The implementation of the First and Second Protocols with Algeria was marked by particularly serious delays (see *Table 2* and *Graph 8*) due to a combination of adverse circumstances. Algeria's relative prosperity at the start of the 1980s, the policies pursued by that country, which to some extent closed it to the outside world, and the fact that the amount of Community aid was deemed to be minimal resulted during that period in a certain lack of interest in financial and technical cooperation with the Community on the part of the Algerian authorities. Difficulties were encountered in defining the objectives of such cooperation and identifying the actual measures and projects to be financed. In the case of the first two Protocols, the programming exercise required several years. The implementation of projects then came up against other difficulties in the form of administrative procedures; the national authorizing officer proved to be weak and inefficient; the Algerian government's refusal to change its customary procedures in order to comply with the Community tendering procedures also proved to be a major obstacle.

Morocco

5.15. The higher rate of implementation that was observed in the case of Morocco (see *Table 2* and *Graph 9*) was due to that country's interest in Community financial aid which, admittedly, was more substantial. The authorities responsible for implementing the projects were generally competent and efficient. The particularly rapid rate of payments in the case of the Second Protocol was also due, however, to the special nature of these payments: in

some cases they represent advance payments and in others fast, global transfers of finance which are reflected in accounting entries, but not in progress on the ground; there were also instances where the Community financial contribution was granted for the execution of works that were already substantially under way.

Tunisia

5.16. The rate of execution for financial and technical cooperation with Tunisia was middling. Up to 1985 there was a considerable delay in implementing the Second Protocol (see *Table 2* and *Graph 10*) due to the nature of the projects and measures financed (agricultural sector) and to the change of national authorizing officer at the end of 1983. The rate has speeded up since then.

Egypt

5.17. In the case of Egypt (see *Table 2* and *Graph 12*), the projects were particularly late in starting up, owing to the phases prior to execution. This was due to the time taken to produce the project profiles, define the components precisely, examine and approve them, sign the financing agreement and select contractors at the end of the tendering procedures. Very often it was three years before projects could start. Implementation of them then encountered a number of constraints, not least of which were the cumbersome national bureaucracies, the inertia which damaged the projects' chances of success and the lack of capacity, particularly in terms of financial and human resources, within the bodies responsible for executing these projects and measures.

Jordan

5.18. The rate of implementation was considered to be satisfactory in the case of Jordan (see *Table 2* and *Graph 13*). The general climate was more favourable as, in the first half of the 1980s, Jordan was a relatively wealthy country, with a relatively high level of education and training among the population. Community financial aid was concentrated on a fairly small number of projects in the field of vocational and university training and agricultural production.

Lebanon

5.19. The implementation of the Protocols with Lebanon has been held up by the civil war in that country (see *Table 2* and *Graph 14*). This applies particularly in the case of the Second Protocol which, even though the overall budget has been committed in full, had not resulted in any kind of achievement on the ground for several years, and also in the case of the Third Protocol, for which no commitments had yet been entered into.

Project conception

5.20. Project conception is a key factor in the satisfactory execution and effective utilization of Community funds. The audits carried out by the Court showed up a number of weaknesses in the conception of the projects examined which had negative repercussions when the projects were carried out.

Project environment and objectives

5.21. The decision to finance a project or measure is sometimes open to criticism because it fails to take account of an unfavourable environment which considerably impedes the attainment of the socio-economic objectives from the outset.

5.22. In Egypt some of the agricultural development projects were practically doomed to failure from the moment they were launched because of controls on farm prices and the subsidies paid on certain foodstuffs. Advisory measures presuppose an existing network of cooperatives or advisory services, but, in fact, they did not exist or were inoperative. It was impossible to make optimum use of some investments because of supply quotas on the raw materials.

5.23. In Morocco the production and marketing of certain veterinary products was stymied by a price-fixing system which promoted the distribution of imported products, even though they were more expensive.

Local partners

5.24. In Egypt, agricultural projects which were primarily targeted on development, advisory and/or distributional

measures had been placed with research institutes which did not have the resources to carry them out successfully.

5.25. In Tunisia, the organization responsible did not, at the time when the agricultural loan operations were launched, have the local structure that was necessary for fast and efficient implementation of the system of loans for promoting the development of small and medium-sized agricultural holdings.

5.26. In Algeria the problem was more general, because the national authorizing body did not perform the functions expected of it (see paragraph 5.14). Due to the small number of staff, who had very little training for work of this kind, the organization was unable to manage the development aid funds correctly. It did not have the power to exert a positive influence on the progress of measures and was unable to mediate between the various government departments. The effects of this weakness were particularly apparent in the management of projects.

Finance plans

5.27. Community financial aid was sometimes granted for projects for which no clear financing plan had been established, or even where there was no adequate guarantee that all the necessary resources would be obtained.

5.28. In Turkey, the Community contribution was granted for a project that was already under way, in order to make good some of the shortage of funds that had arisen in the financing plan because of delays in carrying it out; the financing proposal mentioned contributions from other sources of funds, but said nothing about the amount.

5.29. In Morocco, the Commission and the EIB were cofinancing a project on the basis of their respective estimates of the expected cost, which differed by around 21 Mio ECU and for which the financing was, ultimately, far from assured.

5.30. The drafting of the financing agreements should be tighter, more precise and more realistic and the agreements should be used as the basic reference document for the implement of the project and the evaluation of its results.

Implementation timetables

5.31. The financing agreements generally only mentioned an overall duration or a final completion date, without going into great detail. The projects often included different types of measures (supply of equipment, technical

assistance, construction work, etc.), but the programming of timetables that is needed for efficient coordination of measures did not exist.

5.32. In most cases the schedules were unrealistic and, for that reason, rarely respected. They assumed that the conditions under which they were to be implemented were ideal, whereas such conditions are far from prevalent in countries like those where the projects are financed; the limitations in question are, however, widely known (procedural problems, weakness of government departments, shortage of human and financial resources, etc.), especially to the Commission. These factors should be taken into account when the projects are being defined, since failure to do so jeopardizes the viability of the financing plans, makes it difficult for management to plan ahead (planning operations, budget forecasting, etc.) and deprives it of a reliable reference point on which to base a correct evaluation of the difficulties encountered, corrective action to be taken, progress made and results achieved. The necessity of drawing up a tight, realistic schedule is underlined by the provisions concerning the deadline for implementation of contractual obligations, which were introduced by Council Regulation (ECSC, EEC, Euratom) No 2049/88 of 24 June 1988 ⁽¹⁾.

The Community resources committed

5.33. In some cases Community resources were committed in quantities that were clearly (to the Commission, especially) substantially in excess of the requirements for the projects concerned. As a result of this practice Community aid was being tied up needlessly, sometimes for many years.

5.34. In Morocco, some 4,3 Mio ECU were committed for a project, unnecessarily, because the Commission had omitted to take into account the weakening of the Moroccan currency and the Moroccan authorities' decision to take over the works which were, initially, to have been financed by the Community. In another case, the Community contribution was made on the basis of unduly pessimistic financial estimates, which however provided the justification for transferring to that project the entire 24 Mio ECU originally earmarked for another project; in fact, the real cost of the operation was around 20 % below the forecasts and the Community, which was to have met approximately 70 % of the cost of the project, financed virtually all of it.

5.35. In the case of a project in Egypt, the Commission knew for certain when the financing agreement was signed that the commitment exceeded the cost of the works by around 1,3 Mio ECU: the contract for the works had already been signed several months before.

The form of aid chosen

5.36. The Court found in the case of a number of projects in Algeria, Morocco, Tunisia and Malta that the financing made use of several, if not all, of the instruments provided for in the Protocols (subsidies, loans on special terms, loans by the EIB from its own resources and interest subsidies), without clearly stating the grounds on which a particular choice had been made, whether the nature, the repayment period or the profitability forecasts for the proposed investment.

Execution of projects

Delays

5.37. A majority of projects were experiencing substantial delays, of several years, both before they started and during execution. For example, mention may be made, without making an exhaustive list of cases, of the following, starting with the Elbistan power station (Turkey), which was to come on-stream in 1983, whereas it took until the end of 1989 — nine years after the finance was granted — for the loan on special terms to be disbursed in full. A further two years were required, after the conclusion of the work, before the installations at the National laboratory for the production of veterinary vaccines (Morocco) began to be used. Even though the Aït Chouarit and Sidi Driss dams and the Canal de Rocade (Morocco) were completed by the deadlines, there will have been a delay of ten years, at least, before the objectives of the hydro-agricultural refurbishment projects are achieved. Work on the first stage of the Helwan (Egypt) sewerage project began at the end of 1986, two years after the date when it was, theoretically, to have been completed; work on the second stage was supposed to start at the end of 1989 and was already, at the very least, one year behind schedule. The promotional and advisory work for the Fodder improvement project (Egypt) had barely started when the technical assistants left the project. The Agricultural Loans — BNDA (Tunisia) project was to have been completed by the end of 1988; as of that date less than half the aid had been utilized. The start of the irrigation management improvement project (Tunisia) was affected by serious delays. It had taken something like ten years to finish the Creation and extension of vocational training centres project (Algeria), which was scheduled to last four years.

5.38. The implementation of projects may, of course, be affected by unexpected constraints, which cannot easily be foreseen. In the majority of cases, however, the delays are always due to the same familiar causes, including the slowness of procedures, defective administrative structures, lack of coordination or a local shortage of human

⁽¹⁾ OJ No L 185, 15. 7. 1988, p. 3, Article 1(1).

and financial resources. It is this environment, which is so uncondusive to unimpeded implementation of projects, that ought to be taken into account at the planning stage.

Major project modifications

5.39. It was not unusual for there to be radical changes in the content, or even the general direction, of projects during implementation, without any advance review being carried out to demonstrate the need and justification for such changes in terms of the environment, resources or objectives. On occasion, these changes were made simply at the initiative of the organization which was implementing the project, without the Commission being either informed or consulted.

5.40. In Turkey, the Turkish partner doubled the production objective shortly after one project started; the volume of investment needed was virtually tripled, and whereas the Community was to be the only promoter in the beginning, other sources of finance were called upon. The Commission files do not contain any details of the circumstances which led to the modification.

5.41. In Egypt, a series of substantial changes were made to a storage installation construction project, with the delegation's assent, but without the Commission's agreement. There was such a lack of transparency, that, when it came to the financial preparations for the second phase, the Commission department responsible had to enquire as to the nature of the work that had been done during the first phase. There was no improvement in the situation during the second phase, when the Court and the delegation discovered in the course of their visits that the recipient was using the Community funds as he liked, without any regard for the financing agreement. Owing to the fact that no reliable research had been done, one project for the provision of advisory services and the development of fodder production embarked upon an experimental programme, without the project's aims being redefined beforehand.

5.42. In Tunisia, a project to finance ten trawlers was defined in terms of a type of fishing that was tending towards industrial-scale operations. The loan was granted on special terms (broad mandate) and afterwards the EIB was informed that the specification for the trawlers was different from that which had been adopted at the time of the preliminary study. The change was not questioned, even though as a result Community aid was going to finance an increase in traditional-style fishing, and, in the medium or long term, the project was likely to be contrary to the interests of Tunisia's development.

5.43. As regards the programme for middle management training in the civil engineering sector in Algeria, the

financing agreement, which was signed more than two years after the Commission decision, was substantially different from the initial project. For example, the aim was no longer to retrain middle management; instead, training staff were to be trained in technical institutions. From this new standpoint, the measures to be carried out in the form of scholarships and technical assistance had been substantially revised.

Technical assistance

5.44. The quality of the benefits provided by technical assistance financed by the Community can be affected by various factors, such as the quality of the experts themselves, lack of coordination of the technical assistance with the other components of the project or, occasionally, difficult working relations between the experts and the local supervisory staff.

5.45. In Egypt, the quality of the experts could be queried in the first stage of a study of the water resources of the Sinai peninsula: it resulted in a general lack of information and documentation on the work carried out and the results obtained.

5.46. In Tunisia, a project for the improvement of the management of irrigated areas was hampered by frequent changes of experts, whose work, and their reports in particular, were of poor quality.

5.47. In the case of several projects in Algeria and Egypt, the technical assistance was used prematurely in view of the progress of the other components of the projects (construction work, materials purchasing) and the benefits derived by the projects were accordingly reduced.

5.48. In one project for the improvement of fodder production in Egypt, the relations between the experts and their local counterparts suffered from a difference of opinion on the very orientation of the project and a lack of coordination. In one university cooperation programme, the personal relations were so bad that there was total disagreement on the approach to the work and how to carry it out; this led to the resignation of the British head of the projects, though it did not solve the problems.

Recipients' commitments

5.49. Recipients often do not comply at all with the commitments which they give in the financing agreements or often do so only after extended delays. The same may be said of their providing their financial contribution, making the sites, facilities or necessary personnel available,

providing the administrative structures planned for the execution of the project, or even observing the Community procedures for tendering and awarding contracts. Such omissions cause substantial delays and jeopardize the achievement of the objectives and occasionally even the whole approach to the project.

5.50. In a slum clearance project in Morocco, the establishment of the socio-administrative structures, and of the medical and school infrastructures in particular, was significantly behind schedule and there was reason to doubt the sincerity of the Moroccan party's professed intention to carry them out (see paragraph 5.65). Community aid for a credit operation on behalf of small farmers was supposed to be managed separately but these provisions were not being respected.

5.51. A vocational training programme in Algeria mainly suffered from failure to comply with the agreed procedures for tendering and award of contract. Having been informed after the event, the Commission was prevailed on to agree to multiple derogations.

