

I

(Information)

COURT OF AUDITORS

SPECIAL REPORT No 5/99**concerning Phare cross-border cooperation (1994 to 1998), accompanied by the replies of the Commission***(pursuant to Article 248(4), second subparagraph, EC)**(2000/C 48/01)***TABLE OF CONTENTS**

	<i>Paragraph references</i>	<i>Page</i>
INTRODUCTION	1-7	2
SUMMARY OF AUDIT OBSERVATIONS	8-15	3
THE IMPACT OF THE PHARE CROSS-BORDER COOPERATION PROGRAMME	16-65	4
Impact by sector	16-54	4
Transport and communications	16-36	4
Environment	37-47	7
Economic and human resource development	48-51	9
Small project funds	52-54	9
Policy impacts	55-65	10
Impact on local and regional development	55-59	10
Cross-border impact of the cross-border cooperation programme	60-63	10
Impact of the cross-border cooperation programme in attracting other co-financing ...	64-65	10
FACTORS AFFECTING IMPACT OF THE CROSS-BORDER COOPERATION PROGRAMME ...	66-93	11
Setting up of the cross-border cooperation programme	67-75	11
Commission's management set-up	76-78	12
Implementing conditions in the beneficiary countries	79-83	12
Management of the project cycle	84-90	13
Planning	84-87	13
Monitoring and evaluation	88-90	13
New Phare procedures	91-93	13
CONCLUSIONS	94-97	14
Replies of the Commission.		19

INTRODUCTION

1. The purpose of this report is to assess the impact of the Phare cross-border cooperation (CBC) programme over the first five years of its implementation (1994 to 1998) and to evaluate the effectiveness of CBC management, including the coordination with the Interreg programme and national co-financing.

2. The objectives of the CBC programme as stated in the Regulation ⁽¹⁾ are:

(a) to assist Phare countries' regions which are adjacent to the European Union (EU) in overcoming their specific development problems. Such assistance is to be in the interest of the local population and compatible with the protection of the environment;

(b) to promote the creation and development of cooperation networks on either side of the border.

3. According to these objectives, the main intention underlying the CBC programme which distinguishes it from the general Phare programme is the wish to improve economic and social condi-

tions and links specifically in the border regions. This is in contrast to the Phare programme which is designed to address priorities at national level including the development of major national and international infrastructure links.

4. The CBC programme was designed to help develop the kind of cross-border cooperation on the EU's external borders which the Interreg programme, funded from the EU Structural Funds, was already promoting across the internal frontiers of the European Union ⁽²⁾. It was thus intended that CBC funds would be allocated to border regions in the Phare countries to co-finance joint projects with adjacent border regions in the EU which were eligible for Interreg funding.

5. A total of ECU 820 million was committed within the five first years of the programme. This represents approximately 18 % of total Phare funds committed over the period 1994 to 1998. CBC funds have been allocated to the areas of intervention shown in *Table 1*. A more detailed analysis by country and sector is shown in Annex I. A map of the regions eligible for CBC is given in Annex II.

Table 1

Phare CBC implementation by area of intervention as at 31 December 1998

Sector	Commitments		Contracts		Payments	
	Amount (million ECU)	% of total CBC commitments	Amount (million ECU)	% of commitments	Amount (million ECU)	% of commitments
Transport and communications	400,8	48,9	192,9	48,1	109,9	27,4
Environment	194,1	23,7	80,5	41,5	56,6	29,2
Economic and human resource development	119,9	14,6	39	32,5	19,1	15,9
Small project funds	35,2	4,3	28,6	81,3	10,5	29,8
Other sectors	23,2	2,8	10,5	45,3	3,5	15,1
Programme and project management	47,2	5,8	33,1	70,1	21,2	44,9
Total	820,4	100	384,6	47	220,8	27

Source: European Court of Auditors.

⁽¹⁾ See Article 3 of Commission Regulation (EC) No 1628/94 of 4 July 1994 concerning the implementation of a programme for cross-border cooperation between countries in central and eastern Europe and Member States of the Community in the framework of the Phare Programme (OJ L 171, 6.7.1994, p. 14).

⁽²⁾ The Interreg programme was created in 1990 with funding for the period 1990 to 1994 of ECU 1 000 million. This amount was increased to ECU 2 400 million for 1995 to 1999.

6. The audit was carried out in 1998. It included missions to the Czech Republic, Estonia, Latvia, Lithuania, Poland, and Slovenia. File reviews were completed for the other eligible Phare countries ⁽¹⁾. Projects subject to on-the-spot audits represented approximately 56 % of total CBC disbursements at 31 December 1998 (see Annex III). The primary criterion for selecting projects for on-the-spot audits was operations over ECU 0,5 million where implementation had begun.

7. The Commission issued in November 1998 an evaluation of the Phare CBC programme based on its Polish, Czech and Bulgarian components. The main focus of the evaluation was to assess the reasons for the delay in the implementation of the programme. While the Court shares many of the evaluation report's conclusions, it considers that more attention should have been given both to the impact of the programme and to its management by the Commission.

SUMMARY OF AUDIT OBSERVATIONS

8. Although ECU 820 million was committed under the programme it had had only a limited impact at project level by the end of 1998. This was due both to the lack of projects with a cross-border impact which were ready for implementation at the time of funds being committed and delays in the implementation of approved projects (see paragraphs 16-55). The CBC programme is nevertheless already having a positive impact at institutional level in developing cross-border cooperation networks (see paragraph 63), and contributing, in most countries, to preparing local authorities in border regions for the management of EU Structural Funds (see paragraph 57). In the majority of countries the CBC programme has also mobilised national co-financing (see paragraph 64).

9. Implementation is most advanced in the Poland-Germany programme but one of the main problems the programme was designed to tackle, the long waiting times at border crossings, persists (see paragraphs 17-22). The Albania-Greece, Albania-Italy (see paragraph 33), Bulgaria-Greece (see paragraphs 29-31 and 47) and Slovak Republic-Austria programmes (see paragraph 26) have all experienced significant difficulties.

10. Problems in implementing the CBC programme partly stem from the excessively large budget of ECU 150 million allocated to the programme by the European Parliament at its inception (see paragraph 67). The Commission's allocation of this budget between individual Phare countries did not adequately take account of

their relative absorption capacities for cross-border projects (see paragraphs 71-72). The Commission followed a policy of fully committing the budget, even if projects are not yet adequately prepared or have only a limited impact at cross-border and regional level (see paragraph 73).

11. The impact of the CBC programme has been reduced by the very limited harmonisation with the Interreg programme. Only in very few cases were joint projects established. This is mainly the result of the lack of compatibility between Interreg and Phare procedures (see paragraphs 68-70).

12. The scope of CBC projects has been very wide and, particularly in those countries with insufficient regional administrative capacities, has often overlapped with the content of projects financed from Phare national programmes. Insufficient priority has been given to projects which are primarily for the benefit of the population of the border regions. To ensure the interests of the border regions are properly addressed, a larger share of the CBC programme should focus on relatively small projects with a strong local/regional and cross-border impact. Notwithstanding the fact that the new guidelines of the Commission for the Phare programme require a minimum project size of ECU 2 million, greater use should be made of small project fund (SPF) facilities, including the establishment of a common SPF managed jointly by local authorities in adjacent EU and Phare country border regions (see paragraphs 54 and 91).

13. Within Phare countries further steps should be taken to decentralise implementation. CBC funds should be allocated to regions and on a multiannual basis. More responsibility should be given to Euroregions ⁽²⁾ for project coordination (see paragraphs 54 and 81).

14. As the procedures for implementing the CBC programme are more decentralised than for Phare national programmes, the Commission should consider a corresponding deconcentration of its management of the programme whilst ensuring that its Delegations are adequately staffed for the purpose notably in regard to engineers (see paragraphs 76-78).

15. Given the results achieved at institutional level, if the Commission can overcome the shortcomings which have reduced the impact of the programme mainly at project level, a good basis exists for the further financing of the CBC programme (see paragraphs 94-97).

⁽¹⁾ Albania, Bulgaria, the Former Yugoslav Republic of Macedonia (FYROM), Hungary and the Slovak Republic.

⁽²⁾ Organisations, independent of the Commission, in the border regions of Austria, the Czech Republic, Germany and Poland responsible for coordinating project planning and made up of representatives of municipalities, districts, chambers of commerce and similar bodies.

THE IMPACT OF THE PHARE CROSS-BORDER COOPERATION PROGRAMME

Impact by sector

Transport and communications

16. As shown in *Table 1*, almost half of the Phare CBC funds have been devoted to transport and communication projects.

Poland-Germany CBC transport projects

17. In the Poland-Germany CBC programme, ECU 115 million were committed in the transport sector, mainly to improve infrastructure and related access roads at several of the main border crossings with Germany. The objective of these projects was to tackle the long waiting times to cross the border, particularly for freight traffic but also local traffic, which had developed as a result of the increase in trade since 1990 ⁽¹⁾. Thus in 1994 waiting times on the German-Polish border for lorries were of the order of 30 hours.

18. Although these projects address a high priority need in the Polish-German border region, their impact has been reduced both by delays on the part of the Polish authorities and the Commission in contracting the works to be carried out and by other factors such as the inadequate management of border crossings, the poor state of the Polish road network and environmental restrictions. Thus considerable waiting times, particularly for lorries, continued to exist in 1998.

19. The 1994 programme provided co-financing (ECU 5,5 million) for a new freight terminal at the major Swiecko-Frankfurt an der Oder border crossing. The CBC financing (15 %) served as a stop-gap after the Polish authorities ran out of their own funds to complete the project. The project was completed in mid-1995 using accelerated procedures. As a result of the project, border waiting times for lorries have dropped from 36 hours to 10-12 hours but this is still significant and considerably more than the project objective of 30 minutes. While the continuing waiting times are partly due to further increases in the volume of traffic using this crossing, understaffing of the terminal by Polish customs officials and the failure of the Polish authorities to build a special access road from the border to the terminal are also reasons for the clearing procedure still being so long.

⁽¹⁾ From 1990 to 1994 the number of border crossings by lorries between Germany and Poland increased from 606 508 to 1 625 617 (Polish Ministry of Transport).

