

PHARE CROSSBORDER GRANTS AND CHANGES IN THE CROSSBORDER ECONOMY STUDY CASE – ROMANIAN-UKRAINIAN BORDER

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Abstract:

This paper intends to go through the main issues about the role of the Phare Crossborder funds in the development of the economy in the border area. The specific approach is linked to the Neighbourhood Programme Romania-Ukraine. The paper starts with the European view about the external borders aims, describes the framework of the Neighbourhood Programme focused on the aspects with relevance on economical improvement of the border areas and presents few financial marks. There are reviewed the most important lessons learned during the implementation of the programme and there are listed some of the results that marked an economical change and could have long term economical impact.

The paper concludes the main ingredients needed for a future cooperation in terms of crossborder economical projects between two different countries, at the external border of the European Union.

Keywords: crossborder, cooperation, grant, border economy

JEL Classification: H81, R11

INTRODUCTION

In 2003, the Commission proposes that "the European Union should aim to develop a zone of prosperity and a friendly neighbourhood ... with whom the European Union enjoys close, peaceful and cooperative relations." [1] The Wider Europe Communication first outlined the European neighbourhood policy for shaping the future EU relations with its neighbours. As one element of this policy, the Commission sought to establish, as of 2007, a new neighbourhood instrument, the European Neighbourhood Partnership Instrument (ENPI), which finances cross-border cooperation measures on both sides of the external border of the enlarged EU and focuses "on ensuring the smooth functioning and secure management of the future Eastern and Mediterranean borders, promoting sustainable economic and social development of the border regions and pursuing regional and trans-national co-operation". [2] Following this approach, on 1 July 2003 the Commission adopted the Communication "Paving the way for a New Neighbourhood Instrument" (NNI) which introduced the concept of Neighbourhood Programmes. The NNI Communication highlighted the main objectives of such an instrument and proposed a two-phase approach in establishing it. The First Phase (2004-2006) was aimed at the more coordinated use of the various existing instruments (Interreg, Phare CBC, Tacis, Cards, Meda). Neighbourhood Programmes permitted a single application process, including a single call for proposals covering both sides of the border, and will have a joint selection process for projects. The Second Phase (as of 2007) would imply a fully-fledged Neighbourhood Instrument. This would completely integrate the use of internal and external European Union funding to ensure an integrated approach to crossborder and interregional cooperation.

In establishing and elaborating the scope and focus of the Romanian-Ukrainian crossborder cooperation in this document, the aims and objectives of the Neighbourhood Programme concept have been taken into consideration. The main objectives of the Neighbourhood Programme concept, as stated in the Communication "Paving the way for a new Neighbourhood Instrument" [3], are to promote sustainable economic and social development in the border areas, to work together to address common challenges, in fields such as environment, public health, and the prevention of and fight against organised crime, to ensure efficient and secure borders, and to promote local, "people-to-people" type actions.

An expansion of the EU including Romania created a new situation for the relation between Romania and the Ukraine. The EU was faced with the challenge of finding a balance between its internal security versus its openness. Within this framework the new neighborhood instrument (ENPI) aims at addressing the challenges and opportunities arising from the proximity of in this case Romania, Ukraine and Republic of Moldavia, such as economic development of the border areas, environmental problems and people-to-people contacts. Until this instrument was in place, the Neighbourhood Programme fostered crossborder cooperation in bordering regions with the use of Phare and TACIS funds.

ECONOMICAL BACKGROUND OF THE AREA WHEN THE FIRST PROGRAMME STARTED

Economic links between Romanian and Ukrainian border regions were rather weak at the beginning of the Neighbourhood Programme (NP). Although the share of export and import to each other was higher in the eligible border area in comparison with the national data, it was still insignificant. The same applied for the direct investments. The level of economic development in the border regions of both countries was rather low, with the GDP/per capita lower than the national figure. The Ukrainian Odessa oblast was the only exception, with GDP per capita higher than the national Ukrainian GDP per capita. A possible solution to accelerate the local economic development in the eligible area was considered to be in the development of SME sector in the region, in response to downsizing or closing down obsolete industries and to the required structural economic reforms in general. But the NP didn't fund directly SMEs and the intervention on this spot was only through projects run by local administration or economical NGO's or the SME's benefit was by the usage of the infrastructure subject of the projects. Analyses furthermore showed that the eligible area had a big potential for tourism, which could gain significantly from closer cooperation of the two countries.

