KPMG

EU Funds in Central and Eastern Europe

Progress Report 2007–2015

KPMG in Central and Eastern Europe

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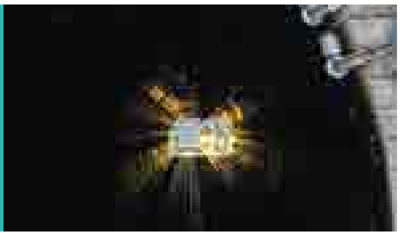
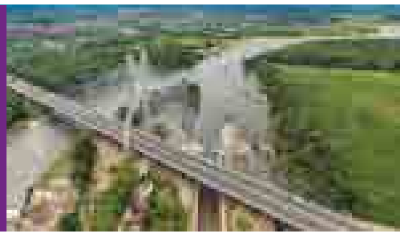
Contents





Foreword

We are pleased to present the 8th edition of our regional annual report on EU funds in Central and Eastern Europe (CEE). The programming period 2007–2013 was the first full membership period for the EU member states included in this paper (except for Croatia, who joined on 1 July 2013).

The new financial perspective for EU funding covers the years 2014–2020. Currently, all of the countries have finalized the negotiations stage with the European Commission (EC) and have signed agreements, which means that the implementation process in Central and Eastern Europe has begun.

Such funds have contributed to the overall development of each member state's economy in numerous aspects – a facet most visible in hard transport infrastructure and environmental protection, which were mostly neglected during the communist era. Also, funds have been applied for renovation of historical heritage, re-development of cities, and extended urbanization (in terms of clean and sewage water systems, waste management, etc.). A great proportion of funds has been used for human development, increased citizen engagement and development of NGOs. Many governments, as well as local and city authorities, have used funds for the development of their IT systems, both for data analysis, e-government and for providing citizens broader access to modern communication technologies.

It should be also noted that the availability of EU funds emerged in parallel with the world economic crisis. Policymakers and the citizenry in the CEE countries realized that effective use of the funds can be very useful for supporting their economies during slow economic growth periods.

However, the number and value of R&D projects financed by EU funds were the lowest out of all the categories in every country. The majority of projects financed aimed at quality of life improvements and the equalization of living standards among European member states. Not all these projects contributed to building long-term strategic advantages for national economies.

We present this report for some perspective on the lessons learned from previous years. Comparing the results for each individual country and between them may constitute good practice and provide food for thought on the use and monitoring of such funds going forward.

We encourage you delve further into the report and invite you to contact our local experts for further discussion on its contents.

Mirosław Proppé
Partner
Head of Government, Infrastructure
and Healthcare Sector in Poland
and in Central and Eastern Europe

Introduction

Since the CEE countries became EU Member States, EU co-financing has become an essential factor for their development. The EU Structural Funds and Cohesion Fund (SCF), accounting for 11% to 23% of these countries' annual GDP, have significantly fostered regional cohesion.* Thus we believe there is a need for an overview and comparison at the CEE level of the implementation status of programs co-financed from the SCF.

Purpose of the document

- To give an overall picture of EU SCF available during the 2007–2013 period in the CEE countries;
- To give an overall picture of EU SCF available during the 2014–2020 period in the CEE countries;
- To provide the implementation progress of EU SCF structured by types of intervention at December 2015.

Structure of the document

- Introduction, CEE overview on EU co-financed interventions and their progress by year-end 2015;
- Country verviews.

Sources of the document

- The data on EU funds contained in this report come from domestic sources within the CEE countries, i.e. from public institutions which are responsible for collecting and processing European funds data (from the relevant ministries); Annual GDP data contained in the report come from Eurostat 2015, and the Czech Statistical Office as Czech annual data was not available in Eurostat;
- General information contained in the report comes from the European Commission web page: *http://ec.europa.eu/index_en.htm*;
- Definitions contained in the report are defined by KPMG.

Definitions

Available budget 2007–2013/2014–2020

Available budget 2007–2013 or 2014–2020 is the EU funding contribution without any national public contribution or private contribution. This budget is set in each country's National Strategic Reference Framework (NSRF) and is approved by the European Commission. Available budget includes European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF).

Contracted grants

Contracted grants are the amounts for which a contract has been signed by the Managing Authority or Intermediary/ Implementing Body and the beneficiary by 31 December 2015 for 2007–2013 period. Contracted grants includes ERDF, CF and ESF. The same interpretation of contracted grants applies to the new perspective 2014–2020.

Paid grants

Paid grants comprise the amount of grants (including advanced payments) which have been disbursed to the beneficiaries by 31 December 2015 for 2007–2013 perspective. Paid grants include ERDF, CF and ESF. The same interpretation of paid grants applies to the new perspective 2014–2020.

Contracting ratio

Contracting ratio is equal to the amount of actual contracted grants in 2007–2013 divided by the budget available for 2007–2013. Contracting ratio includes ERDF, CF and ESF. The same interpretation of contracting ratio applies to the new perspective 2014–2020.

Payment ratio

Payment ratio is equal to the amount of actual paid grants in 2007–2013 divided by the budget available for 2007–2013. Payment ratio includes ERDF, CF and ESF. The same interpretation of payment ratio applies to the new perspective 2014–2020.

EC certification

EC certification is equal to the amount of actual certified funds by the EC by 31 December 2015 for 2007–2013 period. EC certification funds include ERDF, ESF and CF. The same interpretation of EC certification applies to the new perspective 2014–2020.

EC certification ratio

EC certification ratio is equal to the amount of certified funds by the EC in 2007–2013 period divided by the budget available for 2007–2013 period. EC certification ratio includes ERDF, ESF and CF. The same interpretation of certification ratio applies to the new perspective 2014–2020.

2007–2013/2014–2020 perspectives

There are 7-year financial frameworks approved by the European Commission, which set the maximum amount of spending in the EU budget each year for broad policy areas and fix an overall annual ceiling on payment and commitment appropriations for the development of the EU countries. Expenses above and beyond the EU budget are financed by the EU countries themselves (through governance).

2007–2015 data

These data comprise the actual amount of expenses planned for the 2007–2013 perspective, which also includes agreements provided for the years "n+2" (in this case "2013+2", i.e. 2015), for the methodology approved by the European Commission.

** Information does not reflect Croatia data as their accession date was at the end of 2007–2013 perspective*

EU Structural and Cohesion Funds

The report introduces community co-funded programs covered by each member state's NSRF aggregated into intervention types.

European Regional Development Fund (ERDF)

The ERDF aims to promote economic and social cohesion by addressing main regional imbalances and participating in the development and conversion of regions, while ensuring synergy with assistance from other Structural Funds.

- Investment which contributes to create sustainable jobs
- Investment in infrastructure
- Support for local and regional investments (SMEs, R&D, information society, etc.)
- Financial instruments, i.e. JEREMIE
- Investment in education and health

Cohesion Fund (CF)

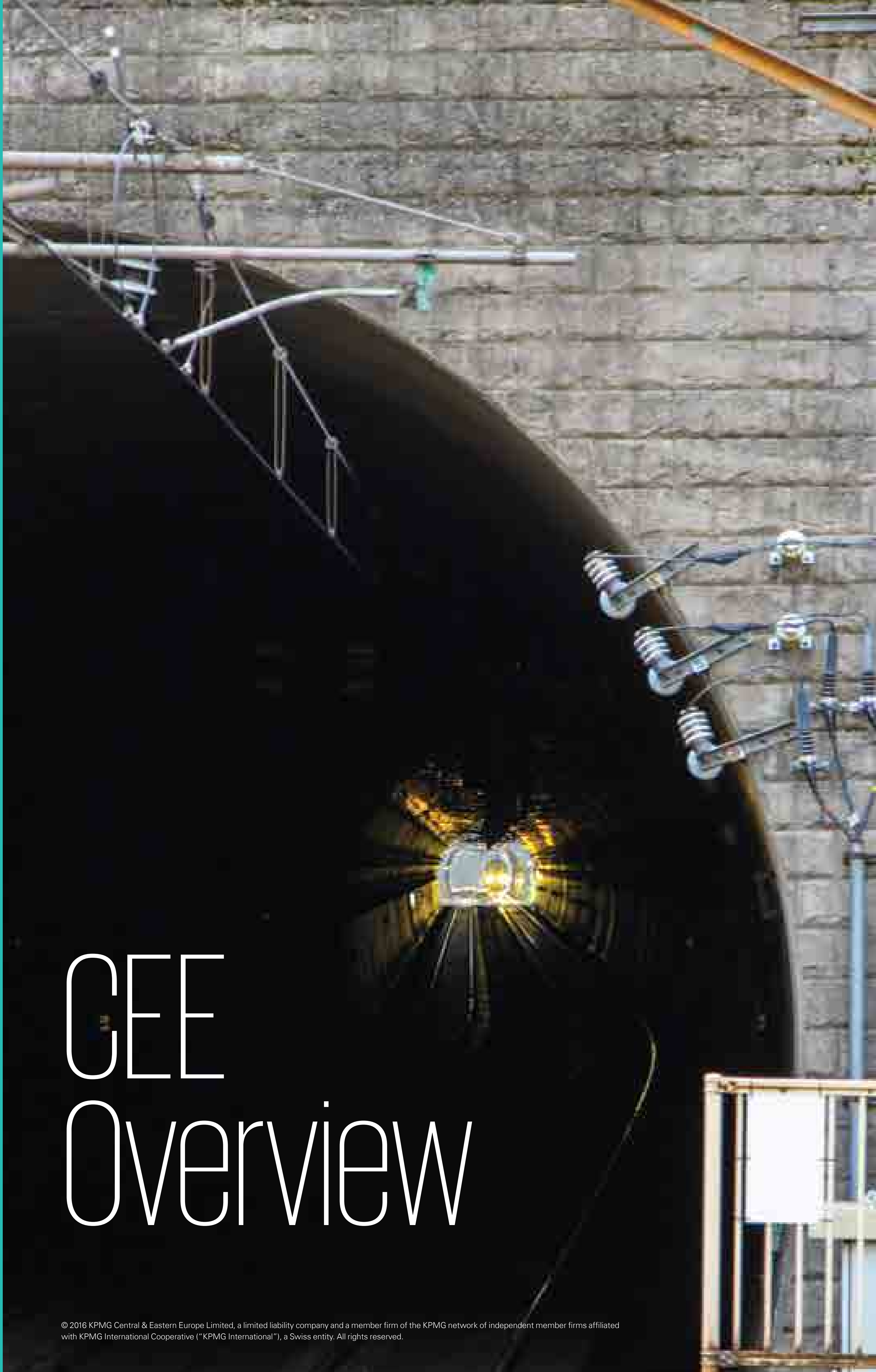
The purpose of the CF is to co-fund actions in the fields of environment and transport infrastructure of common interest with a view to promoting economic and social cohesion and solidarity among member states.

- Investment in major infrastructure projects (i.e. TEN-T)
- Investment in major environmental projects
- Support of renewable energy
- Investment in sustainable transport

European Social Fund (ESF)

The ESF was set up to reduce differences in prosperity and living standards across EU Member States and regions. In order to promote employment conditions, ESF supports companies to be better equipped to face new challenges.

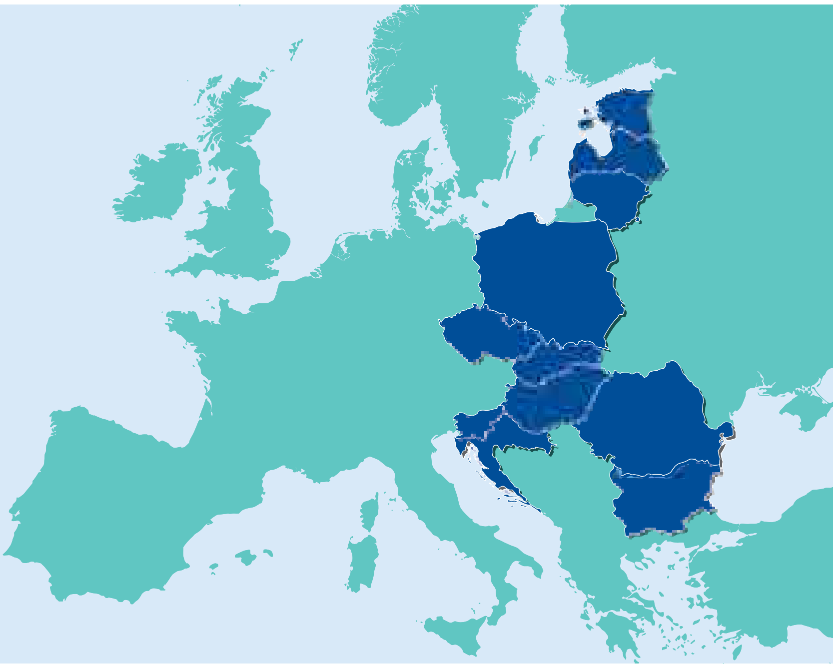
- Improving human resources
- Increasing the adaptability of workers and firms, enterprises and entrepreneurs
- Improving access to employment and sustainability
- Improving social inclusion of less-favored people
- Strengthening institutional capacity at national, regional and local levels
- Mobilization for reforms in the fields of employment and inclusion



CEE Overview

CEE countries covered by this report

- Bulgaria
- Croatia
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Poland
- Romania
- Slovakia
- Slovenia



For the purposes of this document, Central and Eastern Europe refers only to some European countries, not necessarily historically considered as a part of the CEE region. For the purposes of this report, we are taking into consideration those countries which are both in KPMG's CEE region and are EU member states.

Objectives

- Providing an overview of basic CEE country information;
- aggregating data for EU funds and available budget in CEE countries for the period 2007–2013;
- presenting contracted and paid grants, contracting and payment ratios achieved in implementation of EU funds during 2007–2015 period; and
- aggregating data for EU funds and available budget in CEE countries for the period 2014–2020.

General approach

All data included in this section are based on individual, publicly-available country-level information derived from CEE countries:

- country figures (incl. GDP and population data) were collected by local KPMG practices;
- amounts of financial resources originate from the financial table of the related EU Structural and Cohesion Funds of 2007–2013 and 2014–2020;
- variations in exchange rates can impact the actual values of contracted and paid grants for those member states which are not part of the eurozone;
- exchange rates applied in calculations are the average European Central Bank exchange rates for the years in question; and
- all the averages calculated in the report are arithmetical averages.

