



NATIONAL AUDIT OFFICE OF THE REPUBLIC OF LITHUANIA

PUBLIC AUDIT REPORT

On the Assessment of PHARE Economic and Social Cohesion Programmes
which are Aimed at Preparing Candidate Countries for the Management of
EU Structural Funds

28 February 2003, No. 1070-5-4

Vilnius
2003

Abbreviations

BI	Business Incubator
BICC	Business Information and Consultation Centre
CCU	Central Co-ordinating Unit
CFCU	Central Financing and Contracting Unit
DIS	Decentralised Implementation System
EC	European Commission
ECA	European Court of Auditors
EDIS	Extended Decentralised Implementation System
ESC	Economic and Social Cohesion
FIDIC	International Federation of Consulting Engineers
GDP	Gross Domestic Product
INPP	Ignalina Nuclear Power Plant
INTOSAI	International Organisation of Supreme Audit Institutions
ISPA	Instrument for Structural Policies for Pre-accession
KRDA	Klaipėda regional development agency
MoE	Ministry of Environment
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoI	Ministry of the Interior
MPARLA	Ministry of Public Administration Reform and Local Authorities
NDP	National Development Plan
PF	Project Fiche
PPF	Project Preparation Facility
PRAG	Practical Guide to PHARE, ISPA and SAPARD Contract Procedures
RDA	Regional Development Agency
RPIU	Regional Programme Implementing Unit
SAPARD	Special Accession Programme for Agriculture and Rural Development
SME	Small and Medium Enterprise
SMC	Small and Medium-sized Companies
SPP	Special Preparatory Programme
TA	Technical Assistance
UCGA	Utena County Governor's Administration

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1. INTRODUCTION

We have carried out audit of Economic and Social Cohesion Programmes to Prepare Candidate Countries to Manage EU Structural Funds according to the National Audit Office of Lithuania Assignment No. 1070-5 of 7 October 2002. The audit was conducted by the auditors of the NAO of Lithuania 7th Financial Audit Department – Laima Liegutė, Senior Auditor, Laimutė Virbickienė, Chief Auditor and Erika Ragauskienė, Auditor.

The audit was carried out in co-operation with the European Court of Auditors.

The audit was begun on 7 October 2002 and completed on 28 February 2003. It examined Phare Economic and Social Cohesion Programmes of 1998-2001¹.

The audit was carried out in compliance with the Public Auditing Requirements, which are drawn up in accordance with INTOSAI as well as National Auditing Standards.

1.1. Audit objectives

Audit objective:

- To assess whether Phare ESC programmes have been effectively used to prepare Lithuania for the management of EU Structural Funds and to evaluate the results of the Phare programme in this field.

Audit Sub-Objectives:

- To assess effectiveness of Phare assistance in drawing up national development strategy (National Development Plan (NDP)).
- To assess whether Phare assistance has been efficiently used to support the institution building so that there is appropriate know-how, personnel, structures and co-ordination mechanisms, which are necessary for the management of Phare programmes and Structural Funds.
- To assess whether Phare ESC investment projects have been properly selected, efficiently prepared and implemented and whether they have achieved their objectives.

1.2. Audit Scope

Phare Economic and Social Cohesion programmes are a new area of Phare activity. They are designed to resemble EU Structural Funds and to help Candidate Countries (hence Lithuania) to prepare for the EU membership. They promote economic and social development in Lithuania, assist in its preparation to administer EU Structural and Cohesion Funds.

The aim of Phare ESC programmes is to reduce differences in economic and social development between the regions of a country, to promote development of poorly developed regions by using EU financial assistance and by co-ordinating the national-regional policy, and to assist in preparation for the management of the Structural Funds.

As from July 1997 Phare was oriented towards pre-accession, which was focused on institution building and investment. Phare Economic and Social Cohesion programmes of 1998-2001 might be considered to

¹ In this audit report the general term “Phare ESC programmes” is used to denote not only Phare ESC programmes of 2000 and 2001, but also related Phare 1998 SPP and Phare 1999 PPF programmes.

be the programmes of progressive pre-accession. **Annex 1** contains a list of Phare ESC programmes. It also specifies the funds allotted for the said programmes.

In the course of the pre-accession process **Phare 1998 Special Preparatory Programme (SPP)** was launched. The objective of this programme is to progressively strengthen Lithuania's administrative structures so that they are capable of appropriate and efficient management of EU Structural and Cohesion Funds upon the accession. Under this programme the following tasks were to be carried out:

- Drawing up and approval of the National Development Plan, which would resemble that of the Cohesion countries, where the whole country is considered to be a beneficiary under Objective 1.²
- Preparation for an effective use of Community support provided through ISPA, Phare and SAPARD instruments.
- Acquisition of strong administrative capacity.

For the implementation of the Phare 1998 SPP € 3 million were allocated. Investment projects were co-financed by Lithuania; the co-financing funds made up 25 per cent of the total support.

Phare 1999 Project Preparation Facility (PPF) programme was designed to ensure successful concluding of contracts for investment projects. This programme was used to finance feasibility studies for investment projects, environmental impact assessment studies and preparation of technical documentation. These projects can be viewed as the first stage of ESC 2000 and 2001 investment projects.

Phare 1999 PPF is related to:

- *Business Development and Small and Medium Enterprise (SME) Component*, which covers national-regional development in target regions. Largely it is the implementation of technical assistance projects.
- *Human Resources Development Component*, which covers preparation of documents related to vocational training as well as Project Preparation Support for vocational training projects.
- *Business Infrastructure Component*, which is aimed at providing support to drawing up of environmental protection projects in Anykščiai, Kretinga, Kazlų Rūda and Kaunas cities as well as in Kaunas region.
- *Cross-Border Cooperation Component*, which covers preparation of a pipeline of projects for Cross-Border Co-operation between Lithuania and Kaliningrad.

EU allocated € 2 million for the implementation of Phare 1999 PPF.

Phare 2000 Economic and Social Cohesion (ESC) programme was designed to accelerate Lithuania's preparation for the management of EU Structural Funds, foster harmonious and balanced economic development and reduce unemployment. The programme was focused on industry and business areas, which employ the largest number of population, and on training and human resources development. It also aims to strengthen public institutions by restructuring them, reviewing their functions, eliminating the duplication of effort, etc.

The National Development Plan of 2000-2002 specifies Klaipėda-Tauragė, Marijampolė and Utena regions as the selected target regions for the initial financial support to be provided through Phare 2000 Economic and Social Cohesion programme with the aim of fostering social and economic development.

² Appropriations according to the Objective 1 are allocated to those regions, where GDP per capita is less than 75 per cent of the EU average.

The target regions were selected according to their respective gross domestic product (GDP) per capita and the level of unemployment.

For the implementation of the programme € 18,6 million were allocated, € 14 million of which were allotted from the EU funds, and € 4,6 million – from the Lithuanian funds.

In contrast to the Phare 2000 ESC programme, which was focused on regional development, **Phare 2001 ESC** was oriented towards the development of separate sectors. The programme was implemented in industrial, environmental protection, vocational training and tourism sectors as well as in the field of innovation capacity. Phare 2001 ESC support is planned to be used in/for:

- In industrial sector – for the design of the SMC development scheme;
- In Ignalina, Visaginas and Zarasai municipalities – for stimulation of SME development and for implementation of economic restructuring scheme in Ignalina, Visaginas and Zarasai;
- In the environmental protection sector – for upgrading of the water supply, wastewater collection and wastewater treatment systems in Anykščiai, Kazlų Rūda and Kretinga;
- In the vocational training sector – for the development of vocational training system as well as high quality training programmes and adjusting them to the needs of certain economic sectors or regions in Lithuania;
- In the tourism sector – for the development of national tourism information system and tourism infrastructure;
- In the sector of innovation – for the development of the National Innovation System in Lithuania.

For the implementation of the programme € 20,6 million were allocated, € 15,6 million of which were allotted from the EU funds, and € 5 million – from Lithuanian co-financing funds.

1.3. Selection of the Projects to be Audited

When selecting Phare ESC projects to be evaluated in the course of the audit, our main selection criteria were the objectives of the audit as well as materiality, continuity and correlation of the projects.

From the Phare 2000 ESC Component we selected two sub-programmes, which were implemented in Klaipėda –Tauragė and Utena regions, i.e. we selected the largest regions in terms of population and territory:

- Klaipėda-Tauragė region is composed of two counties: Klaipėda County, which is considered to be one of the most developed counties in Lithuania, and Tauragė County, which is one of the poorest ones according to the GDP per capita and the level of unemployment.
- A comparatively large number of population in Utena region are employed in the agricultural sector although natural conditions for agriculture are unfavourable here, and the productivity of lands is significantly lower than the national average. The number of population employed in the service sector is rather small in the region. The region is also important because of the Ignalina Nuclear Power Plant (INPP).

The projects selected from 1998 and 1999 programmes are related to the drawing up of NDP and to the Project Preparation Support for Phare 2000 and 2001 ESC, which were implemented in Klaipėda-Tauragė and Utena regions.

Phare ESC projects selected for assessment in the course of the audit are listed in **Annex 2, Table 1**. The list also specifies the funds provided for the selected projects.

