

# Comparison of Czech Operational programs

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# 1. Introduction

There has not been much optimistic news recently regarding drawing of money from EU funds: Suspicion of criminal offenses in relation to ROP Southwest and ROP Northwest, continued suspension of reimbursement of expenditures by Brussels for 8 operational programs and speculation regarding for which operational programs allocated amounts will not be drawn in time and how much money will have to be returned.

The aim of this analysis is to compare in an objective manner the statistics related to drawing of funds from European structural funds through several phases of the project cycle. The period is optimum for it. The entire program period of 2007 to 2013, which thanks to rule N+2 will not end financially until 2015, will soon enter its last third, and government is aware of the reserves in the system of management, administration and drawing of money from EU funds. At its meeting in August, the government adopted 12 measures to eliminate obstacles on drawing from EU funds.

The ambition of this article is not to evaluate the effectiveness of invested money. More time will be needed for that, since certain effects of newly realized projects will not appear until much later.

## 1.1. Project Cycle Phases

The purpose of the project cycle phases is to identify which operational program is suitable for the intended project and how many financial resources are allocated in it. This is shown by the monitored 1st criterion specified below. The first part of the project cycle phase is announcement of a call for submission of aid applications. Announcing the calls is the responsibility of the individual management bodies of each program. Another phase is the submission of grant applications. By the deadline specified in the calls, project implementers submit applications for aid, which must conform with the aims of the particular operational program from which the applicant wants to draw funds. The specific conditions for financial support are more clearly defined in the announced call. We monitor the volume of submitted aid applications in relation to the 2nd criterion.

In each call, the evaluation criterion based on which the implementation agency of each operational program will receive grants for supported projects should be known in advance. In the event of a positive evaluation result within the financial capacity of the call, the project will be approved. A project is considered approved if a legal act regarding provision of a grant is signed by the management body. That act has the form of a decision or contract regarding provisions of the grant. We compare the success of operational programs from the point of view of signed decisions/contracts in relation to the 3rd monitored criterion.

Another evaluation criterion for measuring success of the use of individual operational programs is the volume of funds already disbursed to final recipients/project implementers. The payments are disbursed to recipients based on their sent applications for payment and are usually realized retroactively following realization of the entire project or its individual phases - ex-post payments. Some management bodies of operational programs also enable ex-ante payments, when project implementers receive money from the OP beforehand in the form of advances.

The system of financial flows from the EU budget is based on the principle of pre-financing from the domestic state budget. In order to ask the European Commission for subsequent reimbursement of these expenditures to the account of the Payment and Certification Body (the National Fund of the Ministry of Finance), it must be certified. Certification is understood as confirming the accuracy of the data submitted by management bodies to the payment body. Its result is processing of the payment application submitted to the European Commission together with a certificate signed by an authorized person. Separate certification is carried out for each program, and a comparison of the success of individual OP in the category is the subject of our last fifth evaluation criterion.

If problems are discovered with the administration of the project, the payment of expenditures by the European Commission is halted. Afterwards, Brussels will call on the member state to rectify discovered defects and shortcomings, and payments will remain suspended until those problems are eliminated. Unfortunately, this even affected the Czech Republic to a great extent this spring, as we have written in the second chapter.

## 2. Evaluation of drawing abilities based on various categories

### 2.1. Total allocation

The price allocation of European structural funds reflects the division of EU money at the most general level. It involves the collective volume of funds for each individual program that the Czech Republic may have at its disposal between 2007 and 2013. It is also the result of a political decision and depends on national priorities. The most emphasis is placed on transport - the Transport Operational Program received more than CZK 170 billion for distribution, which represents approximately 15% of the Czech Republic's annual budget. Another key priority was environmental cultivation - the Environment OP received nearly 150 billion for improving the environment. Other operational programs follow with a huge margin - the Business and Innovation OP occupied third place with allocation of 90 billion, and the OP for Research and Development of Innovations, intended for support of technology, may involve a grant of 60 billion.

However, Prague received the least, because structural funds are intended for evening out differences between wealthy and poor regions, and Prague is among the ten wealthiest regions in the entire EU. A low amount of funds was also received by the Technical Assistance OP, which is intended for administrative support of all other operational programs.

The money is divided by three mutually independent funds - through the European Social Fund (ESF) development projects related to employment and human resources are supported (such as retraining, social integration, education, etc.). Approximately 14% of all money intended for the European Union's cohesion policy in the Czech Republic was allocated for these activities.