20. The implementation of two other major border crossing projects at Gubin (ECU 20,8 million) and Olszyna (ECU 15 million), also funded from the 1994 Poland-Germany CBC programme, took much longer to complete although the financing memorandum foresaw completion of the projects by December 1996. Olszyna was only completed in October 1998 while Gubin was rescheduled for completion in May 1999. The delays are principally due to the excessive time required by the Polish authorities and the Commission to prepare the tender documentation and award the contracts. Border waiting times at these two crossings were also of the order of 10 hours. Swiecko, Gubin and Olszyna were among the six border crossings with the longest crossing times in Europe in November 1998 ⁽²⁾.

21. Two further completed projects at Kolbaskowo (ECU 10 million) and Osinow Dolny (ECU 1,2 million) have improved the access roads to these border crossings. However, the usefulness of the Osinow Dolny project has been reduced because, contrary to what was foreseen in the financing memorandum, the German authorities have not opened up the border crossing to lorries for environmental reasons. The same restriction on lorries is also threatening to lessen the impact of large scale improvements being financed to the road from the border at Kostrzyn to Gorzow Wielkopolski (ECU 9,4 million). It would have been expected that the selection of the projects by a Polish-German Joint Programming and Monitoring Committee (JPMC) would have drawn attention to such restrictions ⁽³⁾ at an early stage.

22. The impact of improvements to border crossings is further weakened by other factors:

- (a) approximately half of the lorries crossing the German-Polish border are in transit to countries east of Poland ⁽⁴⁾ and face serious delays on Poland's eastern border ⁽⁵⁾;
- (b) the underdeveloped nature and deteriorating physical condition of the Polish road network. In 1997, only 24 % of the main roads in Poland were in a satisfactory state ⁽⁴⁾;
- (c) improvements in the physical infrastructure at border crossings have not been accompanied by corresponding improvements in the management of border crossings ⁽⁶⁾.

⁽²⁾ 'Border Waiting Times' report of International Road Transport Union, November 1998.

⁽³⁾ Projects are selected by JPMCs, in which the Commission has observer status, before being submitted to the Commission for final approval.

⁽⁴⁾ Source: Polish Ministry of Transport.

⁽⁵⁾ Notably Kuznicka and Terespol on the Belarus border (see International Road Transport Union (IRU) reports on IRU website www.iru.org).

⁽⁶⁾ Evaluation of Phare customs programme, PricewaterhouseCoopers, 1998.

23. Significant CBC funding is also being used to finance bypasses round several Polish towns (Zielona Gora (ECU 3,3 million), Jelenia Gora (ECU 3,8 million), Gorzow (ECU 10 million), Pniewy (ECU 3,1 million)). While these projects are useful in themselves for relieving congestion, the distance of 50 km to 150 km from these towns to the border means that the projects have only a limited direct cross-border impact, for which reason their financing under the Phare national programme would have been more appropriate.

Czech Republic-Germany CBC transport projects

24. In the Czech Republic-Germany CBC programme ECU 28,3 million has been committed in the transport sector. The main CBC transport project implemented to date has been the modernisation of Cheb railway station (ECU 12,9 million), the second biggest rail border crossing between the Czech Republic and Germany. This project was originally based on an agreement between the German and Czech railways to prioritise improvements to the Nürnberg-Prague line. A decision by the German railways (Deutsche Bahn) in April 1996 to focus instead on the Nürnberg-

Dresden line has led to less traffic than expected passing through Cheb (see Map No 1). As a result there is a considerable overcapacity following the Phare investment: train capacity was increased by 32 % while the number of trains has remained the same. Marshalling capacity has increased by 42 % but the number of goods wagons handled actually fell by 12 % from 1995 to 1997.

Czech-Austrian, Slovenian-Austrian and Slovak-Austrian CBC Transport Projects

25. The CBC programme has had little impact on the transport sector in the framework of programmes between Phare countries and Austria despite the priority assigned to this sector in the Phare countries' 1995 to 1999 multiannual indicative programmes (MIP). Thus in the Czech Republic-Austria MIP, which is for ECU 30 million, the main transport project being financed by CBC is a ECU 1,7 million 52 km bicycle path in the Lipno region to link up with the Austrian cycle path network. While this project is

Map No 1
Railway lines in the German-Czech border region



likely to enhance tourism in the region, the CBC programme has no impact on the problems of the transport sector referred to in the Czech Republic-Austria CBC MIP which stated that 'for the revival of the rural border area, it is important to reconstruct, modernise and extend the road ... and ... railway system ... and to update the connection between the Czech and Austrian transport systems in the border region' (1).

26. Transport projects in the Slovenia-Austria programme were similarly largely limited to cycle paths despite the MIP prioritising the modernisation of border crossings and the related road network. In Slovakia the impact of two projects completed in 1998 to establish new local border crossings with Austria (ECU 0,4 million) was uncertain because the two countries had still to reach an agreement to open the border at these locations. As for the project, referred in paragraph 21 above, it would have been expected that such issues would have been cleared at the level of the JPMC before the financing decision was made.

Bulgaria-Greece, Former Yugoslav Republic of Macedonia (FYROM)-Greece, Albania-Greece and Albania-Italy CBC transport programmes

27. In the case of the CBC programmes which Albania, Bulgaria and FYROM had with Greece, as well as the Albania-Italy CBC programme, approximately three quarters of the funds have been allocated to the improvement of road/rail infrastructure, chiefly along the 'Crete corridors' (2) running through these countries (see Table 2). These CBC projects are designed to link up with new investments in Greece and Italy partially financed from Interreg.

28. Very little had been implemented by the end of 1998, above all because of the limited amount of preparatory work that had been completed at the time projects were selected by the Commission for CBC funding and because of the weak management capacities of national and regional authorities. The projects selected have generally been infrastructure projects of national importance but with only limited benefits for the population of the border regions themselves. In several cases the estimated rate of return of the projects is either below the minimum rate of return normally eligible for funding by the Commission or very uncertain (3).

29. In Bulgaria, a major reorientation of the CBC programme with Greece, agreed between the Commission, Greece and Bulgaria in mid-1997, led to funds being concentrated on the improvement of the main road and railway line in the transport corridor leading from the Greek border in the south-west corner of Bulgaria to Dupnica, 130 km to the north. Dupnica is approximately 30 km outside the border area eligible for CBC funding. Construction was only expected to begin on these projects in 1999, five years after the start of the CBC programme.

30. The internal rate of return (IRR) for the railway project was calculated in 1994 at only 3,71 %, based on cost estimates by the Bulgarian authorities of ECU 16 million. The project budget has been subsequently raised to ECU 32,2 million which has lowered the IRR even more. The Commission is the sole donor although it would have been expected that a project of this size would have

Table 2

CBC funds allocated to road and rail projects in the Balkan region (1994-98)

Programme	Total commitments (million ECU)	Commitments in road and rail sectors (million ECU)	% of programme allocated to road/rail sectors	Crete corridors financed
Albania-Greece	45	31,2	69	VIII (Duerres-Burgas)
Albania-Italy	45	29,4	65	VIII (Duerres-Burgas)
Bulgaria-Greece	99,6	82,5	83	IV (Berlin-Thessaloniki)
FYROM-Greece	30	19,7	66	X (Salzburg-Thessaloniki)
Total	219,6	162,8	74	

Source: European Court of Auditors.

(1) Page 19 of Czech Republic-Austria CBC MIP.

(2) Ten such corridors through central and eastern Europe were identified at the second Pan-European Transport Conference in Crete in 1994.

(3) The communication from the Commission to the Council and the European Parliament of 23 April 1997 (COM(97) 172 final) entitled 'Connecting the Union's transport infrastructure network to its neighbours' states that 'as a general rule, the rate of return should be at least of the order of 10 %' for Commission-financed infrastructure projects in Eastern Europe.

been co-financed with an international finance institution. The benefit of the rail project to the population of the border region itself is limited ⁽¹⁾.

31. Similarly the road project (ECU 25 million) along the same corridor is of only limited benefit to the border region itself, despite the inadequate nature of the road network in that region ⁽²⁾. Indeed, the rehabilitation measures do not cover the first 20 km of the road from the border because of the low traffic volumes.

32. In FYROM, the CBC programme has also been reoriented so that approximately 80 % of the funds from the 1996 to 1999 MIP are devoted to improving the road from Skopje to Thessaloniki. The economic justification for the improvements is weak. In 1998 the European Investment Bank estimated the IRR at between 5 % and 9 % depending on political developments in the Federal Republic of Yugoslavia. The main section is situated at between 48 km and 66 km from the frontier which lessens the cross-border impact.

33. For the Albania CBC programmes with Italy and Greece, approximately 70 % (ECU 64,6 million) of the 1994 to 1998 CBC funds have been allocated to the rehabilitation of the main national roads including roads leading to the ports. Both CBC financing and funds from the Phare national programme (ECU 18 million) form part of an overall effort by donors, of which Phare is the largest, to assemble funds to rescue the country's crumbling road infrastructure. However, the first construction only began in 1998 and has run into serious delays in its implementation. The use of CBC and Phare national programme funds for the same projects indicates that these are not specifically cross-border projects.

CBC transport projects in the Baltic States

34. In the Baltic States most of the funds allocated to the transport sector were designated for improving port infrastructure (ECU 11,4 million). In Latvia the construction of a vessel traffic system (VTS) control tower (ECU 1,5 million) was due to be completed in early 1999. The need to improve shipping safety is underlined in the Commission's opinion on Latvia's application for EU membership ⁽³⁾. The project has been seriously delayed because of a change in the project objectives, the limited experience of the Latvian authorities in preparing the detailed design and tender documentation and the late payment of the advance to the contractor by the Commission.

⁽¹⁾ Approximately half of the municipalities in the CBC eligible areas have no links with the national rail network. (LACE-Phare project, Issues paper: Bulgaria-Greece, 1997).

⁽²⁾ 37 % of the municipalities in the border region eligible for CBC funding have no national roads. (LACE-Phare project, Issues paper: Bulgaria-Greece, 1997).

⁽³⁾ Supplement No 10/97 to the Bulletin of the European Union.

