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Identification of Risks under the Operational Programme “Environment”

Abstract. Structural Funds constitute the EU's primary instrument of regional and structural policy designed to offset regional socio-economic disparities among European countries. With a view to increasing the utilization of financial support from Structural Funds, this study provides an overview of the most common mistakes made in submitting applications for non-repayable financial contributions, as well as the limitations and difficulties leading to under-spending. The paper identifies the implementation risks within the Slovak Republic's Operational Programme “Environment” (OPE), aiming to thus help applicants make the most of the available EU funding.

Keywords: structural funds, regional disparities, barriers to approving applications for non-repayable financial contributions, operational programs, implementation risk

Introduction

The policy of social, economic, and territorial cohesion of the European Union (EU) as a basic pillar of European integration is aimed at reducing and balancing regional disparities. Growing disparities among regions of the EU potentially and truly lead to excessive social and economic tension, causing stagnation in the development of the EU as a whole. From a macroeconomic point of view, a deficiency in finance, in particular regions of the EU, causes a decrease in the standard of life in that area. The movement of labour then moves into the more developed regions, and causes relevant cultural and social changes.

The financial means of Structural Funds should increase the quality of life the area, while the necessity and effectiveness have to be clear, as well as, their connection with regional developmental priorities and action plans, to avoid the wasting of financial means from the European community. Financial grants are intended to support the regions and not to solve the financial difficulties of the community, higher territorial units, and businessmen. From a financial point of view, it is necessary to distinguish between the volume of resources allocated, which are contracted with beneficiaries, and the real use of resources by the beneficiaries. The volume of using financial means depends on the activity of beneficiaries, which are the main factor influencing the volume of used finances.

1. Materials and Methods

In our professional study, we deal with the main deficiencies of projects, which are presented under the structural grant funds, as well as, problems associated with drawing finances. We assume that the main deficiencies are: the failure to fulfil the general conditions set out by the request for application, the failure to present required documents on time, lien on movable and immovable property, which should be gained from the finances of the European community, an insufficient score evaluation of a project under an expert assessment and failure to meet a criterion of a specified amount of allocation, as well as, a non-acceptable financial situation of grant applicants, which is related to financial crisis.

For the purpose of our analysis of the main deficiencies, we used the method of content analysis, as well as, secondary data analysis, that we have drawn from an assessment from the Ministry of the Environment. The documents of interest were the annual reports of the Ministry regarding an execution of the Operational Programme Environment for the period of 2007-2009. Under the annual reports of the Ministry, we were focused on the analysis of reasons for disapproval and the exclusion of applications for non-repayable financial aid. The other supporting documents of the presented analysis were the Reports about evaluation of the success of individual calls for applications, which were prepared by the governing body.

2. Analysis of the Problem – Risks of OPE Implementation

Within the whole community, there is a need to increase drawing of finances from structural funds, and therefore, our analysis focuses on the identification of crucial mistakes in the implementation of projects under the OPE. With the knowledge acquired we can generalize from our analysis and apply it to any operational programmes and projects financed from structural funds. Parts of our

analysis are basic, and suggest recommended actions on how to prevent the repetition of found and identified deficiencies in applications for non-repayment financial aid. Risks of the implementation of OPE were divided into three identified basic levels, where we dealt with the most frequent defects of applicants for non-repayment of financial aid, the reasons for the refusal of the applications, and their complete exclusion from the assessment process.

During the process of assessment, the project goes through several phases of process, levels of formal control, expert evaluation, and then through a phase of finance allocation. Applications for grants created from the resources of the European community face a lot of obstacles in approval and the ability to draw finances from structural funds. Under implementation of the OPE we can identify risks, or problems, on these three levels:

- obstacles in approving an applications for non-repayable financial aid,
- inability of applicants to comply with conditions resulting from decisions about the approval of applications for non-repayable financial aid, or from contracts about the non-repayable financial aid,
- problems in a project's implementation process.