5.52. In Egypt, the beneficiary in a project for the construction of storage installations decided what work was to be done in the light of its own strategy, rather than in accordance with the financing agreement. Another project was being delayed by the inability of the Egyptian partner to make its financial contribution available in good time; the Commission has even agreed advances which have not been repaid. The non-availability of a few hectares of desert site in a country with 750 000 km² of surface area, 96 % of which is desert, is an essential factor in the failure to carry out a large part of a research programme on soil improvement. In spite of continual reminders from the delegation, the structure planned and needed to ensure the operation, maintenance and management of a major water treatment system has still not been set up.

Administrative structures

5.53. The implementation of projects often suffers because there are too few staff, staff training is inadequate, and the staff themselves are undermotivated or subject to frequent transfers. Lack of coordination between the various parties concerned, both local and foreign, is also frequently observed. These findings apply to a number of projects in agricultural development, vocational training or research in Algeria, Tunisia, Egypt and Jordan.

Effectiveness of projects

General observations

5.54. The effectiveness of financial and technical cooperation varies considerably from one country to another, and a separate analysis should therefore be made of each. In substance, the effects of projects financed in Jordan and Tunisia generally give cause for satisfaction. In Morocco, the implementation of the projects has not generally run into any particular obstacles and some are clearly successful; others, which are far from the least significant in financial terms, show that the achievement of the objectives has been considerably delayed, or even jeopardized, because the measures for which the Moroccan party is responsible have not been executed as planned or risk never being executed. There is no doubt as to the effectiveness of the projects financed in Malta; there was, however, no concept of cooperation, the Community aid being confined to financing operations which were practically completed. The implementation of projects in Egypt is extremely laborious, mainly due to the shortcomings of the local partners; in terms of results, failure, if not a fact, is often to be feared. Financial and technical cooperation with Algeria has been hit by a particularly adverse context which has hampered implementation to the extent that no results can be expected at this stage. A check on records at the Commission does not allow the effectiveness of Community aid to Turkey to be assessed, for lack of the necessary information.

Turkey

5.55. The inadequacy, or lack, of information in the Commission's files does not allow any documentary evaluation of whether the four projects which were examined and which accounted for total financial aid of 190 Mio ECU, or nearly 65 % of the overall budgetary package for the Third Protocol and the special aid, achieved their objective of contributing to increasing electric power production. In the case of the two projects administered under a broad mandate by the EIB, i.e. the Karakaya Hydroelectric Complex and the Elbistan Power Station, it is not even possible to determine what exactly the 160 Mio ECU of budgetary aid was used to finance. The two projects managed by the Commission, the Beypazari Lignite Mines and Lignite prospecting, did not go beyond the supply of equipment for the latter and the development objective was disregarded.

Malta

5.56. Generally speaking, the projects covered by the First Protocol met justified needs, were implemented satisfactorily and produced the expected effects. The technical assistance and training measures were generally of high quality and satisfied the Maltese agencies. The modernization work on the port of Valetta went ahead without a hitch and the profitability of the investment seems guaranteed. However, there was no evidence of the very idea of cooperation in the application of the First Protocol. It amounted in fact to straightforward financial aid for measures which were far advanced, if not completed.

Algeria

5.57. One of the priorities set for the first two Protocols was, after the reduction of the food deficit, meeting the considerable requirements in terms of training of managerial staff and skilled labour necessary to achieve the economic and social development objectives; there is no doubt that Community aid in these areas has been useful. Its implementation, however, occasionally meets substantial difficulties. The general context has, until very recently in any case, been particularly unfavourable, as manifested in the Algerian authorities' lack of interest in Community aid (see paragraph 5.14). The low rate of budgetary implementation illustrates this (see *Table 4*). In these circumstances, it is difficult to expect tangible results as things stand at present.

5.58. It has taken about ten years to complete the project for the creation and extension of vocational training centres, which was planned to last three or four years. It is impossible to evaluate the impact of the Community expenditure for that part which had been carried out when the Court carried out its audit; in any case, it is doubtful that the objective was achieved in terms of creating training posts for the various sectors of construction and industry. The human resources mobilized by this project and the difficulties encountered were out of all proportion to its effects.

5.59. The project in support of the Commerce Ministry, launched in 1987 and intended to provide training measures which would allow the export capacity of Algerian undertakings to be developed, cannot be carried out because the Algerian party itself and the Commission are unable to define the nature of the aid which the Community is supposed to provide. The changes which have taken place in the Algerian economic landscape call for a review of the conclusions of the study on which the project is based, but the Algerian authorities are not in a position to draw up a specific request.

5.60. In spite of a long appraisal period (three and a half years), the financing agreement for the project for training managerial staff from the public works sector does not contain the elements necessary for the project to be carried out. In particular, it makes no mention of the schedule for the execution of the various measures and it does not define the nature of the technical assistance contemplated. Algerian students are following, or have followed, training programmes in the Community, although there is no means of ensuring that the grants awarded fit within the framework of the project. In the absence of any technical assistance, which is preventing the project from getting off the ground, it is doubtful that the recipients of grants, once trained, will carry out training duties in the bodies covered by the project.

5.61. The seminars which have already been organized in the context of the project for training managers in heavy industry seem to have lived up to the Algerian party's expectations as regards the transfer of know-how. It will, however, be difficult to evaluate the impact of the project, because the financing agreement makes no attempt to define the measures to be carried out in anything other than monetary terms.

Morocco

5.62. By comparison with what is observed in other countries, the actual realization of the projects in Morocco gives ground for relative satisfaction. Nevertheless, while several of the projects examined are clearly successful (see paragraphs 5.68 — 5.69), certain others are not, particularly the project for a credit operation on behalf of small farmers, the exact use made of the Community funds for which remains unknown (see paragraph 5.63). The other projects, the usefulness of which is not contested, will be able to achieve their objectives fully only if the Moroccan authorities ensure that the measures for which they are responsible are carried out (see paragraphs 5.65 — 5.67).

5.63. The credit operation on behalf of small farmers financed the rescheduling of the debts of around 70 000 farmers with financial difficulties due to repeated droughts. In the absence of any information on the collection of these debts, it is impossible to know whether this measure produced lasting effects: some information obtained by the Court gives grounds for doubt, at least where certain regions which have continued to suffer adverse weather conditions are concerned. The Caisse Nationale de Cr dit Agricole has not kept to its undertaking to manage operations linked to the credit line funded by the Community separately; there is therefore no means of checking that the funds recovered since 1985 have effectively been re-used for similar operations or for granting loans to small farmers on the most favourable terms. The Commission is largely responsible for this state of affairs since, once the Community contribution was paid out, it did not monitor the project.

5.64. The LEXAR lexicographical database project was used to prepare a computerized dictionary of scientific and technical terms. However, this database cannot be used for the present, no works have been published, nor have any computer access networks been set up.

5.65. The development work for the Sale slum clearance project is going ahead relatively satisfactorily and, at this stage, three of the four shanty towns have been cleared. The relocation of the families to the prepared plots and the programme for the construction of individual housing seem to be making normal progress. The considerable delay in providing the socio-administrative facilities, which are the responsibility of the Moroccan party, does however encourage the fear that, now that the land occupied by the slums has been practically cleared, the Moroccan authorities have lost interest in this operation; the relocated families would thus once more be isolated in an area with none of the necessary medical, school or commercial infrastructures.

5.66. This provides one further example of lack of monitoring by the Commission, which is all the more regrettable since, when the project was approved, in view of the importance of the socio-economic aspects of the operation, the *ad hoc* committee expressly asked the Commission to take particular care to monitor its execution.

5.67. With the Development of the Haouz Central and Aït Chouarit Dam projects, the Community took part in the realization of the heavy infrastructures necessary for a valid and ambitious development plan which was supposed to allow more efficient and economic water use and an increase in foodstuffs production. For technical and financial reasons, however, the schedule for the execution of the Haouz development plan is in disarray and the infrastructures which the Community played a part in financing are, with the exception of the Marrakech drinking water supply, not as yet being used for the intended purposes. If the uncertainties threatening more than one half of the planned irrigation network are removed and if the hydro-agricultural developments progress at the desired rate, something which has not been observed to date, the first stage of the irrigation of the Haouz plain will at best be complete ten years behind the initial schedule. Here again, the Commission's monitoring was insufficient because it was confined solely to the civil engineering work and ended when that was completed in 1986.

5.68. In spite of a two-year delay in the commissioning of the installations, the national veterinary vaccine production laboratory has achieved its aims as regards staff training and the production of vaccines against diseases of sheep. The laboratory offers quality products along with the speed and flexibility needed for effective vaccination campaigns. For the moment, the production of fowlpox vaccines is being hampered by a price fixing system which encourages the distribution of imported products. Greater

autonomy of management ought soon to allow the laboratory to develop its activities, particularly towards the private sector. The Commission's monitoring has been satisfactory; a project evaluation study was even carried out at its request by a consultant.

5.69. There is every indication that the projects to train staff for and to equip ten institutes of applied technology/vocational training are achieving their aim of providing the Moroccan economy with the technical staff it needs, mainly in the industrial, building, public works, commercial and general services sectors. With a few exceptions, the training programmes have started as planned and the attendance rate at the centres is satisfactory. The trained technicians do, however, have difficulties in finding a job outside the most developed and industrialized areas of the country.

Tunisia

5.70. In spite of certain extrinsic difficulties in implementation, financial and technical cooperation with Tunisia has proved to be positive overall. Some reserves may be expressed on the possible outcome of certain projects (see paragraphs 5.71 — 5.73), but, otherwise, the Community's financial intervention has achieved the aims laid down (see paragraphs 5.74 — 5.76).

5.71. The project for the creation of vocational training centres suffered from a lack of coordination, and one of the three centres built has proved unsuited to the type of teaching which was aimed at. The premature withdrawal of the technical assistance financed by the Community reduced the project to the supply of equipment.

5.72. As a result of the scaling-down of the vessels (see paragraph 5.42), it is doubtful that the project to finance ten trawlers can allow the expected increase in industrial fishing which had provided the grounds for Community intervention.

5.73. At the time of the audit, it was too early to try to assess the results of the projects for an agricultural credit operation and for financing small and medium-scale agricultural and agro-industrial initiatives by global loans. In fact, however, particularly due to the repeated droughts, many loans have had to be rescheduled and may even be irrecoverable. The risk of a drain on the working capital constituted by the Community aid cannot be ruled out.

5.74. The technico-economic study of the creation of date-palm groves in the Régim-Maatoug region offers very

promising development prospects; an initial plan, financed by the Community (15 Mio ECU), provides for the development of around 1 000 hectares to allow populations to be established in these regions and production to be developed for which considerable outlets exist.

5.75. The project to develop the research capacity of the Directorate of Water Resources of the Ministry for Agriculture seems to have achieved its objectives of contributing to better management of the resources mobilized and to the pursuit of research for mobilizing new ones. It constitutes a fundamental basis for precise evaluation of water potential and its use, especially for the extension of irrigated surfaces.

5.76. The project for an inventory of soil resources in southern Tunisia has allowed maps to be drawn up, sectors with potential for agro-pastoral development to be located and detailed pedological studies to be carried out, which ought to provide an incentive to start up the agricultural development projects which are part of the national strategy to combat desertification.

Egypt

5.77. A considerable number of projects examined failed to achieve their objectives. For some, it is hard to establish the nature of the activities being carried on (see paragraphs 5.78 — 5.81). For others, the impact of Community aid is doubtful owing to the inability of the Egyptian partner to make effective use of the installations which were financed (paragraphs 5.82 — 5.85). One of the projects examined, which is not yet complete, seems to offer encouraging prospects (see paragraph 5.85).

5.78. Almost half of the measures provided for in the investment promotion programme had to be abandoned because of the mediocre services provided by the Egyptian agency which was responsible. In the absence of any activity report, in spite of the Commission's repeated requests, the results of the measures undertaken are hard to establish; some ten Community firms have reportedly set up some activity in Egypt.

5.79. The first stage of the study on water resources in the Sinai peninsula was seriously affected by a whole set of hindrances, not the least of which were the weakness of the technical assistance, the lack of human resources, delays in the delivery of equipment, lack of coordination and programming of work and insufficient monitoring on the Commission's part. Although it is too early to venture an opinion on the possible outcome of the second stage, it is starting up on more promising terms, since it would seem that lessons have been learned from the past weaknesses.

5.80. A real systematic study programme has yet to be set up for the marine biology research project under the university cooperation programme. The strained relations between the staff of the faculty (see paragraph 5.48) make it difficult to recruit students. There is also a risk that getting the studies under way will be further hampered by the relocation of the research station to a site which has neither easy access nor any of the facilities required.

5.81. With the exception of a necessarily modest experimental programme launched by the technical assistance, the project for the improvement of fodder production has had no effect other than to finance the normal operation of the department of the research institute concerned and the purchase of equipment which has not been used and probably cannot be used. It is clear that the project will not allow the dissemination of improved fodder timetables that are better suited to the farmers' needs.

5.82. The project for the improvement of livestock fodder was limited to an investment and construction phase but did not allow any improved fodder techniques to be made available to small farmers. The production and distribution capacities built remain considerably under-used. The advisory work has not even started. The gradual deregulation of the agricultural sector since 1988, which ought to lead to the abolition of subsidies for traditional animal feeds, may hold some interesting prospects for this project after it has been completed. The installations financed can be put to valid use so long as their management is entrusted to an efficient, motivated body, which hitherto has not been the case.

