

Successfulness of drawing on the EU Structural Funds until February 2006

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Introduction

Alarming articles that appeared in some media during March started an interesting discussion. The much-glorified European regional policy is said to be of trivial importance to the Czech Republic; why, we were not able to draw even five percent of the offered sum by the end of February. The ministries responsible for managing the operational programmes, through which the money from the European structural funds is drawn, defend themselves thus: “we are evaluating a football match during its progress”. Who is right, then?

Analysis on the level of Operational Programmes / SPDS

There are **several perspectives** from which we can look at the evaluation of our ability to prepare projects financed with the help with EU funds and to draw on these funds. The **preparation and submission of the project** is something totally different when compared to the **real flow of “European” money**, which is allocated to the project. To put it in different words, we can make only a very partial, “in progress” assessment with the information as of the end of February 2006 regarding our ability to draw on the EU funds. The final settlement can be made only at the end of the second year following the period, for which the finances were allocated. We can evaluate the successfulness of drawing on the funds in the first year 2004 only together with the data as of 31 December 2006. The whole first programming period 2004 – 2006 can be evaluated only with the information as of the end of December 2008. Despite this fact we do not think that making partial assessments is pointless.

We will use several objective categories for the purpose of our analysis:

- The volume of **projects submitted** by the applicants;
- The volume of **approved projects**;
- The volume of projects **covered by a concluded contract**;
- The volume of **expenditures paid** by the end beneficiaries during the implementation of approved projects;
- The volume of expenditures for projects **authorized by managing bodies**;
- The volume of **exhausted finances**.

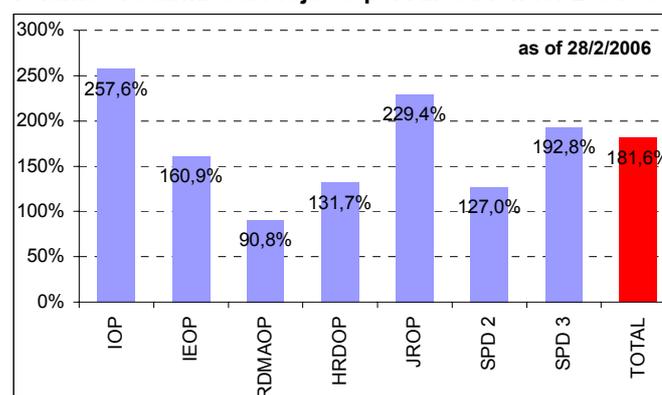
All of these categories actually represent **each time phase of the whole process**: at the beginning there is a predetermined and inviolable allocation for each operational programme (single programming document), for its priorities and measures. Potential project applicants, who submit projects, apply for obtaining the funds from these programmes in a tender. Successful projects are approved and later a contract on granting finances is concluded with their authors. Due to the majority system of retroactive financing, the funds are released only after the project has been implemented. The end beneficiaries expend money on the implemented projects (from their own resources or from bridging loans), which is reimbursed by the Payment Body (Ministry of Finance) after an inspection and authorisation from the managing bodies of the operational programmes / single programming documents).

This procedure clearly shows that if we make the assessment too soon, we have not allowed sufficient time for the process to proceed to the phase of contract conclusion or drawing on the funds.

Submitted Projects

From the perspective of the total sum of the funds requested by the submitted projects, our position is not bad at all. During the period 2004 – 2006, projects totalling almost **double the set allocation**, on average, were submitted, i.e. twice the total of all

Volume of Submitted Projects per Allocation for 2004-06



Source: www.strukturalni-fondy.cz, own calculation

five operational programmes and two single programming documents together.

The greatest interest and thus the highest excess of demand over supply was in the **Infrastructure Operational Programme** (258 % of the IOP allocation). Only in the case of the **Rural Development and Multifunctional Agriculture Operational Programme** (151 %) the volume of submitted projects is lower (by approximately 10 %) than the offered allocation until the end of 2006. The great interest represented by the submitted projects proves strong competition among the applicants and their true interest in embarking on the project's implementation. Based on these data we can reliably state that the problem of insufficient interest among potential applicants in finances from the EU structural funds certainly does not exist.