35. In Lithuania the CBC programme is financing improvements to the ferry terminal at Lithuania's only port, Klaipeda (ECU 5 million). After significant delays, caused mainly by the inadequate performance of the contractor and late payments by the Commission, this project was also scheduled for completion in early 1999. The project is economically justified because of the significant growth expected in freight traffic. However, it is noted that similar projects were being undertaken in Estonia and Latvia financed from loans by international finance institutions. This raises the question of whether CBC grants should be used to support projects which are of a directly commercial nature (see paragraph 65).

CBC telecommunications projects

36. In Lithuania and Albania, CBC funds have been used to finance telecommunications projects. In Lithuania, an optical-fibre cable network in the Klaipeda region was funded (ECU 2,7 million) as part of a wider national project mainly financed by an EBRD loan (ECU 35 million). 60 % of the project funded by Phare lies outside CBC eligible areas. The cross-border impact of the project is in fact of secondary importance. In Albania ECU 1,7 million has been used to co-finance a 500 km submarine optical cable telecommunications link south to Greece and north to Croatia. The link with Croatia was not eligible for CBC funding as Albania has no CBC programme with Croatia and, moreover, Croatia itself is suspended from the Phare programme.

Environment

CBC environment projects in the Baltic region

37. The environment has been the main sector to which CBC funds have been allocated in Estonia and Latvia and is also an important part of the Polish and Lithuanian CBC programmes. The projects are principally aimed at cleaning up the Baltic Sea of which the Baltic States and Poland, together with Russia, are the principal polluters.

38. Although the CBC allocations to this area address a high cross-border priority, the limited funds available compared with the size of the needs means that the CBC programme can only be expected to have a modest impact ⁽⁴⁾. Moreover, delays in implementation, particularly in the Baltic States, have further reduced the impact of the programme over the period 1994 to 1998. These delays can principally be attributed to the lack of

⁽⁴⁾ The Helsinki Commission's 'Baltic Sea joint comprehensive environmental action programme' which covers the period 1993 to 2012, estimates the total cost of cleaning up the Baltic at ECU 18 billion.

experience of the local administrations and the inadequate monitoring of the programmes by the Commission until it established programme implementation units in the Baltic States at the end of 1996. Up to this point, project monitoring was the direct responsibility of the Commission headquarters but there is no evidence that environment projects had been visited by Commission officials.

39. In Latvia, the CBC programme (ECU 1,9 million) financed the completion of a pipeline to send waste water from Jurmala to Riga for processing to EU standards, instead of being discharged into the Baltic. Jurmala, a town of 60 000 on the Baltic Coast, is the source of approximately 3 % of Latvia's waste water. Approximately 80 % of the project had been carried out over the period 1989 to 1993, using national funding until the Latvian budget was exhausted. The CBC part of the project was completed two years behind schedule in 1998 mainly because of the poor performance of the consultant responsible for drawing up the tender documentation and the lack of proper guidelines from the Commission on the evaluation of tenders for works contracts, which led to the first tender being cancelled.

40. The CBC programme has also financed a project (ECU 1,8 million) to collect Latvia's hazardous waste. This project was completed towards the end of 1998, also two years later than programmed. In this case the delays principally arose from the poor quality of the feasibility study carried out by the consultant and delays in contracting the funds resulting from a lack of guidelines from the Commission. The project only covered the collection of 800 tonnes of waste because this was the total amount of national waste estimated in the Phare-financed feasibility study. In 1998 total waste was re-estimated at 2 000 tonnes. Moreover, no arrangements had been made at the time of the Court's audit (June 1998) for the incineration of the waste once it had been collected.

41. A similar project for hazardous waste management is being financed in Estonia (ECU 2,4 million), no such system having existed previously. The first phase, the building of two collection stations, was expected to be completed in early 1999, two years behind schedule, largely as a result of local political interventions as well as the lack of experience of the local authorities and the absence of adequate guidelines from the Commission for implementing the CBC programme. As in Latvia, the problem of incinerating the materials collected had still to be resolved.

42. In Lithuania, a project is being funded to improve the waste water treatment plant (WWTP) at the coastal resort of Palanga (ECU 1,2 million) where pollution at levels five to seven times higher than the European Union norms flows into the Baltic Sea. The project has suffered a three-year delay due to a major reorientation of the Commission's contribution to the project after it only belatedly became aware that the works and equipment to be funded under the CBC project had already been financed in part by the Lithuanian authorities.

43. In Poland, from 1995 onwards, approximately 40 environmental projects have been funded from the CBC programme, although few projects had been completed at the end of 1998. The majority of these projects concern the building or upgrading of WWTPs. While 75 % of Poland's 860 towns are equipped with a WWTP, 50 % of the WWTPs do not have sufficient capacity⁽¹⁾. The estimated total cost of bringing waste water treatment to European Union standards is ECU 10 300 million, which again indicates the limited impact the CBC programme can have⁽²⁾.

44. Among the largest environmental projects in Poland were WWTPs in Gubin (ECU 3,3 million) and Szczecin (ECU 3,5 million). The project in Gubin represents an excellent example of cross-border cooperation. The new WWTP serves not only Gubin but its twin German town of Guben on the other side of the Neisse river⁽³⁾, thereby significantly reducing both the project investment and operating costs. Although the CBC project as a whole had not yet been completed, the WWTP itself was opened in May 1998 and has enabled a significant reduction in pollution in line with EU norms. In contrast, in Szczecin the project, although approved by the Commission in 1995, (total cost: ECU 29,2 million) had still to commence because of delays on the part of Szczecin City Council in finalising the project design.

CBC environment projects in the Czech Republic

45. In the Czech Republic, financing needs in the environmental sector are also huge, an estimated ECU 1 400 million⁽⁴⁾ being required in the waste water sector alone. CBC funds are in particular being used in the heavily polluted northern Bohemia region on the German border through which the river Elbe flows. As in other countries, impact has been reduced because of implementation delays and only five projects, all funded from the 1994 budget, had been completed at the end of 1998. A major cause of delay in the Czech Republic was the adoption of a new national procurement law which led to the blocking of all Phare tenders for a 12-month period until September 1997.

46. The CBC programme financed a sewer (ECU 5,8 million) to transfer waste water from the town of Usti nad Labem (180 000 inhabitants) to a newly built Czech-financed WWTP in the nearby town of Nestemice. This has led to a substantial reduction in the pollution of the Elbe from Usti in 1998. On the other hand, the overall pollution levels of the Elbe in the region are broadly the same as previously because of the amount of pollution upstream,

⁽¹⁾ Approximation of Environmental Legislation Directive related report by DG XI dated June 1997.

⁽²⁾ 'Compliance costing for approximation of EU environmental legislation in the CEEC', Final Report, Table 4.14, May 1997 (EDC, Ireland).

⁽³⁾ The two towns were originally one town until being divided at the end of the Second World War.

⁽⁴⁾ Supplement No 10/97 to the Bulletin of the European Union.

notably from Prague. A similar project for the town of Rumburk (population of 14 000) which also includes the German town of Seifhennersdorf was completed at the end of 1997. In Nejdeč the completion in December 1997 of a steam pipeline (ECU 6,6 million), fuelled by heat from a local industrial plant, enabled the closure of brown coal heating plants. This greatly reduced local air pollution, although no information was available on the extent of the cross-border impact.

CBC environment projects in Albania, Bulgaria and FYROM

47. In Albania, Bulgaria and FYROM, despite the ecological problems faced, very little funding has been allocated to the environment because of the priority given to transport projects. The largest environment project is a radioactive waste reprocessing and storage facility at the Kozloduy nuclear plant in Bulgaria (ECU 3,7 million). This project is not situated in the Bulgaria-Greece border region but on Bulgaria's northern border with Romania, an area which was not eligible for CBC funding from 1994 to 1998.

Economic and human resource development

48. In most countries, economic and human resource development projects have received a relatively small allocation of funds compared to transport and environment projects, the main exceptions being Hungary, the Slovak Republic and Slovenia. Moreover, most projects were funded from 1996 onwards and have therefore not yet been completed. The low allocations partly reflect the difficulty in identifying projects of this kind which will have a positive impact on both sides of the border. In some cases, the regions on either side of the borders are in economic competition with each other, which makes the financing of such projects more sensitive.

49. The largest project in this field is the establishment of the 'Collegium Polonicum' in Slubice on the Polish border, which is being developed by the universities of Frankfurt an der Oder and Poznań using CBC funds (ECU 16 million) and Interreg funds (ECU 3,2 million) as well as approximately ECU 8,9 million from Polish co-financing. The aim of the 'Collegium' is to promote joint teaching and research in the field of German, Polish and European studies⁽¹⁾. By the end of 1998, the Phare-financed construction of hostels for 267 students had been completed (ECU 4 million from the 1994 CBC programme).

50. In Hungary significant resources were being used to promote tourism through developing a cycle path network to link into the extensive Austrian system. A cross-border industrial park was also being developed at Szentgotthard-Heiligenkreuz (ECU 4,3 million). However, these projects, decided in 1995, had not yet been completed.

51. In the Slovak Republic, the impact of a project to plan the Jarovce-Kittsee Industrial park (ECU 0,5 million) has been significantly reduced. The feasibility study and project design, originally intended for the creation of an industrial park on both sides of the Slovak-Austrian border, could only be performed on the Slovak side because of a lack of cooperation between the two countries.

Small project funds

52. In most CBC beneficiary countries, small project fund (SPF) facilities have been established with the aim of supporting small scale 'people-to-people' and 'soft' local development activities.

53. Since 1996, this type of project is becoming the main approach to implementing the CBC programme in the Baltic region. Thus ECU 12 million has been allocated to local development projects of up to ECU 100 000 involving at least one local authority from the Phare Baltic States and at least one local authority from the EU. A contractor⁽²⁾ was engaged to administer the programme. However, because of delays on the part of the Commission in setting up the programme, the first projects were only starting in mid-1998.

54. With the exception of Albania, Bulgaria and FYROM, SPFs were also established in the other CBC countries, although for smaller amounts than in the Baltic region⁽³⁾. These projects generally had a different emphasis to the Baltic SPF, focusing on people-to-people and cultural activities. They were highly appreciated in the border regions as a means of cross-border integration at grass roots level. Implementation has also been relatively fast, since project selection and approval is more decentralised than for the rest of the CBC programme. In Poland and the Czech Republic, management of the SPFs has been successfully delegated to Euroregions, organisations in the border regions made up of representatives of municipalities, districts, chambers of commerce and similar bodies.