5.83. The first stage of the agricultural storage project in Daqahlia permitted the construction of necessary good-quality warehouses which met the requirements. Their maintenance, however, is liable to cause concern sooner or later. More fundamentally, in the current circumstances these buildings cannot play a part in achieving the aim of reducing storage losses of foodstuffs; the warehouses visited by the Court all held fertilizers in plastic sacks, while the rice, in jute sacks, was stored in the open, without adequate protection. The beginnings of the second phase would seem to prove that the Egyptian agency uses Community funds as it sees fit. Thus, without consulting the Commission beforehand, it has decided to substantially amend the nature and location of the warehouses to be built, and it remains to be seen whether, unlike those already built, they will in fact be used for storing foodstuffs.

5.84. The Helwan sewerage project is complex and highly technical. The delay in the definition and appraisal of the project has led to considerable financial drift; 15 Mio ECU of Community subsidy under the Second Protocol will, moreover, only serve to bring the costs back up to date, without financing any additional physical investment. Thanks in particular to considerable technical aid, the main technical problems have been solved and the

system ought to be able to function once the work is completed. The long-term viability of the system is not, however, guaranteed; in spite of the Commission's repeated interventions in recent years, the Egyptian authorities have still not set up the administrative and technical structures necessary to ensure the management, functioning and maintenance of the system. The agency which is responsible is not even in a position to operate and maintain the existing system correctly. For lack of appropriate provisions, which ought to have been defined at the time when the project was identified, there is a real risk that this state-of-the art treatment system will fall into disrepair.

5.85. The research project on breeding 'Artemia' shrimps under the university cooperation programme has still not overcome all the technical or economic obstacles. The experts think, however, that the conditions exist in Egypt to allow commercial production, for which outlets exist, of these shrimps, which constitute an essential element for feeding young fry.

Jordan

5.86. The implementation of the projects financed in Jordan generally calls for no criticism. The investment carried out plays a part in attaining the objectives set (see paragraphs 5.90 — 5.91), even though it may be observed that some are, perhaps temporarily, under-used (see paragraphs 5.88 — 5.89). One project elicits reservations, however, but its possible effectiveness is less in question than its design (see paragraph 5.87).

5.87. The project for Agricultural Credit for small farmers raises some questions and some reservations. In view of the different conditions (grace period, repayment term and rate of interest) which accompany Community multi-stage loans to the state of Jordan, then from the latter to the Agricultural Credit Corporation and finally from the latter to the farmers, the financial advantages obtained by Community aid are divided between the State, the credit agency and the farmers. The project in fact hides a triple operation, which is the Agricultural Credit Corporation's financing of small agricultural projects, the increase of this body's working capital and the government's financing of small agricultural projects. This system is open to criticism first and foremost for lack of transparency because the aims of financing are not clearly defined. Moreover, this financial arrangement does not allow adequate control of the utilization of the funds.

5.88. In the case of the project concerning assistance to the Royal Scientific Society, the fitting-out of the laboratories, the training measures, the transfer of know-how and the provision of experts were carried out to the satisfaction of the recipients. At the time of the Court's audit, however, the equipment installed for a solar energy

research sub-project seemed to be all but unused, in particular due to an apparent lack of interest on the part of the Community partner, the Joint Research Centre at Ispra.

5.89. There was some delay in the execution of the project for assistance to the Engineering and Technology Faculty of the University of Jordan, but the work on building and fitting out the laboratories and the technical assistance work have finally all been satisfactorily completed. The objectives of the project have been achieved, although it has to be observed that the educational ambitions of the establishment appear modest by comparison with the equipment supplied.

5.90. There have been problems in implementing the Project for the Jordan Valley Authority seedling production Unit, due to a lack of coordination and a technical design error in the seedling irrigation process. Once the necessary modifications are carried out, the installations will allow the intensive seedling production necessary for the agricultural development of the Jordan valley.

5.91. The project to provide assistance to the Science Faculty of the University of Yarmouk has been a success. Modern, high-quality equipment is being used and adequately maintained. The University is also turning to the industrial sector and offering its study and research services, thus promoting the development of relations between research activities and the industries which will use new advances in technology, something that is always desirable.

6. CONCLUSIONS

6.1. There is an element of rigidity in the Financial Protocols, compared with the great diversity of situations to be met with on the ground, which means in particular that the rates of execution vary greatly between the recipient countries. Nevertheless, in principle, they offer an appropriate framework for defining and implementing a form of financial and technical cooperation which will be consistent, both over time and with the partner countries' priority development objectives (see paragraphs 3.23 — 3.31).

6.2. However, the numerous difficulties experienced in their implementation and the possibility that was thus left open of committing Community funds for an unlimited duration largely made nonsense of the multiannual framework within which they were conceived. The result was that the rate of budgetary implementation was slow overall and unclosed Protocols piled up. The Court considers that appropriate measures ought to be taken to bring the situation under control and observe the time framework laid down by the Protocols more strictly. The

amount of the financial package should be established on the basis of what the recipient countries can actually absorb during the period the Protocols apply. Moreover, a mechanism for closing the Protocols, leading in particular to a formal decision on how any sums left over are to be used (see paragraphs 3.1 — 3.22), should be created.

6.3. Mention must be made of worrying weaknesses in the systems which the Commission has set up for the operations which it itself manages directly and for those which the EIB manages as the Commission's agent.

6.4. The accounting systems, as they stand, are inadequate for the purpose of reliable and effective monitoring of the execution of the Protocols, and there is no system for monitoring the financial execution of the projects and measures (see paragraphs 4.2 — 4.11).

6.5. In the case of those operations that are assigned to the EIB, the Commission loses control over the financing decisions even though such decisions commit budgetary resources. Having failed to ask for a minimum of suitable information to be provided on the implementation and the results of these operations, the Commission finds itself in a situation where it cannot possibly discharge its responsibilities as regards the execution of the budget. It is indispensable for the Commission to lay down, jointly with the EIB, appropriate procedures to provide it with the necessary information on the implementation and the results of the operations that are being financed (see paragraphs 4.12 — 4.23).

6.6. The Commission's monitoring of those measures that it manages directly is all too often inadequate. The lack of an appropriate management system results in ill-defined and scattered responsibilities, a lack of clear instructions and a paucity of available information on the implementation of the projects and measures, and it also means that there is no evaluation of the effectiveness of Community aid. The slow rate of execution of the projects, combined with the mobility of the Commission staff and a workload which is beyond the abilities of the departments concerned, only aggravate matters.

6.7. The Court considers it necessary for the requisite improvements to be made without delay. In the first place, there is need for complete, high-quality information from the recipients of Community aid. Guidelines should be issued so as to harmonize the organization and presentation of the files on the implementation of the projects, and a system of regular monitoring should be instituted. Evaluations in the course and on completion of the execution of these projects ought to be carried out systematically so as to allow the effectiveness of Community aid to be measured, the necessary corrective measures to be adopted and lessons to be learned for the

future. Such evaluations ought to be provided for in the financing agreements, so that the data needed for them can be established during the execution of the project (see paragraphs 4.24 — 4.43).

6.8. The desirable rigour and realism are sometimes not in evidence when projects are being planned, so that their potential effectiveness is jeopardized from the outset by an unfavourable economic environment or the incompetence of the bodies responsible for their implementation, or else by financing plans which are either imprecise or incomplete. All too often, unrealistic timetables are laid down. The Court considers that very special care ought to go into the planning of projects. The constraints encountered in their implementation should not be ignored but should, on the contrary, be taken into account in laying down the objectives, means and schedules. The financing agreement should become a real reference for guiding the implementation and measuring the effectiveness of projects (see paragraphs 5.20 — 5.36).

6.9. The implementation of projects is frequently affected by the cumbersomeness of the procedures, the weakness of the administrative structures in the recipient countries, the insufficiency of human or financial resources, failure by the recipients to abide by their undertakings, or even occasionally by the lack of any real motivation to see the projects completed. Substantial changes are sometimes made to the content or orientation of projects without adequate prior investigation. Sometimes, for diverse reasons, the actual contribution made by the technical assistance financed by the Community is very minor (see paragraphs 5.37 — 5.53).

6.10. The effectiveness of Community aid varies considerably from one country to another. It may be considered to be generally satisfactory in Jordan and Tunisia. The same is true in Malta, although, for the First Protocol, this still only involved financial participation in measures which were all but complete. In Morocco, the achievement of objectives has sometimes been delayed or jeopardized by failure to carry out the operations for which the Moroccan party is responsible. In Egypt, failure is all too often to be feared or a fact. The implementation of financial and technical cooperation with Algeria has until recently been hampered to the point that no results are to be expected from it at present. In the absence of the necessary information, the audit of records that the Court has carried out does not permit it to offer an opinion on the effectiveness of Community aid in Turkey (see paragraphs 5.54 — 5.91).

6.11. The renewed Mediterranean policy, which aims at a qualitative and quantitative leap forward in the Community's relations with Mediterranean non-member countries and the broad lines of which were defined by the Council in late 1990, implies in particular a substantial strengthening of the Community's financial cooperation. For the five-year period from 1992-1996, the total budgetary resources which it is planned to grant both

within and outside the Protocols is around 1 300 Mio ECU. From this standpoint, it is all the more urgent that attention should be paid to the weaknesses highlighted by the Court and those improvements made that are necessary for more efficient and effective use of Community funds.

6.12. Many of the observations which the Court has put forward in this report are not specific to the management of financial and technical cooperation with Mediterranean

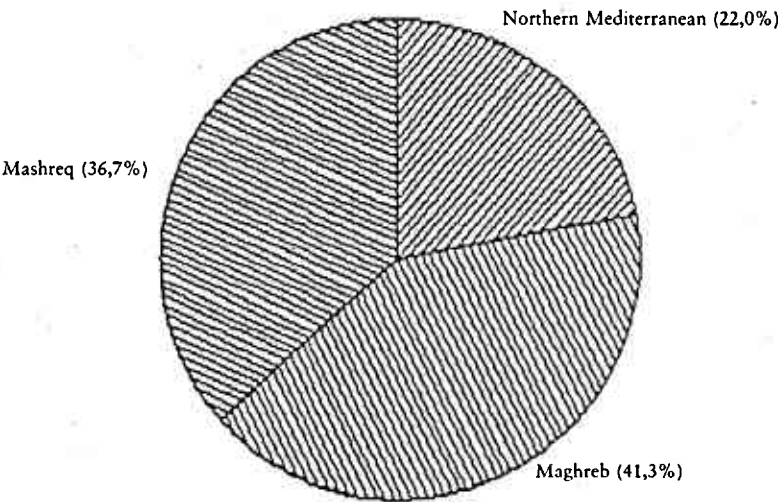
non-member countries. In many respects, they overlap with the Court's previous analyses in the area of the management of Community funds for development aid, whether aid to Mediterranean non-member countries, aid to the developing countries of Latin America and Asia or aid financed in the context of the EDFs. This highlights the urgent need, particularly for the Commission, to give careful consideration to these problems and to make the corrections which are needed to improve the management of development aid as a whole.

This report was adopted by the Court of Auditors in Luxembourg at the Court meeting of 18 July 1991.

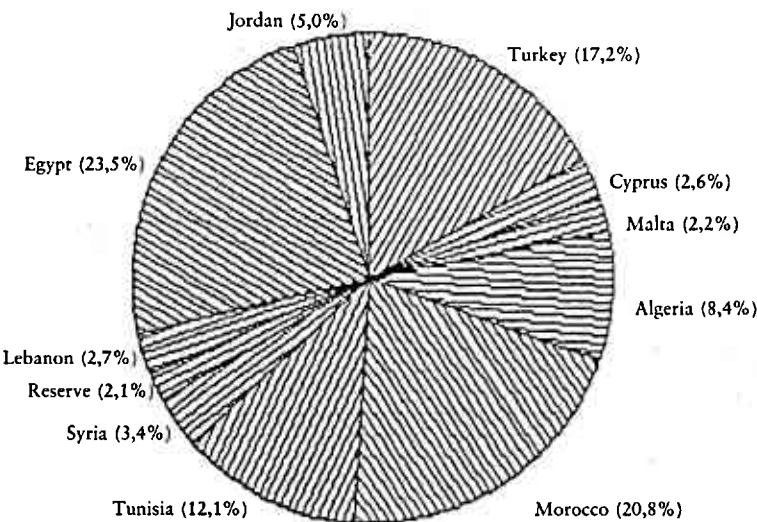
For the Court of Auditors p.p.
Aldo ANGIOI
President

