

EU FUNDS INFORMER

Keeping tabs on EU billions in central and eastern Europe

Issue 1

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IN FOCUS

Hello and welcome – did someone mention transparency again?

The first issue of this new bulletin, prepared by CEE Bankwatch Network and Friends of the Earth Europe, aims to provide ground-level information and commentaries on the implementation of the cohesion policy in central and eastern Europe (CEE). It is part of the campaign “Billions for Sustainability” which gives a voice to local concerns over the misuse of EU money for economically, socially and environmentally controversial projects and calls for the EU Funds to truly benefit people living across Europe and their environment.

Adequate transparency and publicity of EU funded projects is particularly important for effective governance in CEE for several reasons. The EU Funds constitute 35.7 percent of the EU budget, the single biggest spending of EU taxpayers’ money involving the disbursement of EUR 347.41 billion for projects in the member states.

These investments present major social, environmental and economic opportunities – and impacts – for the continent’s regions and communities. In a nutshell, transparency and timely access to information can facilitate better absorption of these funds and prevent their misuse. They are also stepping stones to the implementation of effective partnerships, which constitute a fundamental principle in the programming, implementation and evaluation of the cohesion policy. Therefore, the responsibility for access to information and transparency should lie with both the European Commission and the member states – donor and recipients.

Communication and transparency of EU Funds programmes and projects for

regional development was put in the spotlight in 2005 within the European Transparency Initiative – this initiative insisted on Europeans having the right to know how and on what their taxes are spent. The new General Regulation (Council Regulation N 1083/2006) in article 69 stipulates the requirement for publicity and information on the financing of regional programmes and projects. The Commission’s Implementing Regulation 1828/2006 further specifies the content of information published “electronically or otherwise” in relation to the EU Funds: “*the list of beneficiaries, the names of the operations and the amount of public funding allocated to operations.*” The responsibility for the publication of this rather basic information lies with the managing authorities in the member states and is to be implemented only ex-post once a year.

A fundamental question is: what does this mean for ordinary people in the EU, those who are supposed to benefit from EU assistance and the concrete projects it supports? Our experience from the pre-accession funds in the new member states

Continued on page 4 ▶

EU aid in Bulgaria: “The situation is serious” – full stop

Thus, the European Commission’s July report on the management of EU funds in Bulgaria starts its introduction chapter.

The last few months have emphatically demonstrated to Bulgarians and their fellow Europeans that the ruling elites in the poorest EU member state have no intention to use the EU Funds for the benefit of ordinary Bulgarians, but to further enrich a narrow circle of companies and political allies.

Their patience finally having run out,

OLAF (the EU’s Anti-Fraud Office) and the European Commission have given up warning the government and the main institutions disbursing EU Funds in Bulgaria and simply cut off access to more than a billion euros of vital EU aid. The diplomatic tone of the Commission before and during the first year of Bulgaria’s EU accession has been completely misunderstood by the government and the misuse of EU Funds became almost standard practice, in tandem with the non-functional judicial system.

OLAF’s report from July identified numerous established and alleged irregularities with the tendering and granting of the pre-accession instruments PHARE and SAPARD in Bulgaria. One of the most serious cases involves the Nikolov Stoykov Group, about which OLAF has

evidence of its involvement in a number of different companies and offshore entities which have falsified tender offers.

The report officially calls the group a “criminal company” network composed of more than 50 Bulgarian enterprises which have been set up for the purposes of tax fraud, document forgery, money laundering and the illegal importing of Chinese rabbit and poultry meat with falsified health certificates. Allegations abound also about the group’s close ties with high-level governmental officials through whom EU aid was granted to various companies.

The financial impact on the Community budget for the projects is estimated at approximately EUR 32 million. Further OLAF investigations have led to the

Continued on page 4 ▶

An end to EU Funds corruption in sight in Slovakia?

Environmental NGOs active in monitoring EU structural assistance are often confronted with a lack of timely information about projects. Equally important, although also too often missing, is access to information about the process of decision-making on individual projects. Slovakia, unfortunately, still has some way to go to improve the playing field for good public oversight of the EU Funds. Between 2007 and 2013 Slovakia is to receive approximately EUR 11.5 billion through the Structural and Cohesion funds

In 2001, Slovakia experienced a serious case of mismanagement of European pre-accession assistance. The official at the government office responsible for the coordination of pre-accession PHARE funds was accused of passing EU money to colleagues. The case came under scrutiny from the European Commission and OLAF, and it ultimately led to the removal of the deputy prime minister Pavol Hamžík from his position. It was obvious that without clear and efficient rules there was a risk that similar cases could very well occur again.