Approved Projects

Also the criterion comparing the volume of money for approved projects with the offered funds does not seem to be that negative for the Czech Republic. In general, it can be said that in the entire three-year programming period 2004 – 2006 the volume of approved projects **reaches around two thirds of the share from the total package** for this period; however, the period has not expired yet and 10 months remain for other approvals. This could lead us to the conclusion that, in general, a sufficient number of projects, which have passed the strict assessment and thus have achieved a certain quality, are submitted.

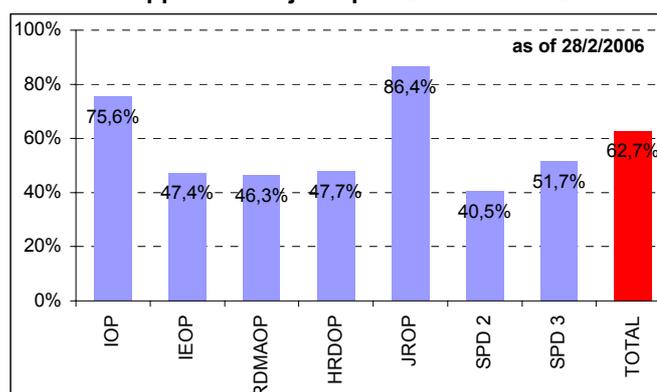
Looking at it from a more detailed point of view, we can discover that there are substantial differences among the programmes. The relatively largest amount of approved projects is from the **Joint Regional Operational Programme (JROP)** (86.4 % from the allocation) and the **Infrastructure OP** (75.6 %). More than one half of the allocation has also been approved for projects under **SPD 3**. In all other operational programmes, the volume of approved projects has not even reached one half of the allocation; the worst situation is in **SPD 2**. This is the first negative finding of our analysis: the volume of quality, i.e. approved projects, is lower in all operational programmes than the offered funds; in some cases the prospects for achieving the 100% limit of the allocation with approved projects is very remote.

Projects Covered by Contracts

Comparison of the projects, for which a contract on financing with the offered allocation has already been concluded with their authors, is starting to look negative. This is mainly caused by the time discrepancy among the various perspectives. The stumbling block of the fact that only **around two fifths** (40.8 %) of the offered funds from the structural funds for the monitored period **are covered by contracts** consists in formal and procedural matters at the level of managing and implementation authorities. The possibilities and capacities of these bodies are probably not so great for them to be able to deal with and formally confirm such a high volume of projects in a relatively short period of time. The ways of solving this problem, i.e. the maximum possible reduction of the waiting

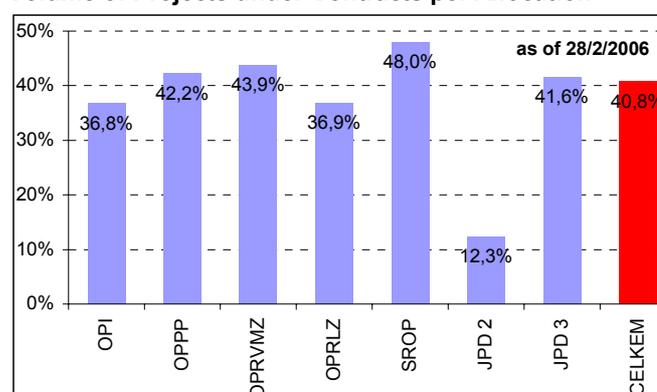
period between the project's approval and conclusion of the contract, should be found by the start of the next programming period in 2007. They probably consist in both personnel backup and stabilisation as well as in acquiring the

Volume of Approved Projects per Allocation for 2004-06



Source: www.strukturalni-fondy.cz, own calculation

Volume of Projects under Contracts per Allocation



Source: www.strukturalni-fondy.cz, own calculation

necessary experience and learning on model situations, which will enable to approve similar projects much more flexibly than now.

In none of the operational programmes the volume of contracts concluded for obtaining subsidies for the projects has reached one half of the money offered from the structural funds. However, all of the operational programmes are on more or less the same level, the conclusion of contracts significantly lags in the **Single Programming Document for Target 2** in Prague.