In the President's absence, p.p. Maurice Thoss, Member of the Court

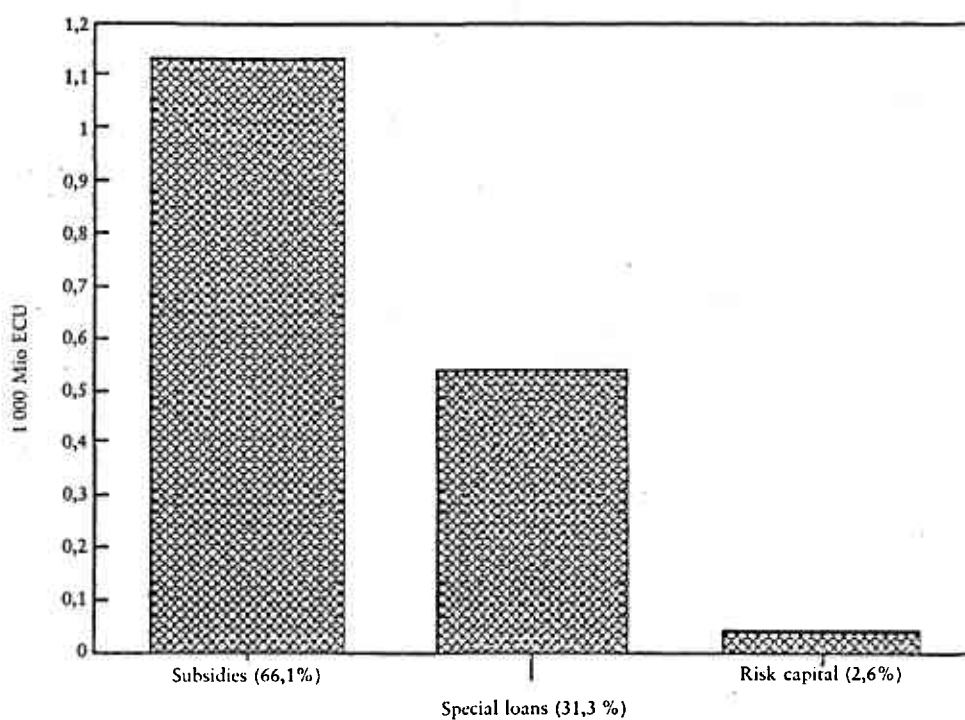
Graph 1
Distribution of budgetary aid



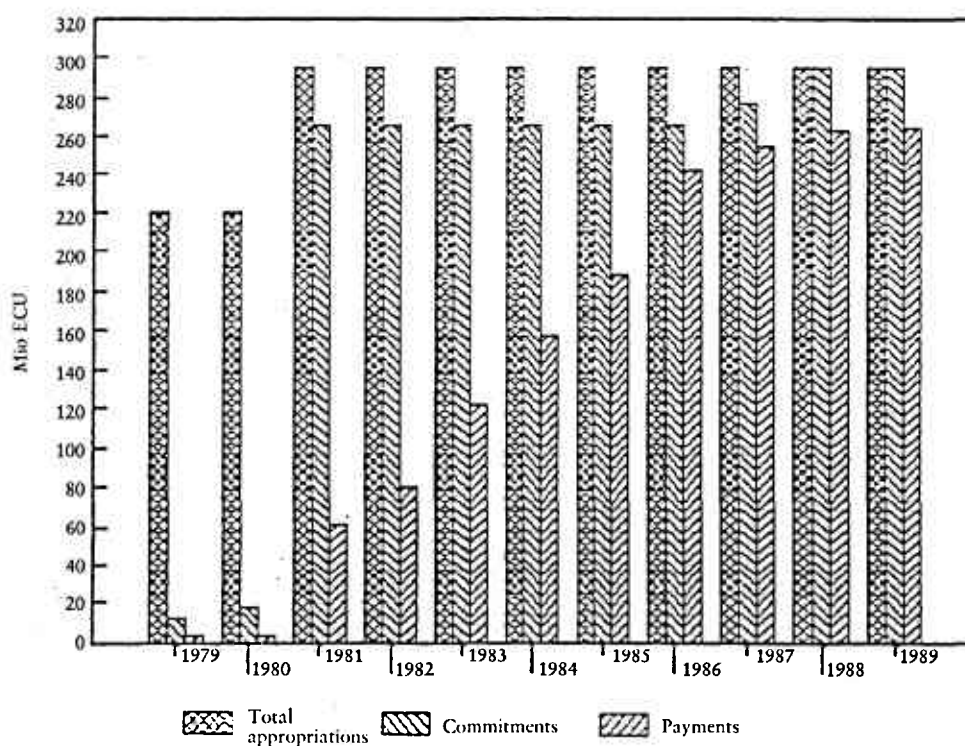
Graph 2
Distribution of budgetary aid



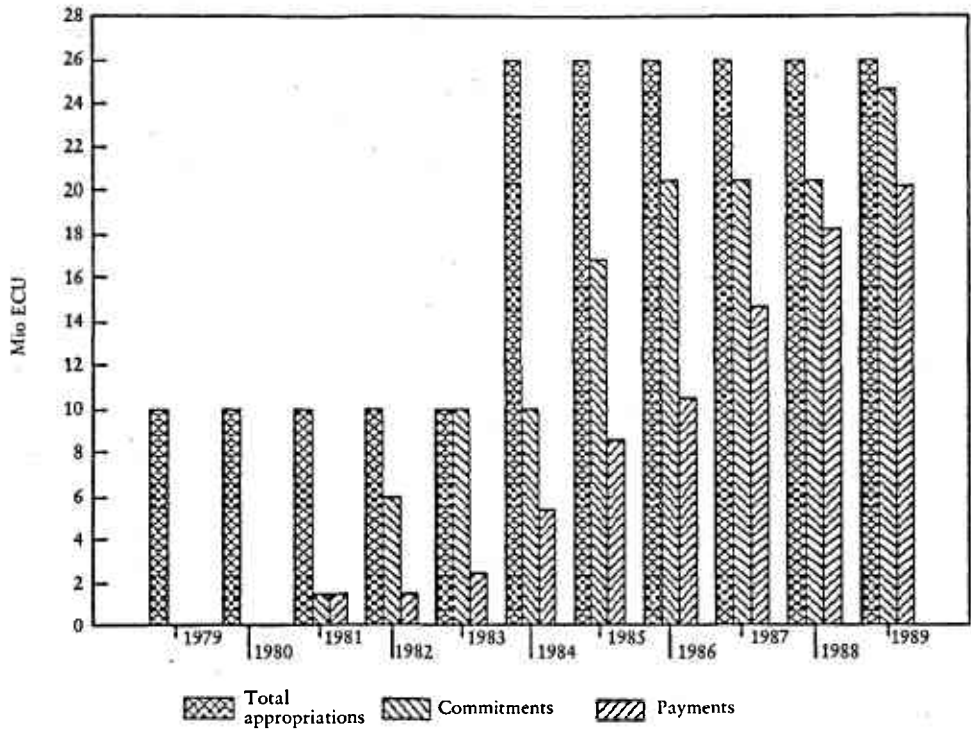
Graph 3
Distribution of budgetary aid



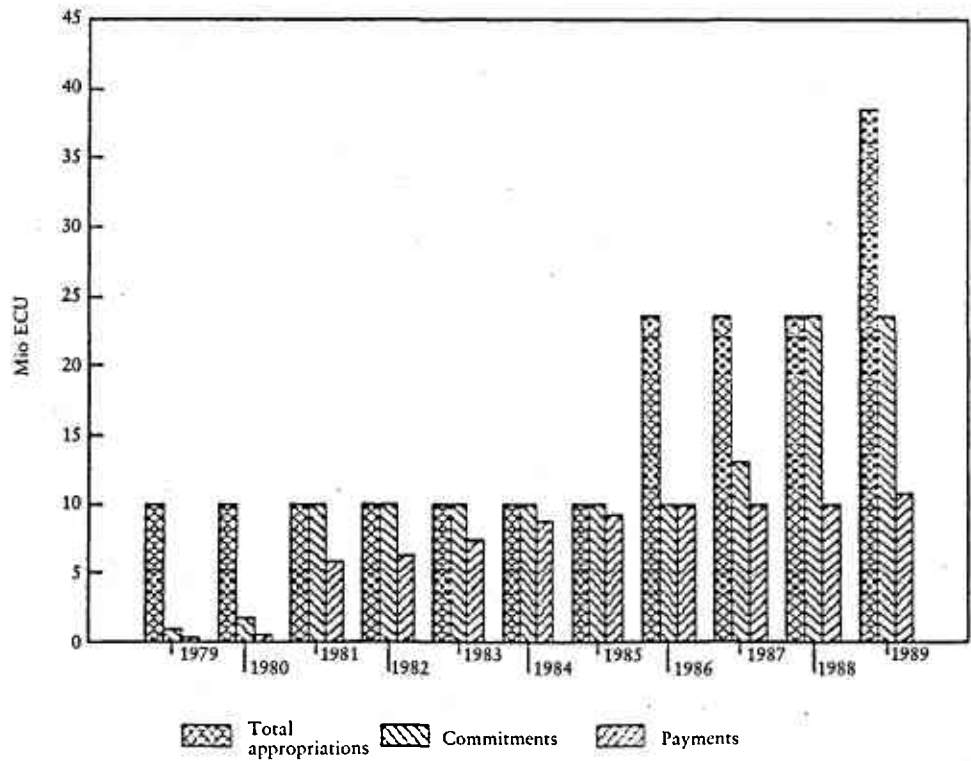
Graph 4
Utilization of aid — Turkey



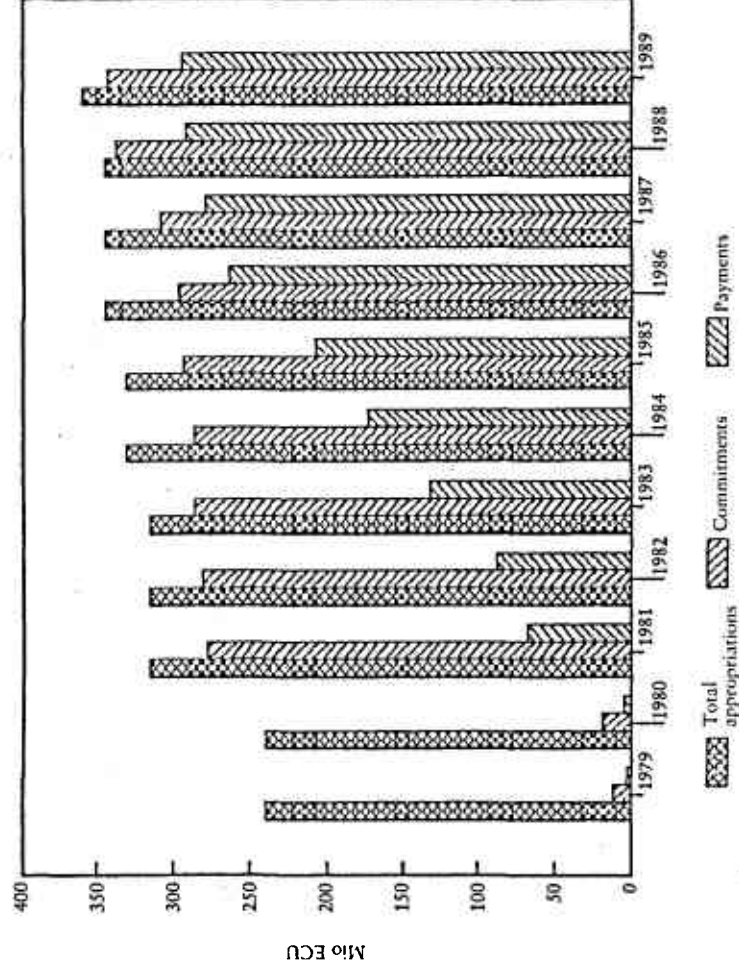
Graph 5
Utilization of aid — Cyprus



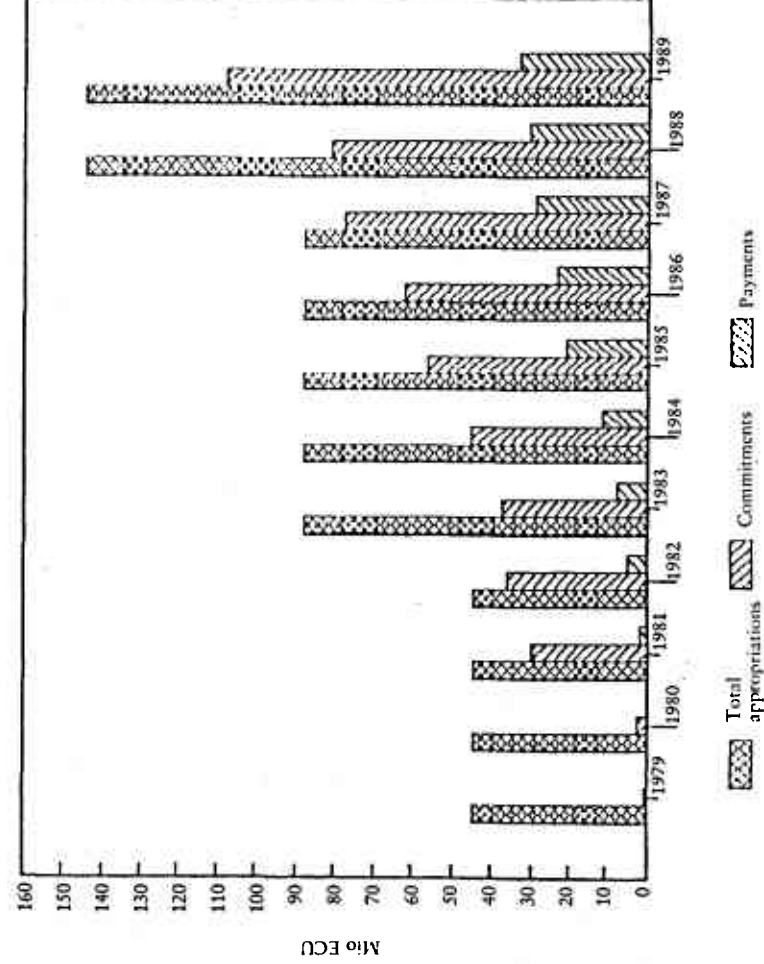
Graph 6
Utilization of aid — Malta



Graph 7
Utilization of aid — Northern Mediterranean

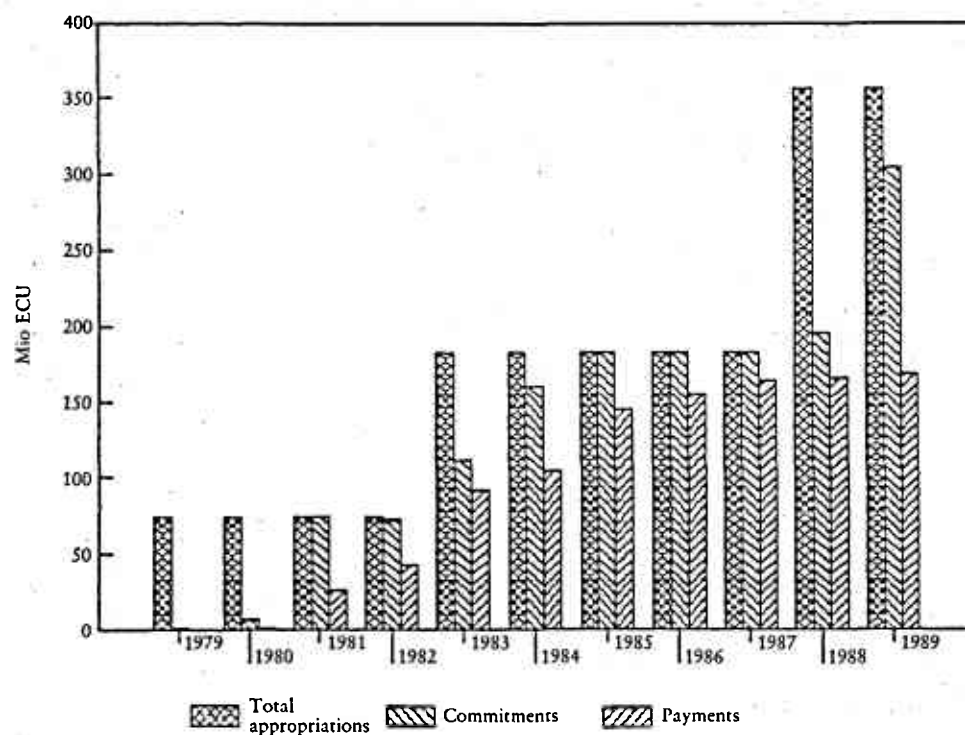


Graph 8
Utilization of aid — Algeria



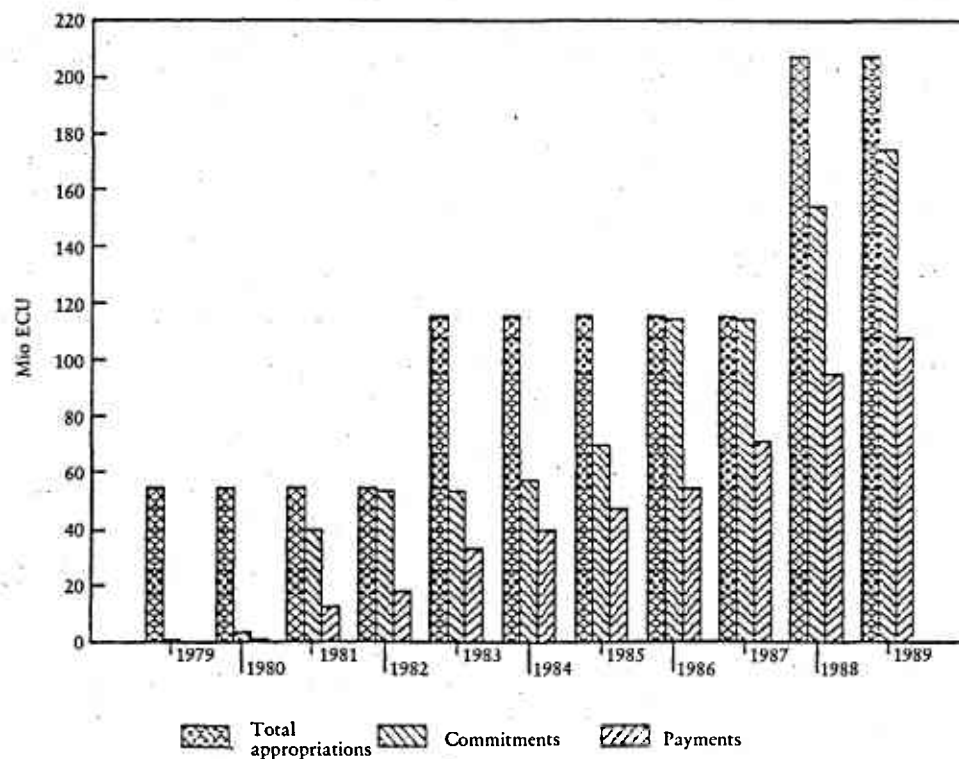
Graph 9

Utilization of aid — Morocco

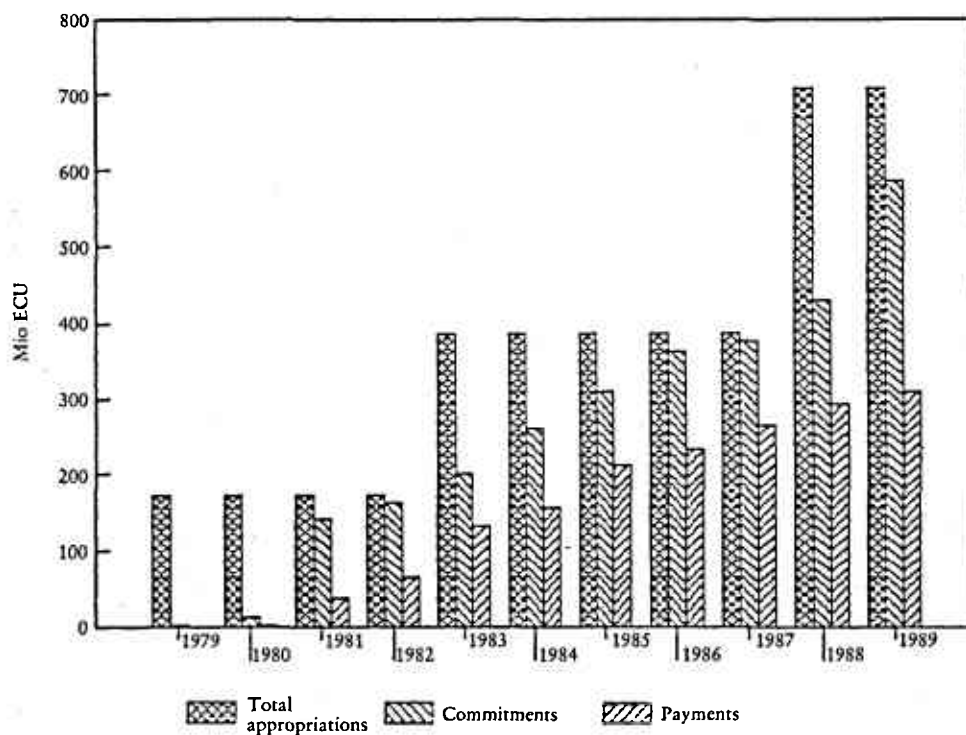


Graph 10

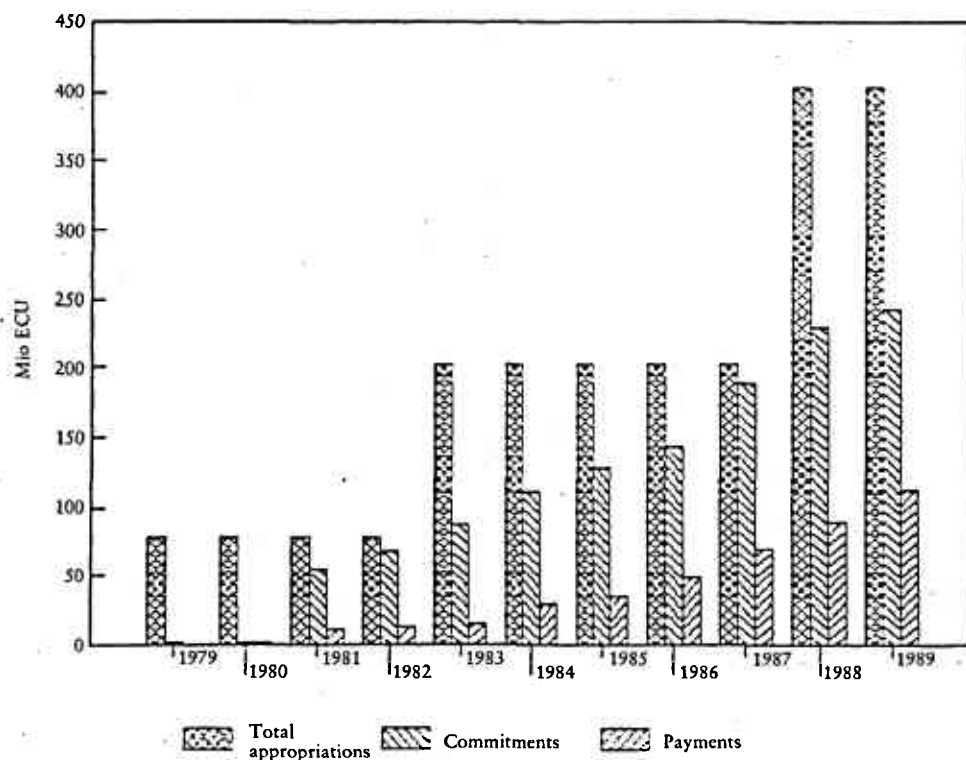
Utilization of aid — Tunisia



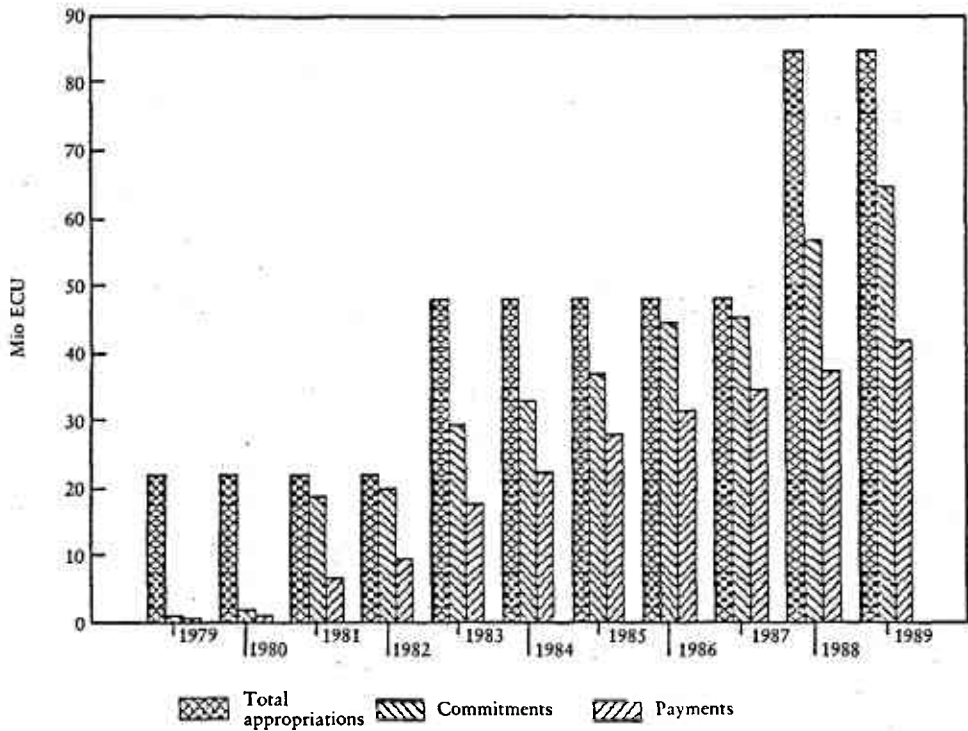
Graph 11
Utilization of aid — Maghreb



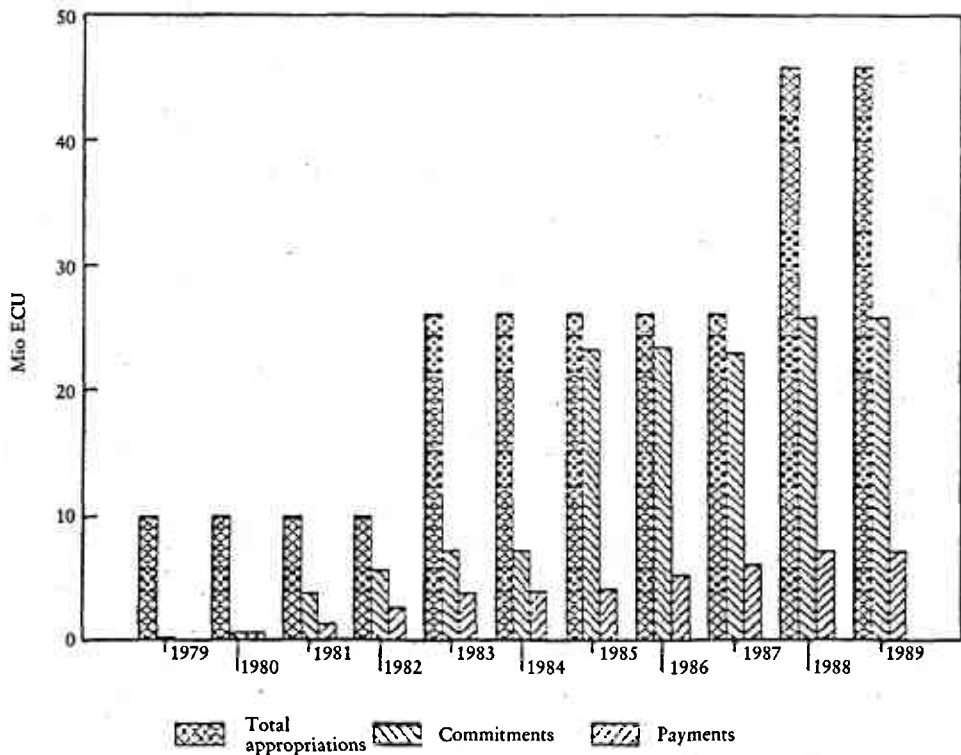
Graph 12
Utilization of aid — Egypt



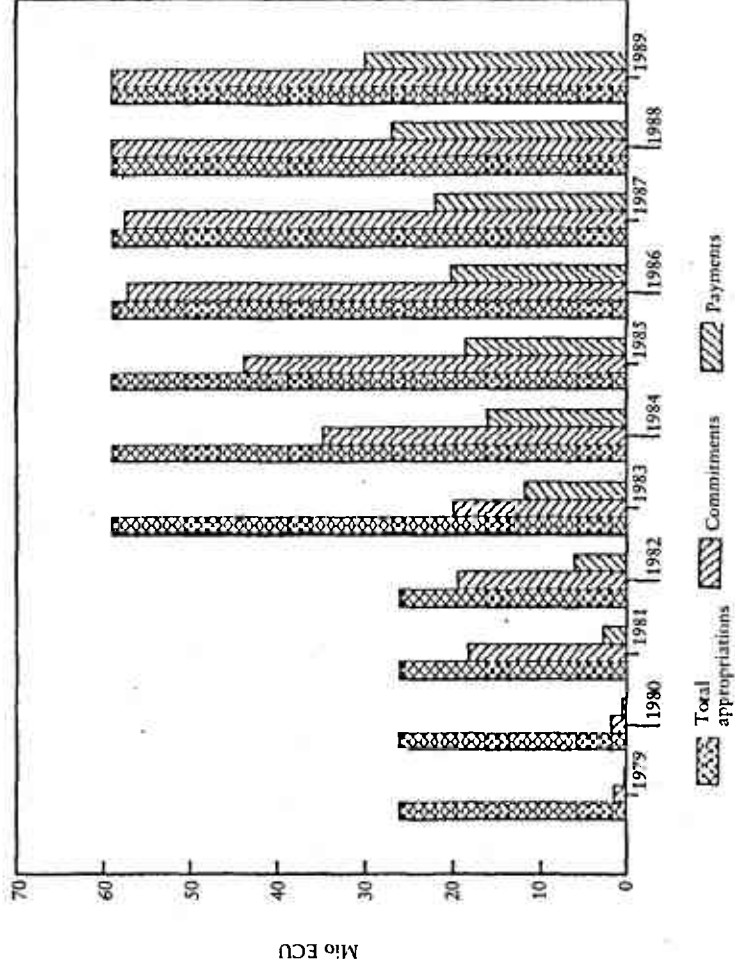
Graph 13
Utilization of aid — Jordan



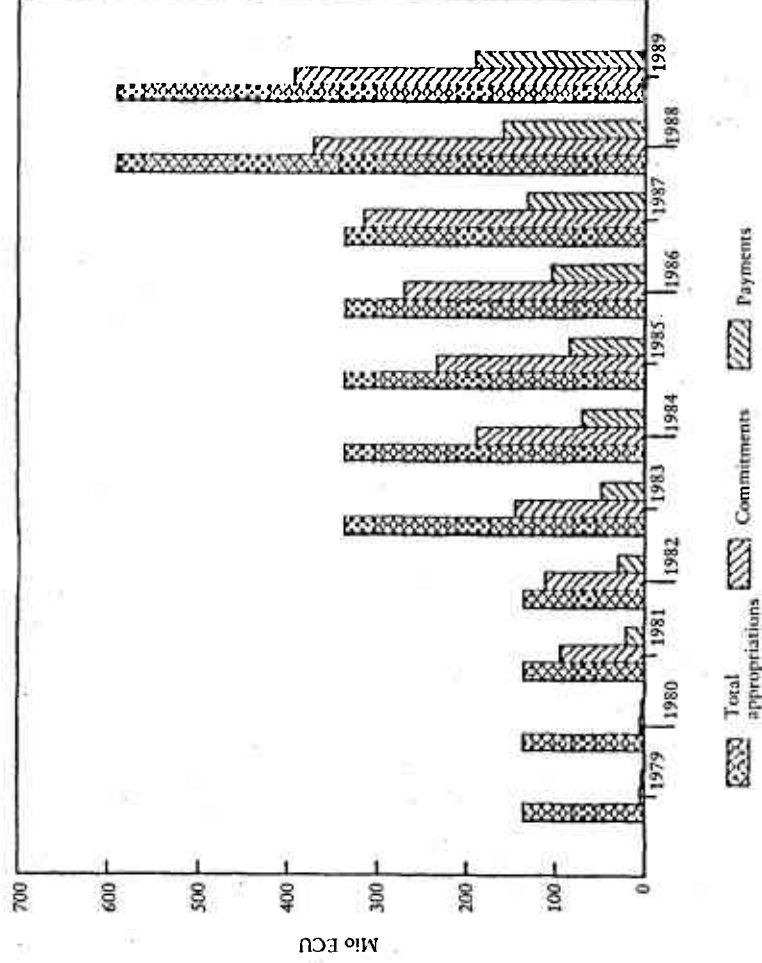
Graph 14
Utilization of aid — Lebanon



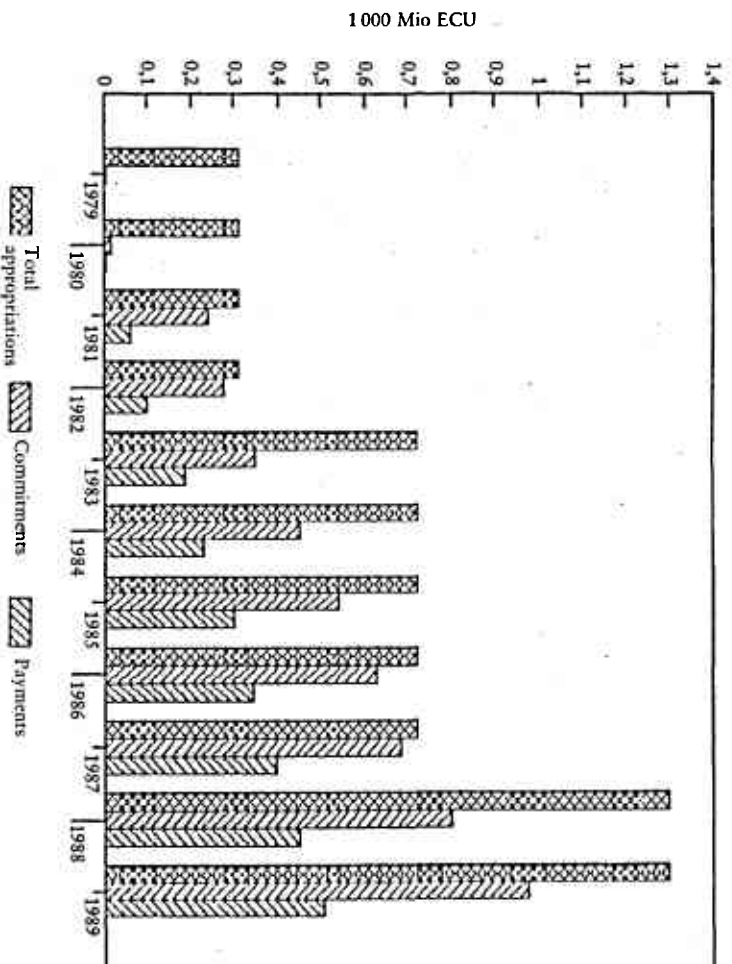
Graph 15
Utilization of aid — Syria



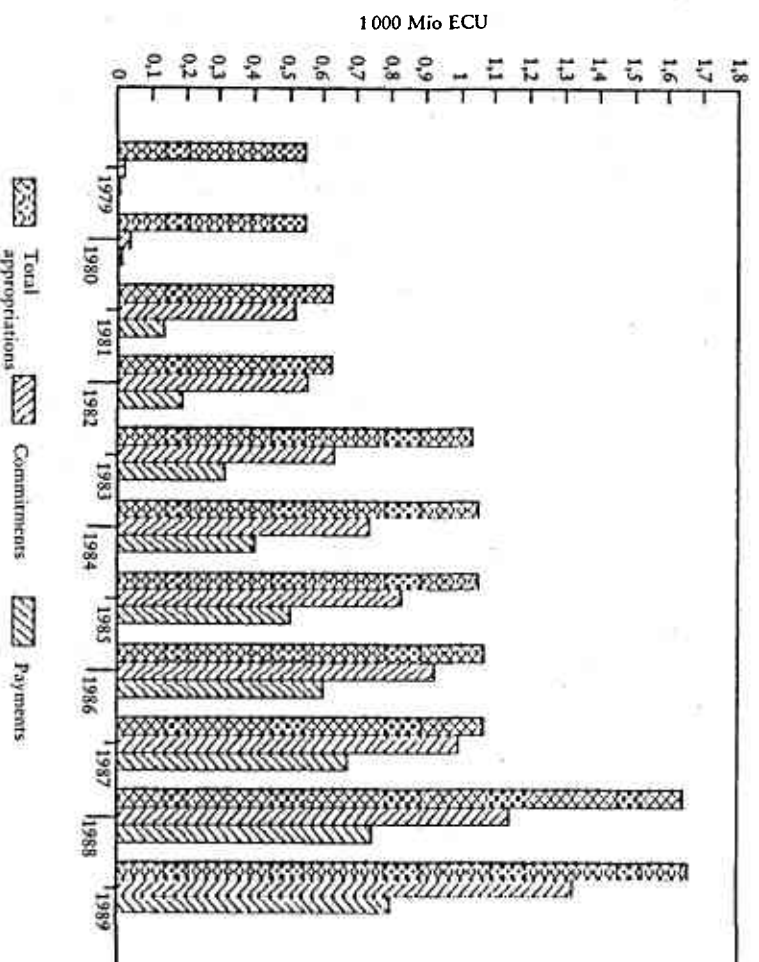