The overall objective of Phare 1998 SPP is to provide assistance for the preparation of NDP and the sub-programmes of the Phare 2000. We decided to assess all SPP projects, because Phare 1998 SPP is comprised of four projects, which relate to both NDP and the already selected sub-programmes, which are implemented in Klaipėda-Tauragė and Utena regions. For the audit of the Pilot Rural Development Project in Utena County we selected nine projects (where contracts had been concluded with the direct beneficiaries) and assessed how they were implemented and whether they achieved their objectives (**Annex 2, Table 2**). However, the level of achievement of one of the objectives of this programme – to complete the necessary administrative preparation for the effective use of new accession instruments, ISPA and SAPARD – is not analysed in the present report.

Phare 1999 PPF was designed to provide assistance in preparation for the implementation of the sub-programmes of the Phare 2000 and Phare 2001 ESC. We selected projects that were related to Phare 2001 ESC sub-programmes and implemented in Klaipėda-Tauragė and Utena regions.

In the course of the audit we examined those Phare 2000 ESC projects that were implemented in Klaipėda-Tauragė and Utena regions and were funded according to the grant scheme. In total there were 182 contracts concluded in conformity with the said grant scheme in Klaipėda-Tauragė and Utena regions. 78 of the said contracts were concluded in Klaipėda region, 29 – in Tauragė region and 75 – in Utena region. From each of the three regions we selected 10 per cent of the largest projects (in terms of contract value) implemented under the measures of the Phare 2000 ESC programme:

- From *Business Development Fund measures*: establishment and stimulation of the establishment of new businesses, fostering of the competitiveness of the existing business enterprises, encouragement of the development of innovation activities;
- From *Human Resources Development Fund measures*: training for economic and social cohesion, establishment of training initiative and distance learning system.

For the audit of Phare 2001 ESC Component we selected the following projects: investment projects in the area of environmental infrastructure, which were implemented in Klaipėda-Tauragė and Utena regions, a vocational training project, which was related to training for economic and social cohesion, and the Special Action Project for the decommissioning of the INPP.

In the course of the audit we assessed management, co-ordination, preparation, implementation and supervision of the abovementioned projects implemented under the Phare ESC programmes (i.e. Phare 1998 SPP, Phare 1999 PPF, Phare 2000 ESC and Phare 2001 ESC) at the Ministry of the Interior (MoI), Regional Project Implementing Units (RPIUs) of Klaipėda, Tauragė and Utena Counties, the Central Financing and Contracting Unit (CFCU), which was reorganised into the Central Project Management Agency as of 2 of January 2003, Ministry of Environment, Ministry of Economy, Ministry of Science and Education and Support Fund for Human Resource Development Programmes. We also held interviews with officials at the Ministry of Finance, with direct beneficiaries in Klaipėda, Tauragė and Utena Counties and with consultants of the projects. The interviewees are listed in **Annex 3** of the present report.

2. PHARE 1998 SPECIAL PREPARATORY PROGRAMME

Phare 1998 SPP is one of the programmes that were designed to prepare Lithuania for appropriate management of EU Structural and Cohesion Funds after the accession. The Programme is comprised of four projects: technical assistance for SPP for Structural Funds, one Twinning and two Pilot projects (Pilot Rural Development Project in Utena County and Pilot Project in Klaipėda City).

In accordance with the provisions of the Project Fiche of the Phare 1998 SPP MPARLA established the Central Co-ordinating Unit (CCU), which was responsible for the technical design, supervision and assessment of projects, whereas CFCU was assigned the responsibility of awarding the contracts.

2.1. Implementation of the Tasks Set to Attain the Objective of Phare 1998 SPP

2.1.1. Drawing up and Approval of the National Development Plan

One of the main objectives of the technical assistance and twinning projects was drawing up and approval of the National Development Plan.

Below are the main factors that had negative impact on strategic planning and the preparation of the NDP:

- NDP was being prepared as a Phare programming document rather than a “real” strategic planning document. Moreover, the EC’s opinion about strategic planning policy had changed too: at first strategic planning was oriented towards regional development (ESC Phare 2000), but later it was focused on the sector planning, which influenced the programming of Phare 2001 ESC.
- Preparation of NDP involved quite a number of public sector structures. Their activities were co-ordinated by MPARLA, which was under-resourced and unprepared to draw up a national development plan and to integrate pre-accession instruments – Phare, ISPA and SAPARD – into the national and regional planning.
- When NDP concept papers were completed, the MoI transferred the function of co-ordinating the preparation of the NDP to the Ministry of Finance. MoI remained responsible for the national-regional policy, whereas responsibility for programming and implementing the ESC programme was delegated to the Ministry of Finance.

NDP was not approved and the EC did not consider it to be an appropriate strategic document. Preparation of the NDP was merely a training exercise for future drawing up of the Single Programming Document to receive EU structural support. The process of drawing up of the NDP demonstrated that Lithuanian public sector lacks administrative capacity in the area of strategic planning.

2.1.2. Building the Administrative Capacity to Eliminate Economic Disparities

2.1.2.1. Phare 1998 Technical Assistance for the SPP for Structural Funds and the Twinning Project

The overall aim of the two projects – the Technical Assistance and the Twinning – is to help Lithuania build appropriate administrative capacity. The attainment of the aim entailed strengthening of the legal framework so that it complies with the EU structural policy, and training Lithuanian civil servants in the management of the Structural Funds.

In order to attain the said aim the following activities were carried out:

- External experts provided legal advice on NDP and on drawing up of the Republic of Lithuania Law on Regional Development. However, officials and experts of Lithuanian public institutions deemed the drafted Law not suitable to the Lithuanian context and of poor quality. Thus a new draft law was prepared already in 2002.
- An Action Plan for the application of the Decentralised Implementation System (DIS) was drawn up and submitted to CFCU, the Ministry of Environment and to the Transport Investment Directorate.

2.1.2.2. Phare 1998 SPP for Pilot Rural Development Project in Utena County

The overall objective of the Phare 1998 SPP for Pilot Rural Development Project in Utena County is to develop a model of administrative structures with the capacity to successfully implement EU structural and regional policies in Lithuania, to ensure efficient use of pre-accession and structural funds and to try the application of the procedures of investment projects. The aim of this Project is to build region's administrative capacity in the area of drawing up development plans and implementing development measures, which is necessary to carry out Phare 2000 and SAPARD programmes efficiently and to appropriately administer EU Structural Funds after the accession. Besides, efforts to achieve the aim of both Lithuanian and EU regional policy – to reduce economic and social disparities between regions and to ensure greater regional input into the overall economic development – are demonstrated by the investments into the Utena region, which is less developed than other regions of Lithuania.

This Project was divided into several priority areas, where the following five measures were implemented

Measure I – support for alternative economic activities in rural areas;

Measure II – support for agritourism;

Measure III – support for small and medium enterprises (meat industry being the priority area);

Measure IV – training;

Measure V – technical assistance for the implementation of the Utena Pilot Project.

In the course of the Project Utena County Governor's Administration and the social economic partners improved their capacities to design, implement and monitor projects. This should ensure Project sustainability and a more efficient implementation of the Phare 2000 and SAPARD programmes, which would help build the said administrative capacities still further.

Despite the above-mentioned achievements in the area of strengthening the administrative capacity, the quality of the Project implementation was influenced by the fact that employees involved in the Project did not work on it full-time, and had other responsibilities at the Utena County Governor's Administration (UCGA). Besides, political changes stipulated the change of the Management of the UCGA, which is the Implementing Institution.

78 per cent of the beneficiaries working in the areas of **Measures I, II and III** fully used the received funds, attained the set objectives and achieved the expected results. This makes up 96,3 per cent of the total used funds. The nine selected projects (i.e. the contracts that were concluded with direct beneficiaries) were successfully implemented and their objectives achieved.

Delays in the drawing up of the Terms of References influenced the implementation of the projects – the tender was begun later than planned, and the deadlines for concluding contracts with the beneficiaries as set forth in the Terms of References could not be observed. The contracts were not concluded on time because CFCU and EC Delegation delayed the approval of Evaluation Report. The reason for these institutions being late was the fact that the manual for the EU-funded project management was being

changed. The Project was begun in line with the DIS manual and ended in compliance with the PRAG requirements.

Measure IV. The overall objective of the training was to increase efficiency of the use of Phare and SAPARD support and enhance effectiveness of future projects. The efficiency of the outputs of the Project was not as high as it was expected, because training was provided at the time when beneficiaries were concluding the implementation of their projects. It was decided therefore to provide training in how to prepare the final reports, thus not fully adhering to the training plans set forth in the Terms of Reference. As a result, risk that the beneficiaries might have implemented their projects without fully understanding the PRAG procedures is rather high. In addition officials of the County Administration and Municipality attended training in Ireland, where they had a good opportunity to learn how to use support from the Structural Funds and to improve their knowledge of project management.

Measure V (Technical Assistance) was implemented with the help of external experts. The project implementation required establishing a Project Secretariat and employing two local experts. One of the experts terminated the contract because he won the competition for a job at CFCU, and the other expert's work was deemed inefficient and he was dismissed as a result. The functions of the experts were transferred to the Secretariat. In the course of the Project implementation the Secretariat staff acquired sufficient administrative skills to carry out these tasks, but in order to complete the Project in a professional manner and ensure the achievement of the planned results, another two local experts were employed to draw up the final report as well as the manual of the administrative procedures. Another expert was hired to prepare the interim report.

2.1.2.3. Phare 1998 SPP Klaipėda Pilot Project

The overall objective of the Klaipėda Pilot Project is to provide assistance to institutional strengthening, to raise awareness of the Structural Funds and related requirements in Klaipėda County, city and local authorities and administrations, to build administrative capacity for the preparation of project documentation, to foster partnership and regional co-operation and to develop practical administrative skills.