In regards to the status of implementation of OPE, in 2007 there were no requests published for applications of non-repayable financial aid, therefore, no finances were drawn from either the EU or from the state budget. In the following year, however, there were 445 applications registered for grants that came from the finances of the European community. In these applications, 158 projects were approved, which means there was a 35.50% success rate, and thus, 64.50% of the total volume of submitted project applications were denied. In 2009 we experienced a decline in submitted applications for grants compared to the previous year by about 10.11%. The volume of denied projects, very similar to the previous year, stays at the level of 64.25% of the total number of registered applications.

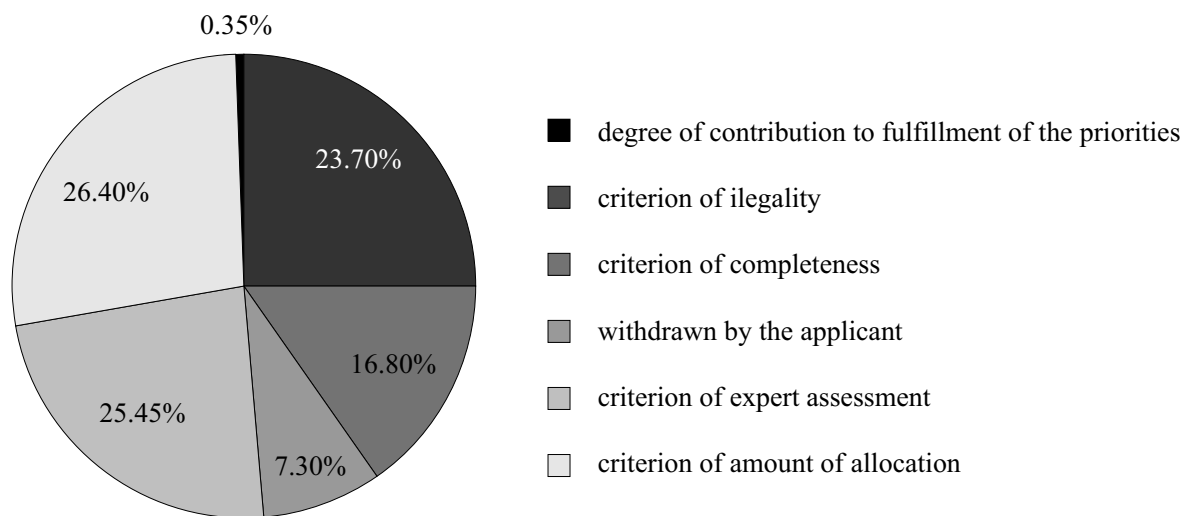
Table 1. Applications for non-repayable financial aid

Applications for non-repayable financial aid	2008	2009
Number of registered applications	445	400
Number of approved projects	158	143
Number of denied projects	287	257

Source: own processing based on data from the Ministry of Environment.

The projects, which applied for a grant from the finances of the European community on the basis of evaluation reports of the Ministry of Environment during the studied years, were mainly deficient in criteria of expert assessment and the amount of allocation, followed by deficiencies in the criteria of completeness and eligibility. In 2008, 26.40% of the applications, out of the total number