Finances Expended on Projects and Their Authorisation

As has already been said, due to the prevention of fraudulent acts, the system of reimbursement is generally based on **retroactive payments, made after the project's implementation** (constructional inspection, purchase). Therefore, the index of the volume of finances expended on projects by the end beneficiaries gives evidence on the progress of the project's implementation with the help of EU structural funds. As of 28 February 2006, this volume has reached 6.2 % of the allocation for the entire three-year period, respectively 29.1 % of the allocation for 2004. With respect to each OP/SPD, relatively most finances were expended on projects co-financed from the **Rural Development and Multifunctional Agriculture Operational Programme**. On the other hand, the smallest amount of finances, compared to the allocation, was expended on projects under the **Single Programming Document for Target 3** for Prague.

After the finances have been expended by the end beneficiaries, these expenditures are checked and authorised, as the case may be, by the relevant managing bodies of OPs/SPDs and prepared for reimbursement by the payment Body through the payment units under each operational programme. In the monitored period, expenditures for projects amounting to 4.4 % from the three-year allocation 2004 – 2006 were authorised (and approximately 21% of the allocation for 2004). From this perspective the **Industry and Enterprise Operational Programme** was the most successful, with authorised expenditures amounting to 12% of the total allocation; on the contrary, the relatively smallest volume of project expenditures was authorised under **SPD 2**. The comparison of the authorised expenditures with the finances expended on projects enables us to monitor the idle period between the submission of the application for payment by the end beneficiary and its approval by the managing body.

Reimbursed Projects

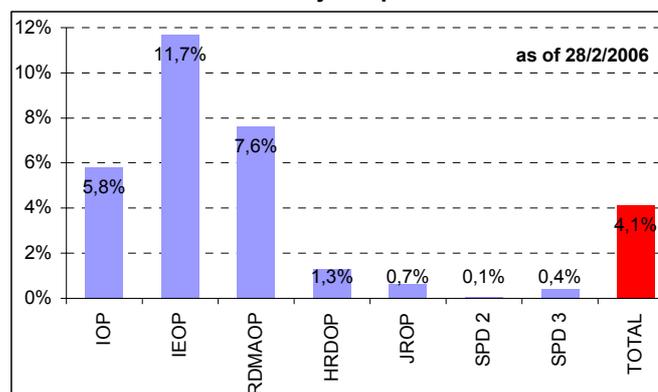
If we were to consider the current amount of finances drawn on the offered funds as the only criterion, our report card would be truly unsatisfactory. The total volume of finances drawn on the funds as of 31 February 2006 totalled only 4.1 % of the potential volume available to us. However, from the perspective of the N+2 rule for the 2004 allocation, it is important that the volume of the finances reimbursed from the structural funds amounts to one fifth of the allocation for 2004.

Also in this case the situation varies greatly among the operational programmes. Partly due to the short-term nature of the projects, the relatively largest amount of finances was drawn on the **Industry and Enterprise Operational Programme**

(almost one eighth) and the **Rural Development and Multifunctional Agriculture Operational Programme** (for example, projects for purchasing agricultural equipment are of a one-shot nature and enable quick drawing). On the contrary, the worst results are in both **Single Programming Documents** for Prague and also in the **Joint Regional Operational Programme** (JROP). The reasons are partly objective – a number of projects have not progressed to the phase of completion or implementation, in which the subsidies can be paid out. This partial conclusion may raise the question whether it would be better to open more possibilities for drawing on the funds in the form of advance payments or on the basis of meeting the conditions related to each phase of the implemented projects in the next programming period 2007 – 2013 also in the Czech Republic.

However, the **reasons** for the low amount of drawn finances are also **subjective**. The fiercest criticism should be certainly addressed to the cases when the approved project was successfully implemented and completed and its

Volume of Reimbursed Projects per Allocation for 2004-06



Source: www.strukturalni-fondy.cz, own calculation

beneficiary is still waiting in vain (in many cases even several months) for the actual reimbursement. This situation has nothing to do with the time sequence of the project procedure and it is solely a demonstration of failure of the system's functioning; and moreover, with a very negative factor, which could discourage other potential applicants from designing and submitting projects. This danger will become important especially from 2007 when the total allocation from the structural funds will be several times higher than now.