⁽¹⁾ The main subjects covered are law, economics, history, philosophy and linguistics.

⁽²⁾ A de facto 'bureau d'assistance technique' (BAT).

⁽³⁾ Between 2 and 3 % of each country's CBC allocation.

Policy impacts

Impact on local and regional development

55. Although the CBC Regulation stipulates that the aim of CBC projects is to 'promote cooperation ... in the interest of the local population', the degree to which this has occurred in practice has varied. In Hungary and Slovenia projects have had a strong local focus from the beginning and in Poland, the Czech Republic and Estonia there has been an increasing trend in this direction. On the other hand, the lack of adequate regional development plans in these countries for the border regions concerned has meant that projects in many cases have been selected in an ad hoc fashion without being integrated into an overall regional development strategy.

56. In Bulgaria, FYROM and Albania the emphasis on large national infrastructure projects has significantly reduced the potential regional development impact of the programmes.

57. In countries ⁽¹⁾ that have involved their local administrations in planning and implementing the CBC projects, one of the major impacts of the CBC programme so far has been to initiate these administrations in the practices and procedures of the European Union. This can be considered valuable preparation for future management of the EU Structural Funds.

58. The CBC financing of the so-called 'ECOS-Ouverture' programme (1994 to 1996: ECU 10 million), a programme set up in 1991 by the Commission to promote interregional cooperation between local and regional authorities from central and eastern Europe and the Member States, has also contributed to the strengthening of the capacity of these authorities in Phare countries.

59. In several countries the part of the country bordering on the European Union, far from being underdeveloped in a national context, is one of the most prosperous regions in the country. Moreover, in most cases, the border regions funded by CBC were significantly richer than border regions in other parts of the Phare countries. This is particularly the case in Hungary, where two of the three eligible counties are the wealthiest in the country, and, to a lesser extent, in Poland and the Slovak Republic. This is in marked contrast to the situation in the Member States where the border regions with the Phare countries are generally among the poorest regions in the country. While the CBC programme has a positive impact on the eligible border regions, it is not designed to contribute to solve regional disparities within the Phare countries. This problem should be addressed by specific regional policy instruments.

⁽¹⁾ Estonia, Latvia, Czech Republic, Hungary, Poland and Slovenia.

Cross-border impact of the cross-border cooperation programme

60. For the great majority of CBC projects it was possible to identify some kind of cross-border impact even if it was not always easy to measure. Thus, for example, all environment projects, almost by definition, have some cross-border impact. However, the 'intensity' of this impact has varied considerably and the Commission could have better specified priority forms and levels of cross-border impact required.

61. For the Baltic States, CBC programmes and those of Poland-Baltic and Albania-Italy, the intensity of the cross-border impact was reduced by the fact that the sea border made cooperation between the local authorities and inhabitants on either side of the border more difficult.

62. The potential cross-border impact of CBC has been reduced by the lack of integrated development plans which cover the two sides of the border. Moreover, in most cases the imbalances between economic development levels on either side of the external borders of the EU hinders the establishment of common strategies.

63. A significant impact of the programme has been the enhanced institutional cooperation between Phare countries and EU Member States. In the first place, this has arisen from the setting-up of Joint Programming and Monitoring Committees (JPMC) in accordance with the CBC Regulation. The JPMCs, which have the task of selecting CBC projects and monitoring their implementation, consist of representatives of the EU Member State and the bordering Phare country. More intense contact at a lower level has generally developed through JPMC working groups and cross-border bodies set up to identify and implement CBC projects. At project level, most beneficiaries confirmed that the projects had led to new contacts and/or the strengthening of existing contacts with counterparts on the other side of the border.

Impact of the cross-border cooperation programme in attracting other co-financing

64. A further positive feature of the CBC programme in most Phare countries has been the co-financing of CBC projects by national budgets, the first time systematic national co-financing has taken place in the context of the Phare programme. This represents an important step towards the co-financing arrangements required by the EU Structural Funds. The CBC regulation encourages such co-financing in Article 4(3) and the Commission has sought to insist on a minimum co-financing of 25 % of the project value. Only Albania, Bulgaria and FYROM failed to meet this requirement. In Albania, the implementation of the road programme was threatened by the lack of a sufficient Albanian budget to finance the compulsory purchase of land.

65. Article 6(1) of the CBC Regulation stipulates that 'whenever the Community grant contributes to the financing of revenue-generating activities, the Commission shall determine, in consultation with the authorities involved, the rules for financing which may include co-financing by the project's revenues or reimbursement of the initial grants'. Despite the fact that numerous CBC projects are indeed generating revenue, no measures have been taken by the Commission to implement this Article, which has simply been ignored.

FACTORS AFFECTING IMPACT OF THE CROSS-BORDER COOPERATION PROGRAMME

66. The overall impact of the CBC programme five years after its launch and following the commitment of ECU 820 million is modest, particularly at project level. This section of the report seeks to identify the main reasons for this.

Setting-up of the cross-border cooperation programme

67. The establishment of the CBC programme was agreed at a meeting of the European Parliament, the European Council and the European Commission in June 1993. At the Parliament's insistence, the 1994 CBC budget was set at ECU 150 million although the Commission sought to limit the budget to ECU 20 million ⁽¹⁾. This increase was made without adequate consideration being given to the actual absorption capacity of the Phare countries.

68. The European Parliament took the view that it would be possible to implement the CBC programme according to the same rules as for the Interreg programme. Although the CBC Regulation sought to mirror the Interreg Regulation as closely as possible, the Financial Regulation prevented the harmonisation of procedures because the Phare countries are subject to the provisions of Title IX of the Financial Regulation which stipulates different programme selection and implementation arrangements for Community expenditure outside the European Union. This has severely hindered the establishment of joint projects between CBC and Interreg.

69. In particular, whereas the Interreg programme is approved for a five-year period (1995 to 1999) by the Commission, the selection of projects and the supervision of their implementation is the responsibility of the Member States. On the other hand, the CBC programme can only be implemented through annual commitments with the Commission responsible for project selection and the supervision of implementation.

⁽¹⁾ See Letter of amendment No 1 to the preliminary draft budget for 1994, SEC(93) 1588 final, Brussels, 8 October 1993.

70. Moreover, the territoriality principle has prevented Interreg funds being used to co-finance CBC projects in Phare countries and the CBC programme co-financing Interreg programmes in the Member States, although such co-financing was one of the main reasons for establishing the CBC programme.

71. In the first two years of the programme, when allocating the overall CBC budget between individual Phare countries, the Commission did not sufficiently take into account the varying absorption capacities of the different countries, both in relation to the management capacity of their local authorities and the existing cooperation structures between Phare countries and neighbouring EU Member States. Several countries have excessively high Phare CBC allocations compared with their Phare national allocations, notably in the Czech Republic where CBC allocations represent 43 % of the total Phare allocation to the country for 1995 to 1999.

72. In Bulgaria, where the absorption capacity for projects which have a genuine impact on the border regions has proved particularly limited, the Commission has nevertheless sought to maintain the allocation provided for in the MIP. Thus after no commitments were made in 1996 and 1997, ECU 51 million was committed in 1998 for the Bulgaria-Greece CBC programme for actions without an obvious cross-border impact on eligible regions.

73. Although the Commission fully committed the CBC budget each year with the exception of 1997, the utilisation of payment appropriations has been consistently low as Table 3 demonstrates. The low rate of implementation to a considerable degree is the result of the large budget made available compared to the relatively limited number of genuine cross-border projects ready to be implemented. This is a direct consequence of the Commission's policy of seeking to fully commit the available appropriations under whatever conditions.

74. The Commission made extensive use of a consultancy firm to draw up the MIPs for the implementation of the CBC programme, although the programming exercise would have normally been expected to be undertaken directly by the Commission services in conjunction with the authorities in the Phare countries. The regional and local authorities were not adequately consulted in preparing the programmes.

Table 3

Utilisation of CBC appropriations (1994 to 1998)

Year	Commitment appropriations (million ECU)	Actual commitments (million ECU)	Percentage utilised (%)	Payment appropriations (million ECU)	Actual payments (million ECU)	Percentage utilised (%)
1994	150,0	150,0	100	100,0	26,5	27
1995	169,0	169,0	100	95,2	35,2	37
1996	180,0	180,0	100	161,0	71,3	44
1997	279,9	141,0	50	179,9	109,7	61
1998	180,0	180,0	100	185,0	168,5	91
Total	958,9	820,0	86	721,1	411,2	57

Source: European Court of Auditors.

75. In several areas the procedures for implementing the CBC programme were not sufficiently defined by the Commission:

- (a) the main CBC guidelines document issued by the Commission is mainly limited to programming the aid and exists only in draft form so that it is uncertain how far the document is applicable ⁽¹⁾;
- (b) while at the time the CBC programme was launched, most of the mainstream Phare programme was implemented through service contracts, the CBC programme is chiefly implemented through works contracts. However, guidelines for works contracts were only established in January 1998 ⁽²⁾;
- (c) although the SPFs have had an important role to play in the CBC programme as from 1995, when the first funding was allocated to these instruments, guidelines in this area were not issued until April 1997.

Commission's management set-up

76. While the Financial Regulation gives the Commission overall responsibility for external relations aid (see paragraphs 68 and 69 above), the procedures used for implementing the CBC programme have been unnecessarily cumbersome and the process of devolution to the Commission Delegations within the Phare countries only began in 1998. This lack of devolution is despite the fact that, in accordance with the objectives of the programme, CBC has been implemented in a more decentralised way by most beneficiary countries than is the case for Phare national programmes. Thus the greater involvement of local and regional authorities in

the CBC programme should have been matched by a correspondingly greater input from the Commission Delegations.

77. In the Baltic States and Slovenia the CBC programme was implemented according to the Commission's centralised procedures, all contracts having to be approved and signed by Commission headquarters. In other countries where the so-called 'Phare decentralised implementation system' (DIS) was in place, all contracts signed by beneficiaries for over ECU 500 000 had to be endorsed by the Commission headquarters. In addition, all work programmes, which form the basis for transfers of funds from the Commission to the beneficiary countries, had to be approved not only by the Delegations but also by two different services within DG I/A. Thus for the Polish CBC programmes the average time required by the Commission for endorsing contracts was 80 days and for work programmes 73 days.

