

Background study for the Preparation of the Implementation Structure for the 2021+ Period

Final Report

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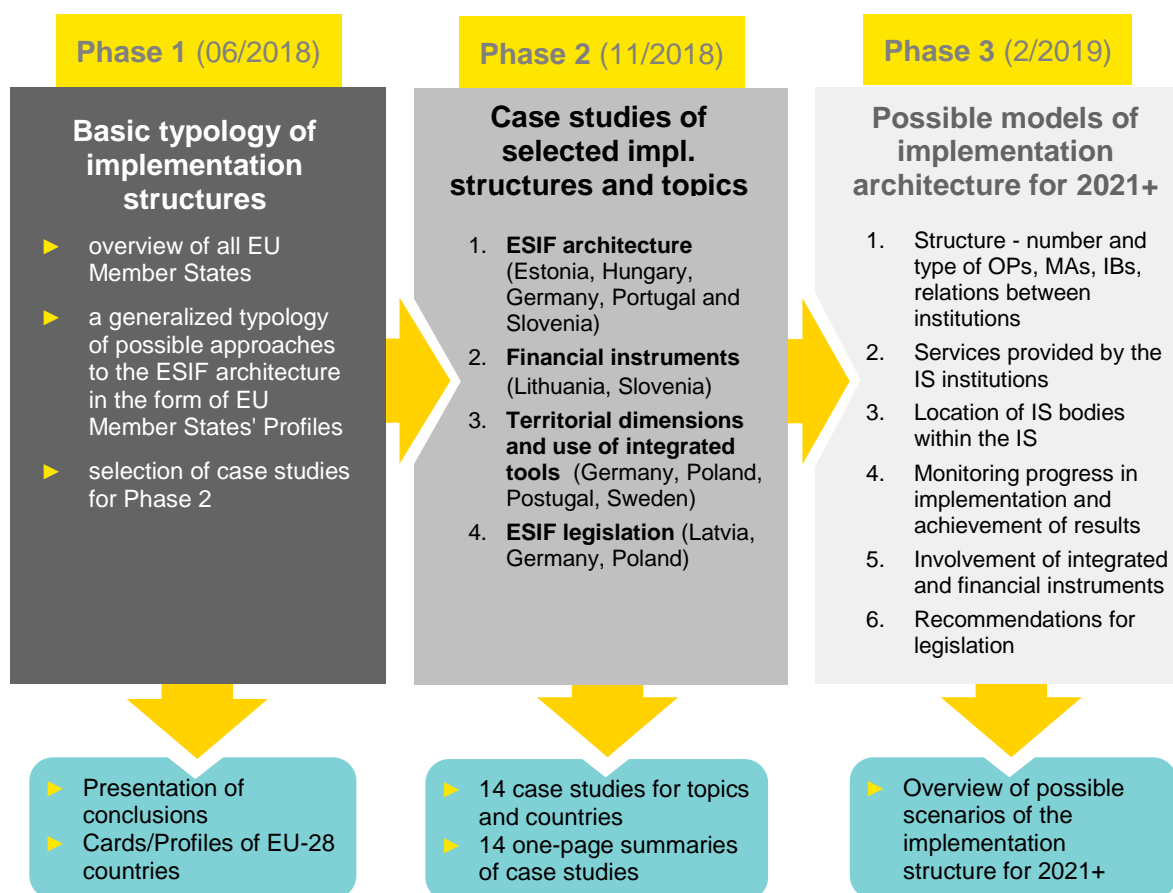
Introduction

The purpose of this Final Report (hereinafter referred to as "the Report") is to present to the Ministry for Regional Development of the Czech Republic (hereinafter "the Contracting Authority") the conclusions of the "Background Study for Preparation of the Implementation System for the Period 2021+" (hereinafter "Project"). The contractor was Ernst & Young, s.r.o. (hereinafter "EY"). The report was prepared based on the Contract for the provision of evaluation and analytical services for the management of the Partnership Agreement (hereinafter referred to as "the Contract") of 20 February 2018.

The outputs of the Project are one of the **background documents for the preparation of the programming period of 2021-2027**. The report is therefore primarily addressed to the Ministry for Regional Development of the Czech Republic as the National Coordination Authority responsible for coordinating preparations. However, the information and knowledge in this Report can serve all ESIF actors to gain a basic idea of implementation across the European Union.

The project ran from February 2018 to February 2019 and was divided into **three consecutive phases** that were inter-linked. The brief content of these phases, their duration and outputs are presented in Diagram 1.

Diagram 1: Proceedings of the three phases of the Project, their main content, deadlines, and outputs.¹



¹ The Project covers all operational programs in the EU-28 except for the Cross-border cooperation programs.

The outputs of the Project can be found in the annexes to this Report (see the list of annexes below). When using the final report and the individual outputs, it is necessary to consider the **Project assumptions** summarized at the bottom of this document. **Inception reports** were prepared at the beginning of each phase of the Project. Every initial project describes the basic information about the Project, the objectives of the phase, the detailed approach to address the evaluation questions of the given phase and the timetable. The overall course of the Project and a summary of the main conclusions are then presented in **graphical form** as Annex 1.