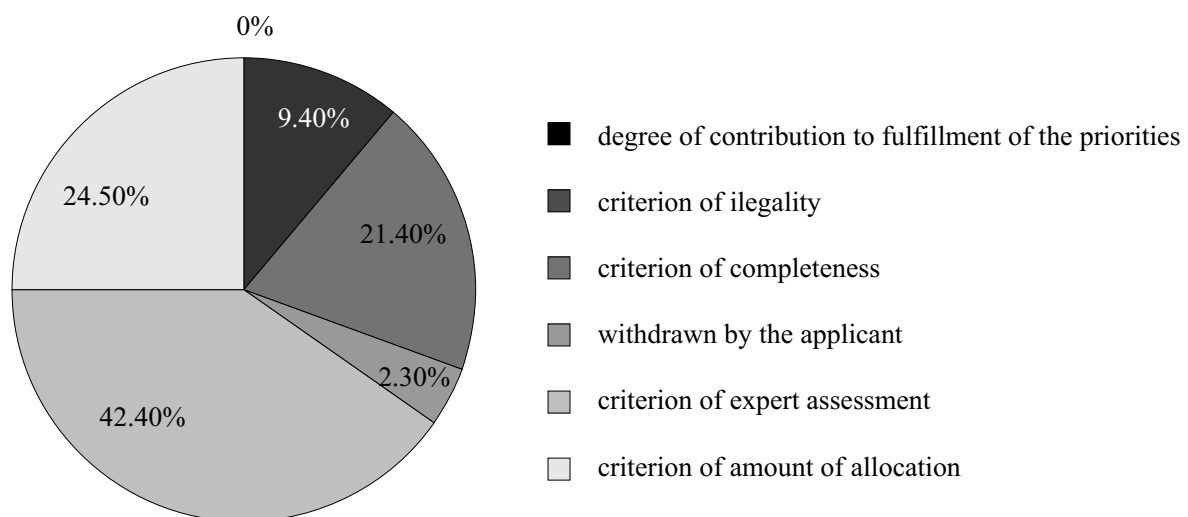
Figure 1. Reasons for the rejection of applications in 2008



Source: own processing based on data from the Ministry of Environment.

of denied projects, were excluded from the assessment process due to a failure to meet the amount of allocation. Failure to meet the expert assessment criteria meant a disapproval of 25.45% of the total number of disapproved projects in that year. 23.70% of projects were excluded during the process assessment due to their ineligibility for the programme. The reason for disapproval of applications in the amount of almost 17% from the total number of denied projects, was a failure to meet the criteria of completeness.

Figure 2. Reasons for the rejection of applications in 2009



Source: own processing based on data from the Ministry of Environment.

In 2009, unlike in the previous year, the main reason for the disapproval of the applications was failure to meet the criteria of expert assessment, which totaled

42.40% of the disapprovals. The failure to meet this specific criteria increased by almost 17% compared to the previous year. The amount of allocation, as a reason for disapproval of the applications for non-repayable financial aid, did not show any significant changes in numbers when compared to the previous year. The amount of denied applications due to the failure to meet the criteria of completeness increased by 4.60% compared to those in 2008. In 2009 the main deficiency of the projects was the completeness of applications, resulting in the exclusion of 21.40% of the projects from the total number of denied applications.

2.1. Obstacles in the approval of applications

The reason for the refusal of the applications, immediately in the early phases of the assessment process of the particular project, is a failure to meet the criteria of formal correctness of the applications, which include the criteria of completeness and eligibility. The identification of the unfulfilled criteria of eligibility goes underway at first. The problems usually are with criteria such as the eligibility of the applicant, the area of the group of activities, which are precisely defined in a particular request for the application. For example, if there is a request for the application of supporting activities in the area of waste recovery and the applicant in this project presents activities which are also in the area of separate collection, such a project could be rated as ineligible.

A project is excluded from the assessment process mostly because of inconsistencies in the documentation of ownership. This often happens as a failure to provide their settlement and existing lien on movable and immovable property at the time of the application to movable and immovable property, which should be obtained and evaluated from the financial means of the European community.

Applications are also denied as ineligible in cases when the applicants do not submit a planning permission or notification about a small building when the act no. 50/1976 Call of Laws about regional planning and building regulations (§ 56) requires that according to the selected building solution. Other identified deficiencies of applications for non-repayable financial aid are insufficient contributions of the project towards achieving goals of their measures, or failure to comply with the timeframe of the project. Criteria of eligibility also include correct filling of projects under the state aid scheme, or outside of the aid scheme, and this has an important influence on the amount of financial aid. If the project does not meet the criterion of necessity then it is illegitimate, for example this may happen if a part attached to the application for non-repayable financial aid already contains closed sales contracts for the supply of equipment. This means that the sales contracts for the supply of equipment were closed before the submitting of an application for the aid. By closing sales contracts, the applicant is obliged to accept equipment and pay all liabilities that result from the sales contract, and even

without subsequently obtaining non-repayable financial aid. This is a problem of the financial-legal obligation of an applicant, regardless of the success during the approval of the applications.