Responsibility for the implementation of the Project lies with the Klaipėda Regional Development Agency (KRDA) as approved by EC Delegation and CFCU on the recommendations of MPARLA and the Ministry of Foreign Affairs (MoFA), which is the National Aid Co-ordinator. KRDA was founded by the Klaipėda Chamber of Commerce.

One of the facts that had a negative influence on the implementation of the Project was the way the Terms of Reference were drawn up, i.e. the wording of the tasks was vague and incoherent. After half of the Project implementation time was spent, only 5 per cent of the funds allocated for the Project were used, and the expected results were not achieved. Moreover, at the 3rd meeting of the Steering Committee EC Delegation presented its report on the Klaipėda Pilot Project, in which it stated that having completed a thorough analysis of the Project's staffing, finances and implementation process it identified that the progress of the Project had been very slow and delayed. In addition, the report indicated that the reason for unsuccessful implementation of the Project had been inappropriate management. EC Delegation also reported that KRDA infringed a number of rules of the Financing Memorandum relating to technical reports and financial statements. EC Delegation recommended the following:

- To discontinue implementation of the Project due to inability to achieve expected results and to return the allotted funds to the EU Commission/CFCU or

- To make radical changes in the management of the Project, i.e. to introduce weekly supervision and to make descriptions of the activities in the Terms of Reference more concrete. This should help to achieve the planned results in the near future.

The Steering Committee decided to implement the second recommendation. Thus administrative responsibilities were redefined, weekly supervision of work introduced and schedules and timetables of the activities to be implemented by the experts were set up. It had also been planned to adjust the Action Plan by including into it a run-up to the implementation of Phare 2000 ESC. This activity was to set preconditions and improve possibilities for the institutions to prepare for the implementation of the regional programmes of the Phare 2000.

The Project was implemented through four key activities, A, B, C and D, which were set forth in the Terms of Reference; the implementation of the said activities was co-financed by Lithuania.

- Activity A. It was planned to establish regional partnership and a Pilot Project Co-ordination Centre. The objectives of the activity were achieved.
- Activity B. It was planned to draw up a regional development plan for Klaipėda County as well as business development projects, which would ensure creation of jobs, fostering of SME in the areas of market information services and training, and would provide support for business and environmental protection. The objectives of this Activity were achieved.
- Activity C. It was planned to research and provide information on marketing activities with the aim to attract foreign and local investment, to organise trade missions³ and to establish “One-Stop-Shop” information centre for foreign and local businesses. The Activity also included a task of organising trade missions, but it was not carried out. Funds allotted for translation services were not fully used. In total € 62,2 thousand allotted for the implementation of the Activity C were not used, € 42,8 thousand of which were Phare funds, and € 19,4 thousand – national funds.
- Activity D. It was planned to provide training for the employees of Klaipėda University, who were to pass the acquired knowledge of regional development on to the officials of local institutions and County Administration. The planned training covered the following subjects: transition to EU financing system, support for business development, regional planning and assessment of regional needs. The Activity objectives were only partially achieved, because seminars on drawing up of applications to receive ISPA, SAPARD and Phare support had not been organised. € 25,3 thousand of the total funds allotted for the implementation of the Activity D remained unused.

The Klaipėda Pilot Project failed to ensure the expected sustainability. Officials of the Klaipėda County Administration, who are currently involved in the implementation of Phare 2000 ESC projects, had not participated in the implementation of the Pilot Project and had not attended the seminars, which provided an opportunity to gain sufficient skills, experience and administrative expertise necessary for the implementation of Phare ESC programmes. At present only two of all local experts, who were involved in the implementation of the Klaipėda Pilot Project, are providing consultations for the enterprises participating in the Phare 2000 ESC programme.

2.2. Project Implementation Environment

For the implementation of Phare 1998 SPP a national interministerial coordinating unit – the Central Co-ordinating Unit (CCU) – was established. It was comprised of ministerial representatives, however, its mandate was not prescribed by any legally binding documents. The Unit did not have sufficient authority to effectively co-ordinate activities of the ministries in the course of the preparation of the National Development Strategy and implementation of other projects. Furthermore, documents regulating the activities of the CCU itself were not drawn up either.

³ i.e. traveling abroad with the aim to establish new contacts, find new trade partners and to participate in trade fairs.

Implementation of the Programme was impeded by a number of institutional and political changes:

- In January 2001 MPARLA, the Beneficiary, was demised, and its functions transferred to the Ministry of the Interior. After the reorganisation at the MoI it transpired that its Regional Policy Coordination Department did not have enough employees experienced in project management. In fact, after the reorganisation the Department had only one employee capable of doing the job; many of the staff left for better-paid jobs; quite a number of them were employed as consultants in the technical assistance or twinning projects. Thus the effectiveness of the implementation of the Programme was affected by high staff turnover and lack of personnel.
- After MPARLA was demised and its functions transferred to the MoI, a new chairman of the CCU was appointed. Initially the members of CCU were approved by the Minister of MPARLA. However, after the functions were transferred to the MoI and a new chairman of the CCU appointed, the staffing of the CCU was not approved by any ministerial order or any other document. This demonstrates that responsibility for the preparation, implementation and supervision of the Programme was not clearly defined.

2.3. Project Management and Co-ordination

The main impediments for successful preparation, implementation, supervision and attainment of the goals of the Programme were as follows:

- The National Aid Co-ordinator did not issue any regulations regarding the management of the EU support programmes and clearly defining responsibilities of the beneficiaries – the National Aid Co-ordinator (MoFA), the Implementing Institution (CFCU) and line ministries. This stipulated ineffective project management and lack of clearly defined responsibility. It was not clearly regulated which project-related documents should be filed and accumulated.
- Initially MPARLA was responsible for technical design, supervision and assessment of the Phare 1998 SPP. After the demise of the institution these functions were transferred to the MoI. However, in neither ministry was it clear whose was responsible for the preparation of project documentation (i.e. preparation of the project fiche and technical documentation), co-ordination and administration.
- The two Phare 1998 SPP projects – the technical assistance and Twinning project – covered quite a number of various sectors, a lot of sector- and bi-lateral tasks, which were aimed at achieving similar and often even identical results. This demonstrates that the Terms of Reference for the Technical Assistance Project were not well prepared. Areas of activities between the two projects were clearly divided at the kick-off seminars, which helped to avoid overlapping of projects and their activities. However, it was failed to avoid duplication of the activities of the Technical Assistance and the Twinning project in the area of the drawing up of legislation regulating regional development.
- MoI, which is responsible for the Programme, does not file any documentation relating to the projects implemented under the Programme. In the course of the audit MoI failed to provide the following documents: the approved final report of the Technical Assistance Project and the inception report of the Klaipėda Pilot Project. The final report of the Twinning Project was not approved, and the final payment was not made either. This demonstrates that supervision of the project implementation was insufficient. Thus one may doubt whether all the objectives of the project were attained, and whether all the planned tasks were carried out. As per the Twinning Covenant, EC Delegation approves the final report and by doing so confirms that the objectives of the project have been achieved.
- MPARLA did not have a sufficient number of qualified employees and in addition there was a high staff turnover. During the implementation of the SPP Technical Assistance and SPP Twinning MPARLA employed local experts to prepare documentation and thus tried to solve the problem of understaffing, however, by using the work of external experts MPARLA was not strengthening its own administrative capacity. It is necessary that ministries-beneficiaries use technical assistance to build their administrative capacity in order to be able to manage EU Structural Funds in future.

- Implementation of the Twinning Project lacked close co-operation between the PAAs and their Lithuanian partners.

2.4. Project Preparation

Objectives set forth in the Phare 1998 Project Fiche were abstract and undefined. Furthermore, it took more than a year since the completion of the Project Fiche to prepare the Terms of Reference and the Twinning Covenant.⁴ EC had to provide a list of experts who could assist in the preparation of the Covenant, but this was delayed. A long period of time between the preparation of the Project Fiche and drawing up of the Terms of Reference resulted in discrepancies between the objectives set forth in the Project Fiche and those indicated in the Terms of Reference/the Covenant.

The Terms of Reference for the Technical Assistance Project and Klaipėda Pilot Project were drawn up by the employees of MPARLA, who did not possess sufficient professional knowledge to do the task (therefore consultants at the MoFA provided their assistance), and that is why the said Terms of Reference were not concrete enough and the Phare input and the expected results were not clearly defined. Consequently, the implementation of the projects allowed various interpretations. Moreover, the Terms of Reference of the Klaipėda Pilot Project did not specify whose responsibility it was to draw up, approve and present preliminary, interim, final and other reports of the Project, and it did not indicate whom these reports should be presented to; neither did it contain schedules or timetables of task implementation and it lacked the date of the presentation of the final report.

In the course of the audit we identified discrepancies between the amounts of the co-financing funds indicated in the Klaipėda Pilot Project Fiche and those specified in the Project's Terms of Reference. The Project Fiche specified that the co-financing funds had to make up 25 per cent of the total expenses, whereas the co-financing funds indicated in the Terms of Reference made up only 20 per cent. The actual amount of the co-financing funds made up 25 per cent of the total expenses.

Since there are no regulations regarding the drawing up of the inception reports of the projects, the produced inception reports are vague and incoherent. For example, the interim report of Technical Assistance Project indicates that the Terms of Reference should be changed. However, it does not specify what and how should be changed.

⁴ Terms of reference were prepared for Technical Assistance and Pilot projects, and the Covenant was drawn up for the Twinning Project.

