

PRICEWATERHOUSECOOPERS

Ministry for Regional Development of the Czech Republic

„Absorption Capacity Analysis of Selected Operational
Programmes with Respect to the Risk of Being Unable to Utilise
All of the Allocated Funds“

Summary

February 2010

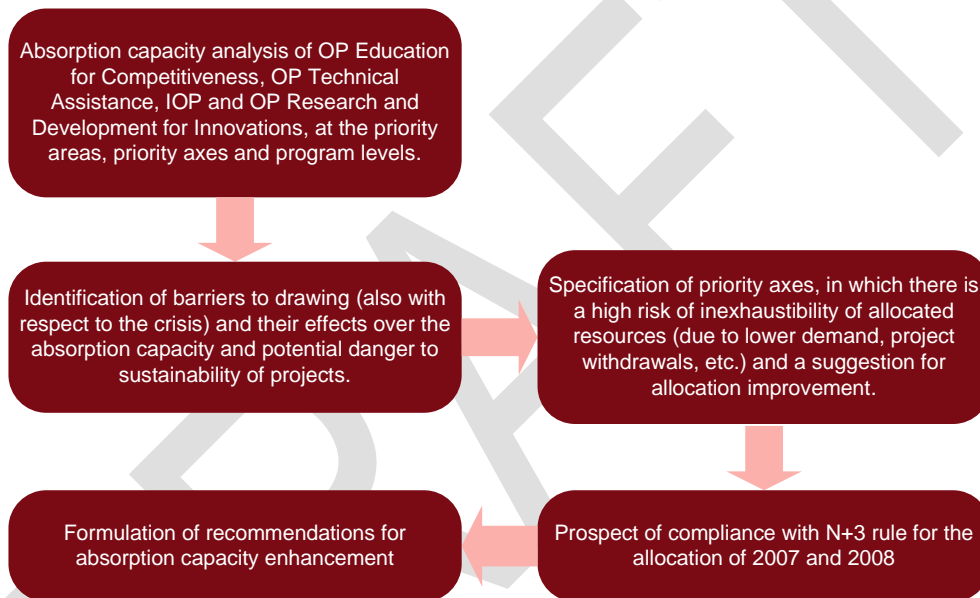




1. Subject and purpose of the analysis

The subject of this project was to conduct an analysis of the absorption capacity of selected operational programs, which were assessed (based on 2009 data) as risky at the levels of areas of intervention, priority axes and overall program, with respect to the exploitation of financial resources (especially based on the resolution of Managing and Coordination Committee). Specifically, it concerned the Operational Program Education for Competitiveness, Operational Program Technical Assistance, Integrated Operational Program and Operational Program Research and Development for Innovations.

The goals of the analysis are depicted in the following diagram.



Picture 1 – diagram of analysis goals



2. Applied methodology and approach

The groundwork for the analysis of selected risky operational programs from the 2007 – 2013 program period in terms of identifying possible drawing enhancements was the conduct of a detailed structuralised analysis of current drawing in particular OPs, priority axes and areas of interventions.

Financial analysis

As a basis for conducting financial analysis of the current situation in operational programs, data about the state of drawing of all operational programs was used. The data utilised was available from periodical MRD monitoring reports as a national coordination authority, and from documents provided directly by the contracting authority. The major goal of this part of the absorption capacity assessment was to identify level/levels in the allocated financial resources disbursement process, which currently constitutes potential „bottlenecks“, and are a potential threat to the drawing process.

Factual analysis

Factual analysis followed up on the conducted financial assessment/analysis of the drawing. The starting point was the knowledge of the factual focus of all the relevant operational programs, and of the logical set up of the call announcement plans during the program period.

Based on the outcomes of the financial analysis, risky areas of interventions were identified for each operational program. For these areas of intervention, an assessment was done of all the announced calls and of actual levels of drawing of projects that are in the realisation stage.