Friends of the Earth-CEPA, therefore, developed an initiative to establish regulations which would ensure transparency of decision-making and prevent corruption in the use of the Structural Funds in Slovakia. Rules adopted by the Slovak government in 2004 cover the most critical aspects in the process of assessment and decision making. However, research carried out by Friends of the Earth-CEPA in 2006 and 2007 showed that the government decree was not strong enough to force the responsible ministries to stick to these approved rules. The most problematic were the areas of release of information for applicants, and the transparency of assessment of submitted applications which lead in several cases to the unequal treatment of applicants. The over-arching shortcoming of the rules was the impossibility for them to be effectively enforced and the absence of effective sanctions in case of violation.

In 2008, new documents and instructions

related to transparency and anti-corruption rules were issued by the state authorities. The latest research conducted by Friends of the Earth-CEPA indicates, however, that the new instructions remain inadequate when it comes to their enforceability and sanctions.

It is therefore crucial for Slovakia to adopt legislation at the national level which will ensure that well written rules do result in thorough everyday practice. Recently the relevant government office attempted to submit a draft act with these rules partially included. But the comments raised by the ministries responsible for the actual distribution of the Structural Funds run contrary to the principles of transparency.

Let's see what the Slovak parliament does with these latest proposals. The only way forward will be a robust and effective law. Otherwise suspicions of corrupted decision-making will continue to linger. ■

The one Czech TEN-T priority motorway project evades Commission scrutiny

Alarm bells are starting to ring as the Czech transport ministry proceeds with the implementation of the Operating Programme (OP) Transport, involving significant contributions from the Cohesion Fund (CF). It is no secret that the Czech OP Transport is deficient. To a large extent this is due to the fact that the Czech authorities deliberately did not provide a priority projects list based on any multi-criteria analysis. The result is that, after nearly two years of the current programming period, CF allocations for motorway projects are far below what was expected.

This has an impact on the South Moravian part of the Katowice-Vienna TEN-T road corridor (R52/A5 vs. potential R55/A5) – the only Czech motorway project among the current top 30 TEN-T priorities.

The European Commission clearly requested that before any decision on the optimal route for this road section, the Czech authorities should provide a relevant comparative analysis of the two potential routes of the South Moravian part of the corridor (the so called Brno-Vienna highway,

although the city of Brno itself does not necessarily sit inside the corridor). Even with JASPERS involvement in the case, the Commission's request was ultimately not satisfied.

A comparative study, ordered in March 2008 with conclusions to be ready by the end of July 2008, and probably financed from Commission-funded technical assistance, was carried out. However, this study only focused on the Brno-Vienna link, and did not provide relevant weight to the freight transit traffic on the Katowice-Vienna link. This link does not touch the Brno agglomeration. Using the potential transit connection via Brno would mean a route roughly 30 kilometres than necessary. Furthermore, the construction costs used in the analysis are evidently distorted in favour of the "politically preferred" alignment Brno – Mikulov/Drasenhofen – Vienna route (R52/A5) over the Brno – Breclav/Reintal – Vienna (D2/R55/A5), although the conclusion of the comparative analysis states that, in economic terms, neither of the two alignments makes sense.

Nevertheless, and regardless of the quality of the comparative study, it turns out that the study was not of much use to Czech decision-makers. And why? Because on June 9 the government approved the construction of both connections anyway, with the R52 to be constructed first, and the R55 Breclav-Reintal link sometime in the future.

Of major concern is the fact that the involvement of JASPERS in the assessment was effectively prevented by the Czech authorities. They did not involve JASPERS's experts in the formulation of the Terms of Reference of the comparative study, hence preventing due consideration of the pros and cons of the different alternatives from taking place.

Thus the Ministry of Transport managed to direct the project out of formal Commission scrutiny. It also expects that no request for the CF contribution for the R52 project will be submitted and that national resources shall be used instead.

There is little to be surprised about here: even for the only top priority TEN-T motorway corridor in the country the ministry is not willing to prepare the project appropriately and prefers to withdraw from the plan to submit a request for EU co-financing. The question arises whether ▶

there is a need to apply for EU money for other manipulated motorway projects in the country at all? Why not instead look to invest millions of euros from the CF into much-needed projects that will help to contribute to the fulfillment of EU climate change policy, such as shifting freight transport from Czech roads to Czech railways. ■

Dubious Krakow waste plans get aired at Petitions Committee

On 11 September, Krakow residents brought a case to the European Parliament's Petitions Committee concerning the violation of their rights by the local authorities in Krakow. Plans have been advancing to build a EUR 150 million waste incinerator in Krakow with the help of EU money, yet, as the residents highlighted, public opinion and the EU's regulations on public consultations are being disregarded.