3. PHARE 2000 ESC PROGRAMME

PHARE 2000 ESC programme is being implemented in objective regions of the country applying measures of the funds of business and human resources development, financed by PHARE and state budget of the Republic of Lithuania.

In the course of the audit the projects assigned to objective regions of Klaipėda – Tauragė and Utena were evaluated, they were funded by the grant scheme of business development fund and human resources fund. Minimal amount of grant – € 10 000, maximal – € 160 000.

MoI (Ministry of the Interior) ensures general supervision of the Phare 2000 ESC and carries out the functions of Secretariat of the National Management Committee and coordinates the components of the ESC Program in objective regions. Considering the fact that support is assigned to encourage the development of slack-backed regions, having accumulated the support funds in objective regions, Regional Programme Implementing Units (RPIU) within County Governor's administrations were established. They operate as structural subdivisions of County administrative units ensuring on the regional level observance of the requirements of the PRAG in the course of implementation of ESC programs. CFCU is implementing and paying institution and is responsible for making contracts and general management of financial resources. Separate functions of CFCU as implementing institution are delegated to MoI and RPIU, according provisions of the Manual on implementation procedures of Phare 2000 ESC program and contracts between CFCU and County administrations.

3.1. Project (programme) implementation

3.1.1. Awarding contracts

Although 292 contracts were signed with funded entities covering nearly full amount of the measures for the implementation of the program (98 %), nevertheless negative influence to the contracts could be made by the factors mentioned below:

- Advanced training was planned in Utena region before submitting the claims for support. The Zarasai Business Information Center delivered consultation service to claimers for getting the Phare ESC support according the LT 0009-03-H-02 measure "Support to Phare 2000 ESC implementation in Utena region" (Service contract LT009-3-01-0001). The claimers for support from the Business development fund were trained when month and a half passed after the announcement of the competition and half of the month before the deadline of claim submitting. Therefore the time for consultation and training of the claimers was too short.
- The signing of the contracts was made hastily, nearly all the contracts were signed the last day, September 30th, 2002, which is appointed in the Financing Memorandum, in spite of the fact that in the Project Fiche signing of the contracts was scheduled to start in the second quarter of 2001. As the competition documentation was not prepared in time, rather short time was left for evaluation of claims: for the measure of the Business development fund – about four months, for the measure of the Human Resources development fund – less than three months. Having partly adopted the results of the evaluation by the European Commission (part of the claims were appreciated, another part – returned to re-evaluate), the Evaluation Committee had to evaluate repeatedly the claims pointed out by the EC.

3.1.2. Project implementation and supervision

After having signed contracts with support receivers and after submission of the claims for the advanced payment, the payment was done violating the PRAG requirements regulating terms of payments. CFCU has completed payments to support receivers in parts and not observing terms of payments, because: 1) means of the national cofinancing were received in parts and it was impossible to make the advanced payments according all the submitted claims; 2) simultaneously the period of payments, as set forth in the Financing Memoranda of other Phare programs came to an end; 3) the reorganization of CFCU was carried out – CFCU was reorganized to the Central Agency of Project Management.

In Article 2.5.4. of “Budget alterations” the possibility is provided to claimers of Business Development Fund to change the budget according the requirements set in the instruction. Claimers of Klaipėda – Tauragė region implementing the projects submitted many complaints related to CFCU delays in the course of discussion concerning the budget changes. They used to receive answers in two months or even later what disturbed the successful implementation of projects.

In Article 2.5.5. of “Accounts” it is indicated that the forms of technical and financial accounts will be submitted to the claimers and support receivers of Business Development Fund at the moment of signing contract for subsidy. Nevertheless the mentioned recommended forms were worked out just before submitting the account. Beneficiaries from Klaipėda – Tauragė district wish to get more distinct methodical guidelines for setting up the financial statements.

Support receivers of Klaipėda – Tauragė region don't receive enough information concerning the certification of production and commodities.

Support receivers have to execute purchases according PRAG requirements. In Article 3.1. of financial contracts between CFCU and County Governor's administrations “On Phare 2000 ESC Component Administration” it is stated, that RPIU is obliged: to supervise if the support receivers implementing projects, carry out purchases observing rules of PRAG; to consult support receivers preparing documentation of above mentioned purchases”. But there is no worked out documents describing distinction of functions of heads of Counties, MoI, CFCU and EC Delegation concerning procedures of purchasing competitions, signing of contracts and implementing of the projects. In the course of the audit by the initiative of the head of Utena RPIU, UCGA sent a paper to MoI, asking MoI to initiate a meeting of MoI, CFCU, EC Delegation officials and representatives of regional RPIU in order to discuss the abovementioned functional responsibilities.

In the cooperation contracts between MoI and heads of Counties responsible person for implementation of contracts from the side of MoI is one person (at the meantime he doesn't work in the MoI), though general responsibility for the implementation of the project must lie on the institutions that have signed it. It is necessary to state, that separate functions to persons must be appointed by internal juridical acts.

3.2. Project Implementation Environment

Implementation of 2000 ESC could be influenced by the institutional changes and low quality of the agreements between the institutions:

- On September 1, 2001 the National Aid Coordinator was changed – Minister of Foreign Affairs was changed by the Minister of Finance.
- In January, 2001 MPARLA, a Beneficiary, was demised and its functions were delegated to the MoI. In the course of reorganization of MoI a problem occurred how to keep up the staff of the Department of Regional Policy, which works with the projects. So the effectiveness of program implementation could be influenced by the lack and fluctuation of the personnel.

- Not coordinated Article 3.4. of agreements between MoI and County Governor Administrations and financing contracts of “Administration of Phare 2000 ESC component”, signed between CFCU and County Governor Administrations’ RPIU, Article 6 and do not meet the requirements of PRAG General conditions related to terms of payment claims.

3.3. Project (programme) Management and Coordination

The design of high quality Phare 2000 ESC projects, their successful implementation and supervision was interfered by:

- There are no legal acts regulating the management of EC support programs and setting the scope of responsibilities of beneficiaries – ministries, Ministry of Finance and CFCU. It conditioned the non-effective management of programs and absence of particular responsibility. It was not regulated what project related documents should be saved and stored.
- No responsibility was set for working out of the Project Fiches, but the mentioned documents were prepared by the division of Regional Policy of MPARLA together with the National Aid Coordinator.
- Working out of Project Fiches was coordinated with the EC Delegation. But often it took much time to get answers from the EC Delegation.
- MoI did not appoint persons responsible for coordination of working out the guidelines for claimers, terms for the activities were not fixed. According to Article 3.3. of EC-approved Phare 2000 ESC Programme Implementation Manual, “MoI coordinates thoroughly ESC activities in target regions”. Furthermore, “MoI helps RPIU to work out recommendations for the claimers” and “approves recommendations for claimers and technical project and submits them to CFCU for certification”.

3.4. Project (programme) Preparation

Preparation of tender documents, including guidelines for claimers, comparing with terms indicated in the Project Fiche, was delayed for more than a year. Consequently, not enough time was left for the announcement of competition and for the information campaign to attract potential claimers.

In contracts with beneficiaries, including appendixes of the contracts (PRAG general and special conditions), terms of submitting project accounts (monthly, quarterly) were not set. In it’s letter MoI indicates, that it “recommends executives of projects to submit the accounts in 10 days after the end of accounting period”.

4. PHARE 2001 ESC PROGRAMME AND RELATED PHARE 1999 PPF PROJECTS

Successful implementation of Phare 2001 ESC was preconditioned by Phare 1999 PPF, which covered Technical Assistance projects designed for preparation of feasibility studies of ESC investment projects of Phare 2001 ESC. It also included technical documentation, environment impact assessment and preparation of other tender documentation. So the aim of the program – to ensure the effective and immediate signing of above mentioned project contracts.

4.1. Phare 2001 ESC Environmental Investment Projects and Related Phare 1999 PPF Projects

Phare 2001 ESC Environmental Investment Projects selected for evaluation and related Phare 1999 PPF projects:

Phare 2001 ESC		Phare 1999 PPF	
Number	Project title	Number	Project title
LT0110-01	Extension of water-supply and sewerage systems in Anykščiai	LI9917-01-01-0006	Technical assistance for extension of water-supply and sewerage systems in Anykščiai
		LI9917-01-01-0013	Preparation of technical specifications and tender documentation for extension of water-supply and sewerage systems in Anykščiai
LT0110-03	Development of water-supply and sewerage systems in Kretinga	LI9917-01-01-0004	Technical assistance for development of water-supply and sewerage systems in Kretinga

Phare 2001 ESC Environmental projects are appointed for the development of business infrastructure in the selected objective regions. Project Fiches disclose that non-effective system of water-supply and sewage collection is one of the main obstacles in the development of economy and tourism.

In order to start and to implement the environmental investment projects of Phare 2001, Phare 1999 PPF projects were worked out and implemented, their aim was to design the feasibility studies and technical specifications, assess environmental impact.

4.1.1. Selection of Projects

Ministry of Environment was responsible for coordination of the projects selected on its nomination by MoI, MoF and European Commission. Local authorities were the direct beneficiaries of the projects.

Projects coincide with the set requirements of NDP in the environmental sector: water quality development and purification of outflows.

The Project fiches stresses investment project's input into economical social cohesion. Those projects are too small to be financed by ISPA. But some doubts arise if the selected environmental projects in target

regions should be referred as components of business infrastructure, because the direct input of the projects belongs to environmental sector.