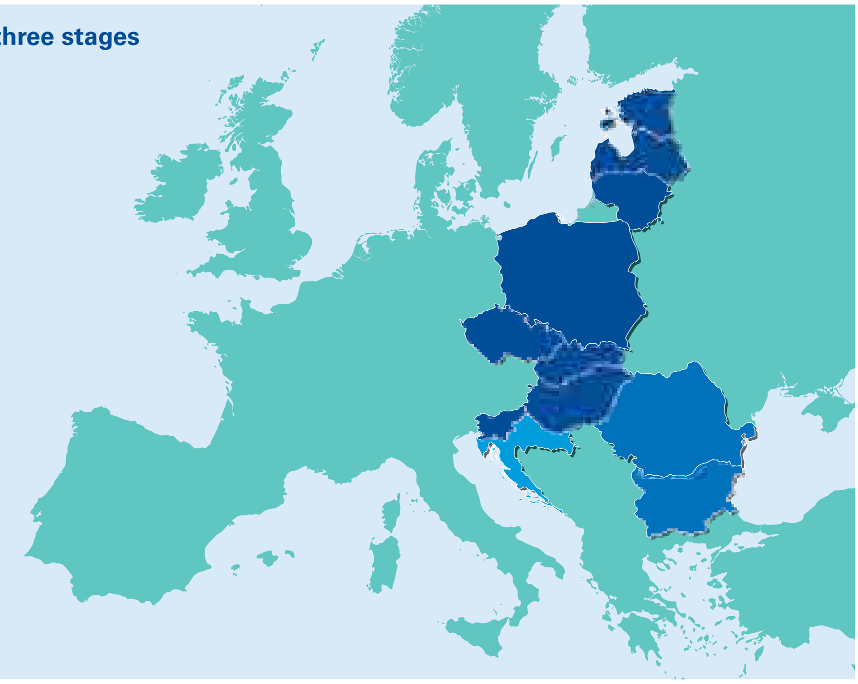
Basic CEE information on EU SCF in 2007-2013

The eleven CEE countries joined the EU in three stages

1 May 2004 — Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia

1 January 2007 — Bulgaria, Romania

1 July 2013 — Croatia

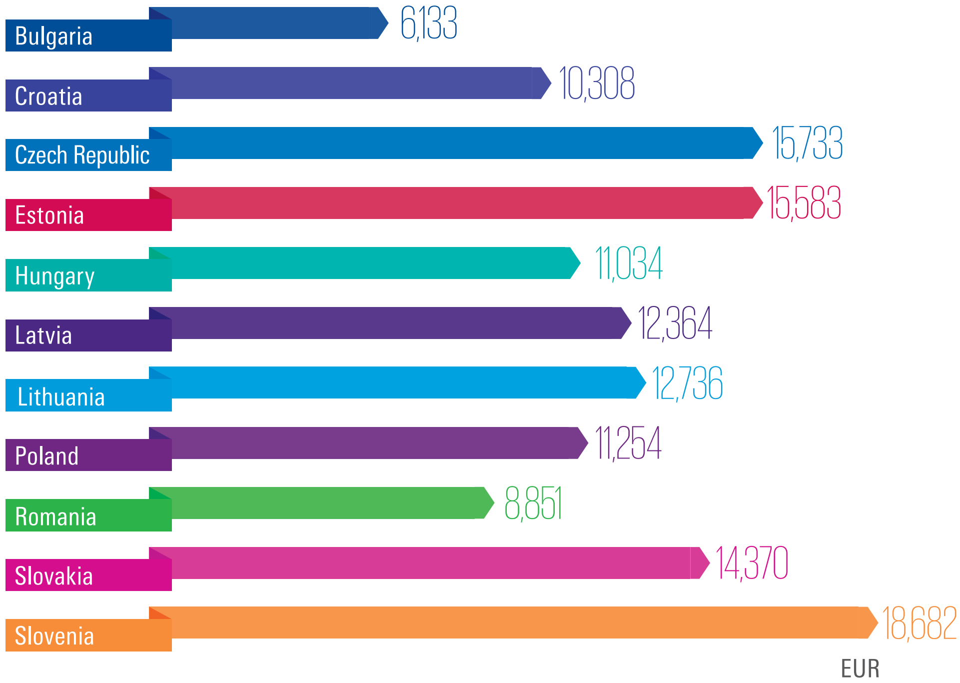


In the 2007–2013 period these 11 CEE countries had access to EUR 175.89 billion of EU funds, from ERDF, CF and ESF, excluding national public and private contributions, which constitutes 14.8% of the annual GDP of the region. The following table and graphs show the population, GDP and breakdown of EU funds by country.

Basic CEE information on national accounts and EU funds 2007–2015

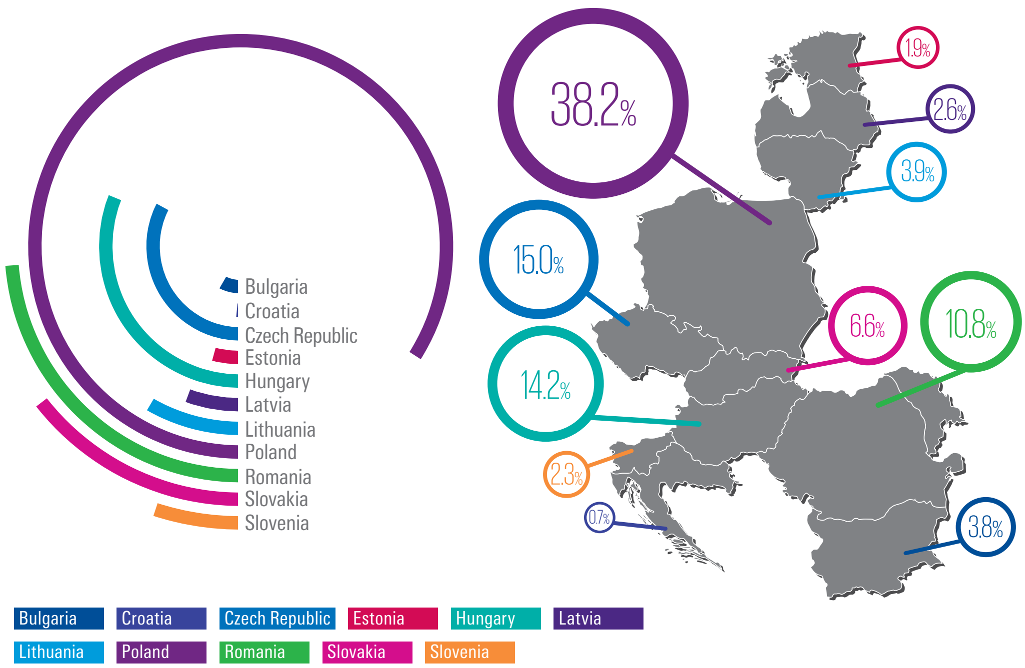
	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE total	CEE average
Population (million)	7.2	4.23	10.54	1.31	9.86	1.97	2.92	38.01	19.86	5.43	2.06	96.19	9.62
Annual GDP (EUR billion)	44.16	43.55	165.80	20.46	108.75	24.38	37.19	427.72	175.79	78.07	38.54	1,120.25	112.02
GDP per capita (EUR)	6,133	10,308	15,733	15,583	11,034	12,364	12,736	11,254	8,851	14,370	18,682	137,048	12,459
EU funds 2007–2015 (EUR billion)	6.67	1.29	26.30	3.40	24.92	4.53	6.78	67.19	19.06	11.65	4.10	175.89	
EU funds per capita (EUR)	927	305	2,496	2,592	2,529	2,298	2,320	1,768	960	2,144	1,988		1,848
EU funds per GDP (%)	15.1%	3.0%	15.9%	16.6%	22.9%	18.6%	18.2%	15.7%	10.8%	14.9%	10.6%		14.8%

GDP per capita



Sources: KPMG calculation based on EUROSTAT and Czech Statistical Office data, 2015, in EUR

Breakdown of EU funds 2007–2013 by country



The amount of allocated EU funds differs among countries – the highest budget is allocated for Poland, which is the most populous CEE country. However, per capita ratio of EU funds is highest in Slovenia, Estonia and the Czech Republic.

Poland and the Czech Republic account for more than 50% of the allocated EU funds. Together with Hungary and Romania, their total amount represents over three-fourths of the total EU funds allocated for the CEE region.

Progress achieved during the implementation of EU funds in 2007-2015

General information on progress for 2007–2015
Budgets were set according to different considerations among the member states through their National Strategic Regional Framework Programs.

During the 9 years of implementation of EU co-funded programs, beneficiaries signed contracts totaling EUR 187.10 billion, which exceeded the budget available for the programming period by 6 percentage points.

By the end of 2015 over 87% of the contracted grants, i.e. EUR 163.66 billion were disbursed to the beneficiaries.

Accordingly, the following table shows all related data by country regarding the 2007–2015 period.

Basic CEE information on EU funds implementation 2007–2015

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE total	CEE average
Available budget 2007–2015 (EUR billion)	6.7	1.3	26.3	3.4	24.9	4.5	6.8	67.2	19.1	11.7	4.1	175.89	-
Available budget 2007–2015 per capita (EUR)	926.9	305.5	2,495.9	2,592.1	2,528.6	2,298.0	2,320.4	1,767.8	959.5	2,144.4	1,987.8	-	1,847.9
Contracted grants 2007–2015 (EUR billion)	7.0	1.5	27.0	3.4	29.2	4.7	6.7	66.9	22.1	14.2	4.4	187.10	-
Contracting ratio (in %)	105%	117%	103%	100%	117%	104%	99%	100%	116%	122%	107%	-	108%
Paid grants 2007–2015 (EUR billion)	6.4	0.7	23.3	3.2	27.7	4.4	6.7	61.6	13.9	11.3	4.3	163.66	-
Payment ratio (in%)	95%	57%	89%	95%	111%	97%	99%	92%	73%	97%	105%	-	92%

Available budget 2007–2013 per capita vs. contracted grants 2007–2015 per capita

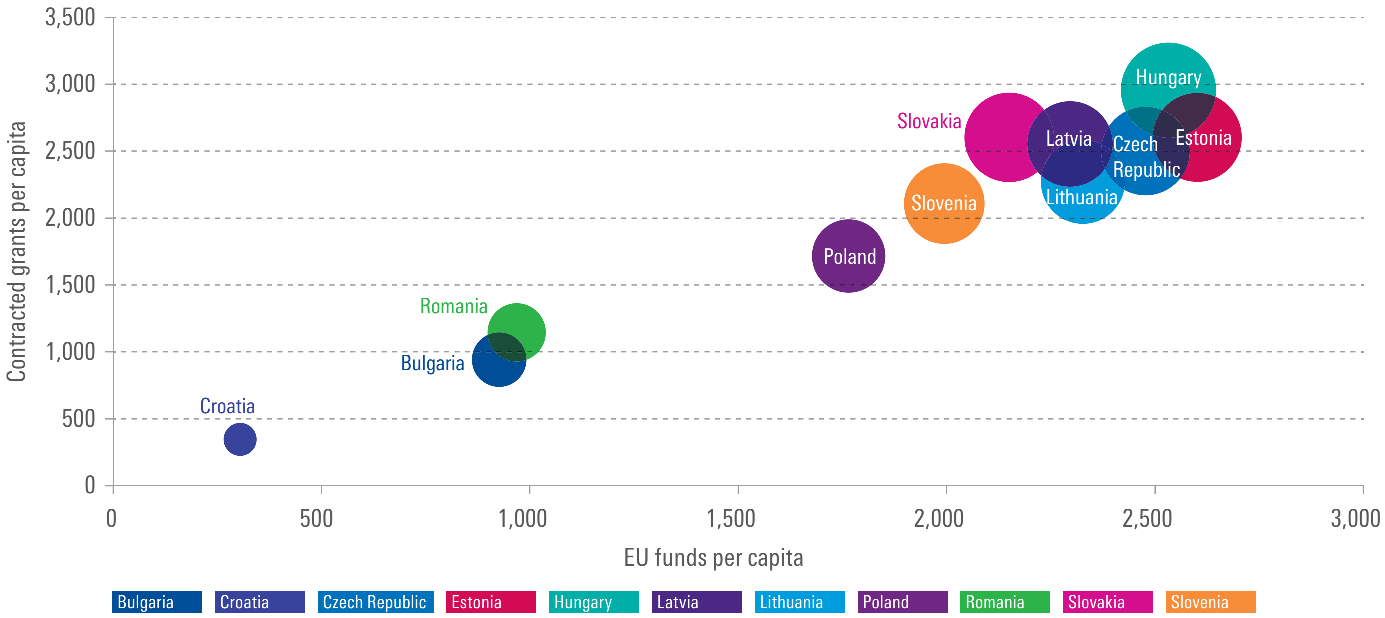
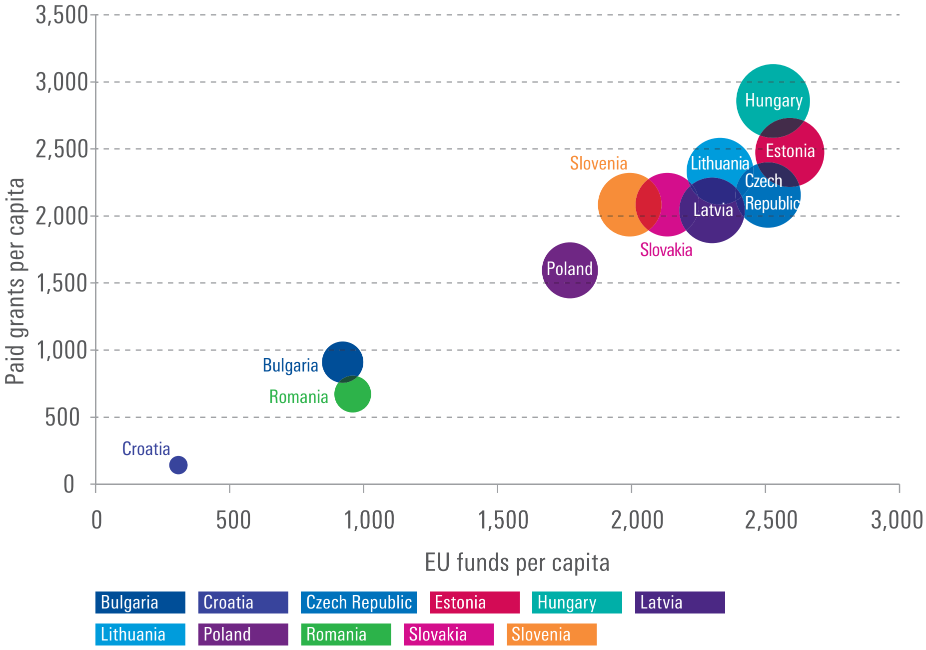