The residents' complaint, supported by 2000 signatures, provoked an immediate reaction from the Petitions Committee – it intends to seek clarifications on the issue from the Krakow authorities. MEP Marcin Libicki, the chairman of the committee, believes that “it is inadmissible that local authorities ignore the voice of the citizens. In this case the law and rules on public consultations were clearly breached”.

Marcin Szymański, one of the protesting residents, commented: “We decided to intervene at the European Parliament as the local and national authorities were repeatedly ignoring our claims – leaving letters unanswered, refusing invitations to meetings with the local community and failing to organise a proper consultation process. We want the Krakow authorities to act in line with EU legislation, to organise consultations with real, and not faked, public participation and to conduct a multi-criteria analysis for different waste management options. We are convinced that waste incineration is not the only option available and that the city should focus on recycling its resources rather than burning them.”

The Krakow incinerator is one of the nine waste incinerators that Poland wants to build with the help of the EU funds in the

coming years. The total cost of such an incineration programme would be expected to top one billion euros.

Local communities, environmentalists and experts continue to question these investments on economic, environmental and social grounds. Will the action taken by the European Parliament's Petitions Committee be enough to convince local authorities, not only in Krakow, that there are other, more efficient and less controversial waste management solutions to follow? And that the public has a right to voice its concerns when potentially hazardous technology is being lined up for development on its door step? ■

Zero waste up and running in the Czech Republic

This year Friends of the Earth Czech Republic (FoE CZ), a member group of Bankwatch, has been spearheading a new project to promote positive waste management practices that can achieve efficient use of resources and environmental benefits. The project also aims to demonstrate that EU funds for the waste management sector should be invested in similar practices as they prove to be equally beneficial for the environment and local communities.

Since 2006 FoE CZ has led the nationwide “Network of municipalities towards a recycling society”. The network helps municipalities and micro-regions which are interested in developing their waste management strategy. There are more than 30 municipalities in the network at present. FoE CZ provides them with consultancy and a quarterly bulletin containing information about good practices in the Czech Republic and abroad.

So far, progressive waste management plans have been compiled for three municipalities, with the goal of increasing the recycling ratio to 50 percent and reducing the amount of municipal solid waste (MSW). The municipalities of Ostopovice and Mořice aim to reduce the amount of MSW to 150 kg per person per year by 2017. At present the level is 176 kg per person per year in the municipality of Dubicko, so they wish to reduce the amount of inert waste from 125 to 80 kg per person per year by 2017. Emphasis is placed on waste prevention,

support for home and community composting, as well as on co-operation with local communities and local people.

This year FoE CZ will help municipalities with project preparation and with financial requests for EU Structural Funds. Projects such as these, underpinned by progressive conceptions, are much more sustainable than others. We hope that Ostopovice, Mořice and Dubicko will be followed very soon by other municipalities in the Czech Republic, as well as by municipalities from other CEE countries.

There is still major room for improvement. Although the Czech waste management plan intends to increase the municipal MSW recycling ratio to 50 percent, at present we recycle around 16 percent. However, 80 percent of this goes directly to landfills. This is despite the fact that the main proportion of MSW is made up of recyclable materials such as paper, plastic, metal or biowaste.

Biowaste makes up half of MSW in the Czech Republic, and although the EU Landfill directive is aimed at reducing the amount of landfilled biowaste, in 2005 we landfilled more. As in other CEE countries, there are two main possibilities for solving this problem:

- ▶ To freeze separation and recycling at the level required by the EU directives and use money from the Structural Funds for building a number of new incinerators of MSW; or
- ▶ To place waste management as a priority of the European waste hierarchy, such as waste prevention, separation and higher recycling. This means supporting home composting, community composting, pay-as-you-throw system and improved separation for households

The Czech Republic took a decision in 2003 to fulfil the waste hierarchy targeted towards waste prevention and recycling. However, many municipalities still do not know how to decrease their waste volumes and increase the recycling ratio. The “Network of municipalities towards a recycling society” aims to address this problem.

To learn more about this initiative, contact: ivo.kropacek@hnutiduha.cz ■

FROM AROUND THE REGION



► From page 1

EU aid in Bulgaria

discovery of severe problems related to communication and co-operation among the various Bulgarian authorities involved in EU Funds' management and the bodies of the judicial system in Bulgaria – these problems have prevented effective remediation of the established misuse and fraud long associated with the EU Funds in Bulgaria.