4.1.2. Phare 1999 PPF preparation and implementation of investment projects

Phare 1999 PPF Project Fiche is worked out no knowing exactly what projects will be implemented, thus Project Fiche is not exact and clear.

In the course of implementation of projects the competition date foreseen in the PF was not considered. Usually competitions of Phare 1999 PPF projects if compared with the date provided in Project Fiche proposal, used to start with 1,5-2 year delay. One of the reasons was the late preparation of ToR because of the long term discussion with EC Delegation and other EC departments related to financing and investments into water-supply and sewerage system development. Having decided upon funding it was necessary to carry out feasibility studies of environmental projects. But the period of implementation of the investment projects was shortened because of the delayed Terms of Reference.

Implementing environmental project in Anykščiai (L19917-01-01-0006), which entailed conducting a feasibility study, project coordinator (MoE) and final beneficiary (municipality of Anykščiai) did not ensure adequate supervision of contractors in order the feasibility study should finally adopted in time (it took about a year for contractor to adjust the project of feasibility study according the MoE remarks). Technical projects and technical documentation (L19917-01-01-0013) were started to work out without the approved feasibility study. The fact illustrates the important role of coordinator and beneficiary in the course of project administration and coordination.

In contracts of Phare 1999 PPF 80 percent (confirmed by EC) advance was foreseen for contractor. Such favourable payment conditions for contractor inhibited the beneficiary to have financial influence to project administration and coordination.

Environmental projects of Phare 2001 ESC (LT01.10.03 and LT01.10.01) still are not being implemented because of:

- Delayed coordination of technical documentation of Kretinga Water-supply and sewerage system (LT01.10.03). EC Delegation submitted remarks related to technical documentation on 25 February, 2003, in four months after the Ministry of Environment submitted for coordination project tender documents. Besides, remarks of EC Delegation disclose that technical documentation was not qualified. For that reason tender was not announced till the end of the audit, although in PF the start of the project is foreseen for the first quarter of 2002.
- In the Project Fiche of Anykščiai water-supply and sewerage system development (LI01.10.01) the competition was due to start in October, 2002. However, the competition was not announced till January 2003. Preparation of Phare 1999 PPF Technical Assistance project required preparation of technical project and tender documentation, in the Terms of Reference of the mentioned project preparation of tender documentation parts I and II was not foreseen: part I – general conditions, part II – special conditions. The parts are obligatory in order to announce competition for the project of Anykščiai water-supply and sewerage system development. Ministry of Environment started to prepare the needed parts itself.

This demonstrates that beneficiaries do not pay enough attention to project preparation, though the adequate and qualified project design is the most important step for successful implementation of the projects.

4.1.3. Project management and coordination

Qualified project preparation, successful implementation, supervision and achievement of project aims were interrupted by:

- There were no legal documents regulating the management of EU support programmes, thus scope of responsibilities of beneficiaries – CFCU, MoF and other ministries – was not set. It caused ineffective project management and lack of clear defining of responsibilities. It was not clear which institutions should file project-related documentation and what documentation should be filed.
- Persons responsible for preparation of project documentation (PF and technical documentation) and for project coordination were not appointed.
- Supervision Committee of technical assistance Anykščiai water-supply and sewerage system development project was not established.
- Final beneficiary (Municipality of Anykščiai region) because of the lack of project management skills was not active enough in the course of implementation of Phare 1999 PPF it carried out supervision of the projects not sufficiently. Besides, municipalities of Anykščiai and Kretinga regions lack staff that would have knowledge of the requirements of FIDIC and procedures of PRAG and would possess skills of proper and timely implementation of projects. Difficulties and challenges met during implementation of projects and awarding contracts could have been avoided if municipalities had been timely supplied with training materials and if they improved qualification of their staff.

4.2. Phare 2001 ESC Project on Economic Restructuring of Ignalina, Visaginas, Zarasai Municipalities and a related Phare 1999 PPF project

After the decision to decommission the Ignalina's NPP first reactor, it became necessary to cope with the social economical outcomes of such an action, especially in Visaginas town, which was established as a town of Ignalina NPP employees, in the municipalities of Ignalina and Visaginas and in economic development of Utena region. The aim of Phare 2001 ESC grant scheme on economical restructuring project of Ignalina, Visaginas and Zarasai municipalities (LT01.14.01) – to maintain the establishment of base of encouragement the activities of small and medium-sized companies (SMC) in Ignalina, Visaginas and Zarasai regions. Having implemented the project, Ignalina NPP Regional Development Agency (RDA) has to be established, business incubator (BI) including center of business consultation and information (BICC). Phare 1999 PPF project (L19917-01-10) was designed to carry out the preparation work in order to unburden Phare 2001 ESC project implementation.

4.2.1. Project selection

Ministry of Economy was responsible for coordination of implementation of economical restructuring scheme of Ignalina, Visaginas and Zarasai and for implementation of projects related. Final beneficiaries – municipalities of Visaginas, Ignalina and Zarasai. The project should contribute to basic tasks set for NDP in 2001-2003: economical development and decreasing of unemployment, increasing living standards, increasing competitiveness, decreasing the social economical differentiation in separate regions of Lithuania, ensuring proper conditions for economical development. Establishment of structures foreseen in the project is enlisted in the program and plan of measures of state enterprise Ignalina NPP related to stopping the operation of the first reactor.

4.2.2. Phare 1999 PPF project preparation and implementation of investment projects

Implementing technical assistance and investment projects the start of tender foreseen in Project Fiche was not observed:

- Phare 1999 PPF project LI9917-01-10 comparing with date, foreseen in PF, started with more than half a year delay.
- Start of competition for the project LT01/14.01 on economical restructuring of Ignalina, Visaginas and Zarasai municipalities was designed for the first quarter of 2002, nevertheless competition in January, 2003 had not yet started – the delay is almost a year. The project was started later, because only in February, 2002 Ignalina NPP region was established what created a possibility to establish the RDA of Ignalina NPP region and BI, so realizing the advanced project conditions.

Having implemented Phare 1999 PPF project (LI9917-01-10), tender documents were worked out, including ToR for services component and technical documentation for supply component of Ignalina, Visaginas, Zarasai municipalities economical restructuring scheme project. A long time has passed after working out the mentioned documents and circumstances changed, then:

- EC Delegation suggested correcting and amending the ToR of technical assistance project.
- As the beginning of the project implementation as well the realization of supply component was delayed, specifications of the IT equipment has changed due to the market changes. Ministry of Economy had to correct the mentioned specifications itself.
- Technical documentation prepared for the reconstruction works of BI and BICC premises is rather discrete, not detailed. In the ToR of project LI9917-01-10 it was not pointed out, what documentation should be prepared for completing such works. Department of Visaginas municipality prepared new technical documentation.

4.2.3. Project management and coordination

Qualified project design, successful implementation, supervision and realization of program objectives were interrupted by:

- There were no legal acts regulating the management of EU support programmes, thus scope of responsibilities of the Ministry of Finance, CFCU and ministries – beneficiaries - was not set. It conditioned non-effective management of projects and absence of strict responsibility. It was not regulated what project related documents and which institution should save and store.
- Project Fiche of economical restructuring of Ignalina, Visaginas and Zarasai municipalities was worked out by foreign company financed under Phare LI9806.02 project. Ministry of Economy being one of the most interested institutions was not active enough in the process. As a result the prepared and adopted PF of project LT01.14.01 later was changed on the motion of the Ministry of Economy. In the first project proposal it was foreseen to establish RDA, BI and BICC, in the second – to join BI and BICC to one structural unit.
- Because of non effective coordination of establishing the Ignalina NPP region, the Ignalina NPP regional development agency was established only in October, 2002. One of the tasks of LI9917-01-10 project was to disclose the needs of training of staff. This task was not implemented, because in the course of project implementation RDA was not established and the staff for the activities was not selected.

4.3. Phare 2001 ESC project on vocational training and related Phare 1999 PPF project

Phare 2001 ESC project on vocational training is aimed to encourage the employment in the selected objective regions, at the same time modernizing vocational training supporting training initiatives for the development of skills and increasing the employment possibilities. The strategic documents were worked out in order to modernize the system of vocational training, national qualification system developed as well.

For the design of vocational training project of Phare 2001 ESC the Phare 1999 PPF project LI9917-01-01-008 was applied as a basis and it had to assure fast and effective Phare 2001 ESC implementation. As a result, guidelines for claimers had to be worked out, two Terms of Reference, documentation of computer hardware procurement and Manual of procedures, assigned to execute the activities of the support Fund for Human Resources Development Program.

4.3.1. Project selection

Beneficiaries, Ministry of Education and Ministry of Social Security and Labour, are responsible for technical and financial implementation of projects.

Aims of project implementation are linked to basic aims set in NDP 2001-2003: decreasing of unemployment, development of regional vocational training, for harmonizing the human resources and the needs of job market in the changing circumstances in the objective regions.

4.3.2. Phare 1999 PPF preparation and implementation of vocational training project

Implementing projects of technical assistance and vocational training, the initial date of start of competition was not observed:

- Start of the project Phare 1999 PPF LI9917-01-0008 comparing with the provided in PF, was late about a year and a half.
- Beginning of implementation of measures, foreseen in Phare 2001 ESC project LT 01.13.01, comparing with the provided in PF, was late for about a year. The project is still not finished, implementation of the last measure is planned in project fiche for IV quarter of 2004.