Photo: Nordic ski center Planica
Source: http://www.nc-planica.si/fotogalerija/?album=all&gallery=37&nggpage=3

Available budget 2007–2013 per capita vs. paid grants 2007–2015 per capita



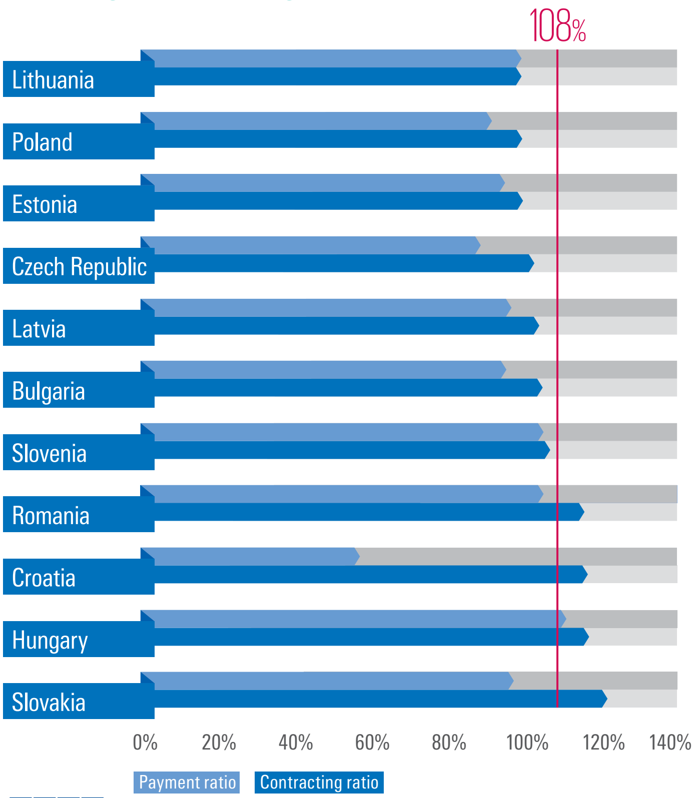
Contracting and payment ratio for 2007–2015 by country

After 9 years of implementation the 11 CEE countries contracted altogether 108% of their budget allocated for the programming period.

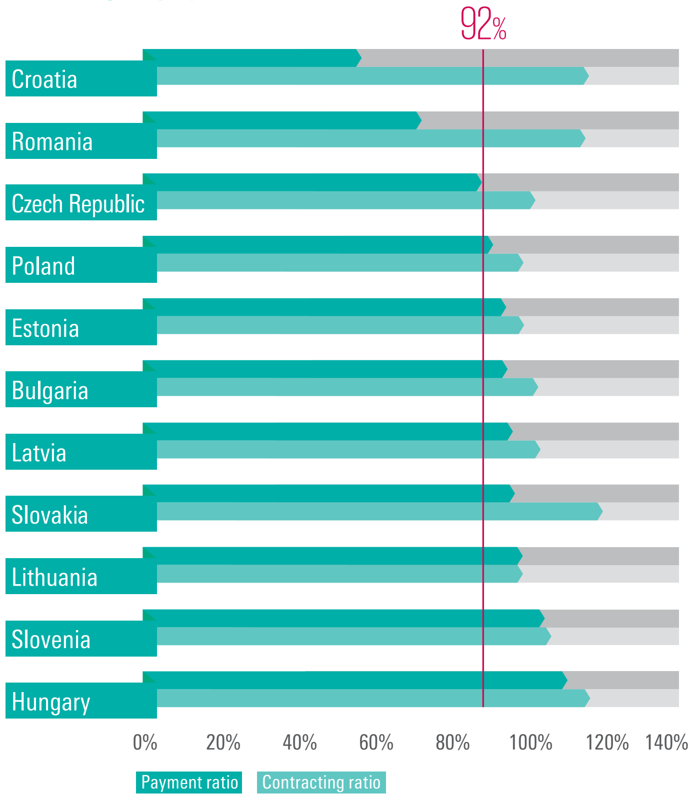
As of the end of 2015, the NSRF programs of Croatia, Hungary, Romania and Slovakia exhibited the highest contracting ratios, ranging between 122% and 116%, which is outstanding on a time-proportional basis. The greatest progress was observed in Croatia (117% in 2015 vs. 32% in 2014). At the end of 2015 all countries contracted a minimum 99% of the budgets available for the programming period.

Payment ratio showed a slightly different pattern, the best performing countries being Hungary, Lithuania and Slovenia.

Contracting ratio and payment ratio 2007–2015 according to contracting results (in %)



Contracting ratio and payment ratio 2007–2015 according to payment results (in %)



Differences between contracting and payment ratio by country

An important factor in determining the real levels of effectiveness and efficiency of EU funds' management is the gap between contracted and paid grants. The smaller the difference between these two factors, the more efficient EU funds' management is in terms of real distribution. Croatia is an exception, having joined the EU in 2013, meaning it had a significantly shorter period of contracting.

Lithuania remains the leader in this field with as little as a 0 percentage point (pp) difference between contracted grants and paid grants. Slovenia (2pp) and Estonia (5 pp) also achieved good results. Except for Croatia, the biggest differences between contracted grants and paid grants can be observed in Romania (43 pp) and Slovakia (25 pp).

2007–2015 sum			
Country	Contracting ratio (%)	Payment ratio (%)	Difference between contracting and payment ratios (in pp)
Lithuania	99%	99%	0
Poland	100%	92%	8
Estonia	100%	95%	5
Czech Republic	103%	89%	14
Latvia	104%	97%	7
Bulgaria	105%	95%	10
Slovenia	107%	105%	2
Romania	116%	73%	43
Croatia	117%	57%	60
Hungary	117%	111%	6
Slovakia	122%	97%	25

Photo: Expansion and revitalization of the Main Railway Station in Wrocław, 2010–2013
Source: Ministry of Development in Poland

Difference between contracting and payment ratios

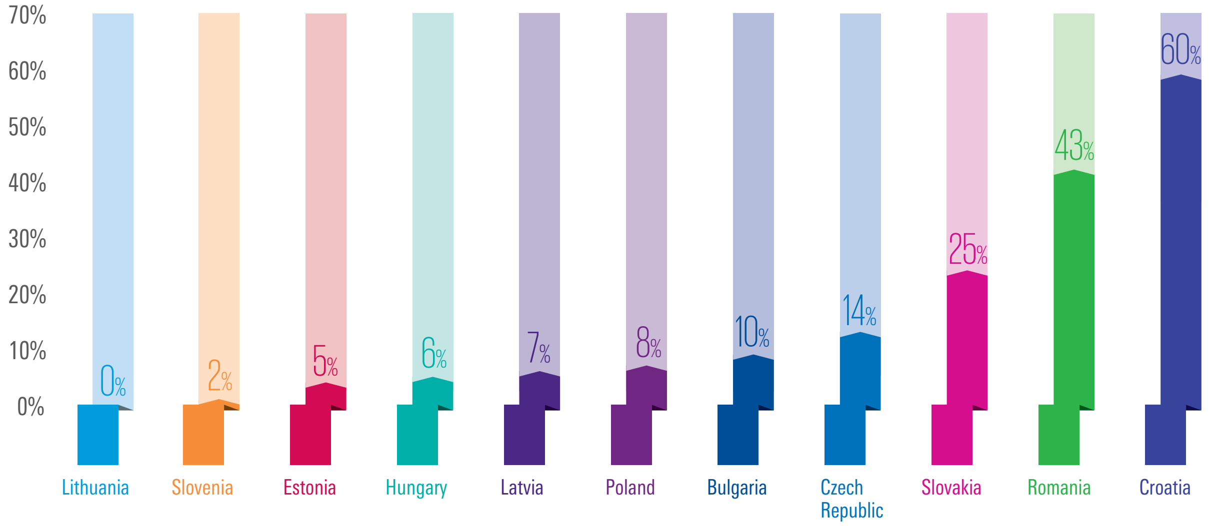


Photo: Virtual forest, project: Reconstruction of buildings of the Technical University in Zvolen focused on building ICT and technical improvements of buildings

Source: Ministry of Education, Science, Research and Sport of the Slovak Republic

Implementation of EU funds for 2007–2015 by EU Structural and Cohesion Funds

The amounts of available budget by EU Structural and Cohesion Funds are presented in the following table.

Available budget 2007–2015 (EUR billion)

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE sum
European Regional Development Funds	3.13	0.42	13.71	1.86	12.65	2.41	3.44	34.79	8.85	6.19	1.78	89.24
Cohesion Fund	2.28	0.28	8.82	1.15	8.64	1.54	2.31	22.39	6.52	3.90	1.56	59.39
European Social Funds	1.18	0.15	3.77	0.39	3.63	0.58	1.03	10.01	3.68	1.56	0.76	26.75

Contracted and paid grants 2007–2015 split by EU Structural and Cohesion Funds

So far, after 9 years of co-funded program implementation, around 54% of grants supported operations related to European Regional Development Funds. Meanwhile, Cohesion Fund accounted for almost 36% and European Social Funds for 17% of the total available budget.

Contracting ratio by EU Structural and Cohesion Funds

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE average
European Regional Development Funds	106%	152%	105%	100%	110%	105%	99%	99%	123%	123%	106%	112%
Cohesion Fund	107%	129%	97%	101%	130%	100%	100%	101%	98%	118%	111%	108%
European Social Funds	104%	98%	107%	100%	111%	110%	100%	99%	132%	128%	101%	108%

The share of paid grants is similar. Forty-seven percent of grants supported operations related to European Regional Development Funds. Cohesion Fund accounted for 32% and European Social Funds for 15% of the total paid grants.

Payment ratio by EU Structural and Cohesion Funds

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE average
European Regional Development Funds	99%	57%	88%	96%	106%	97%	99%	91%	73%	97%	106%	92%
Cohesion Fund	93%	38%	90%	99%	123%	92%	100%	90%	65%	100%	106%	91%
European Social Funds	97%	83%	87%	97%	102%	108%	100%	98%	87%	92%	101%	96%

Photo: Joint Centre for Life Sciences. Molecular biology laboratory and a PhD student Renatas Krasauskas working there. Project "Creation of Joint Centre for Life Sciences", supported from the EU structural funds (project No. VP2-1.1-ŠMM-04-V-01-016). Source: Edgaras Kurauskas, February 2016

4 Summary of Findings

Implementation progress 2007–2015 by country

After 9 years of the implementation of the 2007–2013 programming period almost EUR 187.10 billion worth of grants have been contracted by the 11 CEE countries. This amount represents 106% of the total available budget for the 2007–2013 period.

By the end of 2015, EUR 163.66 billion – i.e. 93% of the available budget and 87% of the contracted grants – had been paid to beneficiaries.

High contracting ratios do not always lead to high payment ratios.

In the 2007–2013 programming period, contracting started only in 2008 and reached a reasonable level in 2009, while payments tended to lag by a further year.

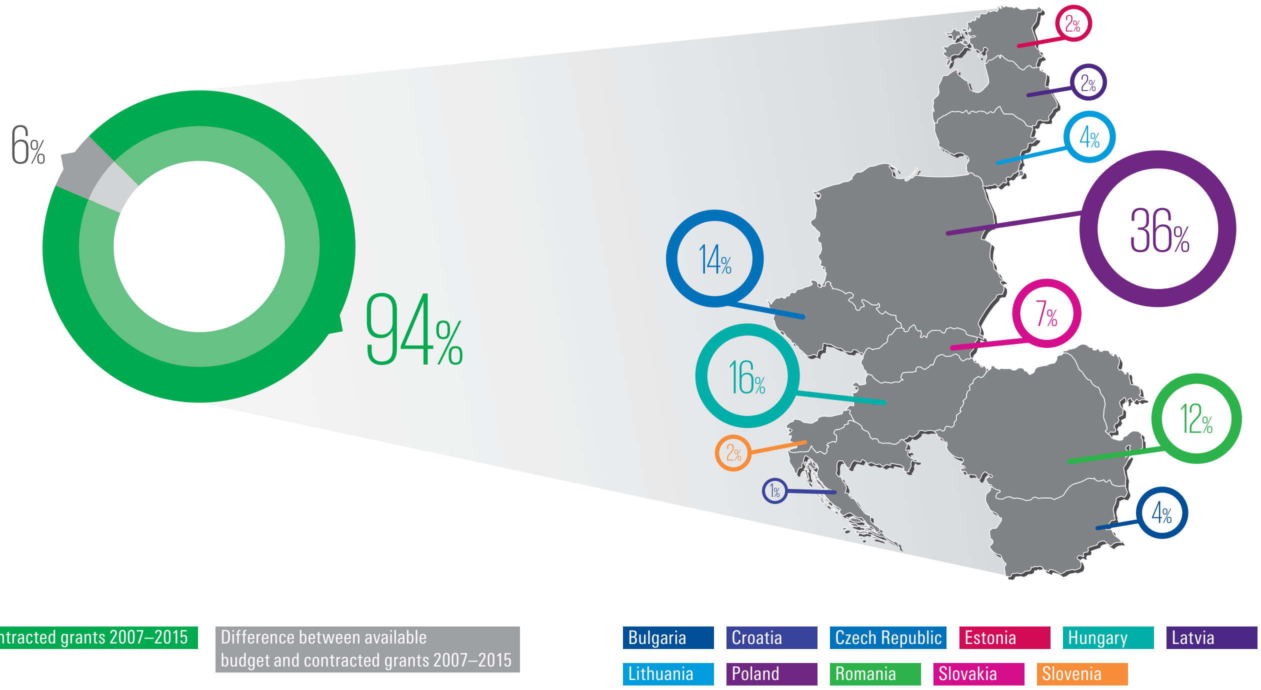
Having experienced this, these countries better prepared implementation rules and procedures, as well as the pipeline for the next 7 years. Almost all of them have started the process of funds implementation which could result in greater distribution of EU funds within the 2014–2020 period.

