PHARE programme: decentralized system 1990-1995. Special report 3/97 Court of Auditors

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OBJECTIVE: The Court of Auditors' special report concerns the management of the Phare Programme from 1990 to 1995. The Court particularly criticizes the Decentralized Implementation System (DIS) set up by the Commission, which over the years has come to occupy too dominant a position in the implementation of Phare and the management of its appropriations. At the same time, the Court makes a series of recommendations to the Commission with the aim of securing improvements in the decentralized management of the funds allocated in future. SUBSTANCE: 1) The Court's main criticism concerns the Decentralized Implementation System for the implementation and management of the Phare programme of assistance to the countries of Central and Eastern Europe. The Commission had set up the DIS with the aim of ensuring that programmes ran smoothly and funding could be channelled more quickly. In practical terms this meant that the Commission had partially delegated its supervisory and monitoring role to its delegations on the spot and that technical and financial responsibilities were largely assumed by the beneficiaries themselves. The Court of Auditors also criticizes the fact that one of the Commission's prime preoccupations has always been to ensure that the whole of the annual budget is committed, while contracting and actual disbursement of funds did not proceed at the same pace, for a number of reasons: -staffing limitations, -lack of absorption capacity for the appropriations in the recipient countries, -dispersal of funds among too many projects, etc. The Court found that the decentralized procedures introduced by the Commission, which in principle were supposed to facilitate the implementation of projects, had actually slowed down rather than accelerating the award of contracts. At the end of 1995, for instance, of the ECU 1294 m paid in advances and channelled through the DIS, 38% (ECU 497 m) remained on deposit in the accounts of the national administrations of the recipient countries. It may be recalled that between 1990 and June 1996 the Commission committed ECU 5757 m under Phare (ECU 6700 m has been allocated for 1996 to 1999). Meanwhile the decentralization of project management to national administration level was not accompanied by the transfer of sufficient responsibilities from the Commission's central services to its delegations on the spot (which, in any case, would not have sufficient staff and financial expertise). 2) The programme management units (PMUs) responsible for managing Phare funds within the national administrations of the recipient countries are also short-staffed and lack training (the Court considers that the Commission should have provided training, at least in part). Although the Commission contributed financially to the staff and operating costs of PMUs, it did not formulate principles for this financing, or concerning how it should be accounted for and audited. The Court also confirms that the intensive use of technical assistance to provide administrative and operational support to PMUs (financed by Phare) has been costly, particularly because of the limited competition involved in contracting (which often lacked transparency). Some consultancies were awarded a disproportionate number of contracts. The Commission was slow to set up a system for monitoring the expenditure of PMUs, and did not carry out an appropriate evaluation of the programmes implemented. 3) Another important criticism concerns the way in which the Commission applied the rules on the awarding of contracts. Around 80% of Phare funds under decentralized management are spent on contracts for services (technical assistance), supplies or works. The award procedures are governed by Article 118 of the Financial Regulation and Article 7 of the Phare Regulation. The Financial Regulation lays down that these contracts are to be awarded 'after restricted invitations to tender'. Article 7 of the Phare Regulation, on the other hand, stipulates that in the case of assistance exceeding ECU 50 000 participation in invitations to tender and contracts shall be open on equal terms to all natural and legal persons of the Member States and of the Phare countries. The Court deplores the fact that the Commission clearly gave precedence to Article 118 of the Financial Regulation by deciding that services contracts exceeding ECU 50 000 should be subject to restricted invitations to tender. As a result, the principle of equal access for all was not always respected (the revision of Article 118 of the Financial Regulation at the end of 1995 so as to require the prior public announcement of all tenders in the Official Journal improved the transparency

of the conditions for awarding contracts under the DIS). The Court's examination of some of the short-lists in 1993 and 1994 showed that enterprises based in Member States secured contracts far more often than those from other countries. The frequency with which companies were placed on short-lists was also lacking in balance: a mere 24 companies (representing around 3% of the companies invited to tender) were consulted between 10 and 31 times more often than the rest. The evaluation of the tenders themselves also lacked transparency. Generally speaking, and in conclusion, the Court of Auditors endorses the principle of decentralized management, but considers it vital to rationalize its implementation by improving the definition of tasks and reducing the number of programmes. Tasks of supervision and monitoring should, in particular, be entrusted to the Commission's delegations on the spot. To this end, human resources need to be increased. Recipient countries should be more involved in the financing of the programmes, and the evaluation of the projects carried out should be systematized and improved.