Shortly after OLAF's investigative findings went public, the European Commission hurried to take measures which resulted in the suspension of payments for the pre-accession programmes, withdrawing the right to manage the funds from two implementing agencies – the Central Finance and Contracting Unit at the Ministry of Finances and the Implementing Agency under the Regional Development Ministry. The main reasons behind these steps are suspicion of fraud and conflict of interests in the awarding of contracts.

The Commission has called for urgent reforms to take place in order to ensure rigorous control and management systems within the EU Funds, a pre-requisite now for resuming the payments. Due to established conflict of interests related to the signing of contracts between the National Road Infrastructure Fund and a family relative-owned construction firm, the Commission also froze another EUR 144 million for the road sector and banned the signing of new contracts, putting in jeopardy the implementation of the Operational Programme Transport for 2007-2013.

Stung but seemingly unashamed, Bulgarian leaders have established a Minister of EU Funds position to try to brush up the image of Bulgaria and to convince Brussels that the horn of plenty should be at our disposal. Other positive steps in the right direction have also been taken, but the governmental action plan itself does not appear to involve much in the way of action. Indeed, more damning steps appeared right after the hot summer holidays of Bulgarian politicians with the EEA (European Economic Area) declaring that it has also frozen funding for Bulgaria.

From a practical point of view, there has been a collective failure to take numerous steps to set up a good monitoring and control mechanism for the EU Funds in Bulgaria. Low levels of administrative capacity is such a commonly cited factor that digging further into it may divert attention from other significant omissions. Primarily, the internal institutional control, intended as the first level of defence, is ineffective. The first audit report of the National Road Infrastructure Fund, prepared by the Ministry of Finance, did not convince the Commission that the absorption of the Cohesion Fund could be guaranteed in a fair and effective manner, and Brussels subsequently requested further investigations by external auditors.

Since July, OLAF has started 11 new fraud investigations; according to OLAF's Deputy Spokesman, Jörg Wojahn, there are now 30 such investigations ongoing. Hence, Bulgaria has placed fifth in the most investigated countries by OLAF. OLAF has warned that even if certain positive steps are being taken to remedy the situation, there is still little evidence of convincing results yet. The European Commission is committed to provide advice, assistance and support to the Bulgarian authorities to overcome the avalanche of problems, but are they willing and prepared to take it?

Meanwhile, strengthening the mechanisms for public scrutiny by building effective partnerships with non-governmental actors remains a promising option. Bulgarian environmental NGOs are currently members of the monitoring committees for the various Operational Programmes but their role must be strengthened as they can only contribute with ex-post monitoring. NGOs and other public stakeholders must instead become equal partners in the process of assessing and approving projects – a strong safeguard for trying to prevent dubious deals taking place under the table. ■

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has been that local communities were only ever rarely aware of a highway through

IN FOCUS | CONT.

their village or a waste dump close by being supported by European money; nor were they informed about the impacts on their livelihoods and general well-being.

Now, as full EU members, and with the new member states contributing to the EU budget themselves, how much will they know about what happens in the vicinity of their homes? A list of companies names and long financial sums in euros on the internet, or "flying the flag of the European Union for one week starting 9 May, in front of the premises of each managing authority" (as outlined in a Commission regulation of 2006) will hardly do the work.

On the other hand, recent revelations and scandals linked to Bulgaria's mismanagement of the EU Funds along with serious allegations of fraud revealed the urgent need for reforms at every level of decision-making based on strengthened transparency and accountability. The concealing of information and the tolerating of obscure documents hinder not only effective public scrutiny over the process but also proper communication and co-operation among relevant authorities and judicial bodies. Ultimately, as has been seen this summer in the case of Bulgaria, EU aid can be lost if it is persistently seen to go missing.

Minimum electronic information should be published not only about successful projects, but also about all the projects that apply for financing and are being considered. Special attention should be given to providing comprehensible information to local communities. The information should also include short project descriptions as well as results after respective assessment stages: formal assessment, expert assessment, with information on points won in respective categories and final decisions.

New initiatives aimed at improving the transparency and accountability of the EU Funds are welcome. However, both the European Commission and member states should reflect on what transparency means and for whom. It is essential that access to information for local people, beneficiaries and NGOs is provided not only as a "tick the box" exercise but is realised and implemented as a fundamental element of the partnership principle which can facilitate better, more effective and fair management of the billions that flow under the EU Funds banner. ■



www.bankwatch.org

www.foeeurope.org

for more information

email: keti.medarova@foeeurope.org



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