The economies of the Romanian and Ukrainian border regions had different structure. The economic structure of the Romanian eligible area was dominated by the agricultural sector. Also forestry had a considerable contribution through high wood volume and by the large afforested areas (in Suceava 456,579 ha). Due to the lack of investment programmes and poor technology in the wood industry and in furniture manufacturing large amounts of raw materials (instead of finished products) were exported (timber and cut wood), which has lead to an unreasonable exploitation of the forest fund and a degradation of the environment. Industrial activities included food-processing, wood processing, textile, machine building, naval construction, furniture, electric equipment and mining. The Ukrainian border area was more diverse in terms of economic specialization. A considerable share of regional value-added of Ukrainian border regions was formed by services. Transportation and tourism services made the largest contribution to the value-added in the services sector. Transport has been the key to the development especially of Odessa oblast. Agriculture and industry were also a priority, but the lack of own raw materials impeded industrial development. Odessa and Ivano-Frankivska were characterized by developed industry and Odessa oblast industry was specialized in chemicals and food. Electricity and fuel made the biggest contribution to the industrial output of Ivano-Frankivska oblast. Agricultural production was playing an important role in the economy of other oblasts in the eligible area as well, but the low level of organisation of the and the insignificant influence of small scale private/family farming enterprises hinder the introduction of new technologies, which makes the economy sensitive to weather conditions and competition in agricultural markets.

The majority of (SME) companies in the Romanian border area were active in trade, followed by the service and industry sector. The number of SMEs per 1000 inhabitants in the Romanian crossborder area was lower than the number of 17.5 (in the EU this is 50). Although also the number of SMEs in the Ukrainian eligible border area was below the Ukrainian average, these enterprises produced double the country average for Zakarpatska, Ivano-Frankivska and Chernivetska oblasts and 1.2 times the average Ukrainian level in Odessa oblast. The highest share

of small enterprises was engaged in trade, following by industry. The development of the SME sector in both countries was hindered by a lack of entrepreneurial skills, a lack of information about accessing medium-long term credit for investment opportunities, and in some cases lack of support of local authorities, with high and double taxation and lots of administrative barriers.

The opportunities resulting from Romania's and Ukraine's endowment of tourism had positive side effects and fostered the start of an autonomous growth process of SMEs in the crossborder area. Recreational possibilities, the cultural and historical heritage and rural areas free from pollutions presented opportunities for tourism development in the eligible area. Moreover, the development of cross-border cooperation in this area (e.g. the development of tourist packages, which include visits to both countries), could contribute to an expanding tourist services market and to increase economic and social gains for both countries. Although the border regions of both countries do have tourism potential, its development was hindered by undeveloped tourist facilities - the acces to public utilities in rural areas was limited, especially in the Ukraine, the lack of integrated information system, which could allow traditional tourist routs to both countries, the lack of border cross-points, underdeveloped transport infrastructure, a lack of well-trained specialists in the tourist sector.

OPPORTUNITIES AND OBJECTIVES

Starting point to state the general objective has been an analysis focused on key factors uniting border regions of Ukraine and Romania. The analysis on uniting factors showed that a number of key socio-economic fields are important and with a high crossborder value. These were considered as local development opportunities on which a clear-cut crossborder strategy of the Neighbourhood Programme was based:

- The opportunity of expanding rural tourism in regions particularly rich and competitively advantaged for long-term development in this sector, provided that biological equilibrium will be protected in the short and long term.
- The development of existing human resources operating or to be operating in competitive sectors.
- The opportunity of supporting growth of an interesting SME backbone specialized in economic sectors and having good cooperation scope for local development with an integrated perspective.
- The opportunity of preserving and promoting common historical heritage and natural treasures of extremely high value at regional, national and international levels.

The General Objective of the programme was to improve cross border integration between boundary regions while posing good bases for sustainable economic development. The opportunities for crossborder cooperation in the eligible regions was converted in 4 intermediate/specific objectives, which were steps to acquire the general objective:

- Strengthening existing common assets to ignite a new integrated cycle of sustainable development;
- Supporting a new cycle of sustainable development with key infrastructures;
- Develop cross-border cooperation to resurface the common socio-cultural heritage linked to the local history and environment;
- Operationally strengthen crossborder cooperation.

The **first priority** was to promote local socio-economic development and included measures aimed at boosting key local sectors showing either competitive advantage in the global market or demand growth potential, or both and accommodate economic growth with relevant labor market actions.