The structure of this Final Report is as follows:

- ▶ Introduction describing the structure of the Project and the Final Report;
- ▶ Summary of Project conclusions, which present the main findings of the three phases of the Project and recommendations for the implementation of the ESIF in the Czech Republic for the period of 2021+;
- ▶ Project assumptions, presenting main aspects related to data collection and interpretation of information in the Report;
- ▶ Description of the three phases of the Project, processing procedure and summary of tasks carried out, specification of the outputs of the given phase and their use – **only available in the Czech version of the Report.**

The following **annexes** are attached to the Final Report:

Annex 1: Visualization of Project Conclusions

Annex 2: 28 Member States' Profiles (Output of the Phase 1 of the Project)

Annex 3: Presentation of the conclusions of the Phase 1 of the Project (Output of the Phase 1)

Annex 4: Introductory information for the case studies (Output of Phase 2)

Annex 5: 14 case studies (Output of the Phase 2)

Annex 6: 14 one-page summaries of case studies (Output of the Phase 2)

Annex 7: Presentation of Model Options for the Czech Republic for the Period of 2021+ (Output of the Phase 3) – **only available in the Czech version of the Report**

The following table presents the members of the project team:

Team member	Role
Ing. Romana Smetánková, Ph.D.	Team leader
Ing. Michal Horáček	Team member
Ing. Lukáš Kačena	Team member
Bc. Petr Krucký	Team member
Ing. Tereza Marková	Team member
JUDr. Karel Zuska	Team member (legal expert)



**Summary of
Project
Conclusions**

Summary of Project Conclusions

The aim of this Report was to gain experience of and knowledge on the different types of implementation structures and approaches to the implementation of European Structural and Investment Funds (ESIF) from abroad, in particular from the EU-28.

This summary should be read in the context of the entire Project. For a clear understanding of the facts presented, it is necessary to become acquainted with the **assumptions and limitations of the Project** presented at the bottom of this document and with the outputs of the individual phases of the Project described in the following chapters and presented in Annexes 1-7 of this Report.

The structure of this section is as follows:

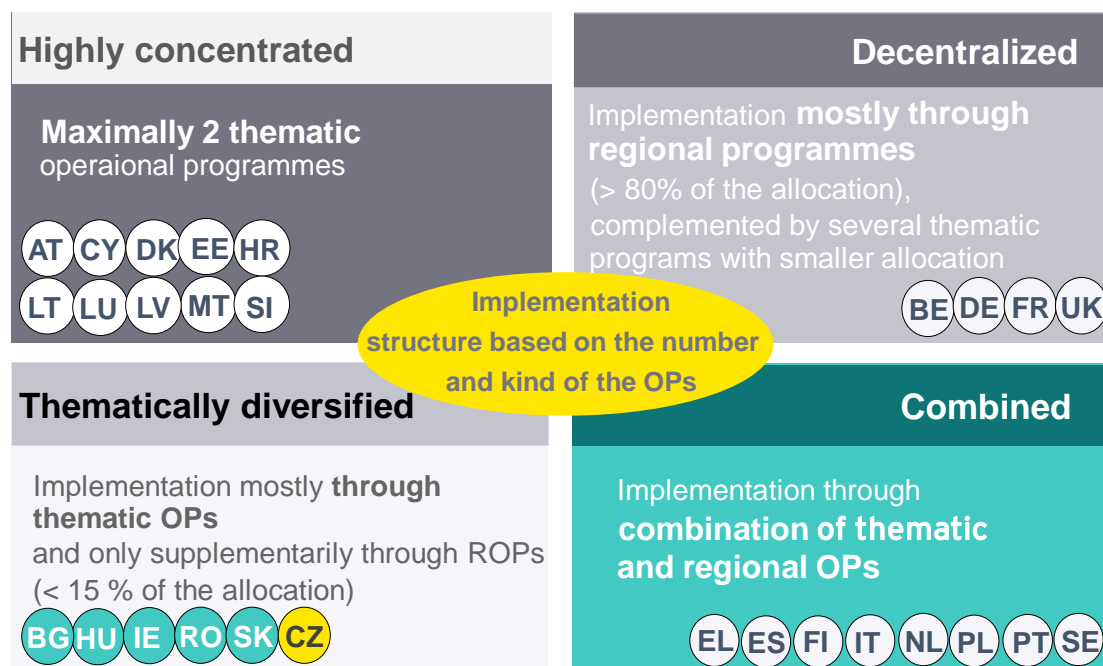
- ▶ Basic typology of approaches to the implementation structure (Phase 1 summary)
- ▶ Summary of case studies (Phase 2 summary)
- ▶ Model options of the implementation structure for the Czech Republic (Phase 3 summary)
- ▶ Summary of the main recommendations of the Project.

Basic Typology of Approaches to the Implementation Structure

Basic approaches to the implementation structure in terms of number and type of operational programs

The number and type of ESIF operational programs (thematic or regional) is mainly affected by the volume of the national allocation, the number of inhabitants, size of the country, the regional breakdown, and the degree of administrative autonomy of the individual regions. By analyzing the approaches in individual Member States (MS), we identified four basic types of implementation structures, which are pictured in the following diagram²:

Diagram 2: Basic types of the implementation structure.



² The diagram does not include the EAFRD and EMFF funds, which have in almost all MS their own operational programs managed by the relevant Ministry responsible for agriculture.