The project is similarly ineligible if during the financial analysis it generates enough yields not only to cover operating expenses, but to also cover capital expenditure. This indicates that the applicant cannot demonstrate the need for non-repayable financial aid and the necessity of project co-financing. If applicants did not meet one of these criteria, the application would be excluded from the further assessment process. Therefore, it is important to pay attention to non-repayable financial aid right from the start.

In cases where the applications for aid do not meet the criterion of completeness, applicants are asked in writing to supply the missing data. Applicants have to be flexible, efficient, and able to send the required missing data as soon as possible. A crucial part of the project documentation also encompasses a decision made by the Environmental district office, regarding the assessed effects on the environment, whether or not it is necessary (Act no. 24/2006 Call of Laws), or a decision from the investigation procedure, which we mark as one of the key factors. The most frequent reasons for the exclusion of applications for aid are missing data or their completion after the deadline (there is a limit of 7 days from the day of delivery). In terms of exclusion of the applications due to the completeness, we recommend an extension of the time period for completion, but only to the extent that the continuousness of assessing applications will not be disrupted.

Another risk of this implementation level of OPE is the range of criteria of expert assessment. Expert assessment is based on the assessment of three groups of criteria:

- suitability and efficiency of project implementation,
- method of technical and administrative implementation,
- technical capacity.

The most frequent reason for disapproval of applications is failure to obtain less than 50% of the maximum number of points under one block of the expert assessment and reaching only 70% from the total number of points under all priority axes which were expertly assessed in 2009. If a project is not in accordance to program documents or it has no influence on some of the horizontal priorities in the first group of activities, applicants will not get any points. A failure to obtain the required number of points from the second group of activities can be due to the fact that an applicant does not have the permission to engage in the activity and there is no connection to the goals of the project. The third group of activities is represented by organizational support and experience. Deficiencies in these areas cause reductions in valuation of the group activities.

A common reason for the denial of an application for non-repayable financial aid is a discrepancy between the project documentation and the planning permis-

sion, or insufficient sustainability of the operation of projects, which generate low income or high costs – these are reflected by specific indicators of investment intensity of the project and are defined separately for every priority axis and operational goal. These specific indicators are statistically recorded with a goal to compare new applications with application from previous periods, especially in the area realization costs of a project, for example, the cost for building one meter of pipelines or sewerage. That is why it is necessary to establish an optimum limit within which the values of these indicators should stay, considering the efficiency of financial spending.

The criteria of allocation is the last group of risks in the implementation of OPE at this level. An appointed Selection committee decides about financial allocation and projects are assessed according to their achieved score during the whole assessment process. If the project of an applicant gets into the phase of assessment by the Selection committee, but does not pass the criterion of allocation, this still means that the project meets the evaluation and selection criteria at a good level. It is possible to resubmit an application when another relevant request for applications is announced, on the basis of the decision of disapproval and the description of individual parts to finalize the project. Applicants for non-repayable financial aid can not appeal against the decision of the Selection committee deciding the allocation of funds.

2.2. Ability of recipients to meet the conditions resulting from the decision about approval of applications for non-repayable financial aid or from the contract of the non-repayable financial aid

The contract of non-repayable financial aid contains conditions such as submitting the letter of acceptance and demonstrating the ability to co-finance as proved by the bank statement, loan agreement, or grant from another subject on the basis of closed contracts. In some cases, applicants are not able to demonstrate the securing the co-financing for the project at the stated amount, depending on the current scheme of state aid.

The problem occurs when in a situation where an asset acquired or evaluated from non-repayable financial aid is used as a guarantee for a loan by which the project shall be co-financed. That situation is unacceptable because the project does not meet the criteria of eligibility.

