Summary of the audit of PHARE and ISPA environmental projects

Introduction

From September 3 to October 31 the State Audit Office (the SAO) participated in the audit carried out by the European Court of Auditors. This audit aimed to analyse the environmental projects implemented in the framework of the EU programmes PHARE and ISPA. In Estonia the European Court of Auditors audited 12 and the SAO audited 8 projects carried out between 1995 and 2000. This document constitutes a summary of the audit conducted by the SAO.

All the audited projects are related to water protection. The PHARE programme was used to finance the training of the staff of the Project Implementation Unit of the Ministry of Environment, the renovation of water supply systems, the construction of new pipelines and the acquisition of the related maintenance and laboratory equipment. In the framework of these projects the water supply and sewage facilities of the City of Keila, the Kurtna-Vasavere water intake, the Ahtme pump house and the water pipelines of the City of Kohtla-Järve and the laboratory for analysing water samples of OÜ Viru Kommunaalteenused were renovated. The ISPA programme is used to finance the construction of one section of the tunnel collector of the City of Tartu as well as the construction of the new central wastewater treatment plant of the City of Viljandi. Both projects have reached the phase of approving the tender documentation.

The PHARE projects audited by the SAO and their cost:

- ES 9616.01.01 Civil Engineering and Project Preparation – 398,153 euros;
- ES 9623.02.01 Keila Water and Wastewater (98-0158) – 799,989 euros;
- ES 9623.02.02 Water Supply Equipment Jõhvi – 216,507 euros;
- ES 9623.02.02 Water Supply Equipment Kohtla-Järve – 198,219 euros;
- ES 9623.02.02 Water Supply Equipment Ida-Virumaa – 179,502 euros;
- ES 9623.02.03 Water Supply Works Jõhvi-Ahtme (Redos 2) – 861,209 euros.

The ISPA projects audited by the SAO and their cost:

- 2000/EE/16/P/PE/001 Tartu Tunnel Collector – 5,467,000 euros;
- 2000/EE/16/P/PE/002 Viljandi Municipal Wastewater Treatment Plant – 4,707,251 euros.

The task of the SAO was to answer the following questions raised by the European Court of Auditors.

- To assess whether the Commission aid is based on a clear and coherent strategic framework and whether the Commission interventions funded have been properly identified and appraised.
- To assess whether the Commission funds have been used economically and efficiently.

- To assess whether the Commission has coordinated adequately with other donors and beneficiary countries.[1]
- To assess whether the projects financed have been effective in preparing the beneficiary countries for accession within the limits of the available budget.

The audit covered the following entities: the Ministry of Environment, the Ministry of Finance, the Ida-Viru County Government and local governments and water companies, which benefited from the projects directly. The Ministry of Environment and the Ministry of Finance have approved the audit observations. The audit was carried out by auditors Julian Chapman and Kurt Bungartz from the European Court of Audit and the audit team of the Performance Audit Department of the SAO, which was composed of the Audit Manager Peeter Lätti and the Audit Specialists Krista Jansen, Eili Lepik and Leonid Paalandi.

1. Environmental projects under the PHARE programme

1. Is the Commission aid based on a clear and coherent strategic framework and have the Commission interventions funded been properly identified and appraised?

As from 1995 the Ministry of Environment has prepared long-term water protection programs, which set out the policies and priorities for improved use and protection of groundwater resources.

The Public Investment Program for the years 1995 - 1997 includes, as one of the priorities, investments contributing to the reduction of water pollution (including wastewater treatment in larger cities and settlements). The two main priorities of the Estonian Environmental Strategy[2] approved in 1997 are:
- improved use and protection of groundwater resources;
- protection of surface water bodies and coastal seas.

The Environmental Action Plan[3] has been drawn up for the purpose of implementing the Environmental Strategy. This implies that the implementation of projects was in accordance with the policies and priorities set out in Estonia's national strategic documents.

Also, the financing of the projects has taken account of the Convention on the Protection of the Marine Environment of the Baltic Sea Area[4] or the HELCOM recommendations.

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[1] Since the SAO audited only one aspect, this document cannot provide a straightforward and comprehensive answer to this question. Only the European Court of Auditors can give an overall assessment of the activities of the European Commission.
[2] Approved by the Parliament on March 12, 1997.
[3] Approved by the Government on May 26, 1998.
[4] Estonia acceded to the Convention in April 1995.