BOX: Time Plan of Soft versus Hard Projects

The misleading nature of the successfulness of drawing on the EU funds before the end of the programming period is demonstrated by this hypothetical case. There are two EU Member States; each of them chooses only one operational programme for drawing on the European funds, in which it sees the most important priority for its development. The first country considers education as its priority, and therefore the contents of this only Education Operational Programme will be short-term "soft" projects focused on improving the system of education. From a superficial perspective, this country will probably report "excellent" results very soon. Due to the short-term nature of the projects, the delay between the projects' approval, conclusion of contracts and actual drawing on the funds will be very short and the given country may exhibit wonderful intermediate times during the whole process.

The second country is focused on the development of transport infrastructure, in particular the construction of motorways. Thus it concentrates all of its finances from the structural funds on this priority with a long investment horizon. The volume of approved projects for the construction of motorways soon reaches the limit of the allocation potential of its only Motorway Operational Programme, but the actual withdrawal from this fund will be very low, maybe even zero, during the whole process. If the present conditions apply, the finances will be reimbursed only after the newly constructed sections of the motorways are inspected and approved. In the meantime, the second country will receive very poor evaluation, since it has not exhausted such an amount as the first country in the course of the process. However, at the end of the programming period, respectively after the end of the additional two-year period, when it is possible to draw on the fund, everything can change. The motorway will be put into operation, the necessary amount of European money will flow in and only then it is possible to evaluate not only the ability to draw on the funds, but also the impact of the implemented projects on economic growth, employment and other relevant indexes.

Analysis on the Level of Partial Measures

Publicly available data may come to conclusions not only about the popularity of the operational programmes (single programming documents) as a whole, but also about their measures. Already during the time of preparations for drawing on the finances from the generous purse of the EU funds it was clear that the interest in various subsidy categories would vary. The key question remained whether it would be possible to set their conditions so that they would appeal to as many potential applicants as possible. The operational programmes and their measures **had to respect the priorities of the regional EU policy and also the specific needs of the Czech Republic** and the organisations operating in this territory. The decision on setting the budgets for each programming document and their measures so that they would match the interest of domestic entities as accurately as possible was equally important. Underestimation of future interest and setting a too economical budget for one measure is punished by not utilising the development potential in the given area and by disappointment of unsuccessful applicants. On the contrary, consequently to overestimated budgets a part of the money may be unexploited.

The beginning of 2006 is a sufficient period of time in order for us to responsibly answer the question of **which measures the applicants are most interested in** and, on the other hand, where there is danger that the offered funds will not be used. The interest of applicants may be evaluated with respect to the financial volume of all submitted projects compared to the budget (allocation) of the subsidy title, or from the aspect of the absolute number of submitted applications.

Measures with the Highest Amount of Applications

The analysis of the amount of submitted projects at the level of operational programmes or single programming documents confirms a similar survey into their partial measures. Among the ten most wanted measures are four from

the **Infrastructure Operational Programme**. The relatively largest amount of money – more than six times the allocation! – is demanded under the measure “Air Protection Infrastructure Improvement” within the Infrastructure OP, which supports projects for using environmentally friendly combustion technologies or renewable energy sources. The measure “Development of Tourism Infrastructure” from the **JROP** came immediately second on this imaginary chart. The aim of the projects supported under this measure is to improve the transport accessibility of places and monuments attractive to tourists, increasing the income from tourism or the overall improvement of the services provided in this segment.

Measures with the Largest Volume of Submitted Projects per Allocation as of 28 Feb 2006

	OP/SPD	Measure	Requested/Allocation
1.	IOP	3.3 Air Protection Infrastructure Improvement	659 %
2.	JROP	4.2 Development of Tourism Infrastructure	606 %
3.	IOP	3.1 Recovery of Environmental Functions of the Landscape	413 %
4.	IEOP	2.1 Establishing and Development of SMEs – Programme DEVELOPMENT	335 %
5.	SPD 3	3.1 Development of Primary Education as the Base of Life-long Learning	334 %

Source: www.strukturalni-fondy.cz, own calculations

However, potential applicants are least interested in the measure “Modernisation of Public Employment Services” from the **Human Resources Development OP** or in “Professional Training” under the **Rural Development and Multifunctional Agriculture OP**. Under both measures the submitted projects have reached 5 % of the total allocation for 2004 – 2006.