Implementation progress 2007–2015 by EU Structural and Cohesion Funds

By the end of 2015 most EU Structural and Cohesion Funds performed around the average contracting ratio, between 99% and 122%. Payment ratios of all EU Structural and Cohesion Funds ranged between 57% and 111%. The span between contracted and paid funds ranges from 2%, 5% or 6% for Slovenia, Estonia and Hungary, respectively, while for Lithuania contacting ratio and payment ratio were equal.

Payment grants by country, 2007–2015

The graph below shows how much of the paid funds (94%) go to each of the CEE countries.



Budget allocations by countries' populations, 2007–2015

The chart below is a progressive summary of the EU funds' 2007–2015 budget allocations and CEE countries' populations.

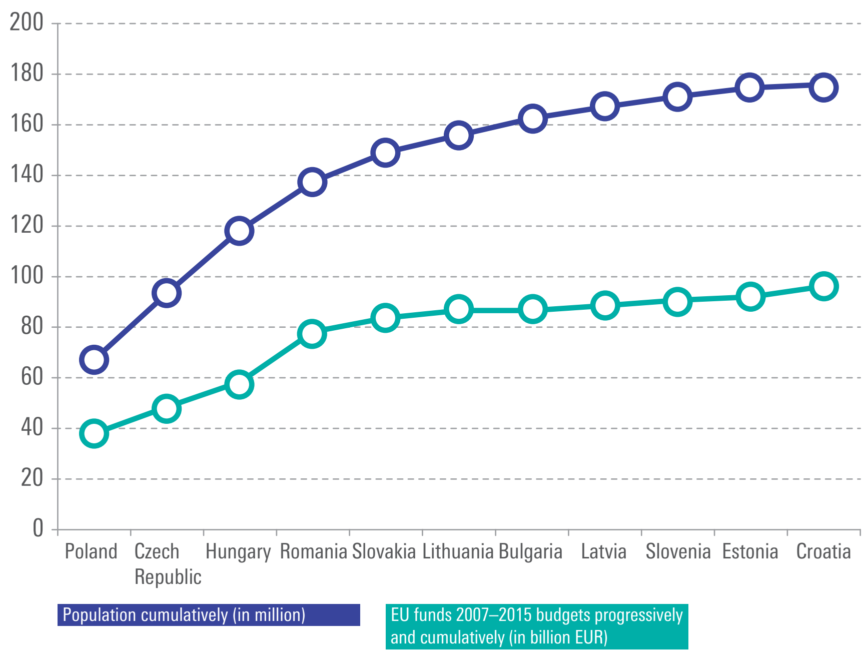


Photo: Motorway ring road of Wroclaw – the bridge over the Oder, 2008–2011
Source: Ministry of Development in Poland

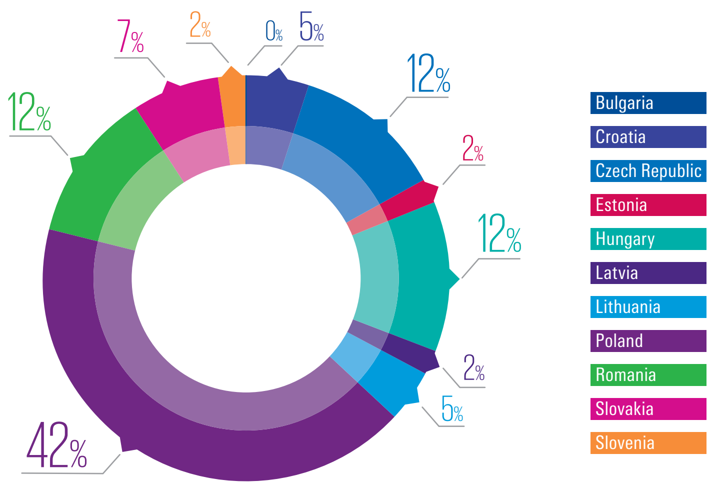
New Perspective 2014-2020 New Budget, New Challenges

Breakdown of EU funds 2014–2020

The amount of EU funds allocated for the 2014–2020 period varies by country – the highest budget is allocated for Poland, the country with the biggest population among the CEE countries. However, the EU funds per capita ratio is highest in Estonia and Slovakia.

Poland and Romania account for approximately 50% of the allocated EU funds. Together with the Czech Republic and Hungary, their total amount constitutes 75% of the total EU funds allocated for the CEE region.

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	SUM CEE	CEE average
Total budget (in EUR billion)	7.37	8.40	21.63	3.33	21.50	4.39	6.71	76.87	22.54	13.77	3.26	189.96	17.27

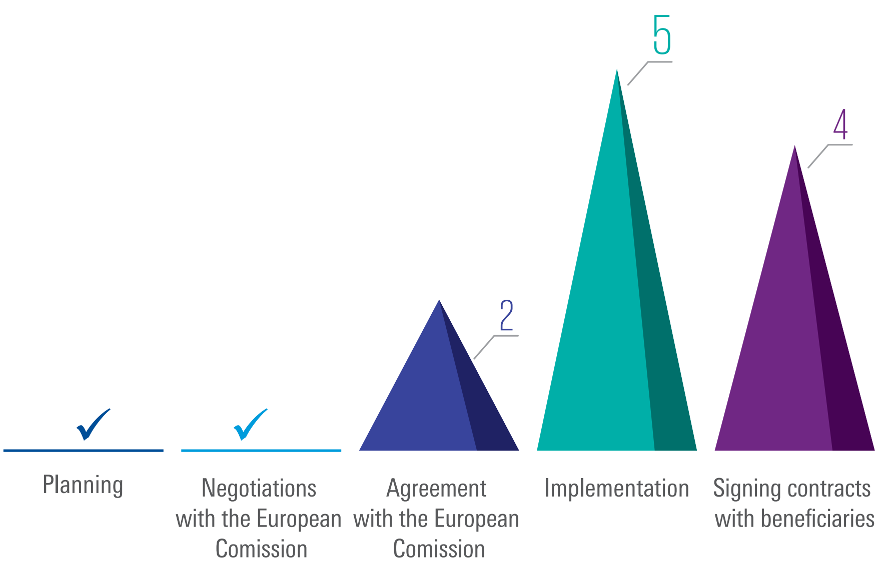


Current status of EU funds implementation

The new financial period covers the years 2014–2020. The implementation process contains five basic steps:

- planning;
- negotiations with the European Commission;
- agreement with the European Commission;
- implementation; and
- signing contracts with beneficiaries.

Currently, all of the countries have finalized the negotiations stage with the European Commission and signed the agreements. Five countries (Hungary, Lithuania, Romania, Slovakia and Slovenia) are at the implementation stage. Bulgaria, Croatia, Estonia and Poland have started signing contracts with beneficiaries. Detailed information about implementation for 2014–2020 is contained in the *Country Overview*.



Country Overviews

Bulgaria

EU program information

Sources: EUROSTAT data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 6.7 billion
Contracted grants	EUR 7.0 billion
Contracting ratio	105%
Paid grants	EUR 6.4 billion
Payment ratio	95%
EC certification	EUR 5.4 billion
EC certification ratio	81%

Source: EUROSTAT data

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	106%
CF	107%
ESF	104%

General observations

In the 2007–2013 programming period, seven operational programmes with a EUR 6.7 billion contribution from the EU Structural and Cohesion Funds addressed the country's priorities and socio-economic development challenges, aiming to reduce the differences with other EU countries and overcome the negative effects of the global financial and economic crisis.

There have also been programs under the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund and the European Fisheries Fund.

By the end of 2015, the progress of EU funds in Bulgaria appeared steady, with a contracting ratio of over 100%, payment ratio of 95% and EC certification ratio from the EC of 81%.

While making considerable efforts to successfully start the implementation of the new programming period, the focus of the Bulgarian authorities on effectively finalizing the previous 2007–2013 period remained distinct.

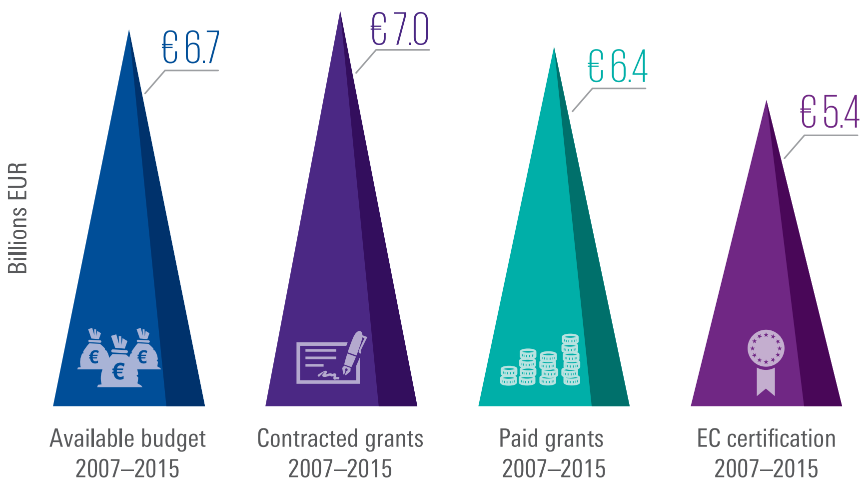
The reference period (year 2015) is characterized by an increased pace of absorption, project budget updates, enhanced monitoring of activities, in particular where the risk of incompletion by the due date was high, as well as a thorough review of reasons for delays and relevant extension of deadlines for project completion by the end of 2015.

The main challenges include:

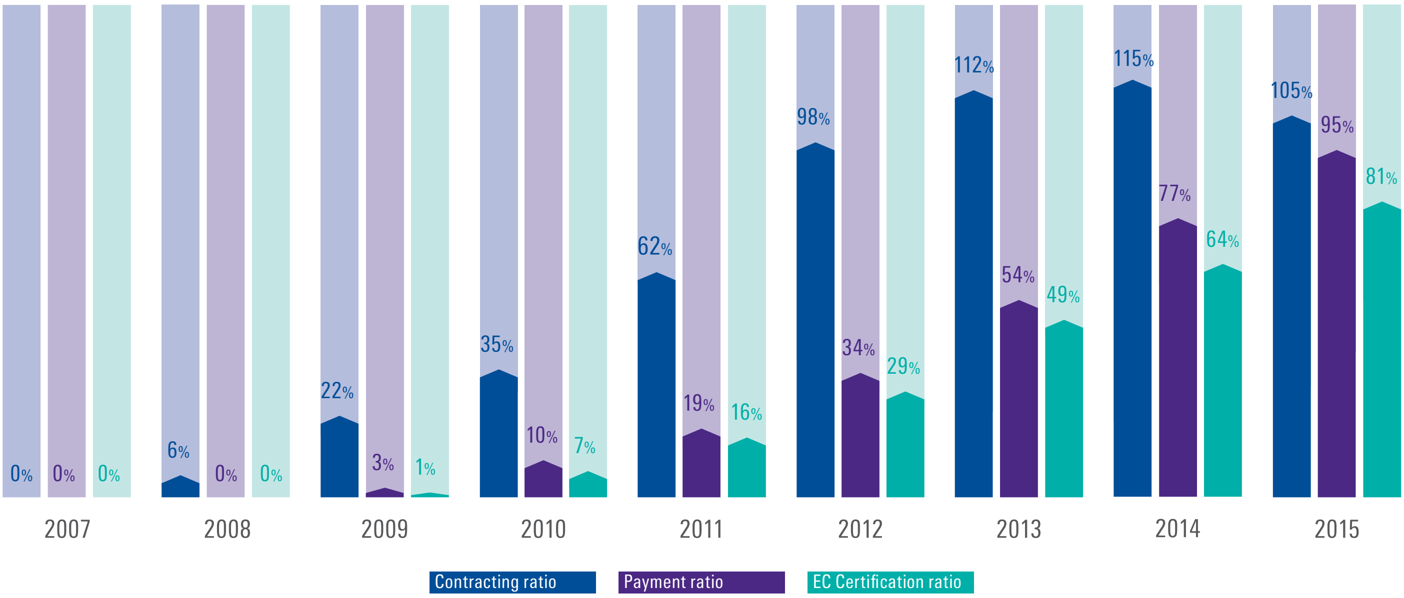
- completing all projects, including payments by the end of the eligibility period;
- providing funding for projects that cannot be completed by the end of 2015;
- coping with an increased volume of management verification and suspension of disbursement for some of the operational programmes; and
- preparing for program closure.

The implementation of the new **programming period 2014–2020** started in 2015 with some variances in the level of progress between the OPs. The overall achievement at the end of 2015 was 7.9% contracting and 0.7% payment ratio.

EU funds implementation in Bulgaria as at December 2015



EU funds implementation progress in Bulgaria in 2007–2015



Progress report 2014–2020

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 7.3 billion
Contracted grants	EUR 0.58 billion
Contracting ratio	7.92%
Paid grants	EUR 0.054 billion
Payment ratio	0.70%
EC certification	EUR 0.003 billion
EC certification ratio	0.04%

Source: Information system for management and monitoring of EU funds in Bulgaria 2020

Trends

Overall, a trend of accelerated absorption and precise project planning to prevent considerable loss of funds has been evident.

Furthermore, the period has been characterized by:

- over-contracting the budgets of some of the operational programmes in order to manage the financial risk at the end of the programming period;
- activities which could not be finalized by the end of 2015 remained to be funded solely by the beneficiary; and
- increasing attention to the quality of control, both at central and regional levels.

Successes

Bulgaria has put a lot of effort into successfully finalizing its first EU Structural and Cohesion Funds programming period.

Among others, the structuring and implementation of the financial engineering instruments were regarded as a very good practice in Bulgaria.

Moreover, some of the large infrastructure projects were successfully completed, among them the Sofia Metro, which is among the top 30 most extensive European metro systems. In particular, the extension of Line 1 to Sofia Airport was completed and officially launched in 2015. Furthermore other extensions were started and prepared for further investments.

Also, the Unified Management Information System (UMIS) for EU Structural Instruments in Bulgaria was further developed, aiming to improve its functionality and facilitate the management and control of EU funds for both the previous and the new programming periods.