4.3.3. Project management and coordination

Qualified preparation of projects, their supervision and successful achievement of goals were interrupted by:

- Lack of legal basis for the management of EU support programs, with clearly described responsibilities of institutions of the Republic of Lithuania, such as Ministry of Finance and CFCU, ministries as beneficiaries. It resulted in ineffective management of projects and lack of responsibility. It was not regulated, what project related documents and which institution has to save and store.
- Project Fiches, prepared by the Ministry of Education and Science and by Ministry of Social Security and Labour, were coordinated with EC Delegation and it took much time.
- Persons, responsible for preparation of technical documentation, were not appointed.

5. CONCLUSIONS

General Conclusions

1. The Government of the Republic of Lithuania Resolution No. 953 of 31 July 2001 regulates responsibilities of administering, managing and controlling of the EU support programmes of the Ministry of Finance and other ministries and institutions. However, an overall system that would ensure adequate financial management of EU aid is not established (there are no separation of responsibilities and functions, coordination mechanisms between institutions for each stage of the program (project) implementation.)
2. In the course of implementation of Phare 1998 SPP National Aid Coordinator did not produce any legal documents that would regulate the implementation of EU support programmes, thus remits of the National Aid Coordinator (MoFA), CFCU and ministries- beneficiaries were not clearly defined, which resulted in ineffective management of the programmes and absence of clearly defined responsibility. There are no regulations regarding the filing and storing of the project-related documents, and it is not clear which institutions should do the task.
3. The date for the beginning of competition set out in the project fiche was not observed implementing the projects. In most cases competitions were begun a year later than the date indicated in the project fiche.
4. There are no clearly established requirements for drawing up of inception reports, the submitted reports are therefore inexplicit and incoherent.

The National Development Plan

5. NDP was drawn up as a document covering Phare programming, but not as a real strategic planning document. Besides, EC strategic policy underwent some changes: at first strategic planning was oriented towards the development of the target regions (Phare 2000 ESC), but later it focused on the sector planning, which influenced programming of the Phare 2001 ESC.
6. Drawing up of the NDP involved many structures of the public sector, their activities were coordinated by the MPARLA, which was understaffed and did not have capacities to draw up the National Development Plan and integrate EU Phare, ISPA and SAPARD instruments into the national and regional planning.
7. EC did not approve the NDP and did not consider it as appropriate strategic document. Preparation of the NDP was designed as a training exercise for future drawing up of the Single Programming Document to receive the EU structural support. Segregation of duties and responsibilities for the drawing up of the NDP was not consistent, and preparation of NDP revealed the lack of administrative capacities in strategic planning in Lithuanian public sector.

Institutional Building Projects

8. Phare 1998 – 2001 ESC programmes improved administrative capacities and helped the employees to acquire experience in project management. An effective system for management of EU funds, however, was not established, and that is why the main aim of the programs – to prepare for the management of EU Structural and Cohesion funds – is still not achieved.

9. Preparation of Phare 1998 SPP entailed establishing a CCU, which was founded as a national coordinating unit between the ministries. It was comprised of ministerial representatives, but powers of this unit were not regulated by any legal acts. Thus it did not have enough authority to effectively co-ordinate activities of ministries in the course of the preparation the strategic plan and implementation of projects. In addition, no document regulating the activities of the CCU itself was drawn up.
10. For the implementation of Phare SPP Technical Assistance and Twinning Projects MPARLA hired several local experts to make up for the lack of employees. Thus by using the work of external experts MPARLA did not build its own administrative capacities.
11. Objectives of Phare 1998 SPP set out in the Project Fiche were too abstract and vague.
12. Project Fiche of Phare 1999 PPF is prepared to the whole programme and is too abstract. It was not clear therefore, which investment projects should receive the support of Phare 1999 PPF.
13. Preparation of Terms of Reference and a Twinning Project Covenant of the Phare 1998 SPP lasted for more than a year since the preparation of the Project Fiche. Furthermore, EC was late to provide the list of consultants who could assist in the drawing up of the Twinning Covenant, and as a result, the aims set out in Project Fiche and those indicated in the Terms of Reference /Twinning Covenant were inconsistent.
14. Phare 1998 SPP Terms of Reference of the Technical Assistance project is vague, input of Phare and the expected results are not clearly defined, and that is why it allowed for various interpretations. Consequently, the tasks of drawing up legislation regulating regional development were set out in both Technical Assistance and the Twinning projects and overlapped.
15. Implementation of Phare 1998 SPP Twinning Project lacked close co-operation between the PAAs and their Lithuanian Twinning partners.
16. MoI, as an institution responsible for the SPP programme, did not accumulate the necessary documents related to the projects of this programme.

Investment Projects

Phare 1998 SPP

17. Phare 1998 SPP Klaipėda Pilot Project did not ensure sustainability. Staff of Klaipėda County Governor's Administration currently involved in the management of Phare 2000 ESC projects, did not participate in the seminars organised under the Pilot Project to obtain adequate administrative capacities, experience and skills necessary for the implementation of Phare ESC programmes in future.

Phare 2000 ESC

18. Co-operation agreements between MoI and the County Governor's were not consistent with the contracts signed between CFCU and the County Governor's Administration (like RPIU), and did not comply with the requirements of PRAG General Conditions for the terms of assessment of payment claims.
19. Neither the contracts with beneficiaries nor their annexes (PRAG general and special conditions) provide for deadlines for submitting project (monthly, quarterly) implementation reports.

20. Although contracts concluded with beneficiaries provide for almost all the funds (98%) necessary to implement the programme, awarding of contracts in Utena region was inhibited by the fact that too short a period of time was given for consulting and training of applicants to receive support from Business Development Fund measure. This was stipulated by the late invitation to tender to provide the said services.
21. Qualified and timely implementation of project contracts may be influenced by:
- MoI did not appoint persons responsible for coordination of working-out the guidelines for applicants and term for their preparation was not set.
 - Date of contract signing foreseen in Project Fiche was not observed. Signing of contracts was hasty, almost all the contracts were signed the last day indicated in the Financing Memorandum and, comparing with Project Fiche, the date of contracts awarding was late for more than a year. Thus time for the implementation of the projects was shortened.
 - The advanced payments to direct beneficiaries were made not observing the requirements related to payment terms.
 - CFCU delayed the answers to the questions of direct beneficiaries concerning budget alterations. The answers are given only in two months or even more and it interrupts the successful implementation of projects.
 - Type-forms of technical and financial accounts are submitted to direct beneficiaries too late and without methodical guidelines how to complete them.
 - The functions of County Administrations, MoI, CFCU and EC Delegation are not described clearly implementing the tasks of supervising the application of tendering procedures by the direct beneficiaries, and awarding of contracts in the course of projects implementation.

Phare 2001 ESC

22. In Project Fiches of projects funded by Phare ESC the input into strengthening of economic and social cohesion is emphasized. But some doubts arise if the selected environmental projects in objective regions should depend to the component of business infrastructure, though the direct input is made into the environmental sector.
23. Preparing the technical documentation of environmental projects, because of the lack of competence, qualification and skills of final beneficiaries in the sphere of FIDIC and PRAG requirements, final beneficiaries – municipalities participated not actively and projects were worked out too late and not qualified.
24. Supervision committee for the water-supply and sewerage system development project in Anykščiai was not established and it did not ensure the adequate supervision of the project.
25. Because of the protracted coordination of technical documentation and not proper quality of the documents and other reasons, announcement of tender for Phare 2001 ESC environmental investment projects of Ignalina, Visaginas and Zarasai economical restructuring was late.
26. Preparing Phare 2001 ESC Project Fiche on economical restructuring project of Ignalina, Visaginas and Zarasai, Ministry of Economy as the most interested institution, participated not actively, and the Project Fiche later was altered by the initiative of the Ministry of Economy.

6. RECOMMENDATIONS

The main shortcomings that have been identified in the course of the audit of Phare ESC programmes are related to the management of the EU-financed projects. Project management at different stages of project implementation involves quite a number of public institutions and agencies. Overall responsibility for drawing up, co-ordinating and supervising the EU financial support programmes lies with the National Aid Co-ordinator, which is the Ministry of Finance. Thus, taking into consideration the upcoming transition to the Extended Decentralised Implementation System (EDIS), all the below recommendations are provided to the Ministry of Finance:

General Recommendations

1. In order to ensure effective management and control of the Phare funds during the transition to EDIS and in the course of drawing up legislation, regulating management of EU Structural Funds in future, it is recommended that the Ministry of Finance take into consideration the shortcomings of the management and co-ordination of Phare projects specified in the present Report.
2. When drawing up the National Development Plan, sector and regional priorities were not harmonised. Furthermore, the NDP was drawn up as a programming document to receive Phare funds, and not as a long-term strategic programming document for investment. Thus, we recommend taking into consideration the abovementioned shortcomings of the NDP when preparing and developing a single programming document.
3. In order to ensure high quality of the currently implemented and future projects, to avoid project implementation delays because of changes in project documentation, we recommend that institutions implementing Phare projects have appropriate number of skilled and qualified staff and ensure relevant recruitment and training.
4. It is recommended that guidelines for application of PRAG procedures and implementation of FIDIC requirements are drawn up and provided for the beneficiaries.
5. It is recommended that requirements for drawing up of inception reports are prepared and written instructions for filing in financial statement forms are drawn up and distributed for direct beneficiaries.
6. It is recommended ensuring that deadlines (for announcement of tenders, awarding of contracts, payments and project implementation) specified in project fiches as well as other requirements are met.
7. As regards the management of future EU-funded projects, it is necessary to ensure maximum sustainability of the already completed and undergoing projects by making use of acquired experience and skills of the project-implementing institutions.
8. It is recommended ensuring that institutions involved in project implementation efficiently manage EU support and co-financing funds and comply with PRAG requirements for payments.
9. It is recommended that institutions involved in the project implementation carry out other project administration-related tasks faster (e.g. replies to beneficiaries' requests about the changes in project budgets).

