

Abstract

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Neighbouring area cooperation projects

Neighbouring area cooperation is economic cooperation in Finland's neighbouring areas which is intended to promote good bilateral relations and prevent phenomena which have an adverse effect on Finland. It should also promote Finland's foreign-policy objectives. Neighbouring area cooperation has been conducted since 1990. Up to the end of 2002 Finland supplied a total of 1,060 million euros to support economic and political change in neighbouring areas. Over half of this, 597 million euros, was channeled to neighbouring areas through the state budget in the form of aid. The remainder consisted of credits and guarantees.

The present audit focused on neighbouring area cooperation projects. A total of 15.8 million euros was appropriated for cooperation projects in neighbouring areas in 2002. The audit examined activities from the viewpoint of individual projects. The main question was how the ministries which administer neighbouring area cooperation projects have provided for and ensured the proper financial management of projects.

The projects covered by the audit were limited to the fields of environmental protection, water and sewage technology and agriculture and forestry. Projects in these fields are typically investment and technical aid projects. To ensure that observations were up to date, the audit was limited to projects which were under way in 2001 or 2002. A total of 40 projects met these conditions and all of these were audited.

The Ministry for Foreign Affairs is responsible for coordinating neighbouring area cooperation projects, while sector ministries take charge of administering individual projects. The projects selected for the audit were administered by three different ministries: the Ministry of the Environment, the Ministry of Agriculture and Forestry and the Ministry of Trade and Industry. Projects administered by the Ministry of the Environment account for over half of project cooperation appropriations supplied through ministries. The Ministry of Agriculture and Forestry is also a significant actor in neighbouring area cooperation. The Ministry of Trade and Industry takes part in neighbouring area cooperation projects on a small scale.

The audit indicated that a considerable portion of projects and implementers were selected without tendering, through direct procurement. Direct procurement is an exceptional procedure which can be applied only in cases specified in the procedural guidelines for procurement activities. The specified conditions allow direct procurement in practically every project, however. Sufficient study has not been given to alternative projects, implementation forms and project implementers. Deficiencies in tendering have made it difficult to evaluate the economy of projects. It was not possible in practice to ascertain whether project costs were reasonable.

The audit also indicated that the project selection system has not been open to new implementers. Project activities depended on project ideas and plans produced by the implementers of earlier projects. The same implementers have conducted several projects with a similar content. Often projects have been expanded to include new elements as well. With many projects dragging on, it has been possible to start only a few new projects in recent years.

Reporting on the projects covered by the audit has been deficient. In some cases reports required by financing decisions have not been submitted to the ministry at all. Deficiencies were also observed in project documentation and filing.

The cost-based project financing system which was used in the projects covered by the audit has proved unsuitable for monitoring large contracting projects. Especially in projects which have been implemented partly by subcontractors, after-the-fact monitoring of costs has not been able to ensure the proper use of project funds. On the basis of the audit it would be more effective to carry out large contracting projects in the form of a procurement or on the basis of overall responsibility. In this case supervision could focus on ensuring project quality instead of cost monitoring.