Before 2000 there were no clearly defined criteria for the selection of projects. In 1999 the Ministry of Environment developed the following assessment criteria and included these in the Subprogram on Water Protection in 2000:

- the connection between the project and the improvement of the condition of the environment and the implementation of EU directives;
- the number of people concerned by the outcome of the project;
- the reduction of pollution load related to the outcome of the project;
- the connection between the project and the Environmental Action Plan;
- the applicability of the co-financing requirement to projects that receive foreign funding.

Although in 1996 these criteria did not formally exist, in principle all the audited PHARE projects met these criteria. However, it has to be noted that the risks related to the projects were not analysed. In most cases the project applications did indicate the potential risks, but did not describe the methods for managing them.

2. Have the Commission funds have been used economically and efficiently?

It can be said for all the audited PHARE projects that the specified time limits were observed, a sufficient number of companies submitted competitive tenders, the tender competitions were carried out in an appropriate manner and no price increases or other additional costs occurred during the performance of the contracts. Also, adequate measures had been taken to monitor the implementation of the projects.

In case of all projects financed under the PHARE programme the capacity of the created/developed infrastructure matched the effective need. In addition, economies of scale were benefited from: the Kurtna-Vasavere water intake was designed to supply two cities with water – the Ahtme District of the City of Kohtla-Järve and the City of Jõhvi. At the moment the said water intake serves the Ahtme District of the City of Kohtla-Järve, but the local governments have agreed that in the future it would serve also the City of Jõhvi.

Although the projects ES 9623.02.02 and ES 9623.02.03 used the funds economically, the 1.6 million euros allocated were not spent in full, suggesting that the money could have been used more efficiently. A successful tender competition was carried out, which saved 144,563 euros, but this money was not used for the launch of new projects or the development of existing ones, because only three weeks separated the final date of the tender competition and that for the award of contracts. Consequently, there was no time to prepare new projects.

3. Has the Commission coordinated adequately with other donors and beneficiary countries?

In addition to PHARE, a local government and a water company co-financed most of the audited projects. Two of the six PHARE projects received further financing from the state

budget and the sources of financing of the project ES 9623.02.01 included also a loan and irrecoverable aid from Finland and Denmark. The auditors detected no duplication of effort or squandering.

4. **Have the projects financed been effective in preparing the beneficiary countries for accession within the limits of the available budget?**

Four of the six audited PHARE projects were successful, meaning that the targets have been reached. The Kohtla-Järve project ES 9623.02.02 did not achieve the goal, since only 10 km of the 144.24 km of potable water pipelines were replaced and still some 55 to 60 % of the water is lost even after the project. The achievement of the goals of the project ES 9616.01.01 is questionable, because none of the persons trained under the project is currently working at the Ministry of Environment or otherwise related to the projects.

As a result of the project ES 9623.02.01 some 2,000 people, who used to take their water from the wells, get clean potable water. Completion of the sewerage system reduced groundwater pollution considerably. Before the project this was a serious problem. Now the wastewater tests show compliance with the HELCOM Recommendations.

2. Environmental projects under the ISPA programme

1. **Is the Commission aid based on a clear and coherent strategic framework and have the Commission interventions funded been properly identified and appraised?**

The financing of the projects has been in accordance with the policies and priorities set out in the strategic documents of the European Commission and the Republic of Estonia and take account of the HELCOM Recommendations. For the purpose of selecting and assessing the projects the criteria included in the Subprogram on Water Protection of the Ministry of Environment were used. Although the project applications did, in most cases, contain sufficient information to allow the assessment of projects, they did not refer to risks.

2. **Have the Commission funds been used economically and efficiently?**

Both projects entailed comprehensive feasibility studies, which were not financed from PHARE or ISPA funds.

Neither of the projects has been implemented in complete compliance with the original timetable, which provides that the construction should have begun already in 2001. By now the projects have reached the phase of approving the tender documentation. Consequently, it cannot be assessed whether the funds have been used economically and efficiently.

3. **Has the Commission coordinated adequately with other donors and beneficiary countries?**

Both projects involve sources of co-financing: the local government and the beneficiary organisation, the government through the state budget and the Environmental Investments Centre, foreign aid, and Nordic Environment Finance Corporation (NEFCO) and the European Bank for Reconstruction and Development through a loan. The revenue side of the budget was in accordance with the timetable and the auditors detected no duplication of effort or squandering.

4. Have the projects financed been effective in preparing the beneficiary countries for accession within the limits of the available budget?

Both projects have clearly defined goals to be pursued. The projects indicate the standards and requirements that their implementation helps to meet and how much would it reduce pollution. The achievement of goals cannot be assessed, since the projects have not been completed.

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