78. Despite the importance of infrastructure investment projects, the Commission had not adequately staffed its Delegations with professional engineers. Thus, for example, the Delegations in Poland and Albania did not have qualified expatriate engineers among their officials.

Implementing conditions in the beneficiary countries

79. The impact to date of the CBC programme has also been adversely affected by difficulties in the implementing environment in the beneficiary countries. In the first place, the CBC programme, because of its multisectorial and decentralised nature, has presented considerably more coordination difficulties to beneficiary countries than other Phare programmes.

80. Under the DIS the CBC programme is overseen by programme management units (PMUs). Although it might have been expected that the CBC programme would be monitored by regional development PMUs which had already been set up for Phare

⁽¹⁾ Phare-Interreg cross-border cooperation: Proposed guidelines for multi-annual programming (August 1994).

⁽²⁾ Phare Decentralised Implementation System Manual, Volume 1.

national funds, new PMUs specific to the CBC programme were established. In Bulgaria and the Czech Republic the PMUs were only starting to become operational in 1998, despite the fact that ECU 1,1 million and ECU 1,5 million respectively had already been spent on setting them up. All PMUs were based in the capitals, disregarding the fact that projects were located in the border regions. This has often lowered the efficiency and effectiveness of programme management.

81. The central governments in the Phare countries have exerted varying, but in all cases significant, degrees of influence over the CBC programme, notably at the project selection stage. This tendency is only starting to be modified as most Phare countries embark on reforms aimed at decentralising their administrations. This has meant that the programme has had less of an institutional impact on local authorities than it could have had.

82. To the extent that local and regional authorities have been actively involved in the CBC programme, this has inevitably contributed to slowing down implementation, and thereby reducing impact at project level, because of the limited management experience of most of these bodies. To help overcome this situation, technical assistance which has been largely concentrated on the PMUs in the capitals should have been more widely extended to local and regional authorities to support implementation of the programme at project level.

83. Implementation of the CBC programme in Bulgaria and Albania was seriously disrupted by the economic and political crises which these countries experienced in 1996 and 1997 respectively.

Management of the project cycle

Planning

84. Implementation of the CBC programme has been hindered by the constraints of annual budget appropriations. Thus projects frequently have had to be divided up into annual phases with no guarantee concerning the funding of future phases and the need to tender contracts. Moreover, unlike for Interreg, CBC funds are only allocated at national level rather than regional level which constitutes an obstacle to regional planning and coordination with Interreg.

85. The annual commitment of funds by the Commission is typically towards the end of the financial year. This is despite the fact that for some programmes, notably Poland-Germany, projects are generally approved by the JPMC at the start of the year.

86. In most cases, project implementation only begins one to two years after project approval because beneficiaries had not prepared tender documentation at the time of the approval. For example, in Poland and the Czech Republic implementation of

infrastructure projects only began on average 20 and 26 months respectively after the signature of the financing memorandum. In certain cases, notably for the large road-building projects in Albania, feasibility studies had not even been completed at the time of project approval.

87. Although the CBC programme has mainly financed infrastructure projects, for the great majority of such projects the Commission has not sought to obtain co-financing from IFIs as envisaged under the Copenhagen Council's Decision in 1993 when Phare's involvement in infrastructure was authorised.

Monitoring and evaluation

88. The Joint Planning and Monitoring Committees have played a major role in project selection but have generally played only a minor role in monitoring project implementation, rarely taking corrective action to ensure programmes were meeting their objectives.

89. Although the Commission formally uses the logical framework methodology ⁽¹⁾ to enable projects to be monitored and evaluated, the indicators used to measure project achievement are rarely precise and responsibilities for obtaining monitoring data are never defined.

90. The annual monitoring and assessment reports carried out by consultants for the Commission for all Phare programmes including CBC are useful but focus on outputs rather than impact. No system has been established by the Commission for assessing the impact of completed projects and the overall evaluation of the CBC programme of November 1998 did not address this issue adequately (see paragraph 7). The Commission has not established an annual report on the implementation of the CBC programme as foreseen by Article 11 of the Regulation.

New Phare procedures

91. In 1998, the Commission introduced several initiatives which affect the Phare CBC programme. The new policy guidelines covering the Phare programme as a whole ⁽²⁾ included the requirement that the minimum size for Phare projects should be ECU 2 million. While this approach may be valid for Phare national projects, it does not accord well with the CBC objective of supporting relatively small local projects managed by local and regional authorities.

⁽¹⁾ A project management tool designed to integrate planning, monitoring and evaluation.

⁽²⁾ Decision of the Commission on the guidelines for Phare programme implementation in candidate countries, 1998 to 1999. SEC(1998) 1012 final. Brussels, 15 June 1998.

92. For the 1999 budget, for the first time, up to one third of the total CBC budget is to be allocated to cross-border cooperation between Phare countries. This step recognised the importance of allocating resources to the relatively poorer border areas which do not adjoin the European Union (see paragraph 59). Further studies are needed to address the issue of regional imbalances within each of Phare countries and to determine whether other instruments are necessary.

93. A new CBC Regulation was adopted at the end of 1998 ⁽¹⁾. It seeks to improve programming between CBC and Interreg but cannot address the main problem of different implementing procedures. In the case of both the new Regulation and the allocation of funds to the Phare-Phare borders, given the existence of the 1995 to 1999 CBC multiannual indicative programmes, it would have been better to introduce such significant changes after 1999 to avoid disruption to the current programmes.

CONCLUSIONS

94. The Court considers that during the first five years of its existence the Phare CBC programme has already had a positive effect at institutional level as a result of the cooperation developed in the framework of the Joint Programming and Monitoring Committees and the wider cooperation between regional and local authorities arising from the planning and implementation of CBC projects. However, over the period 1994 to 1998, the impact of the projects themselves has been less satisfactory.

95. The main positive aspects of the programme are that:

- (a) the programme has contributed to the strengthening of cooperation between Phare countries and bordering EU Member States at national and, generally, regional and local level;
- (b) in most countries regional and local authorities have increasingly participated in the planning and implementation of the programme. This helps prepare them for subsequent management of the EU Structural Funds;
- (c) most countries have mobilised at least the minimum 25 % co-financing contribution foreseen by the programme;

- (d) the small project funds established have proved a successful innovation for fostering cross-border cooperation at grass roots level.

However, in Albania, Bulgaria and FYROM the programme was implemented without any significant involvement of local and regional authorities, the national co-financing criterion was not met and small project funds were scarcely implemented.

96. On the other hand, the programme has suffered from the following difficulties:

- (a) implementation has been delayed so that the programme has had only a modest impact so far at project level. The main reasons for this are:
 - (i) the excessively high budget originally granted to the programme by the European Parliament and the Commission's policy of seeking to fully commit available appropriations;
 - (ii) the limited experience of the administrations in the beneficiary countries which was not compensated for by sufficient guidelines from the Commission on how to implement the programme, in particular in relation to works contracts,
- (b) some of the projects have only a limited cross-border impact;
- (c) some of the projects focus on national priorities rather than being specifically in the interests of the local population in the border region;
- (d) there have been few joint projects with Interreg, partly as a result of the lack of compatibility in implementation procedures between the two programmes;
- (e) joint plans covering both sides of the borders were not established by Member States and Phare countries at the start of the programme;
- (f) the programme does not contribute to solving the problem of regional disparities within Phare countries, the regions supported by the CBC programme being generally already the most developed in the countries concerned. While the future allocation of up to one third of the programme to other border areas should help to reduce such disparities, the need for specific regional policy instruments will remain;
- (g) programme management procedures of both the beneficiary countries and the Commission have been too centralised;
- (h) the new Phare guidelines do not take adequate account of the specificities of the CBC programme.

⁽¹⁾ Commission Regulation (EC) No 2760/98 of 18 December 1998 concerning the implementation of a programme for cross-border cooperation in the framework of the Phare programme. (OJ L 345, 19.12.1998, p. 49).

97. Overall, the Court takes the view that the CBC programme can play an effective part in the European Union's support to

Central and Eastern Europe if the Commission takes steps to remedy these shortcomings.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 11 November 1999.

For the Court of Auditors

Jan O. KARLSSON

President

ANNEX I

CBC IMPLEMENTATION BY COUNTRY AND AREA OF INTERVENTION (1994 to 1998)

(million ECU)