Graph 16
Utilization of aid — Mashreq



Graph 17
Utilization of aid — Southern Mediterranean



Graph 18
Utilization of aid — Mediterranean



ANNEX 1

Legal provisions governing the cooperation programmes with Mediterranean non-member countries

Country	Protocol		Period of application	Duration	Council Decision or Regulation		
	No	Date signed			No	Date	Published in the OJ
TURKEY	3 (¹)	12.05.77 (²)	1979-31.10.1981 1.07.1980-30.06.1982	2 years 10 months 2 years	79/281 2/80 (³)	5.03.79 19.09.80	L 67, 17.03.79 not published
CYPRUS	1 2 3	15.09.77 20.12.83 30.11.89	1.01.1979-31.12.1983 1.05.1984-31.12.1988 1.06.1990-31.12.1993	5 years 4 years 8 months 3 years 7 months	2760/78 787/84 90/153	23.11.78 26.03.84 26.02.90	L 332, 29.11.78 L 85, 28.03.84 L 82, 29.03.90
MALTA	1 2 3	4.03.76 4.12.85 20.03.89	1.11.1978-31.10.1983 1.10.1986-31.10.1988 1.08.1989-31.10.1993	5 years 2 years 1 months 4 years 3 months	939/76 2458/86 89/378	23.04.76 7.07.86 12.06.89	L 111, 28.04.76 L 216, 5.08.86 L 180, 27.06.89
ALGERIA	1 2 3	26.04.76 28.10.82 26.10.87	1.11.1978-31.10.1981 1.01.1983-31.10.1986 1.03.1988-31.10.1991	3 years 3 years 10 months 3 years 8 months	2210/78 3177/82 88/30	26.09.78 22.11.82 21.12.87	L 263, 27.09.78 L 337, 29.11.82 L 22, 27.01.88