Bodies of self-government and the state authorities have to co-finance 5% of the total eligible expenditures of a project. In the case of corporate entities, the financial contribution may be higher according to the current map of regional aid. The problem here is connected with that of co-financing projects by applicants. It is caused, mainly, by the absence of resources from shared taxes and other

revenues, which are closely related to the crisis. If revenues of communities do not increase, they will have problems in areas of co-financing projects from their own budget, non-satisfactory repayment of bank loans, and then, we can expect growing economic problems. In order to fully use the financial means of euro funds, communities tend to borrow even more, despite their already adverse economic situation. This status can have two contradictory magnitudes. On the one hand it can stimulate communities into higher economic activity, but on the other hand, it can get them into an intractable economic situation.

Before signing the contract, an administrative review of the correctness of public procurement needs to be done according to the Public procurement law. The most common problem is breaking this law in the form of discrimination of applicants, a lack of transparency of public procurement, and a failure to comply with the principles of the economy and efficiency of the realized project. Of high importance are building permissions for the realization of buildings, the deadline for the completion of project realization activities, determining ways of financing the project, as well as, the attachment of required documents within the stated deadline.

The recipients do not have to fulfill one of the basic conditions resulting from the contract, namely, mandatory quarterly invoicing. They pay suppliers' invoices at the end of their due date. That is why they do not comply with the required deadline for invoicing when a longer due date is concerned.

2.3. Problems that arise during the implementation process of projects – from the viewpoint of the recipient

In cases of reimbursement systems at the level of the project implementation process, we experience an apparent and increased demand for personal available financial means of the applicants. They are obliged to reimburse expenditures from their own resources, and this has proven to be problematic. Supplier's invoices and bank statements, which are used to prove payments actually made, are the basis for the payout of financial means. Without submission of the above mentioned documents, there is no repayment of finances, which can cause problems with the continuousness of financing of a particular project, and the realization of further work.

Complications in the process of project implementation occur in the obligatory compliance with necessary deadlines for the reimbursement of financial documents to suppliers in the case of system pre-financing. Within this system is the sector of Public administration, with an exception of state budgetary organizations. Finances are provided in advance based on the proposed outstanding financial documents, which are invoiced by the suppliers before the due date. On the other hand, the applications for payment are approved by the governing body

(in 30 working days), a paying unit (in 10 working days), and final reimbursement (in 5 working days). This can cause delayed reimbursement of presented financial documents. Applicants obtain as many as 95% of eligible expenditure from the system of pre-financing. The remaining 5% is in the form of final payments from the system of reimbursement. We see the limited possibility to use the advance payments only by state budgetary organizations, as a deficiency in the system of financing projects. Finances are provided to the recipient in advance, immediately after the beginning of the realization of the project, maximally up to 40% of the eligible project expenditures, and therefore, the necessary contributed resources of the recipient himself are not needed to the same extent as in the case of reimbursement. Risks of this kind of financing can put a strain on the general budget by an unauthorized item, which can result in the ceasing payments and, in a worse case scenario, exclusion of a project co-financing from structural funds and Cohesion fund.

Regarding non-repayable financial aid, applicants may use the entire approved amount of NFP exclusively for eligible expenditures, which were approved in the assessment process by the project manager. In the case of better financial management of the applicants, for example, as a result of cheaper public procurement than was anticipated, the contract of non-repayable financial aid does not authorize the applicants to use these financial means for different expenditures than those that were approved in the original project plan. This fact should be revised, while the solution should be measures for usage of such saved finances under the realization of the project.

The deficiency of the implementation phase of the projects is the insufficient knowledge of the applicants in the field of financial management, which leads to the rejection of the request for payment. The most common problems that are being solved are the problems occurring while filling the applications for payments. Tax matters are also often wrongly dealt with. The Ministry of Environment carries out seminars for final recipients of the aid that are aimed to combat the above mentioned issues. This particular measure especially, contributes to a higher drawing of finances. Therefore it is necessary to pay further attention to the relevance of the application for payment, mainly because of the applications for pre-financing of not yet realized services and supplies of materials. This situation occurs in the case of inconsistent control of the building surveyor. The services and works stated on invoices, actually delivered goods, and the compliance of realized work with project documentation are subjected to inspection. The amount of the payment drops in accordance with the standards, and the difference is the sum of ineligible expenditures.