Assistance from the Cohesion Fund (CF) is intended for direct financing of specific large projects related to the environment, development of transport (trans-European transport networks, support for public transportation) and newly also related to energy efficiency and renewable resources. Approximately a third of the total allocation is available for achieving these goals. Resources from the European Regional Development Fund (ERDF) are intended for tough investment projects (transport, education, social, healthcare infrastructure, machines and equipment, etc.). For the financial period of 2007 to 2013, the ERDF has allocated half of its budget for these priorities.

Operational Programme	Total Allocation	
	mil. CZK	% from allocation
OP Transport	172 389	21.9
OP Environment	145 960	18.5
OP Enterprises and Innovations	92 589	11.8
OP Research and Development for Innovations	61 511	7.0
OP Human Resources and Employment	54 709	7.8
OP Education for Competitiveness	54 167	6.1
Integrated OP	48 043	6.9
ROP North-West	22 545	0.7
ROP Moravia Silesia	21 710	2.9
ROP South-East	21 434	2.8
ROP Central Moravia	20 043	2.7
ROP North-East	19 970	2.5
ROP South-West	18 862	2.5
ROP Central Bohemia	16 961	2.4
OP Prague - Competitiveness	7 146	2.2
OP Technical Assistance	5 778	0.9
OP Prague - Adaptability	3 208	0.4
European Social Fund	674 919	163.2
European Fund for Regional Development	338 188	129.4
Cohesion Fund	247 762	221.1
<b>NSRF</b>	<b>787 025</b>	<b>100.0</b>

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012

## 2.2. Submitted applications

By the beginning of August 2012, over 80,000 applications had been submitted for all OP functioning in the Czech Republic, which collectively requested more than CZK 1.25 trillion. The greatest competition in submission of applications was registered in relation to the Prague - Adaptability OP, because in Prague very few resources are distributed, which are applied for by many applicants. Therefore, applications for nearly 5 times the total allocation have already made their way to Prague City Hall.

A lot of money has also been applied for within the Regional OP Southwest and the Education for Competitiveness OP. However, there has been relatively less interest (and therefore a relatively high chance of a successful application) in the operational programs such as the Transport OP, the Integrated OP and the Environment OP, although even in relation to these the volume of submitted applications has safely exceed the amount of funds available in the operational programs.

The most interest has been expressed in money from the Cohesion Fund, in relation to which demand exceeded supply by more than double. However, the least money was applied for in relation to the European Regional Development Fund due to the total allocation.

Operational Programme	Submitted applications	
	mil. CZK	% from allocation
OP Prague - Adaptability	15 280	476.4
ROP South-West	52 094	276.2
OP Education for Competitiveness	135 431	250.0
ROP North-East	41 449	207.6
OP Prague - Competitiveness	14 137	197.8
ROP Central Bohemia	31 514	185.8
OP Human Resources and Employment	97 051	177.4
ROP North-West	39 932	177.1
OP Research and Development for Innovations	101 500	165.0
ROP South-East	35 172	164.1
ROP Central Moravia	32 382	161.6
OP Enterprises and Innovations	147 704	159.5
ROP Moravia Silesia	33 287	153.3
OP Technical Assistance	8 122	140.6
OP Environment	199 457	136.7
Integrated OP	60 518	126.0
OP Transport	215 841	125.2
European Social Fund	674 919	163.2
European Fund for Regional Development	338 188	129.4
Cohesion Fund	247 762	221.1
<b>NSRF</b>	<b>1 260 869</b>	<b>160.2</b>

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012

### 2.3. Projects with issued decision/ contract for provision of grants

From all of the applications, more than CZK 600 billion was successfully approved, which is more than three quarters of the total allocation. This means in other words that nearly a quarter of all of the money intended for the Czech Republic is still awaiting approval. We regard as a criterion for approval the signing of a decision or contract regarding provision of a grant. From the volume of requested money, just under half was approved (48%).

The least resources remain in the Transport OP, where 97.5% of the total allocation has already been distributed. Similarly, in the ROP Northeast and the Research and Development of Innovations OP only approximately 8% of the resources remain to be disbursed. However, the most room for drawing is within the Environment OP, where approximately two fifths of the resources (CZK 60 billion) are still available.

At the bottom steps of the ladder is the ROP Central Moravia, which has available approximately one third, and on the third step is the Technical Assistance OP, where 30% of the money has yet to be distributed.

The largest chance of obtaining resources is from the Cohesion Fund, in relation to which over 35% of the allocation is still awaiting approval. However, the most money has already been distributed by the European Social Fund, over 84%.