The above-mentioned activities were carried out firstly through a study of the documents obtained, secondly through structuralised interviews with relevant experts from individual managing authorities (MA). The main objective of these interviews was to obtain information about the process of call preparations, their interconnection with program goals, the logic of their timing, and further the information about the functioning of the applications evaluation process and the process of the realisation of the projects. Among others information about problems experienced with the realisation of the individual calls, and about the methods how identified mistakes and insufficiencies were utilised in future plans and also during the realisation of projects was gained. With respect to limited time in which we could conduct this analysis, it was not feasible to further verify any information provided by the representatives of the different managing authorities. For the purpose of this analysis, this information was taken as factual.

The basis for this analysis was the definition of absorption capacity according to the <http://strukturalni-fondy.cz> webpages. Absorption capacity expresses the degree to which a state is able to use up resources provided from EU funds. It includes several aspects:

- **Administrative capacity** - capability of a member state to manage operational programs financed from EU structural funds, in compliance with relevant EU rules, regulations and national legislation.
- **Co-financing** – capability of a member state to assure co-financing of projects from the national public budget.



- **Projects storage bin** – capability of a member state to prepare quality projects well in advance, which will be able to use up financial resources from structural funds.

The success of OPs does not only lie in the announcement of calls and coverage of the allocation by project applications, but also in achieving the projects' success, their fulfilment of goals according to OP goals, and the exploitation of allocated resources in compliance with all the rules. The overall interconnection of these factors is then regarded as sufficient absorption capacity of an operational program.

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3. Summary of major findings

As the basis for conducting a detailed absorption capacity analysis, a financial analysis of the current state of drawing in selected operation programs was done. This analysis was focused on assessing the extent of compliance with the n+3 rule in individual phases of the implementation process, and its aim was mainly to identify potential bottlenecks.

For the purpose of a detailed comprehensive assessment of the current situation, two approaches were used in the analysis. Firstly, fulfilment of the limits set by the National Coordination Body was studied cumulatively, i.e. expected values of different indicators take account not only resources, which need to be exploited to fulfil the allocation for a particular year, but also the fact that the drawing has to be ensured for the long-term time horizon (for the allocation for all years). Secondly, the drawing was analysed exclusively for the 2007 and 2008 allocation. Volumes that need to be drawn in the next years are hence the minimal thresholds needed to fulfil the n+3 rule for the allocation of the particular year.

From the overall point of view, a common characteristic of all the operational programs analysed is a significant overhang in demand (= project applications submitted) over supply in calls announced up to the present time. In most cases, it was found that this overhang is mainly caused by the large number of applications submitted for one of the priority axes; whereas, for the other ones, their volume was not sufficient. Another characteristic sign for all operational programs is an insufficient volume of payments and their consequent certification. This fact can, however, be affected mainly by the current state of projects being realised (projects approved by the end of 2009, distribution of project realisation over more than one year, etc.).

With the cumulative analysis of drawing and taking into account the necessity to ensure sufficient drawing in the long-term horizon, it is necessary for individual operational programs to reach the following volumes in order to comply with the n+3 rule:

Required increase in 2010 (with respect to 2007 – 2010 allocation)	Allocation for 2007	Submitted applications		Approved applications		Resources paid off		Certified resources	
		CZK mil.	% of allocation for 2007	CZK mil.	% of allocation for 2007	CZK mil.	% of allocation for 2007	CZK mil.	% of allocation for 2007
Integrated Operational Program	5.047	0	0%	6.912	137%	9.379	186%	7.328	145%
OP Technical Assistance	531	0	0%	302	57%	653	123%	704	133%
OP Education for Competitiveness	5.872	0	0%	7.633	130%	9.214	157%	8.695	148%
OP Research and Development for Innovations	0	0	N/A	21.496	N/A	10.944	N/A	5.873	N/A
Required increase in 2010 – 2011 (with respect to 2007 – 2011 allocation)	Allocation for 2008	Submitted applications		Approved applications		Resources paid off		Certified resources	
		CZK mil.	% of allocation for 2008	CZK mil.	% of allocation for 2008	CZK mil.	% of allocation for 2008	CZK mil.	% of allocation for 2008
Integrated Operational Program	4.872	12.551	258%	9.471	194%	6.591	135%	5.251	108%
OP Technical Assistance	489	3.109	635%	2.129	435%	1.037	212%	545	111%
OP Education for Competitiveness	5.646	14.798	262%	11.126	197%	7.699	136%	6.103	108%
OP Research and Development for Innovations	14.318	8.835	62%	12.599	88%	10.697	75%	10.871	76%