During the project realization, changes in the amount of necessary financial resources often occur. The reasons for it are things like more expensive public procurement, the necessity to undertake the works, which were not in the original

project plan, thus incurring new expenditures, which cause exceeding of the approved amount of non-repayable financial aid. During the building development, technical changes may happen, which have immediate financial impacts on the project, and in this case, the recipient has to apply for a change. However, application itself does not mean a legal claim. All these facts cause an increase in ineligible project expenditures representing one of the most important mistakes that can occur during its realization. The amount of approved non-repayable financial aid is maximal and it is not possible to exceed it. All ineligible expenditures have to be financed from the resources of the applicant and recipient of the aid. If the expenditure was, in the original project plan, approved as eligible but the applicant is not able to prove it by account documents, it still becomes ineligible and has to be financed from the resources of the applicant.

Conclusion

We are presenting an analysis which has the nature of an academic paper with the purpose of stating recommendations for the usage of finances from European community sources. The whole process of submitting projects for applicants of non-repayable financial aid is connected with a lot of obstacles during the whole process, such as excessive red tape when submitting projects, extensive project documentation, and issues of public procurement and funding. The need for simplifying the procedures of implementation of structural funds projects is becoming extremely important.

In the synthesis of the above mentioned facts, we recommend measures to prevent repetition of the identified deficiencies. One of the proposals is to recast some of the documents which are mandatory annexes of the call for applications for financial aid, such as Guidelines for applicants and the closer specification of mandatory annexes to the application for financial aid, including the organization of training of potential applicants. These measures direct applicants towards successful management of the criteria of completeness, eligibility, as well as, expert assessment. In case of the disapproval of applications, we recommend detailed descriptions for the reason of excluding a particular application from the next assessment process. We propose to ensure consistent information for the applicants about the most frequent deficiencies and ways to eliminate them. The mentioned proposed measures should ensure the control of the risks at this level, which is a distinct obstacle in the approval of applications.

The second identified level of the risks of implementation of OPE, which are defined as the ability to meet conditions resulting from the decisions about approval of applications for financial aid, under which it is necessary to resolve the ability to prove co-financing of the project, and that the assets acquired from grant funds

can not be used as a guarantee for loan. At the present time, this problem is solved at the level of bank association, relevant ministries, and the Ministry of Finance.

When talking about the risks of project's implementation from the viewpoint of the recipient, we recommend spreading the possibilities to use the system of advance payments by some other recipients, except for state budgetary organizations. This is mainly due to the demand on personal available resources, in the case of a recovery system. At this level we also propose, in order to use approved financial resources, a system of additions to project documentation in the case of saved financial means and their consequent usage under the realize project.

In our study we analyzed the most frequent deficiencies in the process of applying for finances from the structural funds and causes of their origin. The acceptance of the proposed recommendations would result in an increase of finances drawing from structural funds under the individual operational programmes.

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Identyfikacja ryzyk w obrębie słowackiego Programu Operacyjnego „Środowisko”

Streszczenie. Fundusze strukturalne stanowią podstawowy instrument unijnej polityki regionalnej i strukturalnej, którego zadaniem jest wyrównywanie różnic ekonomicznych i społecznych wśród krajów członkowskich. Mając na względzie zwiększenie stopnia wydatkowania środków

z funduszy strukturalnych, niniejszy artykuł proponuje przegląd najczęściej popełnianych błędów przy składaniu wniosków o bezzwrotne wsparcie finansowe oraz przeszkód i ograniczeń prowadzących do niepełnego wykorzystania unijnego finansowania. W artykule zidentyfikowano ponadto ryzyka związane z wdrożeniem słowackiego Programu Operacyjnego „Środowisko”, co może przyczynić się do lepszego wykorzystania dostępnych funduszy przez wnioskodawców.

Słowa kluczowe: fundusze strukturalne, dysproporcje w rozwoju regionalnym, przyczyny odrzucania wniosków o bezzwrotną pomoc finansową, program operacyjny, ryzyko wdrożeniowe