The tourism sector, especially rural, mountain, cultural, religious and environmentalist, showed both competitive advantage and high growth potential for all eligible. The measure 1.1, about expanding and strengthening tourism, aimed at expanding and qualifying the existing local supply of tourism services, thereby boosting local economies. The main objectives were focused on

expanding and qualifying the offer of tourism sector with a cross-border perspective and ensuring a sustainable development of the tourism sector on both sides of the border. Financed activities included joint marketing (generic and niche marketing, like for religious tourism, mountaineering, speleological activities etc.), tourism management training, joint booking network development, forest hiking path rehabilitation and education programs for sustainable tourism development.

The measure 1.2 about crossborder economic cooperation was central to ensure the entire success of Priority 1 actions. The focus of this priority was on training and advisory activities for SMEs with a clearly identified crossborder character. Typical projects demanded by local actors during JPD workshops included strengthening business centers, data collection and dissemination, consulting, etc. These were intended as institution building capacity actions and are supposed support actions that go beyond simple physical small-infrastructure construction. Projects targeted at sectors with a good crossborder integration perspective (for instance: food processing, art and craft, agriculture, fishing, wood processing, etc.) were considered of highest priority. Human resources development was here intended as a fundamental tool to ensure a steady upgrade of specific professional and general skills alike, provided they are consistent with the underlying strategy of the program and of Priority 1 in particular. The measure aimed at developing existing HR and manpower for key local activities having a good cross-border integration scope. Hence, development of professional skills in SME management, trade and cross-border integrating sectors (for instance: food processing, art and craft, agriculture, fishing, wood processing, etc.) were considered principal. Joint institution capacity building projects across the borders and joint training in both professional and secondary education are also possible components of this measure that has as objectives to boost the cross-border economic development process and to upgrade Human Resources.

Financed actions included creation or upgrade business and trade centers, financial consulting training, organising Fairs, socio-economic data base development and servicing, market studies for regional products, crossborder industrial cluster formation, joint regional marketing and advertising campaigns, general and professional training and business management training.

The **second priority**, about developing cross border integrated infrastructure systems, includes measures aimed at addressing issues in crossborder infrastructure. Even if this priority is not directly financing the economic sector it is assumed that any kind of infrastructure investment leads to an economic development.

Cross-border transport and border infrastructure are crucial now too for the support of the whole development process of crossborder regions. Efficient border management is essential for joint prosperity and security. Facilitating trade and passage, while securing borders against smuggling, trafficking, organized crime (including terrorist threats) and illegal immigration (including transit migration), had and still has a crucial importance. Regional and crossborder co-operation can assist in facing these challenges, in line with actions to be taken at national level.

The measure 2.1, focused on developing cross-border transport and border infrastructure was designed also to construct/improve small-scale border infrastructure. The main objectives of this measure were to contribute to stronger border institutions that are well positioned to meet the challenges facing border management, to upgrade the HR skills so that Customs staff trained to cope with the above mentioned border issues and to construct/improve border infrastructure.

Activities that were financed were such as joint institution capacity building projects, training programmes to allow personnel to cope with smuggling, trafficking, organized crime (including terrorist threats) and illegal immigration (including transit migration), project preparation support (transport market data collection, transport analysis and planning documents, a study on future trends in transport etc.) including feasibility studies, complementary actions to other programs involved in border infrastructure development and management (for instance customs management projects) and small scale transport infrastructures.

To ensure sustainable development, crossborder environmental management infrastructure requires development. In particular the environmental monitoring system in various sectors (water, air, waste) were developed or upgraded. Other types of environmental protection infrastructure such

as water and waste management devices (depurators, waste sorting/collecting centers, etc.) were provided, enlarged or generally improved, conditional on their explicit cross-borders value. In order to implement these investments, which were partially financed by other programs, the development of joint monitoring systems was really important. The measure 2.2 had as **objective to improve** environmental protection and management in cross bordering areas. Projects financed under this measure were setting up and/or reinstall of joint monitoring networks for air and water quality in bordering regions, joint natural park management, local environment education programs, feasibility studies or project preparation activities for larger projects with a strong crossborder impact.

The 3rd priority, people to people actions, included small activities addressing to economic sector or activities that put people together in order to develop later joint larger projects. This priority has been designed to encourage all sorts of contacts between people and in all sectors (e.g. economic development, administrative reform, environment, social affairs, cultural issues also) in the form of smaller projects. This means that the activities under this measure included the type of people-to-people actions identified under priorities 1 and 2 (like training for example), the difference being that activities under the People to People priority are by definition small scale and will be financed through a "Joint Small Project Fund" type mechanism.