When monitoring the compliance with the n+3 rule only for the allocations for the years 2007 and 2008, the minimum thresholds of drawing in the next years are as follows:

Required increase in 2010 (with respect to 2007 allocation)	Allocation for 2007	Submitted applications		Approved applications		Resources paid off		Certified resources	
		CZK mil	% of allocation for 2007	CZK mil.	% of allocation for 2007	CZK mil.	% of allocation for 2007	CZK mil.	% of allocation for 2007
Integrated Operational Program	5.047	0	0%	0	0%	4.318	86%	4.892	97%
OP Technical Assistance	531	0	0%	302	57%	1.840	346%	2.164	407%
OP Education for Competitiveness	5.872	0	0%	0	0%	3.339	57%	5.872	100%
OP Research and Development for Innovations	0	0	0%	0	0%	0	0%	0	0%
Required increase in 2010 – 2011 (with respect to 2008 allocation)	Alokace na rok 2008	Submitted applications		Approved applications		Resources paid off		Certified resources	
		CZK mil	% of allocation for 2008	CZK mil	% of allocation for 2008	CZK mil	% of allocation for 2008	CZK mil	% of allocation for 2008
Integrated Operational Program	4.872	0	0%	0	0%	4.872	100%	4.872	100%
OP Technical Assistance	489	0	0%	489	100%	489	100%	489	100%
OP Education for Competitiveness	5.646	0	0%	0	0%	5.646	100%	5.646	100%
OP Research and Development for Innovations	14.318	0	0%	11.952	83%	13.953	97%	14.318	100%

Taking into account the differences among the operational programs that were analysed, it is not possible to generalise the findings and recommendations for improvement. The summary of findings is therefore provided for every single program.

Integrated Operational Program

Integrated Operational Program is among the analysed programs an exceptional one, through its wide focus of supported areas and especially through its implementation structure.

Generally, it can be stated that all IOP priority axes are, in terms of financial allocation, sufficiently covered by calls. The utilisation of call capacity differs in different intervention areas. The differences might also be caused by the late announcement of continuous calls in particular intervention areas (e.g. intervention areas 3.1 and 3.3).

The low rate of approved payment requests and of actual payments to beneficiaries might be due to insufficient administrative capacity on the part of the intermediate bodies. With respect to available information, however, it was not possible to verify this hypothesis. Nevertheless, the managing authority is aware of this fact and, in cooperation with the individual intermediate bodies, is taking steps to improve the current state.

From the conducted financial analysis and interviews with MA employees it appears that, when the advance payment from the European Commission will be accounted for, the n+3 rule will be fulfilled for the 2007 allocation. Nevertheless with respect to assuring absorption capacity for the whole programming period, there is a risk pending that supply will overhang demand in certain intervention areas. Namely, it concerns the following intervention areas:



- 3.1, mainly sub-activity C – Investment Assistance to Providers of Social Services, Employers and Other Entities, in the promotion and realisation of the tools of Social Economy.
- 3.3, mainly sub-activity B – Establishment of New Education Centres of Employment Services, and Assistance to Cooperating Organisations, and sub-activity C – Establishment and Assistance to Information-Educational Centres
- 4.1, mainly sub-activity D – Presentation and Promotion of Cultural and Natural Assets, Cultural Industry and Services for Tourism at the National Level
- 5.1, mainly sub-activity C – Improvement of Infrastructure for Modern Cultural Services with Higher Added Value
- 5.2, mainly sub-activity C – Pilot Projects focused on the issue of Gypsy Communities Endangered by Social Exclusion