Programme		SECTOR							Total	Implementation rate
		Transport, telecom	Environment, energy, nuclear safety	Economic and human resources development	Small project funds (SPF)	Others	Programme and project management			
Albania - Greece	Committed	36,35	5,45	0,30	0,00	1,00	1,90	45,00		
	Contracted	8,74	0,00	0,00	0,00	0,65	1,16	10,55	23,45 %	
	Paid	3,12	0,00	0,00	0,00	0,00	0,65	3,77	8,37 %	
Albania - Italy	Committed	35,40	5,75	0,15	0,00	1,90	1,80	45,00		
	Contracted	16,83	0,00	0,05	0,00	1,11	1,07	19,06	42,36 %	
	Paid	1,55	0,00	0,03	0,00	0,00	0,64	2,22	4,94 %	
Bulgaria - Greece	Committed	91,19	5,65	0,00	0,00	0,00	2,77	99,61		
	Contracted	11,44	5,62	0,00	0,00	0,00	2,15	19,21	19,28 %	
	Paid	2,29	3,51	0,00	0,00	0,00	1,38	7,17	7,20 %	
Czech Republic - Austria	Committed	4,35	10,10	4,76	2,00	4,31	1,48	27,00		
	Contracted	1,70	3,16	0,12	1,00	2,08	0,46	8,52	31,54 %	
	Paid	0,00	1,39	0,08	0,48	0,87	0,33	3,15	11,67 %	
Czech Republic - Germany	Committed	28,30	50,32	15,50	4,17	2,55	6,54	107,38		
	Contracted	20,09	24,54	3,71	2,17	2,55	4,89	57,95	53,97 %	
	Paid	11,18	21,42	1,29	0,97	1,17	2,64	38,66	36,00 %	
Estonia - Baltic Sea	Committed	3,01	7,25	5,46	0,00	0,00	0,90	16,61		
	Contracted	1,26	2,82	4,19	0,00	0,00	0,80	9,07	54,57 %	
	Paid	0,52	2,17	2,11	0,00	0,00	0,71	5,51	33,17 %	
FYROM - Greece	Committed	24,20	1,60	2,40	0,50	0,00	1,30	30,00		
	Contracted	13,86	0,00	1,00	0,00	0,00	0,37	15,22	50,74 %	
	Paid	2,82	0,00	0,11	0,00	0,00	0,27	3,20	10,67 %	
Hungary - Austria	Committed	12,71	4,32	12,74	0,95	0,06	1,23	32,00		
	Contracted	3,53	0,60	1,95	0,46	0,00	0,70	7,24	22,63 %	
	Paid	1,99	0,50	1,38	0,32	0,00	0,70	4,89	15,29 %	
Latvia - Baltic Sea	Committed	6,41	8,64	0,66	0,00	0,00	0,99	16,70		
	Contracted	1,82	4,16	0,10	0,00	0,00	0,85	6,93	41,52 %	
	Paid	1,81	3,45	0,04	0,00	0,00	0,62	5,91	35,41 %	
Lithuania - Baltic Sea	Committed	12,23	8,81	1,13	0,00	0,00	1,14	23,30		
	Contracted	10,52	1,36	0,04	0,00	0,00	0,75	12,67	54,37 %	
	Paid	8,70	0,05	0,00	0,00	0,00	0,30	9,06	38,89 %	
Poland - Baltic Sea	Committed	1,42	13,84	2,83	0,18	0,00	1,00	19,27		
	Contracted	1,02	5,37	2,76	0,18	0,00	0,36	9,68	50,21 %	
	Paid	0,71	4,37	2,74	0,16	0,00	0,17	8,16	42,33 %	
Poland - Germany	Committed	140,16	61,12	31,56	7,15	1,67	10,77	252,44		
	Contracted	98,94	25,96	17,91	5,07	0,00	6,76	154,64	61,26 %	
	Paid	74,21	14,94	7,37	2,35	0,00	4,44	103,30	40,92 %	
Slovak Republic - Austria	Committed	0,91	2,99	4,28	0,22	0,00	0,60	9,00		
	Contracted	0,40	1,74	1,02	0,22	0,00	0,28	3,66	40,65 %	
	Paid	0,09	0,96	0,40	0,01	0,00	0,11	1,56	17,35 %	
Slovenia - Austria	Committed	1,32	2,34	7,27	0,13	0,30	0,66	12,00		
	Contracted	0,50	0,40	1,88	0,13	0,00	0,28	3,18	26,50 %	
	Paid	0,00	0,31	1,63	0,04	0,00	0,22	2,19	18,24 %	
Slovenia - Italy	Committed	2,83	3,22	2,14	0,14	0,99	0,67	10,00		
	Contracted	2,23	2,30	1,23	0,00	0,70	0,45	6,93	69,26 %	
	Paid	0,88	1,32	0,57	0,00	0,67	0,33	3,78	37,81 %	
International/Multi-country	Committed	0,00	2,70	28,74	19,75	10,45	13,49	75,12		
	Contracted	0,00	2,47	3,07	19,37	3,44	11,73	40,08	53,35 %	
	Paid	0,00	2,23	1,35	6,17	0,77	7,65	18,17	24,19 %	
Total committed		400,79	194,09	119,91	35,17	23,22	47,25	820,44		
Total contracted		192,88	80,49	39,03	28,59	10,53	33,06	384,58	46,88 %	
Total paid		109,86	56,63	19,08	10,50	3,48	21,15	220,71	26,90 %	

Source: Desirée at 31.12.1998.

ANNEX II

LIST OF PHARE CBC BILATERAL PROGRAMMES

- | | |
|-----------------------------|---------------------|
| 1. Baltic Sea region | 8. Slovenia/Austria |
| 2. Poland/Baltic Sea region | 9. Slovenia/Italy |
| 3. Poland/Germany | 10. Bulgaria/Greece |
| 4. Czech Republic/Germany | 11. FYROM/Greece |
| 5. Czech Republic/Austria | 12. Albania/Greece |
| 6. Slovakia/Austria | 13. Albania/Italy |
| 7. Hungary/Austria | |



ANNEX III

LIST OF CBC PROJECTS SUBJECT TO ON-THE-SPOT AUDITS

(31 December 1998)

Country	Project	Programme	Amount committed (million ECU)	Amount disbursed (million ECU)
Czech Republic	1 Cheb railway station	CZ 9403, 9502, 9604	14,8	7,9
	2 Bela nad Radbuzou road and bridge	CZ 9403	1,0	0,9
	3 Zelezna Ruda road	CZ 9502	0,5	0,4
	4 Lipno bike route	CZ 9508	1,7	0,0
	5 Reconstruction Kynzvalt castle	CZ 9502	0,9	0,2
	6 Vresova Nejdek steam pipeline	CZ 9403	6,8	6,8
	7 Usti nad Labem sewer	CZ 9403	5,8	5,8
	8 Rumburk sewer	CZ 9403	1,0	1,0
	9 Small project fund	CZ 9604, 9605	1,1	0,9
	10 Znojmo sewage system	CZ 9508	1,2	1,1
Estonia	1 Hazardous waste management system	ES 9407	2,4	2,0
	2 Economic development	ES 9619	1,2	0,4
Latvia	1 Hazardous waste disposal	LE 9404, 9506	1,3	0,9
	2 Jurmala pipeline waste water treatment plant	LE 9404	1,9	1,9
	3 Reconstruction Riga port	LE 9506	1,5	1,5
Lithuania	1 Klaipeda optical fibre cable	LI 9507	2,7	2,4
	2 Klaipeda Ro-Ro terminal	LI 9407	5,0	4,0
	3 Palanga waste water treatment	LI 9507	1,2	0,1
	4 Klaipeda hazardous waste storage	LI 9617	2,0	0,0
Poland	1 Gubinek by-pass and border crossing	PL 9402	20,8	20,8
	2 Olszyna border crossing	PL 9402	10,4	10,4
	3 Swiecko freight terminal	PL 9402	5,5	5,5
	4 Kolbaskowo border crossing	PL 9402	10,0	10,0
	5 Osinow Dolny border crossing access road	PL 9402	1,2	1,2
	6 Rosow-Rosowko border crossing and access road	PL 9502, 9604	3,2	1,5
	7 Kostrzyn-Gorzow Wielkopolski road modernisation	PL 9502, 9701	6,4	4,7
	8 Gubin-Zielona Gora roads	PL 9502	9,7	7,2
	9 Rzepin railway border crossing modernisation	PL 9502	6,0	2,0
	10 Gdansk-Rebiechowo airport improvement	PL 9503	0,6	0,5
	11 Poland-Germany environment projects	PL 9502	5,6	3,5
	12 Baltic Sea environment projects	PL 9409, 9503	1,2	1,1
	13 Leba Yacht port	PL 9409	1,9	1,7
	14 Tourism projects	PL 9502	0,9	0,5
	15 University of Viadrina	PL 9402, 9604	16,0	5,1
	16 Development of Keszzyca former Soviet base	PL 9502	1,4	1,2
Slovenia	1 Robic border crossing	SL 9403	0,2	0,2
	2 Solarji-Volce road	SL 9403	0,8	0,4
	3 Solarji-Livek road	SL 9506	0,4	0,0
	4 Eco Adria	SL 9506	0,7	0,0
	5 Timav	SL 9403	1,2	1,1
Multi-country	1 Baltic small project facility	ZZ 9524	2,0	1,5
	2 Baltic project facility	ZZ 9631	14,0	5,2
Total	42		174,0	123,5

Source: European Court of Auditors.

COMMISSION REPLIES

The Commission welcomes the generally positive overall conclusion of the Court concerning the Phare CBC programme between 1994 and 1998. Nevertheless, in the light of programme implementation during the said period, the Commission has already taken steps to reform the programme, in particular by modifying the Phare CBC Regulation.

The Commission's replies are in two parts:

- the first comments on the Court's observations,
- the second sets out the measures adopted in the new Regulation and the new Phare guidelines which take into account most of the Court's recommendations.

Comments on the Court's observations

(a) *Delays in implementation (paragraphs 10, 67, 71, 72, 75, and the conclusion paragraph 96(a))*

The Commission can agree with the Court that the budgetary authority, on the initiative of the European Parliament, allocated an excessively large share of Phare funds to the new Phare CBC budget line ⁽¹⁾ (paragraphs 10 and 67).

However, we also believe that, due to the innovative character of the CBC programme and the limited experience of the administrations in the beneficiary countries, it was unavoidable that time was required for getting the programme on stream, with delays in the implementation as a result:

- the Commission needed to draft a new regulation in order to define eligible borders, eligible actions, institutions and mechanisms for programming and implementation etc.,
- the Phare countries needed to create new structures which would be responsible for the CBC programme at national, and sometimes at the regional level,
- bilateral structures between eligible Phare countries and their EU neighbours needed to be set up,

⁽¹⁾ The Commission proposed only EUR 100 million for Phare CBC in the preliminary budget proposal for 1999. In consultation with the Parliament, the amount of EUR 180 million which was finally decided, has been allocated for two thirds to borders between candidate countries and the EU, and for one third to other borders (including borders between candidate countries).

- the Phare countries needed to engage in project identification and consultations on this with Member States and the Commission, etc.

It should be noted that the Commission was able to adopt the Phare CBC Regulation on 4 July 1994 and to issue informal guidelines for multiannual programming for the 1995 to 1999 period in August 1994. Furthermore, the Commission only committed the full amount of the country allocations where acceptable standard projects were proposed.