FINANCIAL INTERVENTION

The financial ranges of the Neighbourhood Programme was not very large compared with other Phare interventions on the Romanian side and the compulsory rule of the partner from the other side of the border made less attractive this kind of financial help. In the same time all Phare grants included a generous advance payment that made easier the financial implementation and a less burden on the beneficiary pocket.

To have a look about the financial dimension of programmed, contracted and spent funds on the programme there is the following chart (fig.nr.1). The amounts are in Euro.

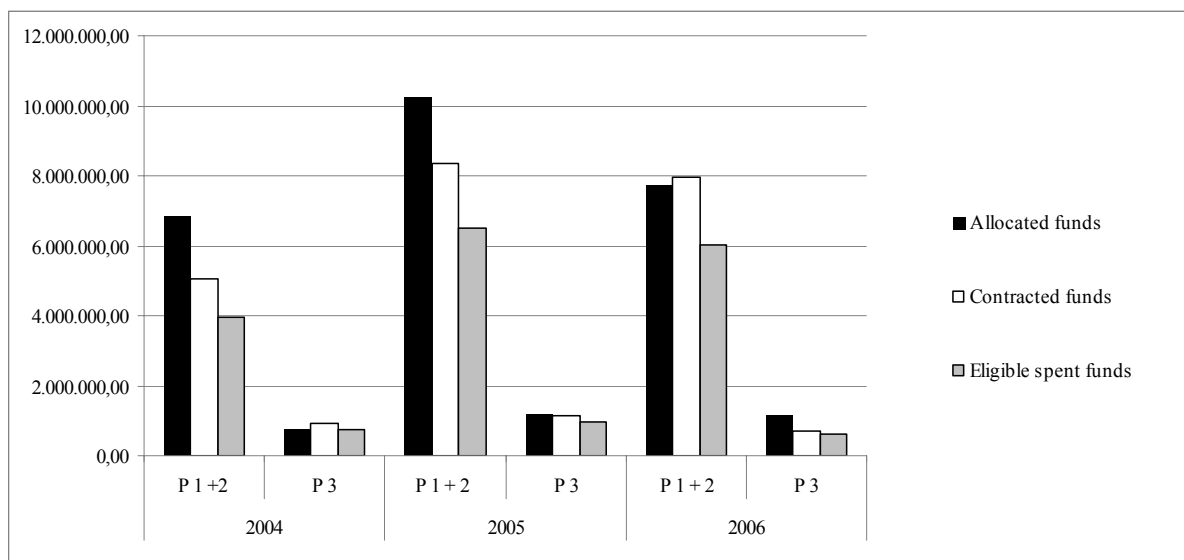


Figure no. 1. The chart of the financial trail of the Neighbourhood Programme splitted by priorities and grant schemes (2004, 2005, 2006)

Source of data: <http://www.mdrt.ro/dezvoltare-regionala/programul-phare-abc/-4580>

There is usual the decreasing of the amounts from the programming stage to the contracting stage and latest at the final payment when there are counted the eligible expenditures.

A share of the funds on the priorities described before shows the important "slice" of the fund directed to the economic area to which we add the amount spent on infrastructure (fig.nr.2). The

overall look can mean that most of the funds were aiming to develop the economic activity of the border area between Romania and Ukraine. The amounts are in Euro.

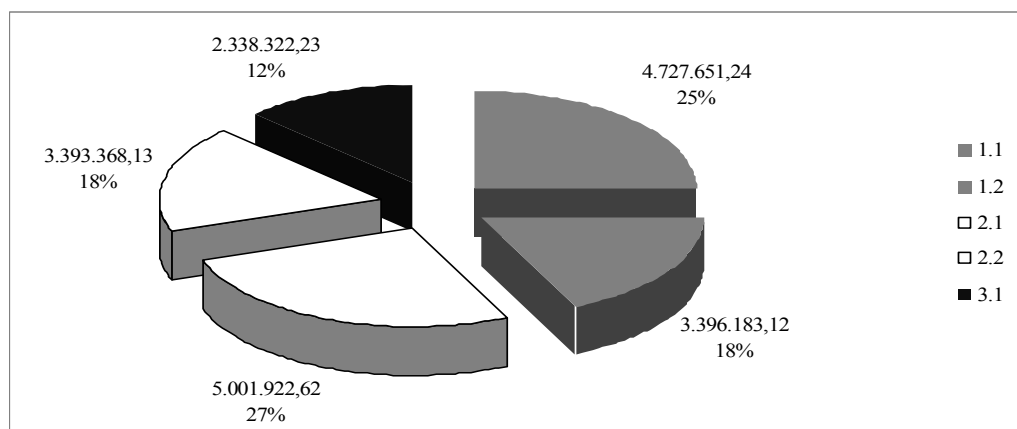


Figure no. 2. The chart of the distribution of Phare CBC funds on the measures of the programme