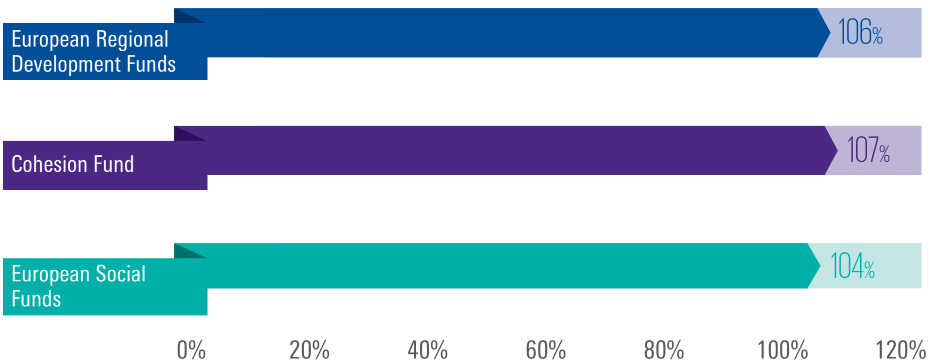
Photo: Sofia Airport Metro Station, Project for expansion of the subway in Sofia, Stage III, country Bulgaria, Operational Programme "Transport" 2007–2013, year 2015
Source: Metropoliten EAD (beneficiary)

Areas for improvement
Main problems identified included:

- public procurement irregularities which led to the suspension of disbursement, and financial corrections;
- lack of working capital, which directly affected the pace of progress and quality of implementation; and
- insufficient exchange of knowledge and experience between managing authorities, beneficiaries, and control bodies.

Lessons learned
- Early start of the projects of the programming period 2014–2020;
- adopting a new approach in the OP Regions for Growth 2014–2020 in order to avoid concentration of funds in the largest cities, which was typical for the period 2007–2013;
- electronization of the process of project application for the new programming period; and
- codification of EU funds legislation, which resulted in the adoption of a Management of European Structural and Investment Funds Act in late 2015.

Contracted grants – breakdown according to EU fund



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Quotes from beneficiaries

Bulgarian beneficiaries of SCF grants 2007–2013:

"A strong simplification agenda is needed along with electronic application."

"The EU funding we used helped to modernize our manufacturing via innovative energy saving technologies and ensured the reduction of cost and improvement of quality in the production process."

"The financial corrections imposed may not be solely due to the beneficiaries' lack of experience with EU rules and all managing and control bodies should share the responsibility."

"Those of us, beneficiaries, who had had previous experience with pre-accession EU programs, managed to successfully deliver sustainable project results."

Croatia

EU program information

Sources: EUROSTAT data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 1.3 billion
Contracted grants	EUR 1.5 billion
Contracting ratio	117%
Paid grants	EUR 0.74 billion
Payment ratio	5%
EC certification	n/a
EC certification ratio	n/a

Sources: Ministry of Regional Development and EU funds

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	152%
CF	129%
ESF	98%

General observations

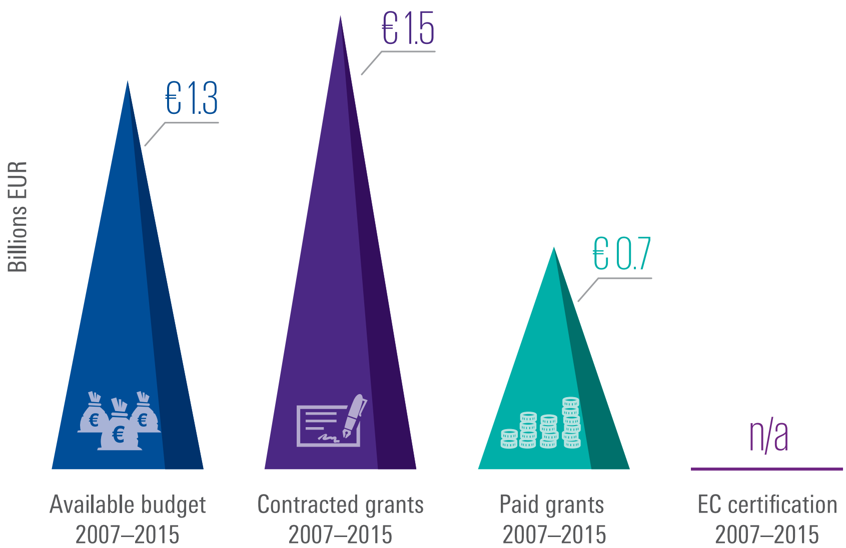
By gaining full European Union membership on 1 July 2013, the Republic of Croatia has become entitled to the use of EU Cohesion policy instruments at the very end of the EU financial perspective 2007–2013. Hence, 2013 was a challenging year for Croatia, with the simultaneous transition from funds under the Instrument for Pre-Accession Assistance (IPA) program to the first generation of Structural and Cohesion Funding and the preparations for the new EU financial perspective 2014–2020.

The National Strategic Reference Framework (NSRF) approved by the European Commission soon after accession and covering the period from the date of accession to 31 December 2013, provided the framework for preparing the Operational Programmes 2007–2013, setting out priorities to be jointly financed through EU and national sources. Objectives of the NSRF are being implemented through four Operational Programmes, covering key sectors of development – Transport, Environment, Regional Competitiveness and Human Resources Development. In addition to these, Croatia's strategies for the development of the agricultural sector and rural areas are implemented through the IPARD program 2007–2013, and those of the fisheries sector through the Operational Programme for Fisheries 2007–2013.

With the start of the 2014–2020 EU financial perspective, Croatia is also entitled to the use of European Structural and Investment Funds (ESIF). The Partnership Agreement for Croatia adopted on 30 October 2014 set out the main intervention areas of the ESIF for the period 2014–2020 and provided a framework for the preparation of respective Operational Programmes – Competitiveness and Cohesion, Effective Human Resources, Fisheries as well as the Rural Development Program.

Upon accession, the allocation of funds has increased significantly, both in the 2007–2013 and in the 2014–2020 programming periods, with the latter covering a broader set of sectors. This represents an enormous opportunity and, at the same time, a challenge for Croatia in terms of fully absorbing the 2007–2013 allocation and in terms of complying with ex-ante conditionality terms applicable to each of the areas supported by the ESIF, both before the end of 2016.

EU funds implementation in Croatia as at December 2015



KPMG

Trends and successes

Having been a member of the EU for more than 2 years now, Croatia has achieved many positive results. EU funds have helped create at least 500 jobs, provided support to over 80 small enterprises and invested money in many successful projects such as *Biocenter*, the biotechnological incubator, or the upgrade of Zagreb's main railway station.

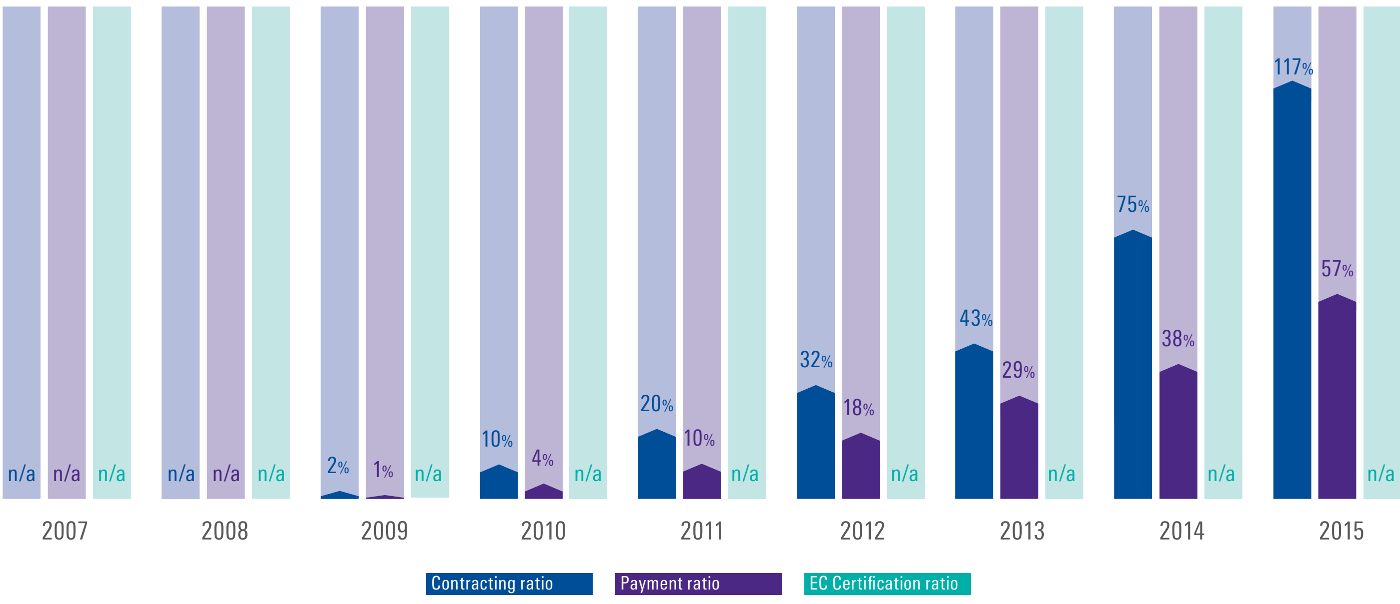
The total absorption rate of ESIF is still relatively low compared to the EU average, although certain positive signs can be observed with respect to the 2007–2013 allocation. Namely, the year 2015 saw a marked improvement, with the absorption rate increasing to 57.2% from 37.7% in the year before. This represents the highest year-on-year increase so far. The progress with respect to contracted grants is even larger. By the end of 2015 total contracted grants had reached EUR 1.506 million, demonstrating an increase of 55.4% compared to 2014.

Furthermore, Croatia has already started absorbing the 2014–2020 allocation of EUR 10.7 billion in total. According to the Ministry of Regional Development and EU funds, by the end of 2015 total contracted grants amounted to EUR 505.5 million, whereas paid grants amounted to EUR 146.8 million. The majority of these funds is attributable to projects under the OP Effective Human Resources supported by the ESF and the Rural Development Program, followed by projects under the OP Competitiveness and Cohesion (supported by the ERDF, CF, EARDF* and EFF**).

In addition to the ESIF, which represent 73% of the expected national public investment in the areas supported and thus the main financial lever to public funding in the years to come, Croatia also has the opportunity to benefit from the Investment Plan (also known as the "Juncker Plan") launched by the EC in 2015.

*European Agricultural Rural Development Fund
**European Fisheries Fund

EU funds implementation progress in Croatia in 2007–2015



Quotes from beneficiaries

Dubravko Kičić, CEO of BIOCentar Zagreb, commented in respect to the construction of the biotechnological incubator co-financed under the OP Regional Competitiveness 2007–2013:

"The idea is for the BIOCentar to act as a business hub which will transform scientific research projects into commercial projects. We hope it will become a resource for the development of biotechnology in Croatia. If one out of 10 ideas is to be developed and commercialized, this will be a great success. It is our wish for the BIOCentar to be the starting point for many start-up companies and products which will consequently attract capital."

Areas for improvement and lessons learned

As noted earlier, management conditions for ESIF changed partly upon Croatia's accession to the EU, altering somewhat program implementation. Absorption is also being hampered by a limited number of ready-to-implement projects and their lengthy design and tendering periods, which is particularly critical for the implementation of large infrastructural projects. Furthermore, administrative capacities in the management bodies have been deemed inadequate, in terms of both number and training, to provide for the efficient management of funds.

Due to those factors outlined above, several measures are being implemented at national and EU levels in order to ensure that the current absorption trend is reversed.

In late 2014, the EC created the "Task Force on Better Implementation" to provide tailored support to eight member states that are facing particular challenges linked to the implementation of funds, including Croatia. Action teams under the Task Force are to support national and regional administrations to use the remaining funds from the 2007–2013 programming period effectively.

Further measures include the simplification of procedures related to the approval of grant schemes as well as the simplification of public procurement procedures. One novelty is the number of phases associated with the approval of grant schemes decreasing from seven to five. Furthermore, simplified options for the financing of particular project activities are being introduced, decreasing the volume of documentation required to justify costs incurred thus far. A more significant simplification is linked to public procurement procedures. Specifically, the simplified verification of the tender documentation is to result in shorter communication times between beneficiaries and the authorities. Also, thresholds below which the beneficiaries have no obligation to initiate public procurement procedures have been increased.

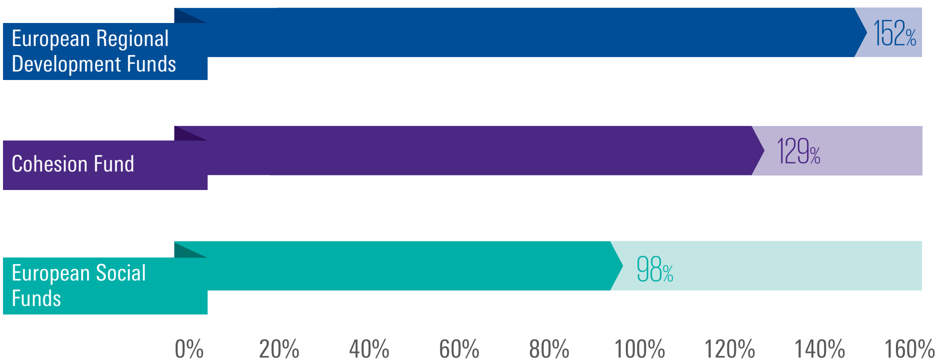
Photo: BIOCentar Zagreb, biotechnological incubator, OP Regional Competitiveness 2007–2013
Source: Ministry of Regional Development and EU funds

KPMG

Finally, in 2015 staff recruitment has been initiated by the management bodies – line Ministries and national agencies in the case of Croatia – in order to reduce bottlenecks in administrative capacities. In spite of that, a high turnover in qualified staff remains an issue.

Altogether, the ESIF offer a crucial investment resource for the implementation of vital reforms in many areas in Croatia. However, additional effort is needed in order to ensure the efficient management of funds with the objective of improved absorption. Focus areas include greater efficiency in public procurement, the strengthening of administrative capacities both in management bodies and with the beneficiaries as well as a higher-quality project pipeline.