Phare ESC Projects

10. To draw up a document that would clearly define functions of MoI, CFCU and County Governor's Administrations of the target regions in implementing the tasks of supervising the application of tendering procedures by the direct beneficiaries, and awarding of contracts in the course of project implementation.
11. It is recommended that contracts with direct beneficiaries as well as their annexes set out deadlines for the submission of project implementation reports.
12. In order to avoid hasty concluding of contracts with beneficiaries at the end of the period specified in the Financing Memorandum and risks related to protracted project selection and shortened project implementation, it is recommended ensuring that contracts are drawn up and concluded at separate stages throughout the whole period set out in the project fiche.

LIST OF PHARE ESC PROGRAMMES/PROJECTS

Programme/ Measure / Project /		Amount (EUR)*		
Number	Title	PHARE	National Cofinancing	Total
LI9803-03-01	Special Preparatory Programme for Structural funds**	3.000.000		3.000.000
0001	Twinning Project			
0002	Klaipeda Pilot Project			
0003	TA to SPP for Structural Funds			
0004	Utena Pilot Project			
LI9917-01-01	Project Preparation Facility	2.000.000		2.000.000
0001	Pre-feasibility Study for Logistics Centre in Klaipeda			
0002	Project Preparation related to Tourism Services and Infrastructure for ESC			
0003	Assistance in drafting Guidelines for Vocational Training			
0004	Feasibility Study ESC 2001 Environmental Project in Kretinga			
0005	Feasibility Study ESC 2001 Environmental Project in Kazlu Rūda			
0006	Feasibility Study ESC 2001 Environmental Project in Anykščiai			
0007	Tourism Strategies and Pilot Project			
0008	Preparation of detailed documentation for Vocational Training			
0009	Project Preparation related to Development of Bicycle Routes and Creation of Coherent Tourism Signposting System			
0010	Preparation for the ESC 2001 Project Fiche for Economic restructuring in Ignalina, Visaginas and Zarasai Municipalities			
0011	Feasibility Study for Development of business-related Environment and Infrastructure in Kaunas City and Kaunas Region			
0012	Detailed Design Works for Kazlu Ruda Environmental Project			
0013	Detailed Design Works for Anyksciai Environmental Project			
0014	Development of Project Pipeline for CBC between Lithuania and Kaliningrad			
LI0009	ECONOMIC AND SOCIAL COHESION	14.000.000	4.600.000	18.600.000
LI0009-01	Region Klaipeda-Taurage County	6.000.000	2.000.000	8.000.000
<i>LI0009-01-B</i>	<i>Business development</i>	<i>4.125.000</i>	<i>1.375.000</i>	<i>5.500.000</i>
LI0009-01-B-01	Promotion of the entrepreneurship and start-ups	1.125.000	375.000,00	1.500.000
LI0009-01-B-02	Company competitiveness promotion programme	1.500.000	500.000,00	2.000.000
LI0009-01-B-03	Improvement of business and investment	1.500.000	500.000,00	2.000.000
<i>LI0009-01-H</i>	<i>Human resource development</i>	<i>1.875.000</i>	<i>625.000,00</i>	<i>2.500.000</i>
LI0009-01-H-01	Training for Economic and Social development	800.000	200.000,00	1.000.000
LI0009-01-H-02	Establishment of distance training system	900.000	300.000,00	1.200.000
LI0009-01-H-03	Establishment of Women Employment Centre	175.000	125.000,00	300.000
LI0009-02	Region Marijampole County	4.000.000	1.300.000	5.300.000
<i>LI0009-02-B</i>	<i>Business development</i>	<i>2.450.000</i>	<i>800.000</i>	<i>3.250.000</i>
LI0009-02-B-01	Promoting Development of Favourable Investment	2.450.000	800.000	3.250.000
<i>LI0009-02-H</i>	<i>Human resource development</i>	<i>1.550.000</i>	<i>500.000</i>	<i>2.050.000</i>
LI0009-02-H-01	Training for Economic and Social development	1.050.000	300.000	1.350.000
LI0009-02-H-02	Enhancing Public Administration Capacity	200.000	100.000	300.000
LI0009-02-H-03	Training Initiatives	300.000	100.000	400.000
LI0009-03	Region Utena County	4.000.000	1.300.000	5.300.000
<i>LI0009-03-B</i>	<i>Business development</i>	<i>2.100.000</i>	<i>700.000</i>	<i>2.800.000</i>
LI0009-03-B-01	Promoting of Business Advisory Services	1.340.000	460.000	1.800.000
LI0009-03-B-02	Promoting the Development of Innovative Activities	760.000	240.000	1.000.000
<i>LI0009-03-H</i>	<i>Human resource development</i>	<i>1.900.000</i>	<i>600.000</i>	<i>2.500.000</i>
LI0009-03-H-01	Training for Economic and Social development	1.200.000	300.000	1.500.000
LI0009-03-H-02	Establishment of distance training system	200.000	100.000	300.000
LI0009-03-H-03	Training Initiatives	500.000	200.000	700.000
LI0110-LI0115	ECONOMIC AND SOCIAL COHESION	15.577.500	5.009.500	20.587.000
LI0110	Regional Environment	8.000.000	2.667.000	10.667.000
LI0110-01	Water Supply and Sew. System Development in Anyksciai	3.000.000	1.000.000	4.000.000
LI0110-02	Water Supply, Sew. System and WW Treatment Plant in Kazlu Ruda	2.000.000	667.000	2.667.000
LI0110-03	Water Supply and Waste Water Collection System development in Kretinga	3.000.000	1.000.000	4.000.000

LI0111	Innovation	800.000	50.000	850.000
LI0111-01	Innovation Capacity	800.000	50.000	850.000
LI0112	Tourism	872.500	217.500	1.090.000
LI0112-01	National Tourism Inf. and Pilot Tourism Infrastructure in Utena Region	872.500	217.500	1.090.000
LI0113	Vocational training	3.040.000	1.190.000	4.230.000
LI0113-01	Vocational training for Economic and Social Cohesion	3.040.000	1.190.000	4.230.000
LI0114	Special Action Ignalina	1.365.000	385.000	1.750.000
LI0114-01	Framework for Economic restructuring in Ignalina, Visaginas, Zarasai Municipalities	1.365.000	385.000	1.750.000
LI0115	Project Preparation Facility	1.500.000	500.000	2.000.000
LI0115-01	Phare Project Preparation Support	1.500.000	500.000	2.000.000

* Budget according to Project Fiche.

** Phare part for Twinning and TA projects (0001 and 0003) under Phare SPP – LTL 2 million,

Phare part for Klaipėda and Utena investment pilot projects (0002 and 0004) Phare SPP – LTL 1 million. The co-financing rate - 75% Phare and 25% national co-financing.

LIST OF PHARE ESC PROJECTS AUDITED

Table 1

Programme/ Measure / Project /Contract		Amount (EUR)*			
Number	Title	PHARE	National co financing	Beneficiaries co financing	Total
LI9803-03-01	Special Preparatory Programme for Structural Funds				
0001	Twinning Project	685.895			685.895
0002	Klaipeda Pilot Project	267.432	88.005		355.437
0003	TA to SPP for Structural Funds	1.227.883			1.227.883
0004	Utena Pilot Project (see Table 2 for contracts audited)				
LI9917-01-01	Project Preparation Facility				
0003	Assistance in drafting Guidelines for Vocational Training	199.912			199.912
0004	Feasibility Study ESC 2001 Environmental Project in Kretinga	180.000			180.000
0006	Feasibility Study ESC 2001 Environmental Project in Anykščiai	137.630			137.630
0008	Preparation of detailed documentation for Vocational Training	144.235			144.235
0010	Preparation for the ESC 2001 Project Fiche for Economic restructuring in Ignalina, Visaginas and Zarasai Municipalities	150.000			150.000
0013	Detailed Design Works for Anyksciai Environmental Project	164.900			164.900
LI0009	ECONOMIC AND SOCIAL COHESION				
LI0009-01	Region Klaipeda-Taurage County				
<i>LI0009-01-B</i>	<i>Business development</i>				
<i>LI0009-01-B-01</i>	<i>Promotion of the entrepreneurship and start-ups</i>				
0030	Establishment of the modern preventive cardiology-rehabilitation clinic	42.913	14.304	46.249	103.466
0032	Promoting entrepreneurship by implementing services of innovative landscape design, preparation and implementation	35.518	11.839	49.187	96.544
0089	Introduction of production line in the Closed Joint-Stock company "Taurorva"	31.500	10.500	42.500	84.500
<i>LI0009-01-B-02</i>	<i>Company competitiveness promotion programme</i>				
0061	The development of business and human resource in "Javinė"	66.240	22.080	180.187	268.507
0067	Increasing the competitive ability of the JSC "Stapsa" by producing heat insulation materials	74.999	25.000	157.029	257.027
0084	Implementation of quality standards using new technologies in the new model central kitchen	59.190	19.730	273.061	351.981
0095	Introduction of exploitation services for the entities of energetic	73.629	24.543	104.948	203.120
<i>LI0009-01-H</i>	<i>Human resource development</i>				
<i>LI0009-01-H-01</i>	<i>Training for Economic and Social development</i>				
0013	Mechanronic- providing the relationship of competencies as the mean to increase competition	55.056	13.764	31.280	100.100
0010	Start-up contest in the Klaipeda-Taurage region	51.648	12.912	34.662	99.222
0027	"The Job-train development program – a way to employment	49.208	16.403	0	65.610
<i>LI0009-01-H-02</i>	<i>Establishment of distance training system</i>				
0005	Establishment of regional distance vocational education and training system in Klaipeda – Taurage target region	600.000	200.000	89.220	889.220
LI0009-03	Region Utena County				
<i>LI0009-03-B</i>	<i>Business development</i>				
<i>LI0009-03-B-01</i>	<i>Promoting of Business Advisory Services</i>				
0053	Increasing competitive ability in the Joint-Stock company Akadas by expanding its activities	72.738	24.246	108.755	205.739
0056	Improvement of competitiveness of JSC "Lux Optima" via introducing new technologies"	71.908	23.969	103.449	199.326
0057	Increasing competitive ability in company "Ledis"	51.000	17.000	81.102	149.102
<i>LI0009-03-B-02</i>	<i>Promoting the Development of Innovative Activities</i>				
0076	Development of innovative via introducing the production of metal tiles and profiles	75.000	25.000	119.759	219.759
0077	Introduction of ISO 9001:2000 control standard and innovations	70.545	23.515	177.669	271.729
<i>LI0009-03-H</i>	<i>Human resource development</i>				
<i>LI0009-03-H-01</i>	<i>Training for Economic and Social development</i>				
0006	Education in technologies of renovating resources of energy, promotion and training the skills of usage	61.296	16.659	20.016	97.971