Operational Programme	Approved Projects	
	mil. CZK	% from allocation
OP Transport	168 076	97.5
ROP North-East	18 420	92.2
OP Research and Development for Innovations	56 260	91.5
ROP South-East	18 898	88.2
ROP Central Bohemia	14 932	88.0
OP Human Resources and Employment	47 110	86.1
OP Prague - Competitiveness	6 148	86.0
ROP South-West	16 196	85.9
OP Education for Competitiveness	44 553	82.3
OP Prague - Adaptability	2 615	81.5
ROP North-West	18 348	81.4
OP Enterprises and Innovations	74 802	80.8
ROP Moravia Silesia	16 363	75.4
Integrated OP	35 541	74.0
OP Technical Assistance	4 015	69.5
ROP Central Moravia	13 242	66.1
OP Environment	85 600*)	58.6
European Social Fund	94 278	84.1
European Fund for Regional Development	339 023	82.0
Cohesion Fund	168 257	64.4
<b>NSRF</b>	<b>601 558</b>	<b>76.4</b>

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012 ) includes those with signed decision or agreement and also projects with published Registration list, but without signed decision or agreement. But in total NSRF there is just value for signed decisions or agreement.

## 2.4. Funds disbursed to recipients

The system of disbursement of money from EU funds usually works based on the principle of ex-post payments, when the administrator of the OP issues funds for a project only after the project has been realized. Certain operational programs also enable provision of advance payments before the start of or during the realization of the project (ex-ante payments).

The resources in the following table have already been paid to project implementers in individual operational programs.

The state has disbursed a total of 45% of the total allocation, and the largest volume of resources has been paid by the Transport OP (nearly three quarters), followed by the ROP Northeast, where just under two thirds.

The fewest completed projects are within the Integrated OP, the Technical Assistance OP and the Environment OP, where approximately a quarter of the resources have been paid.

The most projects have been completed within the Cohesion Fund, in relation to which the state has paid over 48% of the total allocation. The differences of course are not at all dramatic. The least has been paid by the European Social Fund (43%).

Operational Programme	Disbursed funds	
	mil.CZK	% from allocation
OP Transport	125 171	72.6
ROP North-East	13 143	65.8
OP Prague - Adaptability	1 981	61.7
OP Prague - Competitiveness	4 385	61.4
ROP South-East	12 800	59.7
ROP Central Moravia	10 724	53.5
ROP North-West	11 719	52.0
ROP Central Bohemia	8 232	48.5
OP Education for Competitiveness	25 067	46.3
ROP South-West	8 679	46.0
ROP Moravia Silesia	9 302	42.8
OP Human Resources and Employment	21 036	38.5
OP Enterprises and Innovations	34 884	37.7
OP Research and Development for Innovations	17 091	27.8
OP Environment	38 311	26.2
OP Technical Assistance	1 506	26.1
Integrated OP	11 256	23.4
European Social Fund	48 083	42.9
European Fund for Regional Development	180 922	43.7
Cohesion Fund	126 282	48.3
<b>NSRF</b>	<b>355 287</b>	<b>45.1</b>

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012

## 2.5. Certified expenditures of the European Commission

There are still relatively few resources that have been finally completed and certified by Brussels, amounting to less than one fifth of the total allocations for all OP. So far the most successful in provision of money including approval from the European Commission is the ROP Southeast, for which 56% of the total allocation has been paid and certified in Brussels. It is followed close behind by the ROP Central Moravia and the ROP Southeast. Trailing at the very bottom is the Research and Development of Innovations OP, for which Brussels has certified a mere 4%, even though contracts have been entered into for more than 90% of the resources.

The Environment OP and the Education for Competitiveness OP have not been doing well either, and Brussels has only given the green light for 8% of resources for them.

The most resources have been certified in relation to the European Regional Development Fund, but the amount still represents less than a quarter of the total allocation. The European Social Fund has already definitively handled 18% of the allocation. Last is the Cohesion Fund, for which Brussels so far has not even certified 9% of the total allocation.

Operational Programme	Certified expenditures	
	mil. CZK	% from allocation
ROP South-East	11 969	55.8
ROP Central Moravia	10 051	50.1
ROP North-East	9 397	47.1
OP Prague - Adaptability	1 215	37.9
ROP Central Bohemia	5 515	32.5
ROP South-West	5 933	31.5
ROP Moravia Silesia	6 378	29.4
OP Human Resources and Employment	14 640	26.8
ROP North-West	5 496	24.4
OP Technical Assistance	1 235	21.4
OP Prague - Competitiveness	1 506	21.1
OP Enterprises and Innovations	17 856	19.3
OP Transport	26 843	15.6
Integrated OP	5 403	11.2
OP Education for Competitiveness	4 374	8.1
OP Environment	10 869	7.4
OP Research and Development for Innovations	2 462	4.0
European Social Fund	20 229	18.0
European Fund for Regional Development	98 333	23.8
Cohesion Fund	22 580	8.6
<b>NSRF</b>	<b>141 141</b>	<b>17.9</b>

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012

### 3. Suspension of OP payments

Due to discovered problems in the functioning of Czech management and control systems, in March 2012 the submission of payment applications for EU refunds was suspended for all operational programs co-financed from the European Regional Development Fund (ERDF) and the Cohesion Fund (CF).