Contracted grants – breakdown according to EU fund



Mayor of the City of Slavonski Brod, Mirko Duspara, commented with respect to the new wastewater treatment plant in Slavonski Brod co-financed under the OP Environment 2007–2013:

"The new wastewater treatment plant represents great ecological progress, not just in terms of the quality of life of the citizens, but in terms of the purity level of the Sava river as well. Namely, next to mechanical treatment, the plant also allows for biological treatment. This means that the plant will also treat the sludge settling in basins and allow for its processing and the usage of biogas. This means we will be able to protect our environment in a practical way, in particular the Sava river."

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Czech Republic

EU program information

Sources: EUROSTAT, Czech Statistical Office data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 26.3 billion
Contracted grants	EUR 27.0 billion
Contracting ratio	103%
Paid grants	EUR 23.3 billion
Payment ratio	89%
EC certification	EUR 21.7 billion
EC certification ratio	83%

Source: Ministry of Development

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	105%
CF	97%
ESF	107%

General observations

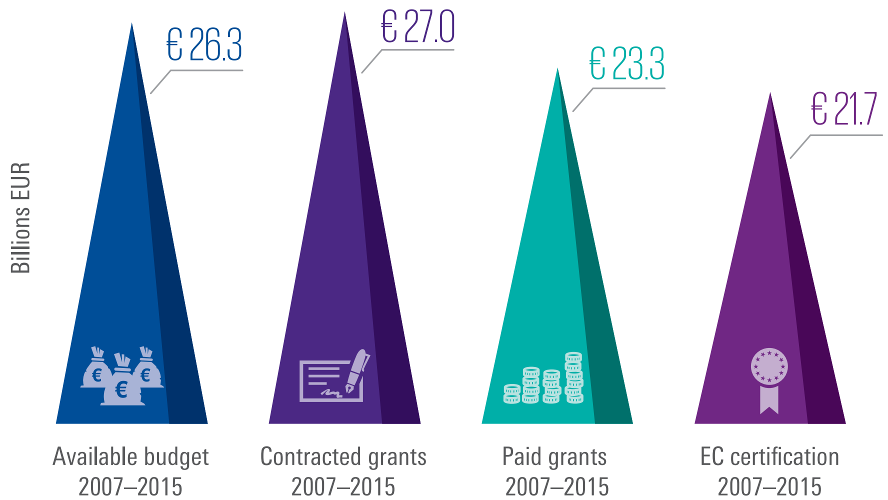
Similarly to the situation in most CEE countries, the Czech programming period 2007–2013 was officially finished at the end of 2015. By that time, the utilization of all assigned allocation had to be proved to the European Commission, all payment applications of the final balance for operational programmes must be submitted by 31st March 2017 and only then may operational programmes be considered to be finished completely.

According to the statistics for the year 2015, it is a reasonable assumption that some operational programmes (OP) in the programming period 2007–2013 will not be entirely allocated. The highest payment ratio is currently being achieved by the OP Enterprise and Innovation (106.3%), and by the end of 2015 payment ratios of 90% had been reached in the following operational programmes: OP Environment (99.6%), OP Transport (95.3%), OP Education for Competitiveness (94.0%), and OP Human Resources and Employment (92.7%). The worst payment ratio were exhibited by the OP Technical Assistance (89.2%), OP Research and Development for Innovation (83.0%), Integrated OP (72.3%).

The total budget of EUR 21.6 billion for the new programming period 2014–2020 is allocated to eight operational programmes supported from three EU funds corresponding with the subsidized areas (ERDF, ESF and CF):

- OP Transport (approx. EUR 4.7 billion);
- OP Enterprise and Innovation for Competitiveness (approx. EUR 4.3 billion);
- OP Environment (approx. EUR 2.6 billion);
- OP Research, Development and Education (approx. EUR 2.8 billion);
- OP Employment (approx. EUR 2.1 billion);
- Integrated Regional Operational Programme (approx. EUR 4.6 billion);
- OP Prague – Czech Republic Pole of Growth (approx. EUR 0.2 billion); and
- OP Technical Assistance (approx. EUR 0.22 billion).

EU funds implementation in the Czech Republic as at December 2015



A Partnership Agreement between the Commission and the Czech Republic was approved by the Commission on 26 August 2014. The final versions of all operational programs were officially approved by the Commission on 11 June 2015 after the complete fulfilment of the EC requirements: passing the Civil Service Act and changing the Czech legislation in terms of the Environmental Impact Assessment (EIA) procedure. Since June 2015, many calls for proposals have been announced across all operational programs.

The key targets of the programming period are considered as follows: computerization of program implementation, adjustment of continuous evaluation system of human resources, and reducing of the number of modifications of methodological documents.

Trends

The most visible trends in the new programming period are unification and simplification: there are fewer operational programs, a unified methodological environment and simplified rules for all operational programs.

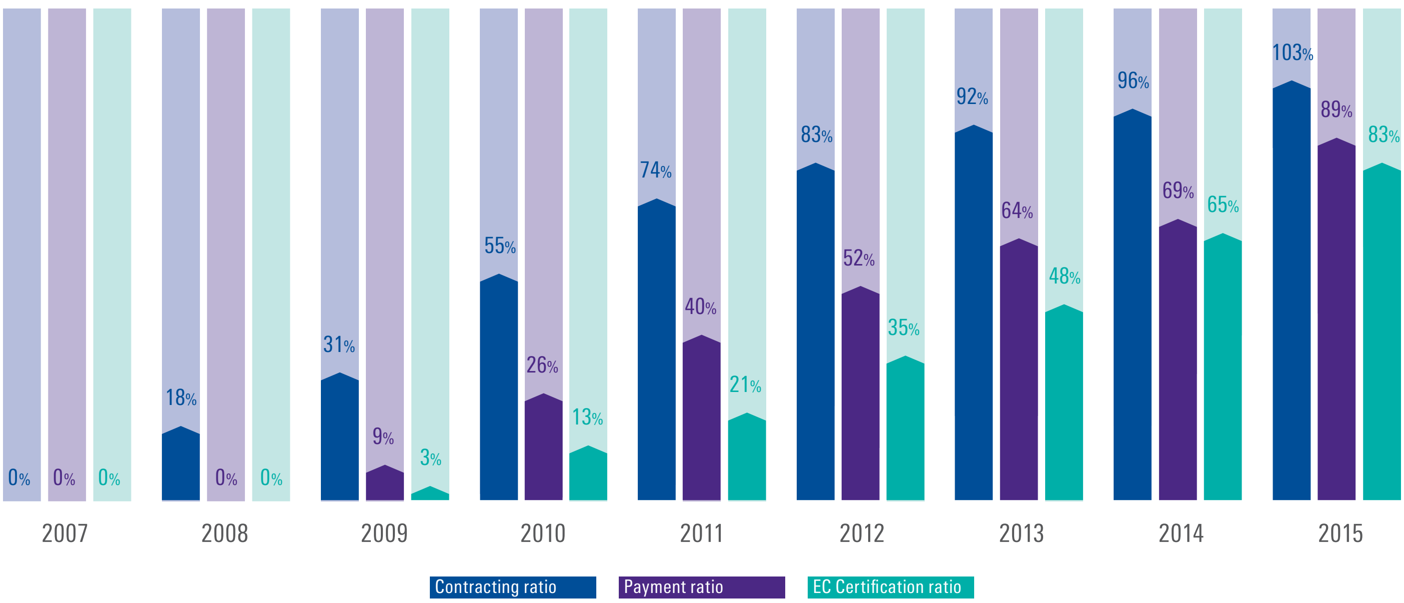
More unit cost projects and simplified cost schemes are to be applied in the new programming period. Increased efficiency, transparency and reimbursement pace are expected thanks to digitalization and a single information system for management, monitoring and reimbursement of the grants of all operational programs.

A newly prepared public procurement act also has the potential to significantly simplify and accelerate implementation.

Successes

As of the end of 2014, only 0.7% of the allocation had been over-contracted and nearly 28% of the allocation had not been paid to the beneficiaries. The pace of contracting and reimbursement to the beneficiaries dramatically accelerated in 2015. This led to an over-contracting of 9% of the allocation and lowering the level of unpaid grants to less than 6%.

EU funds implementation progress in the Czech Republic in 2007–2015



Quotes from beneficiaries

Štepánka Hovorková
Head of Project Department PMS:

"The 'Why me?' project was carried out between 2012 and 2015 by Probation, a mediation service of the Czech Republic. Thanks to the EU funds the beneficiary was able to offer high-quality counseling to crime victims according to the nature of the victim´s problems, to offer psychotherapy and assistance or to gradually develop a functional network of services for crime victims.

"Comprehensive consulting for victims (such as counselling, assistance, information on criminal proceedings, following services like mediation or restorative justice programs) and implementation of 'multidisciplinary teams for crime victims' (cooperation of courts of law, prosecutors, police, public administration, NGOs, hospitals etc. to coordinate key steps of all relevant subjects) contributed significantly to the improvement of the unenviable situation of clients in need. An educational and information campaign focused on victims´ rights was conducted as well and was met with great public interest."

The Civil Service Act, whose introduction had been set as a precondition of Partnership Agreement between the Commission and the Czech Republic, entered into force in January 2015. It set the core principles of a stable public administration, rules of recruitment and remuneration and enabled the start of the new programming period.

Areas for improvement

The Czech Republic faced a number of challenges in 2015. The main challenge was to efficiently finalize the implementation of the OPs from the programming period 2007–2013 and to ensure a smooth transition to the new programming period 2014–2020. This process was accompanied by a definite system overload caused by the restructuring of some governing and intermediary bodies, a continuous implementation of the principles of the Civil Service Act and the introduction of a new information system for administration. The consequences (such as increased requirements on administrative capacity) can also be expected during the next year and may cause the recurrence of some issues.

As the Civil Service Act entered in force, it revealed the legal ambiguity of the application of this law in practice. Due to the lack of well-adjusted implementing regulations on a number of ministries, it is expected that public administration might face difficulties in terms of a flexible and appropriate response to the staffing needs of the implementation structure of operational programs.

Lessons learned

Over the past decade, the Czech Republic has learned several lessons. Firstly, high fluctuation of employees in the implementation structure of operational programs resulted in slow absorption of EU funds, especially at the beginning of the programming period. Thus, measures have been taken to minimize such threats and to ensure a stable public administration structure that is essential for the smooth implementation of the new programming period 2014–2020.

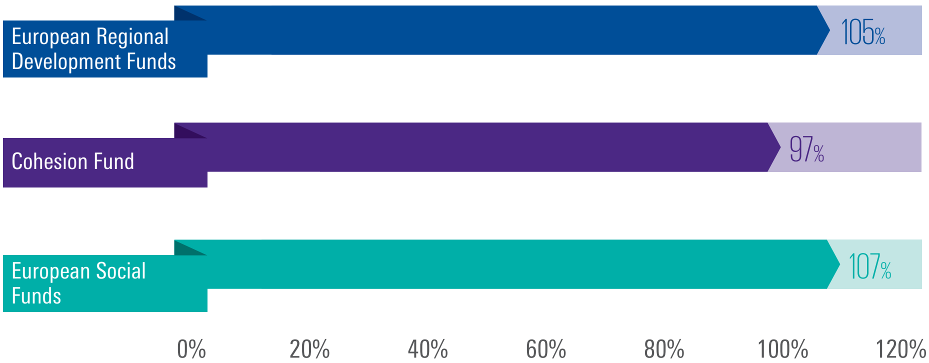
Secondly, a lack of transparency in public procurement led to the temporary suspension of payments in some programs during the programming period 2007–2013. Therefore, the importance of a set of clear rules, transparent methods and effective supervision in public procurement has been recognized and a new law regulating the rules of public procurement is one of the priorities of the government in 2016.

Finally, the implementation of the operational programs is continuously impeded by burdensome rules for administration, both for public administration and beneficiaries. Thus, there is an effort to simplify the administrative procedures in order to ameliorate the general rules of the implementation of the operational programs in the new programming period 2014–2020.

Photo: The 'Why me?' project; Comprehensive consulting for crime victims, period 2012–2015
Source: Probation and Mediation Service of the Czech Republic

Photo: Modernization of a family-type children's home in Dolní Čermná
Source: Archive of Children's home in Dolní Čermná

Contracted grants – breakdown according to EU fund



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Mgr. Iva Nesvadbová director of Children's home in Dolní Čermná:

"The project 'Modernization of a family-type children's home in Dolní Čermná', co-funded by the European Regional Development Fund, was successfully completed in 2010. The total construction costs including interior fittings were CZK 42 billion and the investment has started a transformation of the institute into a family-type children's home."

Miroslava Jeřábková, mayoress of Sedlec-Prčice:

"Between 2008 and 2015 Sedlec-Prčice carried out the implementation of 17 projects, which total CZK 160 million. These projects significantly contributed to the improvement of lives of the citizens of our region.

"They also generated savings in costs (lower consumption of electricity and gas, lower operational costs of local communications etc.) in hundreds of thousands of Czech crowns yearly."

Estonia

EU program information

Sources: EUROSTAT data, KPMG calculation

General observations

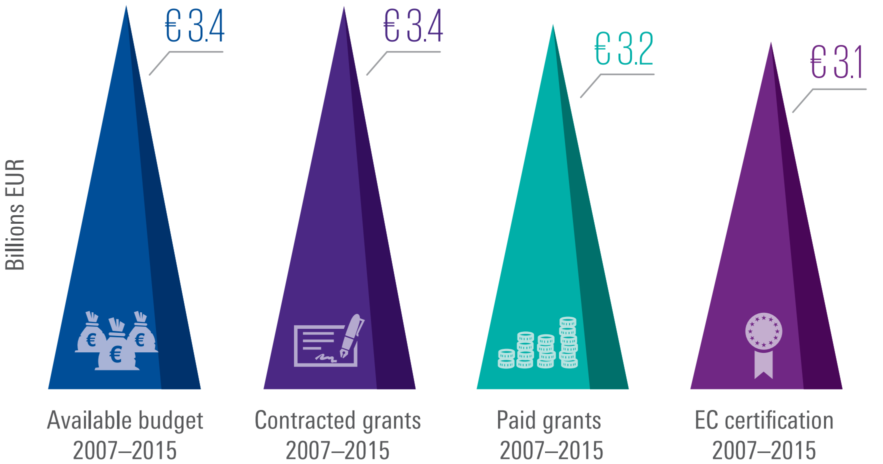
The priorities and goals for structural assistance are set out in the National Strategic Reference Framework (NSRF) 2007–2013. The framework is carried out through three operational programs (OP):

- OP for Human Resource Development;
- OP for the Development of the Living Environment; and
- OP for the Development of Economic Environment.