0038	International trip drivers training	42.872	11.652	44.487	99.011
LI0009-03-H-02	Establishment of distance training system				
0004	Establishment of regional distance vocational education and training system in Utena target region	175.004	69.997	27.280	272.280
LT0110-LT0115	ECONOMIC AND SOCIAL COHESION				
LT0110	Regional Environment				
01	Water Supply and Sew. System Development in Anyksciai	3.000.000	1.000.000		4.000.000
03	Water Supply and Waste Water Collection System development in Kretinga	3.000.000	1.000.000		4.000.000
LT0113	Vocational training				
01	Vocational training for Economic and Social Cohesion	3.040.000	1.190.000		4.230.000
LT0114	Special Action Ignalina				
01	Framework for Economic restructuring in Ignalina, Visaginas, Zarasai Municipalities	1.365.000	385.000		1.750.000

*amounts according to contracts

Audited Contracts under Utena County Pilot Project (LI9803-03-01-0004)

Table 2

Contract		Amount (Lt)			
Number	Title	PHARE	National co financing	Beneficiaries co financing	Total
1	Investment project for procurement of varietal plants	98.610	32.870	107.575	239.055
2	Procurement of fruits refrigeration and other garden equipment	78.548	26.182	85.700	190.430
5	Modernization of specialized fruits garden	37.500	12.500	42.100	92.100
9	Seasonal services of agro-tourism	82.500	27.500	90.000	200.000
10	Development of agro-tourism services	26.250	8.750	29.000	64.000
12	Improvement of recreation infrastructure equipment	8.250	2.750	9.000	20.000
21	Investment project of floral farm equipment	129.750	43.250	151.755	324.755
22	Investment project of transport service equipment	57.695	19.231	63.074	140.000
23	Support to small and medium business	123.750	41.250	135.000	300.000

LIST OF INTERVIEWEES

Name, surname, position	Institution
Algirdas Astrauskas Secretary of the Ministry Nijolė Kliokienė Director of the Department of Regional Policy Audris Grybauskas Former Deputy of the Department of Regional Policy Sergejus Krišpinovičius Head of the Division of Regional Management Irena Šimėnienė Head of the Division of Development Coordination	Ministry of Interior Kalvarijų st. 3, Vilnius LT- 2005, Lithuania
Giedrė Švedienė Head of the Division of EU Aid Coordination	Ministry of Finance J. Tumo-Vaižganto g. 8a/2 Vilnius LT-2600, Lithuania
Gediminas Rainys Secretary of the Ministry Asta Žalnieriūtė Chief specialist of Problem Coordination Division of Ignalina NPP	Ministry of Economy Gedimino ave. 38/2 Vilnius LT-2600, Lithuania
Indrė Venckūnaitė Head of the Division of EU Aid Administration Saulius Smalys Chief specialist of the Division of EU Aid Administration	Ministry of Environment Jakšto st. 4/9 Vilnius LT- 2600, Lithuania
Antanas Levickas Head of the Division of Advanced Studies	Ministry of Education and Science A. Volano st. 2/7, LT-2600 Vilnius, Lithuania
Žilvinas Pajarskas Former Director Arenijus Jackus Former Deputy Director	Central Project Management Agency (former CFCU) J. Tumo-Vaižganto g. 8a/2 Vilnius LT-2600, Lithuania
Povilas Česonis Director Gražina Kišūnienė Deputy Director	Fund of Human Resources Development Programmes Geležinio Vilko st. 12, 2600 Vilnius, Lithuania
Virginija Lukošienė County Governor Roma Stubrienė Director of the Department of Regional Development	Klaipėda County Administration Regional Programme Implementing Unit Danės st.17 Klaipėda LT-5800, Lithuania
Stanislovas Bielinis Director	Klaipėda Regional Development Agency Danės st.17, Klaipėda LT-5800, Lithuania

Simas Einikis Director of the Department of Regional Development	Tauragė County Administration Regional Programme Implementing Unit Vasario 16-osios Tauragė LT-5900, Lithuania
Nerijus Čepauskas Act. Director of the Department of Regional Development	Utena County Administration Regional Programme Implementing Unit Aušros st. 22 Utena LT- 4910, Lithuania
Aušrelė Bieliūnaitė Chief specialist	
<i>Final beneficiaries:</i>	
<u>Klaipėda objective region</u>	
Leila Sujeta Project Manager	CSC „Forena“ H. Manto st.4, 5800 Klaipėda
Petras Ruika Project Technical Assistant	CSC „Javinė“ Minijos st. 45, 5802 Klaipėda
Arūnas Radzevičius Project Manager	CSC „Klaipėda plants“ Šilutės 111d, 5800 Klaipėda
Daiva Krapikienė Project Manager	SP CSC „Klaipėda Labour Market Training Centre“ Alyvų st. 10A, 5802 Klaipėda
Rimantas Dumčius Project Manager	
Mykolas Truncė Project Manager	CSC „Stapsa“ Tilžės st. 52-27, 5800 Klaipėda
Roma Kavaliauskienė Project Manager	R. Kavaliauskienės personal firm Venckai, Priekulės sen., 5862 Klaipėda reg.
<u>Tauragė objective region</u>	
Nijolė Statkienė Project Manager	CSC „Taunorva“ Vytauto 46, 5900 Tauragė
Darius Kelermanas Project Manager	A.Žilinsko and Co CEC Dainiai vl., 4436 Jurbarkas reg.
Stasys Lapė Project Manager	Tauragė Centre of Professional Training Aerodromo st.7, 5900 Tauragė
<u>Utena objective region</u>	
Tomas Grybauskas Project Manager	UAB “Utena agroautomates” Užpalių st. 30, Utena
Gintaras Sinkevičius Project Manager	CSC “GAVE” Vytauto st.10, Zarasai
Vilė Sinkevičienė Project Manager	CSC “Lėdis” Vytauto st.10, Zarasai
Rima Bernotienė Project Manager	Utena Collegium Maironio st.7, Utena
Lina Juodienė Project Manager	Alanta Bussiness and Technology School Technikumo st. 2, Naujasodis, Molėtai reg.

Ingrida Stašaitienė Project Manager	CSC “Lux Optima” Giedryčių v.s., Molėtai reg.
Aloyzas Vitas Project Manager	CSC “Akadas” Šaltupės st.86, Zarasai
Zenonas Alekna Project Manager	Utena RPMC Aukštaičių st.5, Utena
<i>Staff and consultants involved:</i>	
Algirdas Petkevičius Former Head of the Division of Regional Policy Coordination at MPARLA Vitalis Nakrošis Former consultant for Phare 1998 SPP TA and Twinning Projects Haroldas Brožaitis Former consultant for Phare 1998 SPP TA and Twinning Projects	

DOCUMENTS APPLIED

Financing Memoranda, Project Fiches

Projects tender documents (technical documents, guidelines for applicants etc.)

Project contracts, covenants

Inception and interim project reports

Final project reports

National Development Plan for 2000-2002

National Development Plan for 2001-2003

OMAS Report No.R/LI/REG/00056, February 2001

EMS Interim Reports No. LT/REG/02082, August 2002, No.LT/ENV/02085, November 2002

Ministry of Finance of Lithuania Monitoring Reports No.M/LT/ESC-CBC/02007, May 2002, No.M/LT/ESC-CBC/02007, September 2002

Ministry of Environment of Lithuania Monitoring Report No.M/LT/ENV/01/006, December 2002

Case study – Special Preparatory Programme for the Structural Funds in Lithuania (First draft, version 2), July 2002

SPP for the Structural Funds Minutes of the Steering Committee Meeting, 30 June 2000

M.Kern, EC Delegation in Lithuania, Klaipeda Pilot project – 3-nd Steering Committee Meeting, November 2000