Apart from the structure of the operational programs, the following points were identified in the context of the general typology of implementation structures:

- ▶ The coordinating body responsible for coordinating ESIF has been identified in most Member States. However, the institutional anchoring, its competences and intensity of coordination vary considerably across countries.
- ▶ Most of countries surveyed have a legislative regulation of the ESIF, either in a form of law or subordinate regulation. A minority of states rely only on modifications to the existing legislation.
- ▶ In most countries, the Managing Authority or Intermediate Body are primarily responsible for enforcing irregularities (recovering unduly paid funds).
- ▶ The role of the Audit Authority is most often exercised by the national Control / Audit Authority or the Ministry of Finance. In addition, this function may be assigned to another body of the implementation structure (usually a Managing Authority), a specifically established institution or an internal audit unit.
- ▶ The share of the allocation implemented through financial instruments in most countries is higher than in the Czech Republic. On the other hand, the financial instruments were not used at all in four Member States in the programming period of 2014-2020.
- ▶ According to originally allocated funds, the integrated tools are used the most in the Netherlands, Germany, Denmark, Spain, France and Slovakia.

The detailed results of the Phase 1 of the Project are presented in the summary presentation in Annex 3 and in the Member States' Profiles in Annex 2.

Case Studies' Summary

The case studies covered a total of **nine EU Member States** across **four topics**:

1. ESIF Architecture (Germany, Estonia, Hungary, Portugal, Slovenia)
2. Financial Instruments (Slovenia, Lithuania)
3. Territorial dimensions and use of integrated instruments (Germany, Poland, Portugal, Sweden)
4. Legislative ESIF (Germany, Latvia, Poland).

The selected countries were mainly the new EU Member States (Slovenia, Estonia, Latvia, Lithuania, Hungary, Poland), and some of the former Member States (Germany, Portugal, Sweden) to gain inspiration from countries with long term experience with the implementation of the Cohesion Policy. The specific aspects/findings which were assessed as good practice and possibly as an inspiration for the Czech Republic in the Phase 1 of the Project were considered when selecting countries for Case Studies.

The most interesting aspects of the ESIF implementation approach that we identified in case studies across selected countries are summarized below for each of the four topics.

Topic 1: ESIF Architecture

1. Approaches to the structure of the operational programs

Analyzing implementation structures across the selected countries, we have met with all four types of implementation architecture mentioned above, of which the following two may represent some inspiration for the Czech Republic:

- ▶ Implementation of the ESIF through a single Operational Program

The specific form of a highly concentrated structure of the OP mentioned above is the implementation through a single operational program for all three major ESI funds (ERDF, ESF and CF). Especially the new Member States of a **smaller size and population** have followed this route in the 2014-2020 programming period. The advantages of this setting are easier coordination and standardization of procedures as well as relatively low costs of implementing ESIF (compared to other options). An important aspect of this option is the **strong competency and political position** of the Managing Authority. Alternatively, the operational programs can be set up according to **individual funds** (one ESF program and one ERDF/CF program).

► Thematically diversified structure of the Operational Programs

A similar structure of operational programs as in the Czech Republic (i.e. more **thematically oriented programs** complemented only marginally by regional programs), is applied in **Hungary** (out of the countries analyzed in the second phase of the project). This approach **puts greater demands on coordination of activities and harmonization of approaches** towards applicants/beneficiaries, but on the other hand it leaves more competencies in the hands of **Ministries as policy makers**.

2. Multiple levels of Intermediate Bodies

In some Member States, implementation is ensured through **two levels of Intermediate Bodies**. In the model of a single operational program mentioned above, there are usually so-called **Implementing Bodies** (often formed by state funds, foundations or state-funded institutions), which ensure a significant part of project administration for **sectoral ministries acting as Intermediate Bodies**. This setting can be found, for example, in Estonia or Slovenia, where there are evident efforts to centralize the management of ESIF.

A similar approach is applied in Germany, where there is an effort to move most implementation activities closer to the applicants and beneficiaries, thus giving the Ministries more space to focus on adjusting the content of programs in line with relevant policies.

3. The State Shared Service Center as Intermediate Body

A specific approach to administration of funds is the use of the **State Shared Service Center (SSSC)**. The SSSC is responsible for the administration of projects across programs / priority axes. This approach is used in Latvia and, to a lesser extent, it is also being tested in Estonia. The main advantage of the use of the SSSC are the economies of scale since administrative work is carried out by a single specialized institution. Furthermore, the Ministries can focus on policy-making and on the creation of the content of the Operational Programs. The Shared Services Center can also provide the government with **additional services**, such as accounting or public procurement administration. The common denominators of the two countries applying this approach are small size and efforts to centralize and streamline state administration. The challenge of the approach is to set-up the involvement of individual Ministries, whose positions and the level of control of funded projects may be weakened.

4. Unified monitoring system

Most countries have undergone some form of **unification of the monitoring system** (perhaps except for Germany, where attempts to unify the system were only at the level of individual Lands), but the degree of integration differs. Hungary, for example, has undergone a **comprehensive integration** of monitoring systems into a system for both the beneficiaries, applicants and the actors of the implementation structure. However, the development and implementation were accompanied by major problems. In Estonia, a unified system has also been developed, but the implementation structure actors were able to **get involved voluntarily**. Portugal established a single system for beneficiaries and applicants and for the National Coordination Authority, which is **interconnected with the existing systems** of the Managing Authorities.