MOROCCO	1 2 3	27.04.76 10.06.82 26.05.88	1.11.1978-31.10.1981 1.01.1983-31.10.1986 1.11.1988-31.10.1991	3 years 3 years 10 months 3 years	2211/78 3181/82 88/453	26.09.78 22.11.82 30.06.88	L 264, 27.09.78 L 337, 29.11.82 L 224, 13.08.88
TUNISIA	1 2 3	25.04.76 28.10.82 26.10.87	1.11.1978-31.10.1981 1.06.1983-31.10.1986 1.05.1988-31.10.1991	3 years 3 years 5 months 3 years 6 months	2212/78 3183/82 88/34	26.09.78 22.11.82 21.12.87	L 265, 27.09.78 L 337, 29.11.82 L 22, 27.01.88
EGYPT	1 2 3	18.01.77 25.05.82 26.10.87	1.11.1978-31.10.1981 1.01.1983-31.10.1986 1.08.1988-31.10.1991	3 years 3 years 10 months 3 years 3 months	2213/78 3178/82 88/31	26.09.78 22.11.82 21.12.87	L 266, 27.09.78 L 337, 29.11.82 L 22, 27.01.88
JORDAN	1 2 3	18.01.77 10.06.82 26.10.87	1.11.1978-31.10.1981 1.01.1983-31.10.1986 1.02.1988-31.10.1991	3 years 3 years 10 months 3 years 9 months	2215/78 3179/82 88/32	26.09.78 22.11.82 21.12.87	L 268, 27.09.78 L 337, 29.11.82 L 22, 27.01.88
LEBANON	1 2 3	3.05.77 17.06.82 2.12.87	1.11.1978-31.10.1981 1.03.1983-31.10.1986 1.03.1988-31.10.1991	3 years 3 years 9 months 3 years 8 months	2214/78 3180/82 88/33	26.09.78 22.11.82 21.12.87	L 267, 27.09.78 L 337, 29.11.82 L 22, 27.01.88
SYRIA	1 2	18.01.77 10.06.82	1.11.1978-31.10.1981 1.02.1983-31.10.1986	3 years 3 years 9 months	2216/78 3182/82	26.09.78 22.11.82	L 269, 27.09.78 L 337, 29.11.82

(¹) Special aid.(²) Not applicable.(³) Decision of the EEC-Turkey Association.