The flow of grants to project implementers has not been interrupted. In practice the suspension of submission of payment applications means that financial resources are not being refunded from the EU budget to the account of the Payment and Certification Body at the Czech Ministry of Finance, from which resources are transferred to state budget chapters that have issued resources for pre-financing of funds from the EU budget. Therefore, the management bodies have been paying amounts to recipients from their own resources.

By the end of June 2012, the Czech Republic was supposed to have adopted certain measures. A month later in reaction to the adopted measures, the process of submitting applications for payments from the European Commission was renewed for seven operational programs:

- OP Business and Innovation (with the exception of the Guarantee program)
- OP Research and Development for Innovation
- OP Technical Assistance
- ROP Southwest
- ROP Central Moravia
- ROP Moravia-Silesia
- OP Prague–Competitiveness

For another eight operational programs, payment applications continue not to be sent to the European Commission, and the Commission is not issuing refunds for them:

- OP Transport
- OP Environment
- Integrated OP
- ROP Northwest
- ROP Northeast
- ROP Central Bohemia
- OP Cross-border cooperation Czech Republic-Poland
- OP Education for Competitiveness

The shifting of funds to the accounts of the management bodies of problematic operational programs was even stopped by the Czech side itself, when in relation to discovered discrepancies in March it halted the process of certification (verification) for ten operational programs. Although some of the problems have been eliminated, by the end of August certification was halted for five programs.

The suspension of certification and of the acceptance of payment applications could already now be having real impacts on the ability to draw from certain operational programs. From the application of the rule N+2/N+3 it is apparent that the volume of certified expenditures and applications for payment sent to the Commission for OP must reach at least 31% of the total allocation for programs by the end of this year.

Non-adherence to this limit and resulting irreversible losses of portions of the allocation is at risk particularly for programs for which certification and/or sending of payment applications to the European Commission has been suspended. OP Environment, OP Education for Competitiveness and Integrated OP.



### Overview of the currently suspended certification process based on individual OP from the Payment and Certification Body

OP	Management	OP certification Suspension
ROP Northwest	RD Northwest	25. 3. 2011
OP Education for Competitiveness	Ministry of Education	12. 1. 2012
OP Transport	Ministry of Transport	14. 3. 2012
OP Environment	Ministry of Environment	14. 3. 2012
ROP Central Bohemia	RD Central Bohemia	22. 5. 2012

Source: *Payment and Certification Body*

## 4. Conclusion

Based on an examination of the statistics of drawing, the Czech Republic is not doing so badly in its discipline for use of EU resources.

There is a large amount of interest in money from operational programs among project implementers, which greatly exceeds the budget for the programs. We are not doing badly even from the point of view of approved programs. Of the total allocation, 76% of resources for projects which have already received signed decisions or contracts for provision of grants were already approved by the beginning of August.

The indicator is increased by a few percentage points if we also include projects already approved by the management body, but still awaiting issuance of a legal act for provision of grants.

Of the total volume of money from EU funds for the Czech Republic, nearly one half has been paid to final recipients, which in view of the predominance of ex-post payments (payments after realization of the project) is a value that we do not consider critical. Responsible officials could get larger wrinkles on their foreheads as a result of the statistics for certified expenditures sent to the European Commission for reimbursement. These amount to a mere 18% of the total allocation.

The sharp difference between reimbursements for final recipients and certified expenditures can be attributed to the suspension of acceptance of payment applications by the European Commission and/or suspension of certification of expenditures by the Czech Ministry of Finance. This has negatively affected eight operational programs, including the two with the most significant volumes.

The reason is obvious: major shortcomings in the administration and checking of operational programs. The situation is critical for three programs, in relation to which thanks to the rule N+2/N+3 there is a real risk of part of the allocation being withdrawn.

Resources from the European structural funds and the Cohesion Fund characterized by state budget savings probably currently represent the only major source for a potential fiscal impulse, which would give a boost to the teetering economy. It is even more dismal to observe the unsatisfactory development in relation to disbursement of funds from the European Commission, which is still not disbursing funds to eight operational programs.

Realized projects are not directly threatened, but for suspended operational programs they are financed purely from national budget resources, which is further worsening the condition of state coffers. Let's trust that the activity of the Czech government, which has adopted a set of measures to improve the effectiveness of drawing from EU funds (see the article above in the News section) will not come at five minutes to noon and will result as soon as possible in restoration of the flow of financing from the European Commission.