Source of data: <http://www.mdrt.ro/dezvoltare-regionala/programul-phare-cbc/-4580>

20 million Euros were spent on the development of the border area from which 43% directly on economic projects, including tourism development and 45% were spent on infrastructure that is a base for the economic development.

RESULTS OF THE PROGRAMME IMPORTANT FOR THE ECONOMIC DEVELOPMENT OF THE BORDER AREA

Among some of the most significant quantified results linked to the measures of the programme are the following:

- Over **1200 common events** (conferences, trainings, workshops, meetings, other similar events);
- Around **550 references or research publication and documents** (databases, studies, maps, guides, analyzes, courses, etc.);
- At least **40 resource centers** (information centers, regional economical centers, training centers, eco-centers, etc.);
- **14 crossborder networks;**
- **280 protocols** between Romanian and Ukrainian (other than partnerships in view of the project);
- **46 information points** and other touristic information tools;
- **63 rehabilitated touristic trails;**
- **Over 550 touristic boards and signs;**
- **35 km** of rehabilitated roads;
- **5 rehabilitated bridges;**
- **12 tools** for environment monitoring;
- Over **1000 promotion activities** (media campaigns, press articles, press conferences, interviews, multimedia presentations, etc.)

These are only a part of the results of the programme and all of them were important and helped in a high ration to the reach of the programme objectives and of the objectives of each priority, especially the first priority, dedicated to the economic area.

LESSONS LEARNED

During the implementation of the Neighbourhood Programme on the Romanian-Ukraine border, challenges and different approaches were faced. The beneficiaries of the programme and the

staff included in the implementation of the programme learned some important lessons to be taken further in the new programme. Following there are presented the most important ones:

- A beneficiary who doesn't properly consider its financial and operational capacity before submitting an application or more will certainly encounter difficulties, especially when implementing more than one project, as the team members will be overloaded and also due to budgetary constraints on providing co-financing.
- A basic condition for successful implementation of a project is knowledge and understanding of the grant contract provisions.
- Obtaining all the necessary information / clarification of all issues concerning a proper elaboration of the application, including budget preparing, during the call for proposals period, especially through the specialized helpdesk and through participation at specific events of information and training is a must.
- It is very important to follow all the instructions mentioned in the guidelines for grant applicants for completing the application.
- Correction of the planning errors is recommended as soon as possible (in the first quarter of project implementation).
- A greater attention in selection of partners, associates and project team, in order to ensure their availability, high involvement and professionalism, is recommended.
- Participation in Partnership events organized by the Joint Technical Secretariat can bring a proper partner.
- Participation in working sessions and sending questions to the Joint Technical Secretariat in order to clarify implementation issues can help preventing/ solving problems that can occur during performance of the contracts.
- It is important to properly justify the crossborder nature of the proposed action (Ukrainian partner involvement in project activities, participation in all phases of development, ending with the final report, etc.)
- Any deviation, modification or replacement of the criteria and / or outcomes linked with the selection of the target group can put on discussion the entire project and the grant award.
- If there are difficulties on understanding the terminology, it is advisable to call the helpdesk or to require specialized support (an action to reach all potential applicants).
- Establishing milestones concerning the implementation process offers good perspective on progress in performance of the project contributes to assessing of fulfillment of assigned responsibilities within the team, supports management decisions.
- Maximum attention is to be given to procurement process. Secondary procurement should be initiated preferably during the first quarter of implementation.
- Developing documentation, underlying the preparation of the specifications for complex procurement of works are time consuming, therefore they must be rigorous planned and final responsibility should be entrusted to specialists.
- Planning specific activities for the effective project implementation can be an important ingredient to the success of the project. Especially in cases of complex projects with many activities, meetings, studies, etc. it is recommended to keep a calendar concerning what has been done every month, since the first day of implementation, develop and reevaluate, on a regular base, an implementation plan.
- During implementation, obstacles in communicating with various partners, especially with the Ukrainians partners, were identified quite often. This can seriously affect target group participation in activities, thus leading to cancellation of grant contracts. It is necessary to establish clear conditions for involvement of partners in projects and try to make them as interested as possible in developing proposed activities.
- Timely approval of the budget for public institutions, in order to avoid problems related to co-financing, is crucial.