ANNEX 2

The framework of financial and technical cooperation*The Financial Protocols signed to date*

1. The Cooperation Agreements and the Protocols concluded by the Council with the countries concerned are based on Article 238 of the EEC Treaty. The references for the legislative provisions governing the programmes for cooperation with the ten countries discussed are listed in *Annex 1*. At the end of 1990, three series of Protocols had been signed (see *Annex 1*):

- a) with the Maghreb and Mashreq countries in 1976/77, 1982 and 1987/88;
- b) with Cyprus in 1977, 1983 and 1989;
- c) with Malta in 1976, 1985 and 1989;
- d) with Turkey in 1963, 1970 and 1977 ⁽¹⁾.

As can be seen from *Table 1*, the overall amount of the aid granted from budgetary resources was 1 714,5 Mio ECU, of which 708 Mio ECU was for the Maghreb countries, 629 Mio ECU for the Mashreq countries and 377,5 Mio ECU for Cyprus, Malta and Turkey ⁽²⁾. *Graphs 1 and 2* illustrate how the aid from budgetary resources is divided up between the geographical areas and recipient countries concerned.

Period of application of the Financial Protocols

2. The Financial Protocols are designed to cover a period of five years, during which the funds made available by the Community may be committed. In fact, as *Annex 1* shows, if the date of entry into force and the specified expiry date of the Protocol are taken into account, the true period of application varies between about two and four years (except for the First Financial Protocols with Cyprus and Malta). Nevertheless, on the analogy of the various Lomé Conventions each of the Protocols has a provision to the effect that if uncommitted funds remain upon expiry of the period of application, these funds may be used until exhausted.

Volume and forms of financial and technical cooperation

3. The total amount fixed in the Protocols involves two very distinct financing instruments:

- a) loans granted by the EIB from its own resources;

⁽¹⁾ Only the Third Financial Protocol with Turkey and the special aid granted in 1980 are examined in this report, as the first two Financial Protocols did not make any calls on Community budgetary resources.

⁽²⁾ The amounts include the 75 Mio ECU of special aid granted to Turkey in 1980. The aid is not covered by a financial protocol, but the implementing procedures are similar.

- b) financial operations which make use of the Community's budgetary resources and which can assume the various forms described in paragraph 4.

4. As regards aid financed from budgetary resources, the Protocols distinguish between the following types of operation:

- a) loans on special terms (40-year duration, 10-year grace period, interest rate of 1%), which make it possible to finance development projects where the rate of profitability is very low. This formula has been abandoned in the Third Protocols, except in the case of the Protocol with Turkey;
- b) non-repayable aid which can be used in several forms ⁽¹⁾:
- i) grants in the strict sense of the term, which make it possible to finance development projects which are not in themselves profitable, especially technical assistance projects;
- ii) interest-rate subsidies, which enable the EIB, to which they are paid, to reduce the interest rates on the loans which it grants from its own resources. In the case of the First Protocols, the rate of this subsidy is a uniform 2%; in the case of the subsequent ones, the rate varies from one country to another, with some countries even opting to forgo it in order to be able to use all the non-repayable aid in the form of grants (see *Table*);

Levels of interest-rate subsidies on loans granted from EIB own resources

Country	Financial Protocols		
	First	Second	Third
Cyprus	2 %	2 %	1,5 %
Malta	2 %	none	1,5 %
Algeria	2 %	2 %	none
Morocco	2 %	2 %	none
Tunisia	2 %	3 %	2 %
Egypt	2 %	3 %	2 %
Jordan	2 %	2 %	2 %
Lebanon	2 %	none	none
Syria	2 %	3 %	⁽¹⁾

⁽¹⁾ As at 31 December 1989 a Third Financial Protocol with Syria had not been signed.

- c) contributions to the formation of risk capital. The First and Second Protocols allow such contributions, which are to be charged against the amounts of the loans on special terms, which may in particular take the form of subordinated loans, conditional loans or participations. The Third Protocols, save that with Turkey, reserve a specific allocation for operations of this kind.

The total amount of 1 714,5 Mio ECU of overall aid financed from budgetary resources can be broken down into 536 Mio ECU of loans on special terms, 1 134 Mio ECU of non-repayable aid and 44,5 Mio ECU of contributions to risk-capital formation (see *Table 1* and *Graph 3*).

5. Except for certain restrictions laid down in the First Protocols, the financing instruments described in paragraphs 3 and 4 may be used jointly to finance the same investment project.

⁽¹⁾ The Third Financial Protocol with Turkey is an exception in that it only includes loans on special terms. A grant of aid, in the form of subsidies, was made available to this country by way of the special aid introduced by Decision No 2/80 of the EEC-Turkey Association Council of 19 September 1980 (see *Table 1*).

6. Although it is not strictly speaking a financing instrument, mention should be made of the existence of a globalized Community guarantee, which is entered for the record in the general budget and applies to loans granted by the EIB from its own resources to a group of Mediterranean countries, including those which are the subject of this report ⁽¹⁾. For all the countries discussed in this report, this global guarantee is to cover 75% of the total amount of loans granted by the EIB. The guarantee has been invoked on several occasions since 1988 (see paragraph 5.11 of the report).

General objectives and field of application of the aid

7. The general objectives contained in the Protocols - those of contributing to the economic and social development of the recipient country — are supplemented by definitions of the field of application of the aid.

8. The First and Second Protocols with the Maghreb and Mashreq countries and with Cyprus and Malta provide mainly that the Community aid is to be used for helping to finance:

- a) investment projects in the fields of production and economic infrastructure, the aims being to diversify the economic structure of the countries in question and, in particular, to promote their industrialization and the modernization of their agricultural sector;
- b) technical cooperation as a preparation for or a supplement to investment projects, and technical cooperation measures in the field of training.

9. The Third Protocols with the Maghreb and Mashreq countries give priority to the financing of projects or cooperation measures relating to:

- a) the development and diversification of agricultural production with a view to reducing these countries' dependence on imports of food, and the diversification of agricultural production and exports;
- b) the development of cooperation in the fields of industry, training and research, technology, trade and other services;
- c) regional and multilateral cooperation.

10. For their part, the Third Protocols with Malta and Cyprus confine the field of application of the aid to the measures referred to in paragraph 9(b). All these Third Protocols, unlike their predecessors, specify for each of the main areas in question the kind of projects and measures likely to be financed as a matter of priority.

11. The financial aid granted under the Third Protocol with Turkey aims to strengthen trade and economic relations between the parties. Financing is granted to investment projects which help to boost the productivity of the Turkish economy and which aim, in particular, to give Turkey a higher-yielding agriculture and industrial undertakings or services that are modern and operated rationally.

12. Decision No 1/80 of 19 September 1980 of the EEC-Turkey Association Council, the aim of which is to give new impetus to the Association Agreement, authorizes the financing of investment projects, in particular in the fields of industry, energy, agriculture and training, and technical cooperation projects which are preparatory or complementary to these projects. It is in this context that the special aid granted by Decision No 2/80 of this same EEC-Turkey Association Council should be looked at in particular.

⁽¹⁾ A Council decision of 8.3.1977 was the origin of a contract of guarantee signed in 1978 at the time of the First Financial Protocols by the Community, represented by the Commission and the EIB. A document extending that guarantee contract has been drawn up for each new Financial Protocol.

Implementing mechanism

Budgetary basis

13. Up until the end of 1990, Chapter 96 of Title B9 of the general budget provided the support structure for the commitment and payment appropriations required for financing financial and technical cooperation in these countries. The appropriations relating to cooperation with Turkey, Cyprus and Malta come under separate articles, whereas those relating to the Protocols with the Maghreb and Mashreq countries, designated by the term 'southern Mediterranean countries' have been pooled since 1987 under one article (965), which has two items, one (9650) for the First and Second Protocols and the other (9651) for the Third Protocols. Implementing sub-headings offer the Commission the possibility of monitoring the budgetary operations by country and by Protocol.

Provisions for the application of the Financial Protocols

14. The procedures and responsibilities relating to the fixing of the specific objectives of the cooperation programme, the appraisal of projects and the execution, management and maintenance of the projects financed are all set out in the Protocols themselves. The Protocols also lay down the rules for participating in invitations to tender and the rules governing contracts, as well as the tax arrangements applicable to the latter.

15. The Protocols say nothing about the Community's internal procedures for deciding and managing the aid and relating, in particular, to the division of responsibilities between the EIB and the Commission ⁽¹⁾ and to the procedures for directing, examining and approving the flows of aid. These management rules have to be laid down in an implementing regulation.

16. In March 1977, and in February and March 1978, the Commission submitted to the Council proposals for a regulation on the application of the provisions of the First Protocols. Differences of opinion on the respective powers of the Commission and the committees made up of the permanent representatives of the Member State governments prevented any progress.

17. An *ad hoc* procedure was then set up in December 1978, which applied until the entry into force on 1 January 1987 of Council Regulation (EEC) No 3973/86 ⁽²⁾, which determined the provisions for applying the Protocols with the Maghreb and Mashreq countries and with Cyprus and Malta. The Commission, following a decision taken on 22 January 1986 ⁽³⁾, has since that date been applying this Regulation by analogy in respect of projects financed in Turkey.

Planning

18. Planning missions are carried out jointly by the Commission and the EIB in each recipient country in order to identify and select projects which could be eligible for financing. These missions give rise to reports, which specify the amounts of aid reserved for each economic sector and the type of financing proposed. These reports are then submitted to the Council's 'Mediterranean' group, which holds an exchange of views for the purpose of examining the sectoral angles of the planned cooperation measure.

⁽¹⁾ This does not apply to the Third Financial Protocols with the Maghreb and Mashreq countries and with Malta and Cyprus as they contain provisions to the same effect.

⁽²⁾ OJ No L 370, 30. 12. 1986, p. 5.

⁽³⁾ Minutes COM(86) PV 811, 24.1.1986.

*Divisions of competences for the management of the aid**Projects entrusted to the EIB*

19. A large part of the operations financed from budgetary resources is managed by the EIB. On 21 November 1978, taking as its basis the proposal for an implementing regulation referred to in paragraph 16, the Commission made two agreements with the EIB (one for the Maghreb and Mashreq countries and one for five other countries, including Turkey, Cyprus and Malta) under which it entrusted to the latter the management of the following operations:

- a) interest-rate subsidies on loans granted by the EIB from its own resources;
- b) risk-capital operations;
- c) loans on special terms in the sectors of industry, energy, mining, tourism and economic infrastructure in the Maghreb and Mashreq countries, and all the loans on special terms for the other countries (broad mandate);
- d) loans on special terms managed by the Commission (restricted mandate).

20. By an exchange of letters dated 22 December 1982 and 6 January 1983, the EIB and the Commission agreed to extend this agreement to the implementation of the Second Protocols with the Maghreb and Mashreq countries.

21. On 16 June 1987, another agreement of the same type was signed, this time relating to Regulation (EEC) No 3973/86; under this agreement the EIB received a general mandate to manage:

- a) interest-rate subsidies on loans granted by the EIB from its own resources; and
- b) risk-capital operations,

within the framework of the Third Protocols, still to be signed at that time (see *Annex 1*), with the Maghreb and Mashreq countries.

22. By an exchange of letters in November 1989, the EIB and the Commission agreed to extend this agreement to the protocols signed subsequently with Cyprus and Malta.

23. Under the broad mandate, the Commission entrusted the EIB with:

- a) preparing, negotiating and signing the loan contract on behalf of the Community;
- b) the lodging of securities and the organization of preferential rights in favour of the Community;
- c) the disbursement of the loan;
- d) the collection of the interest and the recovery of the principal.

24. Under the restricted mandate, the Community entrusted the EIB with:

- a) collaborating in drawing up the draft loan contract between the Commission and the borrower;
- b) drawing up documents which specify the detailed rules for monitoring the interest and the repayment of the principal;
- c) lodging securities and organizing preferential rights in favour of the Community;
- d) collecting interest and receiving the repayment of the principal.

Projects managed by the Commission

25. The Commission remains directly responsible for managing:

- a) subsidies;
- b) loans on special terms intended to finance projects in the Maghreb and Mashreq countries in sectors other than those specified in paragraph 19(c).

Procedures for making financing decisions

26. Under the *ad hoc* procedure which existed prior to the adoption of Council Regulation (EEC) No 3973/86 (see paragraph 17), projects which received a unanimous favourable opinion from an *ad hoc* Council working party were adopted by the Council.

27. Since the adoption of Council Regulation (EEC) No 3973/86, the decision-making procedures are:

- a) by the 'Article 6 Committee' at the Commission: this Committee, which includes a representative of the EIB, gives its opinion, by a qualified majority, on the financing proposals submitted to it by the Commission. The Commission then takes the financing decisions;
- b) by the 'Article 9 Committee' at the EIB: this Committee, which includes a representative of the Commission, gives its opinion, by a qualified majority, on the draft financing decisions drawn up by the EIB under its general mandate. The Commission is also required to state its position on the draft decisions, except for applications for loans with interest-rate subsidies ⁽¹⁾. The EIB's Board of Directors then takes the financing decisions in accordance with the provisions of its own founding instrument.

28. In the absence of a favourable opinion from these committees (and/or from the Commission in the case of the Article 9 Committee), the texts provide for or authorize the matter to be brought before the Council, which takes its decisions by a qualified majority.