The structural assistance available for the framework program is the equivalent of EUR 3.4 billion.

According to the EU funds implementation progress as at 31 December 2015, the total amount of contracted EU funding is EUR 3.305 billion, which is 99.76% of the total available budget.

EU funds implementation in Estonia as at December 2015



Progress report 2007–2015

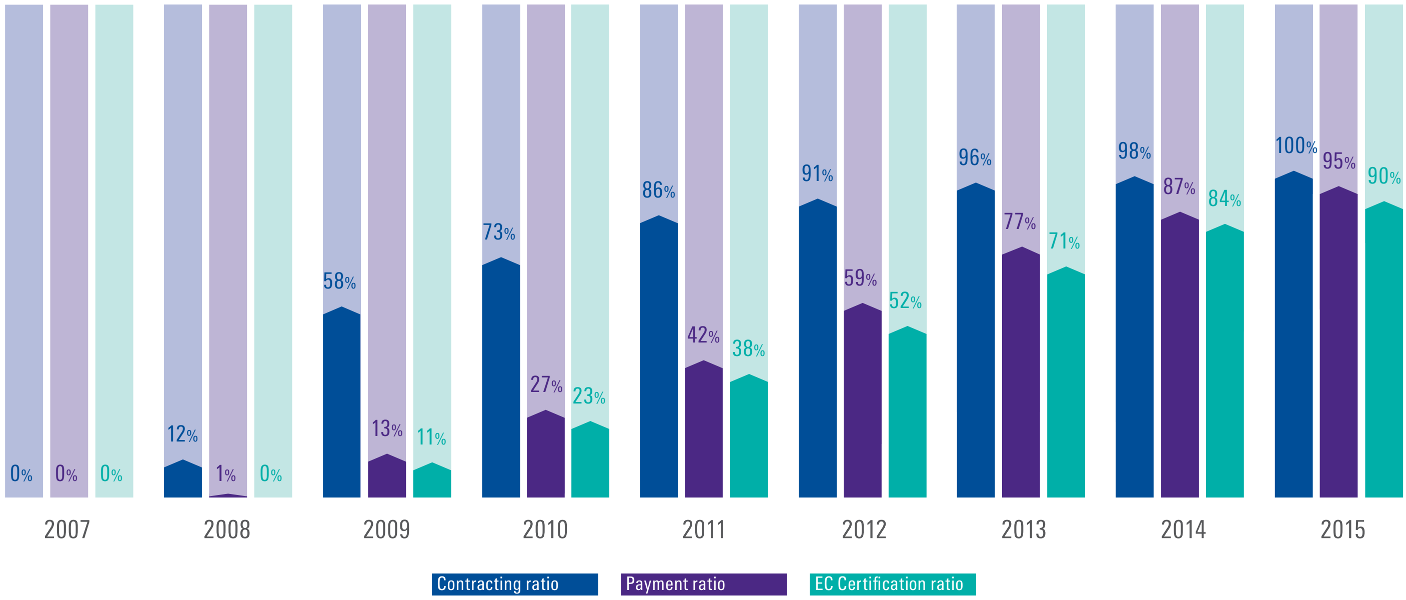
Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 3.4 billion
Contracted grants	EUR 3.4 billion
Contracting ratio	100%
Paid grants	EUR 3.2 billion
Payment ratio	95%
EC certification	EUR 3.1 billion
EC certification ratio	90%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	100%
CF	101%
ESF	100%

Photo: Tallinn University Baltic Film, Media, Arts and Communication School: buying ICT equipment for the television studio, 2014–2015
Source: Ministry of Finance

EU funds implementation progress in Estonia in 2007–2015



Trends

During the financial period of 2007–2013 large investments were made in infrastructure, including roads, water and waste management, schools, hospitals, community houses, R&D infrastructure, etc. Additionally, EU structural assistance was invested in advancing technology development centers and centers of excellence, and increasing the supply of skilled workers.

Successes

Structural funds were successfully used during the economic crisis 2007–2011 to finance the labor market measures for ameliorating unemployment. It has been also well used to reorganize and modernize vocational education to raise its competitiveness. Another achievement is the use of structural funds for building innovation systems and for investing in R&D. EU funding was used to finalize merging some universities and academies of science and thereby raising the quality of education. Additionally, structural assistance has been invested in optimizing the infrastructure of central and regional hospitals; this will be completed during 2014–2020. Structural assistance has helped to increase the competitiveness of Estonian companies through increased investments in R&D and exports.

Areas for improvement

During 2007–2013 significant investments were made in infrastructure; however, recent discussions have raised concerns about the impact of increased administration and maintenance costs to the state and local governments' budgets. Urbanization is still a problem in Estonia despite investments made in developing rural areas. According to the assessment of the 2007–2013 period structural funds' impact on regional development, the policy development indicators express improvement in most counties, but the provincial disparities have not changed. Also, more work needs to be done in aligning vocational and higher education curricula with labor market needs.

Progress report 2014–2020

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 3.33 billion
Contracted grants	EUR 0.75 billion
Contracting ratio	23%
Paid grants	EUR 0.07 billion
Payment ratio	2%
EC certification	EUR 0 billion
EC certification ratio	0%

Sources: Ministry of Finance

Contracting ratio 2014–2020 perspective – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	9%
CF	18%
ESF	74%

Quotes from beneficiaries

Industrial company representative referring to an investment support:

*"*We were satisfied with the EU funds distribution system and the Implementing Agency was very professional. Although the project was carried out in a very tight timeframe, we were able to achieve its goals.*"*

Lessons learned

In the long run, Estonia is developing from a net-receiver into a net-contributor. Therefore, it is necessary to use EU funding as strategically as possible to ensure a long-term impact. Investments will be focused on developing R&D, supporting entrepreneurship (including SMEs) and fostering collaboration between R&D and businesses. Also significant investments will be made in developing sustainable transportation solutions.

Estonia has reduced the number of operational programs compared to the previous period from three to one in order to improve coordination and efficiency and to achieve better results in using the funds.

Contracted grants – breakdown according to EU fund

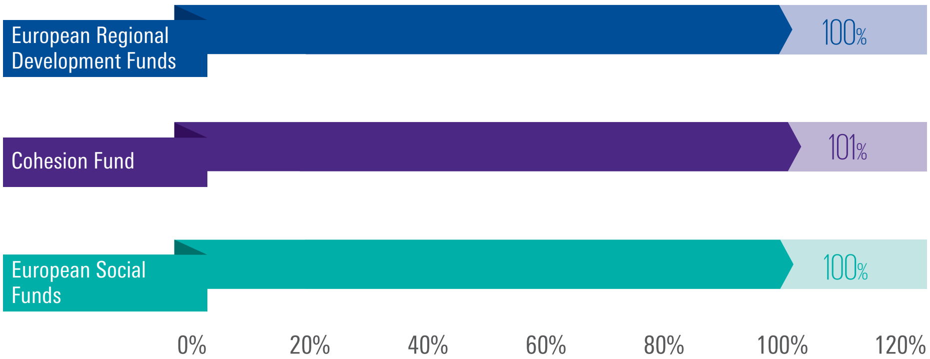


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Photo: Development of Kiviõli adventure tourism center, 2010–2013
Source: Ministry of Finance

Hungary

EU program information

Sources: EUROSTAT data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 24.9 billion
Contracted grants	EUR 29.2 billion
Contracting ratio	117%
Paid grants	EUR 27.7 billion
Payment ratio	111%
EC certification	EUR 21.6 billion
EC certification ratio	87%

Contracting ratio – breakdown according to EU fund

EU fund	**Contracting ratio (at the end of 2015)**
ERDF	110%
CF	130%
ESF	111%

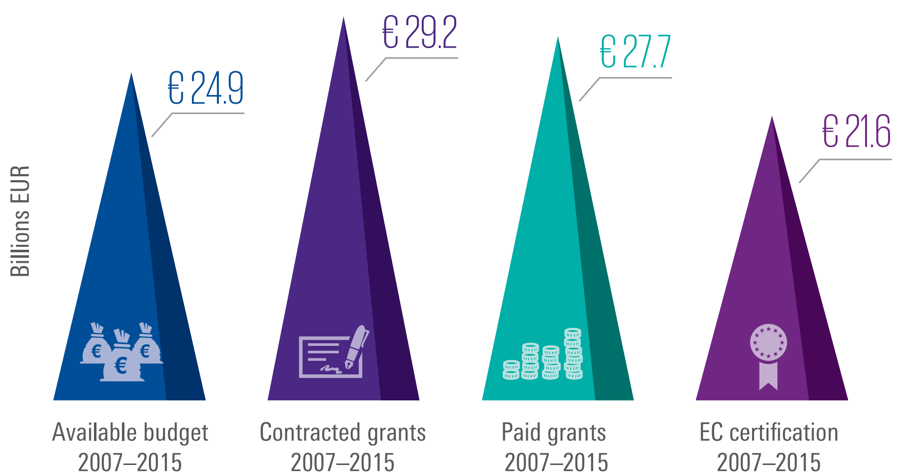
General observations

In the 2007–2013 programming period the allocation of EU funds was defined by the National Strategic Reference Framework (NSRF), the "New Hungary Development Plan" and, from 2010, mostly by the "New Széchenyi Plan". The plans covered overall 15 programs including seven sectoral, six regional, one Regional Competitiveness and Employment objective and one Technical Assistance operational program. The total available budget for the period was EUR 24.92 billion in community co-financing.

Hungary closed a successful 2007–13 programming period in terms of payments as of the financial closing date (31 December, 2015). The payment ratio increased by approximately 23 percentage points (to approximately 110%) from 2014. It grew most rapidly within the Cohesion Fund (CF) by more than 30 percentage points. By the end of 2015, paid grants had reached EUR 27.7 billion, out of which EUR 21.6 billion was certified by the European Commission. A payment ratio of more than 100% means that Hungary's final settlement with the European Commission will include a "safety margin" and most likely will avoid any loss of funds.

For the upcoming period of 2014–2020, the approved budget of the European Regional Development Fund- (ERDF), European Structural Fund- (ESF) and Cohesion Fund- (CF) financed operational programs is EUR 21.5 billion. The European Commission accepted the operational programs for this subsequent period in 2015. Following the formal adoption, Hungarian cohesion policy decision makers stated that Hungary would publish all calls for proposal by mid-2017. As of March 2016, there are open calls within all 2014–2020 ERDF-, ESF- and CF-financed operational programs.

EU funds implementation in Hungary as at December 2015



Trends

Approaching the closing date of the period, great emphasis was placed on accelerating payment, aiming to reach a payment ratio of 100% by 2015. The overall payment ratio increased gradually in the last years, growing by 20 percentage points in 2013 (to 62%), 25 percentage points in 2014 (to 87%) and by approximately 23 percentage points (to 110%) in 2015. A successful financial closing was supported by a systematic review of projects under implementation during the beginning of 2015. Risky projects were identified and publicized, and potential penalties highlighted – especially for government beneficiaries. As the certification process is still ongoing with the Commission, pending irregularity procedures may reduce the reported payment ratio.

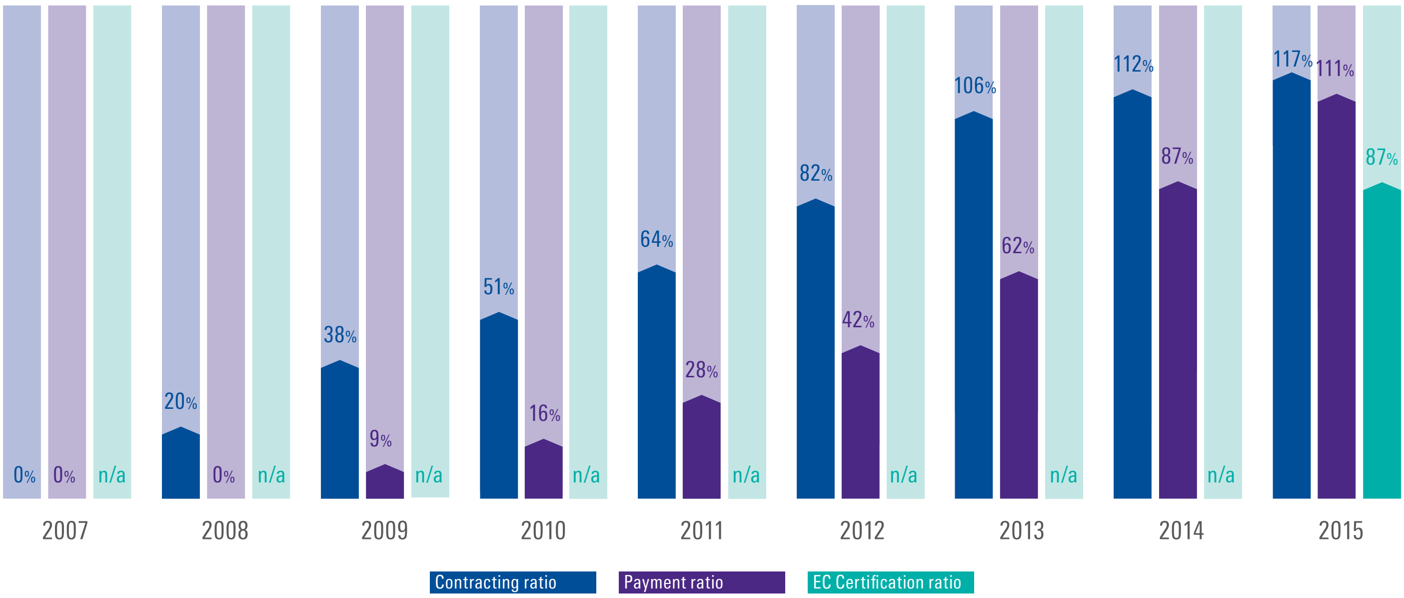
Successes

Cohesion Fund-financed operational programs (Transport OP and Environment and Energy OP) achieved outstanding growth in payments, achieving the highest payment ratio among the three funds (approximately 120%). Payments to beneficiaries of the Social Infrastructure OP were also accelerated compared to other operational programs.