5. Relation between the Audit and Managing Authority

Communication and sharing of opinions/points of view between the Audit and the Managing Authorities has often been mentioned as the key prerequisite for a smooth implementation. In the analyzed countries (Slovenia, Estonia, Germany), the conclusions drawn by the Audit Authority were **not automatically binding** for Managing Authorities or Intermediate Bodies based on a specific legal regulation or methodology. The competent authority may not formally obey them in case of disagreement, but it is exposed to the risk of a negative opinion by the Audit Authority and consequent impacts on the Operational Program. However, according to the respondents, this is almost never the case, and a **consensus will always be reached** following the joint negotiation of the draft audit report (often due to good informal relations between the authorities). As a result, stakeholders usually accept the audit conclusions.

Topic 2: Financial Instruments

1. The Governance Structure of the Financial Instruments

In Slovenia, the main institution responsible for the implementation of financial instruments is the Slovenian Export and Development Bank – SID Bank, which manages the funds. SID Bank also manages some financial instruments (such as loans for energy efficiency and urban development, portfolio guarantees, etc.), while for other financial instruments (e.g. micro-loans for small and medium-sized enterprises, R&D loans) it uses intermediaries. The intermediaries are two commercial banks and the Slovenian State Enterprise Fund, due to the lack of interest of commercial banks.

In Lithuania, there are two key state institutions managing the funds - the INVEGA and VIPA development banks. INVEGA manages the funds in business support and VIPA in the field of energy efficiency and public infrastructure. Both institutions use financial intermediaries from commercial banks to manage financial instruments.

2. The focus of financial instruments and combination with subsidies

From the point of view of the **factual focus** of the financial instruments, both in Lithuania and Slovenia, these instruments are aimed at supporting entrepreneurship (small or medium-sized enterprises - SMEs), energy efficiency and public infrastructure.

In Lithuania, a combination of subsidies and financial instruments at the level of individual projects is allowed under the Energy Efficiency Support Fund, but it is very demanding in terms of administration. In Slovenia, however, the combination of subsidies and financial instruments at the project level was eventually not allowed, due to experience during the past programming period.

3. Good Practice and Implementation Barriers

The setting of financial instruments that fills the gaps in the market (and thus is not competitive with the tools that already exist) is considered as **good practice** in both countries. Similarly, the involvement of private companies (typically commercial banks) in the implementation of financial instruments is very much appreciated, however, such efforts were not successful in any of the analyzed countries in the originally intended range. The degree of centralization (or coordination of financial instruments by national development banks) is also highlighted in the two countries. It is also positively perceived that financial instruments help to change the established "grant mentality".

The **main barriers** to the successful administration of financial instruments in both countries include excessive administrative burden and the fact that the use of financial instruments by the public administration is (according to EUROSTAT rules) included into the state (public) debt. As already mentioned, the adequate involvement of commercial entities and the overlap of financial instruments funded from other sources (both national and European) also poses a problem.

Topic 3: Territorial dimensions and use of integrated tools

1. Use of CLLD

The **CLLD** is generally positively perceived in the surveyed countries (Germany, Sweden, Poland, Portugal) as a tool for defining priorities, topics and projects at the local level (**bottom-up**). Also, it helps to build local partnerships, and, thanks to the multi-fund character, it is possible to support a **wider range of projects** than in the past. However, the administrative complexity of the whole CLLD implementation process (including the distinction between the different rules of each fund used for the final beneficiaries) is assessed negatively. The building of the **professional and administrative capacities** of local action groups and the setting up of communication channels and expert support by central authorities (Managing Authorities) are essential.

A specific approach to the CLLD implementation was identified in Sweden, where a **single multi-fund operational program** covering the entire territory was reserved for this tool. Also in Portugal, the CLLD covers almost entire territory and is an important tool to support the creation of local strategies. There are 88 Local Action Groups (LAGs) in the country that are partly competing for financial support. In contrast, in Germany and Poland, the CLLD is used only in a few regions and the remaining areas continue to implement LEADER without the involvement of ESF and ERDF.

2. Use of ITI

ITI has different degrees of importance in each of the countries surveyed. In Poland and Portugal, ITI is an important instrument with an adequate allocation, the main aim of which is to support the

development of local and regional cooperation (however, the aim is not always achieved). In Poland, the ITI was mandatory for all regional capitals, and in some regions, there are more ITIs. On the other hand, in Germany and Sweden, ITI is a **marginal instrument** with little financial allocation applied to only a small part of the territory.

The areas of ITI have different roles in their implementation. In Poland and Portugal, they act as **Intermediate Bodies**. In Germany and Sweden, the regions did not have a formal role in the implementation structure, but they were responsible for **creating strategies** and ensuring the consistency of projects with these strategies. Administration of calls for proposals and projects is left in this setting for the Managing Authority, so the ITI itself does not have much administrative burden.

Topic 4: ESIF Legislation

1. The Legal Provisions of the ESIF

Most new Member States have a **specific form of legislation regarding the implementation of ESIF** from 2014-2020 (or even sooner). The legislation may take the form of a law or a subordinate regulation, and it usually covers basic aspects such as the competencies of key authorities, the procedure for providing grants, the eligibility of beneficiaries, the procedure for dealing with irregularities etc.