*Financing agreements and loan agreements**Projects entrusted to the EIB*

29. On the basis of the decision of the EIB's Board of Directors to grant financing to a particular project, the Commission commits the necessary appropriations. The EIB then signs the loan agreement with the borrower. This differs from the EDF procedure, whereby the loan agreement is signed by the Commission.

Projects administered by the Commission

30. The Commission adopts a financing decision, commits the appropriations and then enters into a financing agreement with the government of the recipient State. If the financing is in the form of a loan on special conditions, a financing agreement is also signed with the borrower. If the latter is not the State itself, a contract of guarantee is also made with the government of this State, which undertakes to assume the borrower's financial and pecuniary obligations in the event of his default.

⁽¹⁾ Regulation (EEC) No 3973/86 does not mention the possibility of a Commission opinion concerning a subsidized loan.

*Administrative methods used**Methods peculiar to the Commission*

31. The Commission, as chief authorizing officer, implements the financing decisions and is responsible for administering the resources. Several Commission departments are involved. The administrative channels vary according to the management tasks (selection of projects, drawing-up of financing decisions and agreements, technical opinions, monitoring of projects carried out, internal control and payment of amounts due) and involve the various geographical desks at the Directorate-General for External Relations (DG I), the technical departments and the financial departments of the Directorate-General for Development (DG VIII), financial control (DG XX) and the paying and accounting departments of the Directorate-General for Budgets (DG XIX).

32. Where one exists ⁽¹⁾, the Commission delegation in the recipient country ensures that the financial and technical management of the projects is sound. In particular, it is responsible for taking part in drawing up and issuing the invitations to tender and examining the tenders; it puts its stamps of approval on the payment orders that are issued by the national authorizing officer (see paragraph 33) and forwarded to the Commission for clearance.

Methods peculiar to the recipient states

33. The recipient state's government is represented by a national authorizing officer, who is responsible for carrying out the project. In this capacity, this body issues invitations to tender, receives the tenders, directs the work of examining them and draws up the result of the invitations to tender; it indicates its agreement with the contracts made by the project's prime contractor and informs the Commission of them; as part of the process of commitment of appropriations drawn up by the Commission, it validates and authorizes the expenditure. The national authorizing officer may delegate all or some of its responsibilities to a national body, generally the one directly entrusted with implementing the project.

34. The paying agent is responsible for making authorized payments in the currency of the recipient state. It is a financial institution selected by mutual agreement by the Commission and the government of the state, and is usually the Central Bank of the country in question.

35. The paying agent maintains in its books an account, denominated in the currency of one of the Member States, which is topped up, as needed, by the Commission. An agreement signed by the Commission and the paying agent specifies the rules for operating this account and the nature of the responsibilities conferred upon the paying agent.

⁽¹⁾ It is expected that delegations will be opened in Cyprus and Malta in 1991.

THE COMMISSION'S REPLIES

1. INTRODUCTION

1.2. The Court's comments will be taken into account both in drawing up the new Protocols and in assessing cooperation with the Mediterranean countries under the new Mediterranean policy.

3. THE SYSTEM OF PROTOCOLS

The consequences

3.6–3.7. The Commission is aware of the problems in the past but would point out to the Court that there has been no delay in implementing the preparatory measures for the Fourth Financial Protocols. Indeed, the Commission introduced the basic texts on financial and technical cooperation at the very beginning of 1991.

Budgetary management

Spreading-out of commitments

3.8–3.12. The purpose of evenly spreading out commitments is to facilitate budgetary management and the financial protocols are both realistic and flexible enough to achieve this. Because of this, the provision referred to should not cause any problems in future protocols. However, the Commission is prepared to consider any scheme that will improve the planning of commitments.

Utilization of the balance

3.13–3.15. Given that recipient countries may encounter political and institutional difficulties in utilizing all the funds provided for in the financial protocols within the time limits, imposing more restrictive provisions might not be easy.

The situation is further complicated by the fact that although the uncommitted amounts at the end of the period covered by the financial protocols are well-defined, this is not the case with any balances left over from projects which have already been financed.

Solutions to such problems must be agreed with the partner during the life of the financial protocol in order to arrive at a reasonable timetable for utilizing all outstanding balances.

In any event, the Commission has recently proposed to all national authorizing officers that they:

- carry over all commitments not allocated under previous protocols to the Fourth Financial Protocols, within a programming framework common to all funds available for commitment;
- wind up all projects under the Second Financial Protocols, to the extent that this is possible.

Allocation of grant aid

3.16–3.18. The Commission will look into the methods used in financial cooperation to ensure greater transparency in the utilization of budgetary resources.

The consequences as regards implementation

3.19–3.20. See reply to points 3.13–3.15.

Implementing Financial Regulation

3.21–3.22. The Court has a good point. A proposal for a regulation relating to the implementation of the financial protocols was transmitted by the Commission to the Council at the end of May 1991. The regulation should ensure that the Fourth Financial Protocols are covered.

Observations on the system of protocols

3.23 – 3.31. Even if the protocol system has a number of disadvantages, it also has some advantages, not the least of which is the scope for multiannual cooperation adapted to the specific circumstances of the countries concerned. The Commission is continually assessing the systems and procedures currently in force and considers that the protocol system could be strengthened and improved. When new protocols are drawn up, therefore, the Commission will certainly take the Court's suggestions into account.

At a more general level, the Commission will be reviewing its cooperation policy as the single market approaches and will be considering whether it would be better to continue with the present system or to modify it.

4. MANAGEMENT SYSTEMS

*The accounting systems**Monitoring the implementation of the financial protocols*

4.2 – 4.5. SINCOM and the improvements to the auxiliary accounting system (FINPICS) should improve financial control of the projects and their components.

The Commission will ensure that the financial implementation of a protocol is closely monitored and constantly updated.

Financial monitoring of the projects

4.6 – 4.11. The Commission is in broad agreement with the Court's comments. It is looking into ways of improving procedures and the accounting system. The Commission has noted the Court's recommendation that priority should be given to setting up a harmonized system for monitoring 'primary' and 'secondary' commitments. The 'commitments under financing agreements' referred to in Article 106(2) of the Financial Regulation and the 'individual commitments' referred to in Article 109(3), which broadly correspond to 'primary' and 'secondary' commitments, will be gradually incorporated into the Commission's project accounting.

*The measures entrusted to the EIB**Legal basis of the EIB mandates*

4.13 – 4.14. The Commission agrees with the Court about the provisions of Regulations No 3973/86 as they relate to the EIB; this whole area has now been thoroughly reviewed and the new Financial Regulation (currently in draft form) makes the Commission solely responsible for implementing the budget. The Commission would point out that although in the past the application of Regulation No 3973/86 represented the law in force, which was faithfully carried out by the Commission, the amended Regulation should ensure that budgetary orthodoxy is once again fully respected. The situation described by the Court should not, therefore, reoccur.

The Commission would point out that the principle of conferring upon the EIB the management of Community-financed measures has not been called into question, although the rules for giving such a mandate do require altering.

The Commission's role

4.15 – 4.23. The Commission accepts that it only has limited information about the EIB's activities, although the Bank has always respected its obligations whenever it has been asked for information.

As regards financial cooperation under the new Mediterranean policy, the Commission is looking into ways of improving the rules governing its relations with the EIB.

*Measures managed by the Commission**The aid management system*

4.24 – 4.27. The Commission is studying how to set up a harmonized management system to be followed both by the central departments and by the delegations.

The sharing of responsibilities

4.28 – 4.29. The Commission departments are looking into ways of ensuring a clearer division of tasks that is better adapted to the requirements of the financial protocols.

Instructions

4.30 – 4.33. The Commission will try to ensure, to the extent that its resources permit, that harmonized and transparent monitoring is provided both centrally and in the delegations.

Work programmes and implementation reports

4.34 – 4.38. Although the Commission agrees with the Court that recipients should fulfil their obligations, in practice the Commission is often faced with sensitive situations which call for flexible management and where the legal provisions of the Protocol must be interpreted in the light of the actual conditions in which the projects are implemented.

However, the Commission will not hesitate, whether at the planning or the implementation stage, to take any appropriate and realistic measure to ensure that recipients meet their obligations.

Staff resources

4.40 – 4.41. The Court's observations concerning staff resources are correct. Some of the shortcomings noted by the Court are a direct effect of staff shortages.

5. IMPLEMENTATION AND THE RESULTS OF FINANCIAL AND TECHNICAL COOPERATION

Project conception

5.20 – 5.36. The Commission agrees with the Court's comments. It shares the Court's opinion that the financing agreement should be used as the reference document for project implementation and evaluation.

The Commission will take steps to ensure that this document is drawn up in the proper manner. It should be

noted that the Commission has included a deadline for implementation in the financial agreements since 1988. However, the management of its partners cannot always be relied upon, with the result that the initial timetable sometimes needs adjusting.

*Execution of projects**Delays*

5.37 – 5.38. It is the Commission's opinion that the conception of projects in the countries studied by the Court should be based on a realistic analysis of all the components which might have an impact on their execution. On the other hand, no *ex-ante* evaluation can ever take into account all the obstacles and constraints that a project might encounter.

Major project modifications

5.39 – 5.43. The Commission agrees with the Court's observations. The Commission's departments and delegations will have to improve their monitoring of activities receiving Community funds.

Technical assistance

5.44 – 5.48. The Commission believes that, by and large, the quality of the benefits provided by technical assistance is acceptable, as are relations between the experts themselves and the local institutions concerned.

Recipients' commitments

5.49 – 5.53. The Court's observations are relevant. There are many elements over which Commission departments and delegations have no direct control and over which they can exert only limited influence.

*Effectiveness of projects**Turkey*

5.55. While agreeing that the Court is justified in its comments, the Commission does not accept that in the case of two projects the development objective was disregarded. One of the main aims of the Special Aid was to finance

specific measures with a short-term multiplier effect that would help eliminate bottlenecks in the economy.

Algeria

5.57 – 5.61. The Court's observations are mostly correct. Until recently, the Algerian authorities evinced little interest in cooperating with the Community. Under its new economic policy, Algeria appears to be opening up to the outside world. This reorientation of economic policy means that some training programmes will need reviewing and the Commission has already requested that some projects be closed down or modified.

Morocco

5.62 – 5.69. The lack of monitoring by the Commission is partly due to the insufficiency of human resources. As regards the Salé slum-clearance project, in view of the delay in providing socio-administrative facilities, the Commission is awaiting a detailed assessment of current activities before giving its reply to a Moroccan request that the balance should be used for extending the project.

Although it accepts the Court's comments on the Haouz Central development project and the Ait Chouarit dam project, the Commission would point out that the Community's contribution is a relatively small proportion of the whole and so it is difficult for the Commission to exercise overall control.

Egypt

5.77 – 5.85. Most of the Court's observations do not call for any comment. Cooperation with Egypt is a complex business and institutional weaknesses mean that very close monitoring is required.

Mediterranean countries has not proceeded without difficulties. Administrative, institutional or political factors can in some cases prevent funds from being used within the deadlines. However, the Commission is trying to observe more strictly the time framework laid down for the operations it funds and since 1988 the financing agreements have specified the likely duration of each project. Although a formal mechanism for closing the protocols does not appear appropriate, the Commission has proposed to its partners that any sums left over from previous protocols should be carried over to future protocols so that they can be programmed jointly.

6.3 – 6.8. For the most part, the Commission shares the Court's concerns. Improvements to procedures and to the accounting system are planned.

As regards operations assigned to the EIB, the Commission is reviewing, under the new Mediterranean policy, the possibility of improving all the rules applicable to its relations with the EIB.

Furthermore, the Commission broadly agrees with the Court's remarks concerning the monitoring of the measures funded; it is looking into ways of improving monitoring by setting up a management system that can be used both by the delegations and by headquarters. However, most of the imperfections noted by the Court can be put down to staff shortages both in the delegations and at headquarters.

The Commission would point out that according to a statement in the Council minutes annexed to Council Regulation No 3973/86 of 22.12.1986 evaluations are required for all operations of more than ECU 5 million. The Commission agrees with the Court that the financing agreement should be the reference document for assessing the implementation of Community-financed projects.

6.9. The Court's observations on the weakness of the administrative structures and the inadequacy of human resources in non-member countries have overall relevance. Under the new Mediterranean policy, the Commission intends to assist the countries in question to strengthen their institutions and to develop their human resources. As regards Community-financed technical assistance, the Court's criticisms apply only to certain specific cases.

6.10. The Commission agrees with the Court that the effectiveness of Community aid varies for different reasons from one country to another.

6. CONCLUSIONS

6.2. The Commission is aware that the implementation of financial and technical cooperation with non-member



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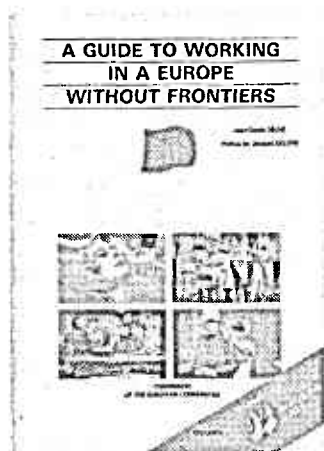
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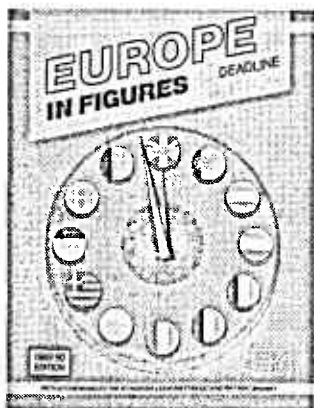
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