The attractiveness of the subsidy category may also be evaluated by the actual number of submitted project applications. From this perspective the most attractive measure is the “Investments in Agricultural Holdings (from the **Rural Development and Multifunctional Agriculture OP**), where 2487 project applications were submitted as of the end of February 2006.

Measures with the Largest Actual Number of Submitted Project Applications as of 28 Feb 2006

	OP/SPD	Measure	Number of Projects
1.	RDMAOP	1.1 Investments in Agricultural Holdings	2487
2.	RDMAOP	2.1 Promoting the Adaptation and Development in Rural Areas	1304
3.	JROP	4.2 Development of Tourism Infrastructure	996
4.	HRDOP	4.1 Increasing the Adaptability of Employers and Employees to Changes	920
5.	IEOP	2.1 Establishing and Development of SMEs – CREDIT programme	866

Source: www.strukturalni-fondy.cz, own calculations

Most Exhausted Measures

The nature of the subsidy categories substantially predetermines how quickly and in what relative volume the funds will be drawn on. This has been demonstrated at the level of operational programmes (see above), dominated by the **Industry and Enterprise OP**, and also at the level of their partial measures. With respect to the ratio of the sum exhausted on implemented projects to the offered allocation for 2004 – 2006, the most successful measure is the “Establishing and Development of Small and Medium-sized Enterprises” and its three sub-measures Credit, Start and Development under the IEOP. The most demanded programmes Credit (for entrepreneurs with a shorter history) and Start (for starting entrepreneurs) have the form of a preferred loan for purchasing tangible and intangible fixed assets, supplies and some operating costs. The Development Programme provides subsidies to small and medium-sized businesses, particularly for purchasing tangible and intangible fixed assets or property, as the case may be. The measure “Implementation of Protective Measures on the Transport Network to Ensure Environmental Protection” under the **Infrastructure Operational Programme** was the only one that came between the aforesaid.

Measures with the Most Finances Drawn for Projects per Allocation as of 28 Feb 2006

	OP/SPD	Measure	Exhausted/Allocation
1.	IEOP	2.1 Establishing and Development of SMEs – CREDIT programme	85.8 %
2.	IEOP	2.1 Establishing and Development of SMEs – START programme	38.5 %
3.	IOP	2.1 Implementation of Protective Measures on the Transport Network	36.5 %
4.	IEOP	2.1 Establishing and Development of SMEs – DEVELOPMENT I+II programme	24.7 %
5.	IOP	1.4 Construction of Port Infrastructure and Modernisation of Waterways	14.5 %

Source: www.strukturalni-fondy.cz, own calculations

Conclusion

Based on our analysis it is clear that the authorised organisations have not underestimated the matters leading towards the preparation and submission of projects. A closer look shows that the **process of approving and concluding the contracts is starting to lag** behind. Due to the time sequence of the project implementation, it is too soon to withdraw the funds in the case of a number of projects; many projects have not been finished yet and thus it is too soon to draw on the funds. However, in some other cases an unjustified delay is piling up and this problem is inexcusable. However, we believe that proportionately to how the phases of the current programming period terminated in 2006 approach their end, the **volume of finances drawn on the fund after its expiration will increase substantially**. Therefore it is suitable to keep repeating that despite many shortcomings, we are assessing the process in its progress.

Our analysis proves that the current situation of the process of acquiring finances from the European structural funds in the Czech Republic is far from perfect; however, **it would be a mistake to think it is tragic**. Although we do not want to doubt in any way the importance of maximum utilisation of the offered funds in the current shorter programming period 2004 – 2006, the **future perspective is much more important**. Right now the work on the programming documents that specify the nature of and budgets for the future operational programmes in 2007 – 2013 are being finished. We firmly believe that its authors have learned from and been inspired by the current situation and have set the new conditions so that the offered finances can be used as much and as efficiently as possible.