From the outset, allocations per country were decided on the basis of objective criteria such as population and length of the border. However, on several occasions, countries that were not able to propose good projects in time, saw their allocations reduced (e.g. the allocations for Bulgaria and the Slovak Republic in 1996 and 1997). From the third year of the CBC programme onwards the Commission has effectively taken absorption capacities into account. Regarding guidelines, as Commission Regulation (EC) No 1628/94 of 4 July 1994 had Council Regulation (EEC) No 3906/89 concerning Phare as its legal basis, the general Phare guidelines based on this Council Regulation also applied to Phare CBC, and there was no legal obligation for new guidelines. The Phare CBC Regulation itself was sufficiently specific. Furthermore, for implementing CBC programmes, as is the case with all other Phare programmes, the Phare DIS (decentralised implementation system) manual applies. Additional administrative guidance as provided in August 1994 was sufficient as it provided detailed information on how to prepare indicative multiannual programmes covering the 1995 to 1999 period, as well as framework agreements including agreed objectives and priorities for cooperation between partners, and the set-up of Joint Programming and Monitoring Committees. The Commission also provided detailed guidelines for the establishment of small project funds by the time that Phare countries had developed sufficient capacities for assuming such decentralised responsibilities i.e. at the beginning of 1997. However, the very nature of cross-border cooperation makes these programmes more difficult and slower to implement. Despite consistent efforts to improve the pace of contracting, the contracting rate is less favourable than for other Phare programmes (at the end of 1998, the contracting rate for CBC was 47 % against 67 % for national Phare programmes). This is firstly the result of the difficult nature of cross-border cooperation. Many programmes, on external borders as well as internal borders are facing delays. Another problem is the involvement of parties with little or no cooperation and management experience. On Phare-Interreg borders, it is also the result of the legal requirement to apply two different sets of procedures, as recognised in paragraphs 68, 69 and 70 of the report.

In order to address the limited experience of the administrations in the beneficiary countries, the Commission made available, at the early stage of the programme, important amounts of technical assistance, inside the individual programmes and in horizontal programmes, for helping the countries to prepare cross-border programmes.

(b) Limited cross-border impact of some projects (paragraphs 9, 11, 12, 13, 19, 21, 23, 24, 27, 28, 54, 60, 61, 62, 74, 91 and the conclusions in paragraph 96(b))

The Commission appreciates the Court's view that 'For the great majority of CBC projects it was possible to identify some kind of cross-border impact even if it was not always easy to measure' (paragraph 60).

The Commission agrees that the intensity of the impact has varied considerably. Prior to the submission of proposals for Phare CBC support to the Commission, the Joint Programming and Monitoring Committee and often their joint sectoral working groups discuss and appraise the cross-border impact of a particular project, and jointly formulate their recommendation to the relevant authorities of the Phare country. It will then be up to the Commission to acknowledge and appraise the CBC impact, as reflected in the project fiches and the logframe matrixes. The Commission recognises that in some cases partner countries capacities in preparing the required documentation is subject to improvement, as is the case for the main Phare programme, and will provide further technical assistance for this purpose, as appropriate.

The report mentions (paragraph 9) that 'Implementation is most advanced in the Poland-Germany programme but one of the main problems the programme was designed to tackle, the long waiting time at border crossings, persists. The Albania-Greece, Albania-Italy, Bulgaria-Greece and Slovak-Austria programmes have all experienced significant difficulties'. The Commission agrees that the Poland-Germany CBC programme has been the most successful one, although starting up the programme in 1994 took place in difficult circumstances, and delays occurred during the first years. The long waiting times which still persist at border crossings, should be appreciated against the background of a very important increase of traffic on the borders with the EU. On the border between Germany and Poland, actual border crossings have multiplied by a factor of seven for cars and by a factor of three for trucks. It can not be expected that the limited Phare CBC funds would be able to solve this problem. Furthermore, as mentioned in paragraphs 21 (on the Osinow Dolny project) and 24 (on the Cheb railway station), in certain cases Member States were responsible for the limited cross-border impact of Phare CBC projects. As regards the Cheb project, following the change in German electrification planning, the Czech railways are acting to ensure full utilisation of the increased capacity at Cheb, by transferring a number of operations from less efficient facilities else-

where in the region, as well as perhaps from Dresden. It is understood that the electrification on the German side will still go ahead, but at a later date.

As to the transport (rail/road) projects on the border between Bulgaria and Greece, of which the implementation suffered from substantial delays (paragraphs 28 and 29), the contracts have now been signed, and work is about to start. The Commission believes that they will have an important impact at the transnational, national, and local level. In particular the railway modernisation project will play an important role to the benefit of the local population. The road projects also will play an important strategic role for the economic development of the region as a whole.

The Commission agrees with the Court's findings concerning the lack of impact of bicycle paths on the transport sector in the programmes between Austria and its Phare neighbours (paragraph 23). In future, such projects, which are to be considered as enhancing tourism, will be supported through small project funds only.

Taking into account the good results of the Phare CBC programme on the border between Poland and Germany, in comparison with other borders where partners, up to 1998, were used to select a large number of relatively small projects, the Commission can only partly subscribe to the Court's view (paragraph 12) that 'The CBC programme should focus on relatively small projects with a strong local/regional and cross-border impact'. On the basis of past experience, it became evident, even more so than for main Phare programmes, that capacities for managing a large number of small projects were lacking in these countries, especially at the regional and local level, with increasing backlogs as a result. The Commission therefore remains strongly committed to ensuring focus, concentration and impact, notably through the EUR 2 million minimum size per project, although this principle will be applied in a flexible manner in certain cases.

On the other hand, the Commission also favours the set up of small project funds, which allows local actors on the spot to decide on small projects and to acquire management skills. As suggested by the Court (paragraph 13), more scope is being created for such funds: up to 20 % of country allocations can be used for this purpose (the European Parliament's budgetary comment mentions 10 %), and the project ceiling is being increased from EUR 50 000 to EUR 300 000. In several cases, Euroregions provided valuable support for managing these small project funds, and the Commission is sympathetic to extending their role to other borders (as suggested in paragraph 13), where ever they exist.

The Commission also supported the extension of the LACE network, aiming at improving, *inter alia*, management capacities at the local level. The Commission recognises that maritime borders, that are also eligible to Phare CBC, may have somewhat affected the intensity of the cross-border impact (paragraph 61). In addition to that, the absence of a Swedish Interreg programme should be taken into account. However, in the case of the Baltic States CBC programme, a 'transnational' approach has been followed from 1995 onwards whereby the four Member States and the four Phare countries bordering the Baltic Sea (and Russia, as an observer) jointly discussed a multiannual strategy for the region and discussed and agreed on project proposals before they were submitted to the Commission. This has allowed support to investment projects, notably in the fields of transport and environment, to the benefit of the Baltic region as a whole. Furthermore, through the set up of a Phare Baltic project facility in 1996, it has been possible to select an important number of 'soft' small scale projects, generated on the basis of a 'bottom-up' approach.

A typical sector where only a 'transnational' approach can be followed on maritime borders concerns the telecommunications sector (e.g. the optical fibre cable network in Lithuania mentioned in paragraph 36). But also on land borders, a 'transnational' approach was followed in exceptional cases, e.g. for the submarine optical cable in the context of the Adria I project set up by an international consortium, and for which the Albanian share was co-financed by the 1995 Phare CBC programme between Albania and Greece; given the important impact of this project at international, national and local level (through improved telecommunication links between the regions on both sides of the border) of this project, which was strongly supported and jointly proposed by Albania and Greece, the Commission agreed to support this project. The ECU 1,7 million has been used to finance Albanian Telecom's share of the total international contribution to the 500 km Adria 1 project. This 1995 CBC allocation has thereby financed 8 % of segment 2 Dubrovnik-Dures and 14,2 % of segment 3. This share has therefore only financed that part of the optical fibre cable in Albanian territorial waters. The Commission agrees that in most cases it has been difficult to establish common strategies for the border region as a whole (paragraph 62). Nevertheless, when Phare CBC multiannual indicative programmes and Interreg operational programmes were prepared in view of the 1995 to 1999 period, on most borders, intensive consultations between partners from Phare countries and neighbouring Member States took place, which allowed for instance the identification of common priorities, be it that the different weighting given to these priorities reflected the differences in economic development.

The Report also mentions, as a 'factor affecting impact of the CBC programme', in paragraph 74, that 'The Commission made extensive use of a consultancy firm to draw up MIPs for the implementation of the CBC programme'. In line with the terms of reference of the contract concerned (Contract No 940856 and addendum 950726) with LRDP, this company assisted the then

eligible CEEC's in identifying core areas and sectoral priorities for CBC in the period 1995 to 1999; it provided technical assistance to the national and regional authorities concerned in view of preparing the Phare CBC multiannual indicative programmes.

(c) **Support for national priorities rather than for interests of the local population (conclusion paragraph 96(c))**

The report of the Court mentions that 'some of the projects focus on the national priorities rather than being specifically in the interests of the local population in the border region' (paragraph 96(c)) and that 'insufficient priority was given to projects which are primarily for the benefit of the population of the border regions' (paragraph 12).

The Commission recognises that, certainly in the initial stage of the programme, and also in quite different degrees country by country, national priorities were taken into account when formulating project proposals. As such, this is not contrary to Commission Regulation (EC) No 1628/94, which provides under Article 4(1)(ii) that 'projects ... can take the form of ... projects agreed by the countries concerned, that have a cross-border impact, contribute to the development of structures in border regions and facilitate cooperation between countries of central and eastern Europe and the Community as a whole ...'. Furthermore, the fact that large investment projects in the field of transport, complementing the development of trans-European networks (in line with Article 5(1), seventh indent of Regulation (EC) No 1628/94) were decided at the national level, is not in contradiction with a positive local impact of these projects; both aspects are indeed complementary, as these transport projects (e.g. on the borders between Bulgaria and Greece, or Poland and Germany) contribute to the economic development of the border regions concerned.

Although the involvement of regional and local authorities in designing and implementing cross-border projects became increasingly important in most countries, the Commission agrees that the future development of integrated regional development strategies will contribute to consolidating this trend.

(d) **There have been few joint projects with Interreg (paragraph 11 and conclusion paragraph 96(d))**

The Commission recognises that only in very few cases real joint projects were established. The different priorities on either side of the border, stemming from important differences in economic development, were the main reason for this. Furthermore, where joint projects could be identified, procedural differences stemming from the different legal bases of Phare and Interreg as well as from the Financial Regulation hampered the design of genuine joint projects, which would be subject to a single tendering procedure, a single contract, and common implementation. These

differences concern for instance the need for *ex ante* project approval from the Commission in the case of Phare (not for Interreg), annual budgets for Phare versus multiannual budgets for Interreg, and the application of specific rules concerning the award of contracts under Title IX of the Financial Regulation in the case of Phare. It was not possible for the Commission to address these matters in the context of the new Phare CBC Regulation of December 1998, which is a Commission Regulation. This could only be done by modifying the Financial Regulation.