Based on the information from MA and financial data, it is assumed that sufficient demand for financial resources exists at the level of individual priority axes. It will cover the differences among intervention areas and will ensure the exploitation of the allocation at the program level. This only applies under the condition of continual cooperation between the MA and intermediate bodies on the elimination of risk factors. The major risk factors are as follows:

- **Changes in national strategies** and, in consequence changes of the list of supported projects, or factual changes in projects that have already been approved.
- **Insufficient experience and administrative capacity on the part of intermediate bodies and beneficiaries** – this may lead to (1) delays in administrative processes at the level of intermediate bodies and (2) to frequent changes in projects' working schedules or ineligibility of expenditures at the level of beneficiaries.
- **High administrative demands of activities related to the process of approval and the realisation of projects** (building licence for large investment projects or public tenders).

Operational Program Technical Assistance

OPTP is a specific program, whose beneficiaries are entities of the public administration. Within this program, only 1 aggregate call for all areas of intervention was announced, which covered almost the whole allocated volume for the programming period 2007 - 2013. Sufficient demand from beneficiaries for the use of allocated resources was detected, but the drawing has been delayed. The reason for this was the late approval of the whole OP and the generally unstable 2008 period, when various changes in the system setting and in realisation rules occurred.

Project applications are not rejected. All submitted applications have been approved, or they are currently in the approval process. Low numbers concerning drawing up to the present time are a consequence of (1) the above-mentioned delay of OP, (2) initial problems of beneficiaries with the submission of tenders and/or (3) their insufficient administrative capacity.

All paid expenditures were submitted for certification and were certified.



Within the OP, several risk factors were identified, which could endanger the following drawing process. Among the most critical ones is the insufficient administrative capacity (actual at the level of beneficiaries and potential at the level of the managing authority). Further the delays in project activities, or resource drawing due to the lengthy process of internal commentary proceedings of ministries concerning submitted tenders, and the duration of the approval process of single applications (several rounds of applications' modification) is a critical risk factor. Last but not least, personnel changes within MRD, which would change the overall strategy and the drawing system, are a potential threat.

Recommended measures are to ensure sufficient administrative capacities both for beneficiaries and the managing authority, to finally establish the strategy and the drawing system within MRD, detailed communication concerning the requirements for project applications, and assistance to beneficiaries already during the project preparation phase.

To comply with the n+3 rule and to avoid any return of financial resources to the EU budget, the amounts of CZK 1,309 mil. and CZK 1,043 mil. have to be paid to beneficiaries in 2010 and 2011, respectively, and the allocations of 2007 and 2008 have to be certified. The number of applications received is in these terms sufficient. The determining factor will be the further processing of applications, and the capability of beneficiaries to continuously draw allocated resources. Should the above-mentioned risk factors be eliminated, there is no threat of not fulfilling the requirements of n+3 rule. It is, however, recommended that the situation be monitored from now on.

Operational Program Education for Competitiveness

Operational Program Education for Competitiveness (OP EC) consists of 16 areas of intervention within 5 priority axes. Except for area of intervention 3.1 – Individual Additional Education, calls have been announced for all parts of the operational program. The financial volume of the announced calls represents on average up to 50 % of the overall allocation of the individual areas of intervention (with the exception of area of intervention 2). In priority axis 1 and in area of intervention 3.2, both individual projects (IP) and global projects (GP) within global grants (GG) are eligible for application.

From the available data, it can be noted that there was a large interest from applicants for the announced call. In all priority axes (except for 4 and 5) the allocations within the individual calls were severalfold exceeded. Due to a high number of low-quality applications, the number of approved applications is much lower (approx. 70 – 75% of the calls' volume).

Information provided by the MA indicates that the approval process proceeds in accordance with defined time schedule. Current low drawing is due to the fact that a large number of applications are still in the approval process. For accurate assessment of state of drawing, a detailed analysis of payment calendars of the individual approved projects would have to be done. Only based on this analysis it is feasible to identify, whether the current state of drawing is consistent with, and appropriate to the state of application approval, or whether a problem exists in this area.