Experience from the analyzed countries (Estonia, Slovenia, Latvia and Poland in particular) shows that a separate regulation of the ESIF funding helps to **clarify the competences of key actors of the implementing structure** and helps the enforcement of rules. It also improves cooperation between different subjects of the implementation structure. However, the legislation setup should also be complemented by informal communication (for more information see the recommendations in the last part of this summary).

The preparation of specific ESIF legislation takes a considerable amount of time (even several years) and requires consultations with all relevant stakeholders. The existence of a supportive **IT system for creation of legislation**, which greatly facilitates the process of lawmaking, was identified as a good practice in Estonia and Latvia.

2. Adjustments to National Legislation

Adjustments to national legislation in relation to ESIF were different in the analyzed countries. In **Latvia**, the interventions were rather formal and the ESIF law addresses this area relatively comprehensively, and is complemented by further specific decrees. In **Germany**, specific legislation for ESIF was not adopted in most of the federal states, nor was there any significant modification of existing legislation, as national legislation is largely compatible with the European Commission Regulation and there are no major discrepancies in the provision of ESIF grants. Saxony is one of two states in Germany, which has adopted a specific regulation. Saxony adopted implementing directives governing the procedure for subsidies and the role of key players. In **Poland**, modifications to existing budget legislation were made in addition to the adoption of a specific ESIF law.

3. Legal Arrangement of Irregularities and their Resolution

We **did not identify major problems** from the respondents' point of view in the analyzed countries regarding the topic of irregularities (the definition of irregularities and the authorities' competencies to deal with them). In **Poland and Latvia**, irregularities are defined by the ESIF law or subsequent implementing regulations, where applicable, according to which irregularities are processed.

In **Germany**, irregularities are dealt with under national budgetary legislation and no specific adjustment is necessary – the Coordinating Authority usually issues only more precise guidance on the reporting of irregularities. Respondents have indicated that **more serious violations of subsidy conditions are considered as irregularities**, but that this is not a very common phenomenon in Germany, partly because most of the ESIF projects in Germany are reimbursed under ex-post procedures, and the detection of errors usually occurs before the subsidy is paid out. The resolution of irregularities is attributed to the Implementing Bodies in Germany and Latvia. In the case of Poland, the Managing Authority is always responsible for this procedure.

Case studies regarding this topic can be found in Annex 5, one-page summaries for each topic and country are presented in Annex 6.

Model Options for the Implementation Structure in the Czech Republic

By combining all information on the implementation structures obtained in Phases 1 and 2 of the Project and placing them in the Czech context, we formulated **possible approaches to setting up the implementation structure in the Czech Republic in the programming period of 2021-2027**. The concept of model options is as follows:

- ▶ The options briefly summarize the main aspects of the possible approach, its strengths and weaknesses and specific barriers to their implementation in the Czech Republic. Suggested solutions reflect the approaches identified in EU countries.
- ▶ Partial options that can be used modularly were developed for each of the areas addressed (architecture, integrated tools, financial instruments and legislation). It is therefore possible to work with each option separately. At the same time, however, a complex system of implementation can be compiled from individual partial options, provided that general assumptions (e.g. change of legislation to ESIF, low financial allocation for the Czech Republic, etc.) are fulfilled.
- ▶ Alternative possibilities correspond to six evaluation questions defined by the Contracting Authority, which were further divided into several sub-topics for clarity purposes.
- ▶ The option corresponding to the current state of implementation in the Czech Republic is marked as a zero option.

For the sake of completeness, please note that the goal was not to define and subsequently recommend one specific option of the ESIF implementation in the Czech Republic.

OP structure is the guiding principle for setting the number of MAs and Intermediate Bodies

In the **ESIF architecture** topic, we have developed several options concerning the **number and institutional set-up of Managing Authorities and Intermediate Bodies**. The number of Managing Authorities depends on the number of operational programs and therefore depends on the government's strategic decision reflected in the Partnership Agreement. Thus, in the case of the number of operational programs, four options were developed (concentrated, thematically diversified, decentralized and combined). Regarding the number of Managing Authorities, in addition to maintaining the current situation in the Czech Republic, where each program is administered by a single Managing Authority, the alternative option of management of several thematic programs by a single Managing Authority was added. This option could probably occur in the case of decrease in the number of OPs.

This is closely connected with the option of placing the MA either at the line ministry or at a regional institution (ideally in the case of regional OPs) or in a newly established organization. However, the status of regions as MAs does not currently have sufficient political support. Thus, a more appropriate option to consider is the possibility to involve the **regions as Intermediate Bodies** or beneficiaries of grant schemes within OPs.

In the case of Intermediate Bodies, four options have been developed. In addition to the current setting, the options cover the situations of the concentration of activities in one Intermediate Body across all operational programs, the reduction of the number of Intermediate Bodies or the increase of their number. The choice depends primarily on the decision of the Managing Authorities. It can be inferred that lower number of subjects should lead to lower administration costs and a more uniform approach to applicants/beneficiaries. On the other hand, it is necessary to consider targeting the program towards the regions and to ensure proximity to applicants and beneficiaries.