(e) Lack of joint plans covering both sides of the border (paragraphs 55, 62, 94 and the final part of paragraph 96(e))

The Commission agrees that real joint plans covering both sides of the border were not established at the start of the programme. However, as already mentioned, multiannual programming documents for the 1995 to 1999 period (multiannual indicative programmes for Phare CBC, operational programmes for Interreg), were prepared in close consultation between partners from Phare countries and neighbouring Member States. As a result, both documents contained cross-references concerning characteristics of the border region, strengths and weaknesses, existing CBC activities, objectives, and common priorities (be it with different weightings). The elaboration of genuine common regional development plans covering both sides of the border is one of the main innovations under the new Phare CBC Regulation.

(f) The programme does not contribute to solving the problem of regional disparities within Phare countries (paragraph 59, and the final part of paragraph 96(f))

The report mentions that 'the programme does not contribute to solving the problem of regional disparities within Phare countries, the regions supported by the CBC programme being generally already the most developed in the countries concerned'.

The Commission agrees that, during the 1994 to 1998 period, the Phare CBC programme has not been seen as a part of a wider regional development policy, and that the programme needed to be better integrated in the overall pre-accession strategy. Furthermore, it became necessary to address imbalances between budgetary resources allocated for CBC within the overall context of Phare, and the other pre-accession priorities, and between different regions inside the candidate countries. The Commission has therefore widened the geographical scope of the programme. The Phare CBC programme now covers not only the borders between the Phare countries and the EU, but also the, often less prosperous, borders between the candidate countries themselves. This allowed these new borders to also prepare themselves for their future participation in Interreg, and to include Romania in the programme.

The Commission also agrees with the Report (paragraph 96(f)) that, besides the Phare CBC programme, the need for specific regional policy instruments will remain, and has invited candidate countries to prepare National Development Programmes in the context of which Phare will co-finance investment in economic and social cohesion from the year 2000 onwards.

(g) Programme management procedures have been too centralised, both in the Commission and in the beneficiary countries (paragraphs 14, 76, 77, 78, and the final part of paragraph 96(g))

As a matter of fact, the Phare CBC programme has been part of the process of deconcentration and decentralisation which was substantially strengthened in 1999; moreover, the decentralised implementation system became applicable simultaneously to Phare CBC as to the main Phare programme, and responsibilities of Delegations e.g. for approving tender dossiers are similar as for the main Phare programme. In reply to the suggestion of the Court that Delegations (paragraphs 14, and 76 to 78) 'should be adequately staffed ... notably in regard to engineers', it should be noted that in the context of deconcentration, the re-enforcement of Delegations through redeploying staff from headquarters has reached its limits. Taking into account the reluctance of the budgetary authority to allow for additional Commission staff, it is not likely that further re-enforcement of our Delegations with new staff will be possible. As to the need for engineers, Delegations dispose of certain possibilities in the context of the STAP facility (support for technical assistance to programmes).

The process of further decentralising management responsibilities from the Commission to the candidate countries has to take account of the legal requirements of Title IX of the Financial Regulation, in particular those which concern the responsibilities of the Commission. In line with the provisions of Council Regulation (EC) No 1266/1999 on coordinating pre-accession aid, management of aid on a decentralised basis will only be conferred to the applicant countries themselves provided they fulfil certain minimum criteria thereto (well defined internal management system, effective internal controls, reliable national financial control system, procurement rules compatible with Title IX of the Financial Regulation etc...).

As to the possibilities for further decentralisation of management responsibilities inside candidate countries, these will notably depend on evolutions of the legal basis for regional policy in each country, and on actual organisation of regional and local administrations. Although progress is being made, in general, the pace of reforms strongly varies country by country.

(h) The new Phare guidelines do not take adequate account of the specificities of the CBC programme (paragraphs 91, 92, 93 and the final part of paragraph 96(h))

The text of paragraph 91 criticises the application of the EUR 2 million minimum project size provided in the Phare guidelines of

1998 to Phare CBC; as already mentioned, under Section (b), the Commission will maintain this minimum threshold. However, the draft new guidelines for the period 2000 to 2006 provide for a flexible application of the EUR 2 million minimum project size for Phare, in the case of Phare CBC.

The report also states that (paragraph 93) 'In the case of both the new Regulation and the allocation of funds to the Phare-Phare borders, given the existence of the 1995-1999' CBC multiannual indicative programmes, 'it would have been better to introduce such significant changes after 1999 to avoid disruption to the current programme'.

The Commission was of the opinion that it was urgent to introduce the modifications included in the new Regulation (see Section III), in the light of the evaluation report on Phare CBC, published in 1998, of long preparatory discussions with Phare countries and Member States, and in the perspective of enlargement. The new Regulation has been prepared jointly by the DG's responsible for external relations and the Structural Funds, in view of maximum coherence with Interreg, and has been proposed to the Commission jointly by the two responsible Commissioners. The Commission also had to respect the European Parliament's budgetary comment for 1999. Furthermore, there has been no disruption of the current programmes on the EU borders, be it that allocations for these borders were somewhat reduced, taking into account that the global amount allocated by the budgetary authority for Phare CBC remained unchanged, for a larger number of eligible borders.

MEASURES FOR IMPROVEMENT

On the basis of the external evaluation of the Phare CBC programme for the 1994 to 1998 period launched by the Commission and of in-depth discussions with the candidate countries and the Member States in the context of the Phare Management Committee, the Commission adopted a new Phare CBC Regulation in December 1998. The main improvements of the new Regulation concern the following:

- the Phare CBC programme will become part of a wider regional development policy, in the context of the pre-accession strategy,
- the programme will also cover borders between candidate countries, which will allow these to prepare themselves for their future participation in Interreg, and also to include Romania in the programme,
- Joint Cooperation Committees (JCC) will be established on each border, which will include representatives from both neighbouring countries at the national and local level and from the Commission,
- these JCCs will elaborate a joint programming document in a multiannual perspective containing common development

strategies and priorities for the region, seen as one single socioeconomic and geographical entity; on the basis of this joint programming document, they will also define a common set of projects once per year,

- joint small project funds may be established in each border region, for which a limited part of appropriations may be used.

The improvements provided for in the new Phare CBC Regulation, as well as the new approaches provided for in the new Phare guidelines and a further decentralisation of programming implementation would allow the addressing of the difficulties mentioned in the Report:

- (a) the pace of implementation of the programme is improving in most cases. As is the case for the main Phare programme, projects proposed for support from Phare CBC are only accepted by the Commission if they are ready for implementation. Where problems persist in terms of absorption capacities, this will be taken into account when deciding on future allocations; budgetary allocations per border became also more balanced now that Phare-Phare borders became eligible in 1999 and received (modest) allocations for the first time. As the new Phare guidelines will also apply to CBC, the new Phare CBC Regulation, complemented with guidance for elaborating the joint programming documents and updated guidelines for small project funds which are currently being prepared, will provide sufficient guidance from the Commission. The experience of the administrations in the beneficiary countries is also improving, as the Phare CBC programmes evolve; special attention is being given to the newly eligible borders under the Credo and Lace programmes;
- (b) the cross-border impact of projects should improve as they will be derived from joint multiannual strategies developed for the border region seen as one single entity, and as the Joint Cooperation Committees will define a common set of projects once per year. The Commission will continue to appraise the cross-border impact of each project, identified by the JCC and proposed for Phare CBC support by the Phare country. However, cross-border impact should be looked upon at programme rather than at project level;
- (c) as cross-border cooperation programmes will be based on joint programming documents made in a multiannual perspective, which will include common development strategies and priorities for the border region, and regional and local representatives shall be represented in the Joint Cooperation Committees, the national priorities would become less relevant for cross-border cooperation. Regional and local authorities are also becoming increasingly involved in developing integrated regional development plans, as the set up of regional structures and competences in candidate countries evolves;

- (d) while genuine joint programming is foreseen under the new Phare CBC Regulation, which would allow to increase the number of real joint projects supported by Phare CBC and Interreg, these may remain rather exceptional, bearing in mind the differences between the two Regulations;
- (e) joint programming documents covering both sides of the border will be established by the year 2000. These will include a detailed description of the current situation, a strategy for long-term cross-border cooperation, the definition of main priorities and measures for CBC, an indicative financial table for the 2000 to 2002 period, within a seven-year perspective, mechanisms for joint project selection, and provisions concerning joint project funds, implementation, and institutional aspects;
- (f) as the Phare CBC programmes will also become part of wider regional development policies —while respecting the specific requirements of CBC— and the Phare CBC programme has been extended to borders between candidate countries (consideration will also be given to expanding the geographical coverage to the future external borders of the EU), the programme is also increasingly contributing to solving the problem of regional disparities inside the candidate countries;
- (g) programme management procedures are becoming increasingly decentralised now that the DIS has become operational in all candidate countries. Further steps will depend on progress made in these countries as concerns management capacities, financial control procedures and structures regarding public finance at the national and regional level. The Commission has taken the initiative to provide for further decentralisation in the context of Article 12 of the Regulation on coordinating pre-accession aid. The text finally adopted by the Council spells out the required conditions thereto. The small project funds which were set up on a number of borders and allowed local actors to decide on small projects without *ex ante* project approval from the Commission will be further extended and consolidated, notably through raising the project ceiling from EUR 50 000 to EUR 300 000;
- (h) the new Phare guidelines which shall also apply to Phare CBC contain a 'flexibility clause' concerning project size which creates sufficient scope for better alignment with Interreg, notably as concerns project size. According to these Guidelines, 'the application of the otherwise required minimum size of projects (EUR 2 million) will allow derogations only on the basis of a case by case assessment and under the circumstances of genuine cross-border cooperation falling within the priority measures defined in the joint Phare-Interreg programming documents'. However, the flexibility will only be used in exceptional circumstances as it is necessary to strike a balance between full alignment with Interreg, and the responsibilities of the Commission for implementing the Phare CBC programme, including the award of contracts.
-