With respect to the drawing and thematic focus of calls, the MA of OP EC has already proposed and realised several reallocations within areas of intervention, which should lead to improvements in drawing and to addressing the desired types of applicants (e.g. elementary schools). According to the information provided, the MA analyses the outcomes of the calls and monitors statistics about the types of applicants, projects' focus (types of activity), bottlenecks, reasons for rejecting applications, etc. The data is consequently used in the preparation process of new calls (both for the preparation of guidelines and informative seminars and for the preparation of the contents and specifications of thematic focus of the calls).

Within the operational program, several risk factors were identified, which could endanger the following drawing. It is mainly the fact that drawing from certain areas of intervention is dependent upon legislative changes and strategic decisions of the Ministry of Education, Youth and Sports. Further risk factors are low volumes drawn and a large rate of unsuccessfulness of submitted project applications.

Recommended measures are: preparation of action plans for individual areas, preparation of detailed drawing predictions (according to payment schedules of approved projects), set-up of efficient financial management, maximising cooperation of MA/intermediate bodies with applicants in order to decrease the large number of low-quality applications.

To comply with the n+3 rule and to avoid any return of financial resources to the EU budget, CZK 3,339 mil. and CZK 5,646 mil. have to be paid to beneficiaries in 2010 and 2011, respectively, and the allocations of 2007 (CZK 5.872 mil.) and 2008 (CZK 5.646 mil.) have to be certified. The number of received and approved applications is in these terms sufficient. The determining factor will be the further processing of applications, and the capability of beneficiaries to continuously draw the allocated resources, i.e. processing actual payments to beneficiaries and subsequent certification. With respect to time conditions and the large volume of resources that have to be paid and certified, there is an existing risk concerning the fulfillment of the n+3 rule. Even after elimination of the above-mentioned risk factors, the rule requirements might still not be met.

Operational Program Research and Development for Innovations (OP RaDfI)

Operational Program Research and Development for Innovation (OP RaDfI) consists of 8 areas of intervention within 5 priority axes. With the exception of Priority Axis 3 (which is of a lower importance), calls have been announced for all the parts of the operational program. The financial volume of the announced calls represents on average up to 80 % of the overall allocation of the individual areas of intervention. Framework planning of the MA of OP RaDfI for drawing is adequately set up. The plan and timing of calls is appropriate to the state of program realisation and to the logic of the individual priority axes and planned synergies.



The demand by applicants for resources from announced calls is currently sufficient. It can be expected that, when the schedule of approval process is adhered to, and when submitted applications are of the correct quality, then, during 2010, projects will be started, which will cover most of allocated resources for the most important areas of intervention. Neither the project selection process nor project realisation should be considered bottlenecks at this time. This is due to the fact that these processes are currently still running, and they do not show any deviations from the initial schedule.

Current low rate of drawing does not emerge from fundamental process insufficiencies, but from a late start of the program, which was approved no sooner than by the end of 2008. Late approval has also affected the planned distribution of allocated resources in single years – the 2007 allocation was eventually transferred to 2008. Therefore, obligations to comply with the n+3 rule apply for the first year where the allocation will not be zero, which is 2008 (rules are due to 31 December 2011).

The main risk factor, which can endanger fulfilment of the n+3 rule, is the high rate of unsuccessfulness of submitted project applications, which are currently in the approval process (especially for the volume wise most important priority axes 1 and 2, which include the so-called big projects). Significant negative impacts would also be caused by delays in the project approval process, which have been currently submitted. The high quality requirements for the realisation of sophisticated projects (e.g. concerning management and the internal control of projects, or tender rules according to legal act n. 137 / 2006 Sb.) also constitute a major risk. Failure to comply with set requirements might result in a large amount of ineligible expenditures. With respect to the importance of certain projects, drawing might be affected through incorrect realisation of only a few tenders. To reduce the probability and impacts of such risks, it is recommended to adhere to the current approval process schedule and plans for call announcements, and consequently to ensure sufficient methodical assistance to projects in realisation. We recommend considering eventual reallocations only when the running calls and calls planned for 2010 are closed and properly processed.