The role of the National Coordination Authority could be of a more coordinating character in the future

In terms of institutional framework, we also dealt with questions of **placing of the National Coordination Authority (NCA)** and the Audit Authority. In the case of the NCA, the alternatives are, besides keeping the current status, also a specifically established position within the Office of the Government or a specifically established organization. Moving under the Government Office can support the prioritization of ESIF. The institutional setting of the NCA is also related to the role this institution should play. This usually depends on the complexity of the implementation structure and, in particular, the number of OPs. The role of the NCA may be either focused on coordination, thus leaving more room for the Managing Authorities, or it can be focused more on managing, i.e. with the emphasis on setting and enforcing uniform rules across OPs. In the light of the information from case studies, the role of NCA in the Czech Republic could be more coordinating in the future.

The role of the Audit Authority may be exercised by another independent / supervisory authority apart from the Ministry of Finance, for example by the Supreme Audit Office. It may also be set up within the same institution that performs the role of the MA (assuming independence and a clear separation of their roles). Changing the Audit Authority's position could be caused, for example, by the requirement to increase efficiency in the performance of controls and audits in general, as well as to strengthen communication between the Audit Authority and the MA. However, it is always necessary to maintain a high degree of audit competence and to keep the management and executive roles separated from the audit role. The role of the Audit Authority in the implementation structure determines, apart from its position, the validity of its conclusions with respect to other entities. Therefore, we have also elaborated the option where the MA has the possibility not to follow the conclusions of the Audit Authority (see also summary of the case studies above). This option would, however, places greater demands on the functionality of the entire control system for greater alignment of the approaches of both institutions.

In the area of the **ESIF monitoring**, we dealt primarily with the issue of the monitoring system. An alternative to the current state of the monitoring system (a single system for the implementation structure and for the beneficiary) is a single system for the beneficiary and the coordination authority that is integrated with the specific systems of the MAs. This approach can be supplemented by the voluntary involvement of individual MAs and Intermediate Bodies. However, considering the already robust system of MS2014+, this option appears to be inefficient.

When defining the roles and competencies of the main implementers of integrated instruments, it is advisable to consider the degree of administrative burden

A separately addressed area of the evaluation is the **use of integrated and financial instruments** into the implementation of the ESIF. In each area, a total of six options were developed to cover the specifics of each one of them.

In the case of ITI/CLLD, we have dealt with the question of the need to create a specific legislation that would more clearly define the competences of the individual actors. On the other hand, the ESIF legislation is accompanied by a complex process of preparations. Implementation based on existing legislation (or possibly with its minor modifications) is currently a more viable solution, even though it carries the risk of transmitting some shortcomings. We have also addressed the role of implementing agents of the integrated instruments (ITI, Local Action Groups). The position of implementing agents as Intermediate Bodies strengthens their influence on the selection and implementation of projects. On the other hand, it increases management and administrative burdens and it requires sufficient capacities and knowledge. An alternative to this option is the less formal role of the holders of integrated instruments, who are primarily responsible for developing relevant development strategies and, where appropriate, participating in substantive evaluation of projects.

A thorough analysis is necessary for considering the implementation of financial instruments in the Czech Republic

The fundamental questions addressed in the topic of financial instruments are the question of their use within ESIF in the Czech Republic, the combination of subsidies and financial instruments and the degree of (de)centralization of the implementation of financial instruments. The primary issue is whether to implement the financial instruments at all. Such a decision must reflect the specific targeting of the operational programs and the range of potential beneficiaries, and it should be based on a thorough analysis of the benefits and barriers/limits. The close cooperation with financial institutions appears to be a key issue when analyzing both their supply of financial instruments to the same target audience group and when assessing their appropriate involvement in implementation. The latter is more fundamental to the success of the financial instruments implementation than the question of (de)centralization of the implementation structure.

The possibility of combining financial instruments and subsidies then brings more opportunities for applicants and can potentially expand their number. On the other hand, it presents considerable administrative costs and difficulties in managing implementation.

Irregularities could be implemented in national legislation, or the definitions of irregularities and the infringement of budgetary discipline could be reconciled

The last area covered by the evaluation is the **legal framework of ESIF** in the Czech Republic. We have elaborated options ranging from modifications of the existing legislation to the possibility of a separate law regarding the ESIF. A separate law brings benefits in terms of clearly set competences of individual entities involved in implementation, resulting in lower risk of conflicts as well as

appropriately set procedures. However, the creation of a high-quality legislative act requires a change in many related laws and takes several years. The creation of such legislation should therefore start well in advance of the new programming period. An alternative is to continue with partial modifications of the existing legislation in order to remove specific bottlenecks. In the latter case it is also possible to define the competencies of the key institutions of the ESIF implementation.

We have also focused on the ways to **resolve irregularities**. There is a possibility of a very specific adjustment of irregularities in national legislation, either within the existing budgetary rules or within a specific adjustment linked to the overall shift of managing irregularities to the Managing Authorities. This option would considerably simplify the whole system; however, in the Czech Republic's conditions, it is relatively difficult to implement due to the need to change the related budgetary rules. The opposite approach would be to align the definition of the infringement of budgetary discipline with the definition of irregularities, thereby reinforcing the role of financial administration throughout the process.

A detailed description of all model options (Output of the Phase 3 of the Project) is presented in Annex 7 (only available in Czech).