- A project is implemented / monitored by a team. A successful project implementation depends also on how the team members are able to work together and coordinate their efforts for the accomplishment of the project goals.
- During implementation of the action, the focus should be on preventive measures, rather than post – implementation ones.
- Each project is unique and needs specific solutions for various problems occurring during implementation.
- A call for proposal should be based on a solid information and promotion campaign consisting of a variety of instruments, whereby all potential beneficiaries are being reached. Otherwise the call for proposals moreover offers opportunities to the most active and well-connected potential beneficiaries, not necessarily the most needy ones. During the programme implementation a group of constant beneficiaries that applied for each call for proposals and a group of “new-comers” that experienced for the first time a crossborder project were identified.
- The involvement of the Romanian and Ukrainian authorities in the process of Programme implementation is very important; they should keep in touch with each other and work together, on a formal and especially also informal basis. A joint effort (joint programming, a single joint call for proposals, joint projects, joint committees), requires first and foremost a shared vision on co-operation, mutual institutional understanding and good personal relations.

CROSSBORDER IMPACT

The crossborder impact is very important and relevant for the economic development of the border area, mainly by the projects developed on economic and infrastructure field and by the long term relationships that usually lead to economic exchanges.

During the performance of the programme 80 Romanian partners and 95 Ukrainian partners were involved in the projects developed. 178 partnership statements by Ukrainian partners were signed in order to implement the projects, meaning that some organizations/institutions were involved in more than one project as a partner. 280 partnership or agreements between Romanian and Ukrainian organizations during the projects implementation or for following activities were also concluded.

The benefits of these partnerships in the framework of the crossborder cooperation inside the Neighbourhood Programme Romania-Ukraine could be synthesized as following:

- Working together in the projects was a welcomed exercise and a reach source for future, more complex projects;
- The partners from both sides of the border faced common challenges and issues that challenged the projects. These made them more prepared for the new programmes with new framework and higher requirements;
- The intercultural experience in which the partners from both sides of the border were involved helped them to find the common roots and traditions and the differences aroused in time in the two different countries;
- The partnership was a safe area for sharing and transfer knowledge, know-how, tools and methods about project management or the area of the project.

CONCLUSIONS

The 142 successfully implemented project, covering different areas required by the Neighbourhood Programme by their activities helped to:

- expand and qualify the offer of tourism sector with a cross-border perspective;
- ensure a sustainable development of the tourism sector on both sides of the border;
- boost the cross-border economic development process;

- upgrade Human Resources field,
- construct/improve border infrastructure;
- improve environmental protection and management in cross bordering areas.

From the point of view of the objectives contained in the Neighbourhood Programme we can conclude that the projects with their results helped to make economical changes in the border area, mostly on the Romanian part of the eligible area.

Even if the Neighbourhood Programme Romania-Ukraine was built on the joint principle, during the implementation was difficult to organize joint call sessions. Most of the projects were developed on the Romanian territory but with the respect of the involvement of the Ukrainian partner as mentioned in the chapter about the crossborder impact. This will be a starting point for the development of the projects under the new programme but it is not sure that it will be enough to smoothly run the programme because of many differences between the two countries: language, legislation, administrative structures, economic development.

Working in partnership is difficult generally even when we speak about the same country partners and the principles that conduct businesses are the mostly the same when it is about projects.

All these lead to the conclusion that in the guidance of the wish of an economically development of a crossborder area at the external borders of the European Union there is need of good cooperation, patience, good organization, good understanding of partnership principles and of the other partner values and intentions. Without the mentioned, any undertaking of „developing a zone of prosperity and a friendly neighbourhood” as the „Wider Europe..” Communication proposes, is doomed to failure at a high cost.

ENDNOTES

[1] *Communication from the Commission to the Council and the European Parliament, Wider Europe—Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours*, , Brussels, 11.3.2003

[2] *Idem*.

[3] *Communication from the Commission to the Council and the European Parliament, "Paving the way for a New Neighbourhood Instrument"*, Brussels, 01.7.2003

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