Summary of the main recommendations resulting from the Project

Besides the main model options, we identified some general and more specific recommendations for the preparation of the 2021+ programming period based on experience with the ESIF implementation in the analyzed countries, both positive and negative.

General recommendations for setting up the implementation structure

► **Stability and continuity**

The key aspects of a successful implementation of the ESIF that is often mentioned by respondents across countries are stability, predictability, and continuity. Interventions in the implementation structure should be coherent and rather evolutionary than revolutionary. An important aspect of continuity is the preservation of the know-how transferred by key employees, which should be the primary objective when changing or transferring competencies to other institutions. Gradual improvement of the implementation structure was mentioned, for example, in Estonia or Slovenia.

► **Sufficient time to implement changes**

Following the previous point, significant changes in the implementation structure should not be overwhelming and sufficient time should be devoted to their preparation, explanation and, ideally, testing. For these reasons, it is appropriate to consider the possible development of the ESIF after 2027 already during the preparation of the forthcoming programming period of 2021-2027 and to adapt some further steps now so that changes in the future may not be of a more fundamental nature. For instance, the preparation of an ESIF law or the preparation for a stronger concentration of implementation in fewer institutions may exceed one programming period. An inspiration for gradual change can be the Estonian pilot project of the State Shared Service Center as an Implementing Body.

► **Communication between institutions**

Despite the banality of this recommendation, it is necessary to emphasize that, in particular, informal communication and the ability to agree on a common approach are crucial to the proper functioning of the implementation structure. It is possible to boost this type of communication in many ways; from the experience of other countries can be mentioned, for example, the location of implementing institutions within one building, the organization of informal meetings and the pursuit of maximum dialogue.

► **Relationship between the Audit Authority and other actors of the implementation structure**

The role of the Audit Authority within the implementation structure is very important. Currently, its role is even strengthened by the binding nature of its conclusions for other entities (although this was not the case earlier, when the same situation could previously be considered by the Managing Authority to the contrary). Based on inspiration from the analyzed countries (Slovenia, Estonia and Germany, for example), it would be worthwhile to consider whether to leave more space to the Managing Authorities to investigate identified findings of the Audit Authority. At the same time, it would be beneficial to strengthen the dialogue and exchange of experience between the Audit Authority and the Managing Authorities or Intermediate Bodies in order to minimize different views and assessments of the same situations. It should be also considered whether the Managing Authorities should not be able to comment on draft audit reports even when the auditee is only the beneficiary.

Recommendations for setting up the financial instruments

- ▶ **Evaluate the success of the implementation** of financial instruments supported by the ESIF, the appropriateness of the implementation structure and the status in the 2014-2020 programming period.
- ▶ **Define expectations** of the financial instruments / determine what is to be achieved by implementing financial instruments.
- ▶ **Implement a robust ex-ante analysis** identifying market gaps, defining appropriate tools and their target market, including the analysis of absorption capacity, the design of the implementation structure and the identification of entities eligible to be involved in the implementation structure. According to this analysis, it is also necessary to set the expected amount of financial allocation that should be earmarked for financial instruments.
- ▶ **Decide** on the form of financial instruments and the implementation structure **as soon as possible** and include all relevant actors in the preparation of financial instruments.
- ▶ Set up financial instruments in a way to **avoid duplication**, so that the financial instruments supported by ESIF do not create competition for:
 - ▶ market supply,
 - ▶ financial instruments supported from other sources (both national and European),
 - ▶ subsidies.
- ▶ Define areas that will only be supported by financial instruments and will not be subsidized.
- ▶ Set up the implementation structure of financial instruments so that **private entities** can be involved to the maximum extent possible and leveraged by private equity.
- ▶ Consolidate (unify) the support of financial instruments provided from different sources and **centralize their implementation in order to create synergies and avoid duplication**.

Recommendations for setting up the integrated instruments

- ▶ **Evaluate the success of the implementation of integrated instruments** in the current programming period of 2014-2020, the current state and needs of regional development, integrated instruments and local actors. Evaluate the number and functioning of local action groups and ITI. Include partners from the territory (e.g. the LAGs) while preparing the new programming period of 2021-2027.
- ▶ **Define expectations from Integrated Instruments**, or set goals to be achieved by implementing Integrated Instruments, and adapt Integrated Instruments to these goals. In case of LAGs, the objective can be, for example, to support bottom-up (local) initiatives, motivation and support for citizens and local actors in the territory, etc. In case of ITI, the aim is, for example, to promote synergies or the cooperation in the area.
- ▶ **Define the basic principles (standards) of the establishment and functioning of the LAGs**, and at the same time establish procedures for verification of compliance with these principles by the Managing Authorities or Intermediate Bodies. Ideally, set a few basic and simple rules (e.g., the obligation to involve different partners in decision making, the coverage of a defined territory, the written form of a partnership) and check them regularly (e.g. once a year, or check in case of change).
- ▶ **Appropriate LAG and ITI support** by the implementation structure (ideally by setting up a single contact point for all funds/programs, setting up coordination committees, etc.), including **strengthening the expertise of LAGs and ITIs staff**, especially in the preparation and implementation of development strategies, animation (interconnection and communication) of different partners in the territory.
- ▶ **Simplify administrative procedures** for approving and managing projects as much as possible.
- ▶ **Maintain the multifund nature in the implementation of local development strategies** (i.e. the possibility to implement projects under different funds - ERDF, ESF, EAFRD, EMFF), but due to

administrative difficulty set the rule "one project - one fund". Set up the administration procedures as close as possible for each fund (e.g. by matching processes, patterns, example forms, etc.).

- ▶ **CLLD and ITI should not be too restricted thematically in operational programs**, but it should be maintained the obligation that individual projects must go hand in hand with local development strategy that must, in turn, be in line with superior / other strategies (regional development).

Recommendations for the ESIF Legislation

- ▶ **Identify existing problems** in the implementation of the ESIF related to legislative issues and assess whether the adoption of specific legislation would help to solve them. Compare the severity of the impacts of these issues and the benefits of their resolution with the time and administrative demands of adopting new legislation.
- ▶ In case of a decision on the adoption of specific ESIF legislation, **start with its preparation as soon as possible** and **involve all relevant stakeholders** in its preparation.
- ▶ Open the discussion on the current **legal setup of irregularities** given the competencies of individual actors in order to simplify the existing system. Consider the specific adjustment of irregularities and **strengthening the role of the Managing Authorities** in the solution of irregularities and associated **enforcement** of ineligible costs.
- ▶ Simplify the process of addressing irregularities by setting a **minimum threshold for irregularities** in order to reduce their number (similarly to Art. 44a (6) of the Budgetary Rules, but the values should be reasonably higher as e.g. in Latvia, where the equivalent of 250 EUR permitted by the EC Regulation is applied). The change should include an analysis on what amount of irreconcilable value of the irregularity will bring the desired effect, but at the same time will ensure avoiding misuse of this institute by the beneficiaries.

The visualization of Project's conclusions and main recommendations are to be found in Annex 1.

Assumptions and Limitations of the Project

The Report was conceived as an overview of the various arrangements of implementation structures across the EU Member States. It is not intended to exhaustively map out the specific aspects of national implementation systems. Especially during the first and second phases of the Project, it was necessary to consider a number of particularities related to the collection of information on ESIF implementation, which could affect the state of the presented information. One of the reasons for mentioning this is that we believe it is advisable to take these realities into consideration when setting up and implementing future projects based on the collection of information on ESIF.

When interpreting the Project's results, the following should be considered in particular:

- ▶ **Objectivity of the presented information.** The extent to which information on ESIF implementation is publicly available differs across the EU. The rule of thumb is such that the availability of information is generally higher with new Member States, as the significance of ESIF (corresponding to the importance of EU contribution to national budget) tends to be higher relative to that of the original Member States. For this reason, objective information had to be supplemented by information obtained from interviews with representatives of the implementation structure in each country. Although our goal was to objectivize the information, it is possible that some of the presented facts may be perceived by the reader as subjective.
- ▶ **Extrapolation of information.** The scope of the Project and its timetable did not allow for a detailed analysis of the information on ESIF implementation, particularly in countries with a regional arrangement (e.g. Germany, France and Italy). In these cases, an analysis of a sample of programs was conducted aiming to obtain a cross-sectional picture of the situation in the given country.
- ▶ **Time horizon.** The Report, and phases 1 and 2 in particular, work with data obtained on a given date. Every ESIF implementation system is a living organism that changes over time; therefore, the information presented in this Report may not correspond to the actual state of affairs at a later time.
- ▶ **Availability of information.** To obtain sufficient and up-to-date information in the given time frame was the most limiting factor. In spite of a high effort to obtain as much essential data as possible, the Project was faced with the following barriers:
 - ▶ **Contacts and the willingness of the representatives of the implementation structure to cooperate.** The workload of the ESIF implementation structure representatives is high across all countries. Despite our maximum effort (including conducting interviews in respondents' national language), it was not always possible to obtain information from persons who had been recommended as competent and knowledgeable in the complex matters. In the cases when it was not possible to reach out to such persons, other means of data collections were employed.
 - ▶ **The competence of a respondent.** Not all respondents could have had accurate, up-to-date information on the status of the implementation structure. For this reason, we tried to verify the information from various sources, particularly in instances when the information diverged from our expectations. Interview transcripts, or a selection of information at least, would be sent to the respondents for authorization.

The limitations stated above regardless, this Report was elaborated with the utmost effort to obtain comprehensive and objective information on ESIF implementation in the countries concerned. Thus, the Project outcomes account for a convenient overview of a wide range of possibilities. For the sake of completeness, we disclose that inaccurate or unverified information was not included in the Report.

List of Abbreviations

Abbreviation	Explanation
AA	Audit Authority
CA	Certification Authority
CF	Cohesion Fund
CLLD	Community-Led Local Development
EAFRD	European Agricultural Fund for Rural Development
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EU-28	All EU Member States
EY	Ernst & Young, LTD.
FI	Financial Instruments
IB	Intermediate Body
IS	Implementation Structure
IT	Information Technology
ITI	Integrated Territorial Investments
LAG	Local Action Group
MA	Managing Authority
MS	Member State (EU)
MS2014+	Czech ESIF monitoring system
NCA	National Coordination Authority
OP	Operational Program
R&D	Research and Development
SME	Small and Medium Enterprises
SSSC	State Shared Service Center

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