Areas for improvement

Hungary's focus on absorption seems to be paying off, as loss of funding will likely be avoided. Although the conclusions of the 2007–13 period have yet to be drawn, according to cohesion policy decision makers supported projects should see improvements in quality in the next programming period. The absorption pressure of the 2007–13 period did not always allow for selecting the most sustainable projects or those with the greatest long-term economic growth potential.

EU funds implementation progress in Hungary in 2007–2015



Quotes from beneficiaries

Industrial machinery manufacturer (Economic Development Operational Programme):

"We can produce high quality technology, which is appreciated by our partners. The project gave us an opportunity for further growth."

Food manufacturing company:

"We hope that the special product developed in the framework of the project will be a breaking point in entering the international markets."

Lessons learned

Cohesion policy decision makers consider the cohesion policy implementation system (i.e. institutions being able to execute a large funding program) as a major achievement of the 2007–13 period and one still fit to be used during 2014–2020. After the short 2004–2006 programming period the next seven years were about setting the scene for cohesion policy implementation, defining roles and responsibilities, designing processes and ensuring proper understanding of the beneficiaries' needs. During the 2007–13 period there was a major organizational transformation, which resulted in more effective governance and ensured that institutions learned how to operate a major support system without losing resources. By building on the experience as it occurred in practice, the 2014–2020 period will focus on the efficient allocation of resources, i.e. supporting the best projects which are in line with the recently adopted national strategic objectives of cohesion policy.

Alongside more efficient resource allocation, decision makers are also highlighting a shift in thematic focus for 2014–2020, building on the lessons learned during the 2007–13 period. Sixty percent of the total available budget is aimed at supporting economic development, which is a significant increase compared to the previous period. When looking at the general achievements of the 2007–13 period, decision makers are emphasizing realized infrastructure (including social infrastructure) developments, which were necessary prerequisites to allocate more resources towards companies implementing projects that have a positive effect on national income.

More significant emphasis is being placed on financial instruments, by more than tripling the available budget for loan, guarantee and venture capital programs. The increased amount of funding through financial instruments is explained (besides their obvious advantages; mainly their revolving nature) by a likely decrease in non-refundable support after 2020 within the framework of the cohesion policy and therefore the intention to ensure the broader availability of refundable resources.

Contracted grants – breakdown according to EU fund

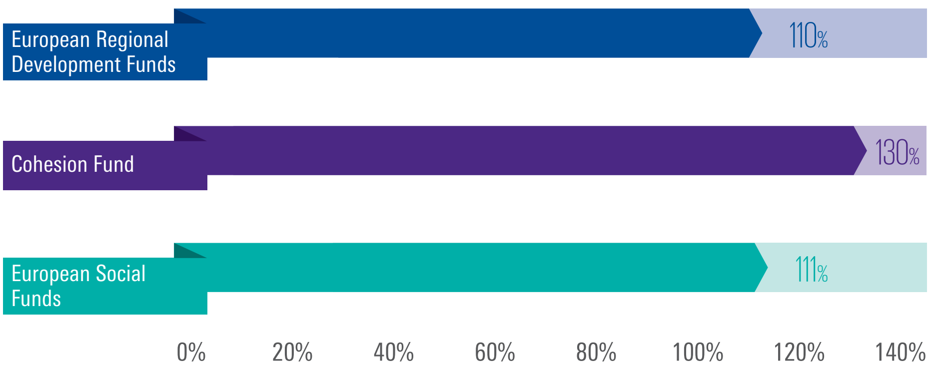


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Photo: Rehabilitation and functional enhancement of Eger's city center in the framework of the North Hungary Operational Programme
Source: Ministry for National Economy, Hungary

Latvia

EU program information

Sources: EUROSTAT data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 4.5 billion
Contracted grants	EUR 4.7 billion
Contracting ratio	104%
Paid grants	EUR 4.4 billion
Payment ratio	97%
EC certification	EUR 4.3 billion
EC certification ratio	95%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	105%
CF	100%
ESF	110%

The following observations are made based on the status reports prepared by the Managing Authority (Ministry of Finance of the Republic of Latvia) and other relevant information.

General observations

According to an assessment of the EU funds implementation progress as at 31 December 2015, the total amount of contracted EU funding in Latvia is EUR 4.7 billion (8,300 thousand contracts) or 104% of the total available budget of EUR 4.53 billion (not including national public contribution and private contribution). The overcommitments allocated in addition to the approved EU funding have been used as a safety margin to ensure 100% absorption of available EU funds and to promote the use of EU funds. The total budget for overcommitments amounts to EUR 402.3 million. Payments to final beneficiaries excluding recovered amounts as at the end of December 2015 amount to EUR 4.38 billion or 96.8% of the total available budget. However, it should be noted that, despite the fact that the programming period 2007–2013 ended on 31 December 2015 the final statement of expenditure, according to the Ministry of Finance, must be submitted until 30 June 2016, therefore the final expenditure figures for the programming period have yet to be finalized.

Overall, Latvia has managed to ensure successful implementation of the EU funds in terms of contracted and paid funds, and it is predicted that Latvia will have utilized the investment opportunities of EU funds for the programming period 2007–2013 to the full extent.

EU funds implementation in Latvia as at December 2015

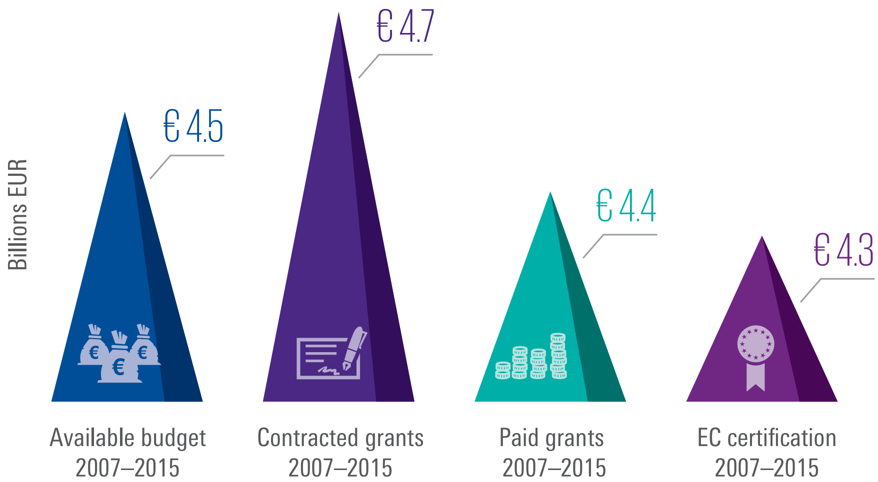
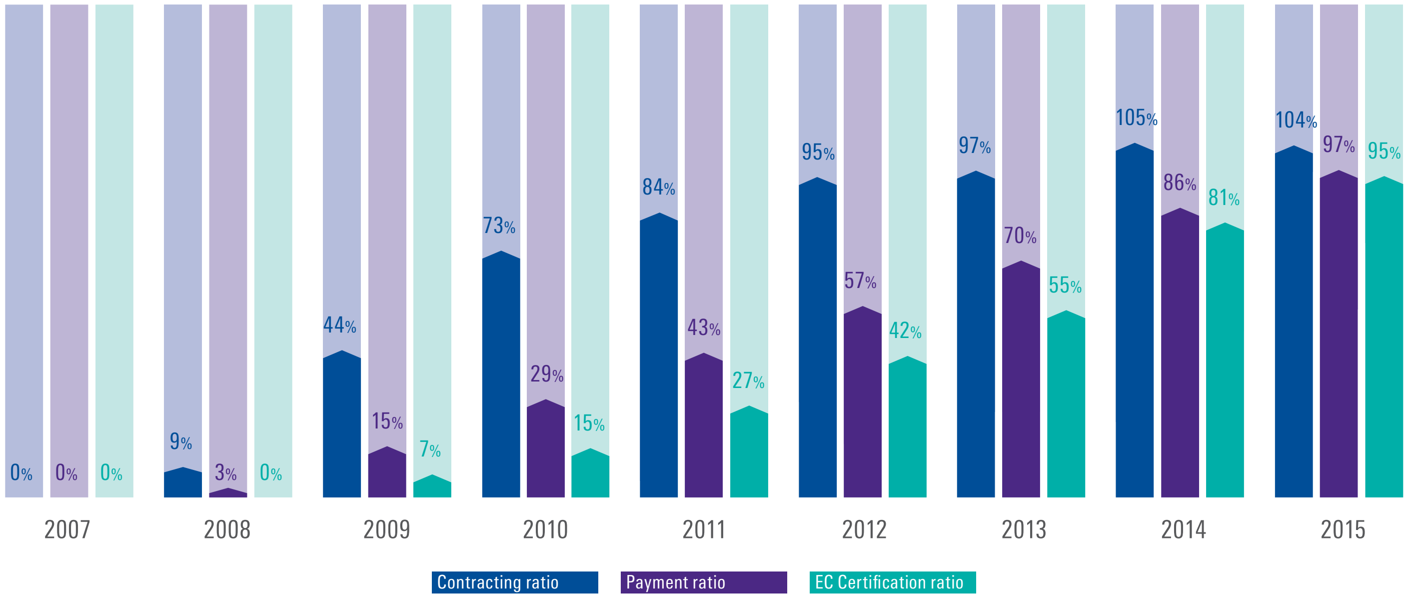


Photo: Biodiversity conservation and ex-situ infrastructure creation, 2011–2014
Source: National Botanic Garden of Latvia in Salaspils

The main objectives of the activities implemented under the operational programs supported by EU Funding have been achieved. Key external factors that contributed to the achievement of the objectives and results were the economic crisis, which facilitated political need for solutions in the context of these activities, and the interest of the target group and partners in projects' results and participation in implementation. Key internal factors that contributed to the achievement of the stated objectives and results were supported at the management level, motivation and professional level of the personnel involved, previous project implementation experience and cooperation with partners.

EU funds implementation progress in Latvia in 2007–2015



During the middle of the programming period 2007–2013 simplified cost options were introduced, but were applicable only to ESF (European Structural Fund) projects. However, many beneficiaries had no information on these options, preventing them from attaining the potential benefits. Going forward, in order to reduce the administrative burden on beneficiaries and to utilize the resources of the Managing Authority and Intermediate Bodies of the Operational Programmes, the conditions for the broader application of simplified cost methods are expected to be created by extending the scope of the application, also including the ERDF (European Regional Development Fund) and CF (Cohesion Fund) projects, and by developing three different simplified cost option methodologies to best match the actual needs of beneficiaries.

Trends

Sustainability in 3-5 year perspective is ensured for the results, which are included in a balance sheet of the institutions. The main risks are related to staff turnover, and availability of financing for continuation of initiatives and the follow-up.

According to the Managing Authority and the Ministry of Finance of the Republic of Latvia:

- in 2015 EU fund investments will have generated an increase in the growth of Latvia's GDP by 1.4%;
- in 2015 EU fund investments will have a positive impact on the growth of private consumption, increasing the growth rate by 0.8%;
- in 2015 the effect from EU fund investments on the export of goods and services will have a positive impact of 0.2%; and
- EU funded projects continued to have a positive impact on employment dynamics in 2015, and it is expected that the increase in the growth rate of the number of employed people will be 0.4%.

It should be noted that due to the periodicity of publication of statistical information the above-mentioned data for 2015 are estimates based on the data available for the first three quarters of 2015.

Successes

According to the Ministry of Finance of the Republic of Latvia, EU funds in Latvia contribute more than 70% of total public investments and more than 10% of the annual budget income.

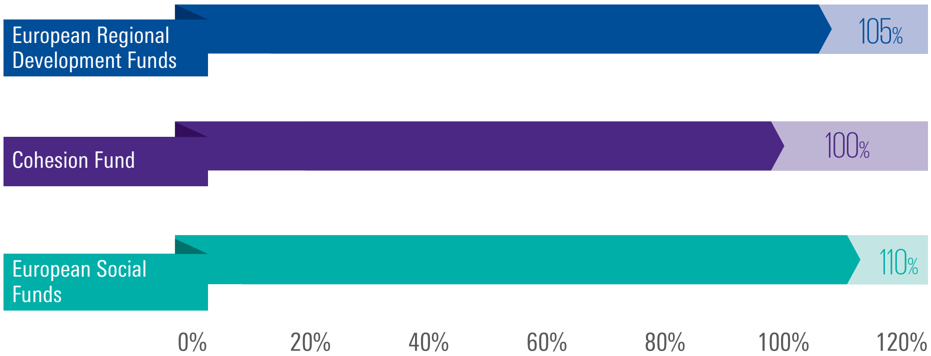
According to the results achieved in the 2007–2013 programming period it is apparent that there have been positive contributions to the economy of Latvia and its population. For example, in the labor market and in social support programs 205,457 unemployed people have been involved in socially useful jobs, and up to 5,000 new workplaces have been created. In the field of education, 21,832 general education teachers have improved their competency and qualifications. In the field of business and innovation, 1,184 economically active businesses have been supported in business incubators, and 181,445 inhabitants have benefited from water management projects. In the field of transport, 923.4km of roads and streets as well as 52km of railway have been reconstructed.

Areas for improvement

Some difficulties have been identified regarding the complicated and time-consuming review of final payment information for the largest projects, a factor which has caused certain delays in the implementation of payment schedules. It has been pointed out that the implementation of activities required a relatively high input of human resources from the beneficiaries, mainly in relation to the project administration. The beneficiaries (NGOs and municipalities) regarded this input as too high in relation to the total value of the project.

Furthermore, sustainability of the results diminished in the mid-term and long-term perspective, which is largely related to the nature of the activities and expected loss of relevance as time passes.

Contracted grants – breakdown according to EU fund



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Lithuania

EU program information

Sources: EUROSTAT data, KPMG calculation

General observations

The total allocated budget for the 2007–2013 programming period was EUR 6.8 billion. In 2015, Lithuania paid 99.5% of all EU funds to 8,305 projects. The highest amount of support was granted to projects implemented under the priorities such as Environment and Sustainable Development, Trans-European Transport Networks Development and Local and Urban Development.

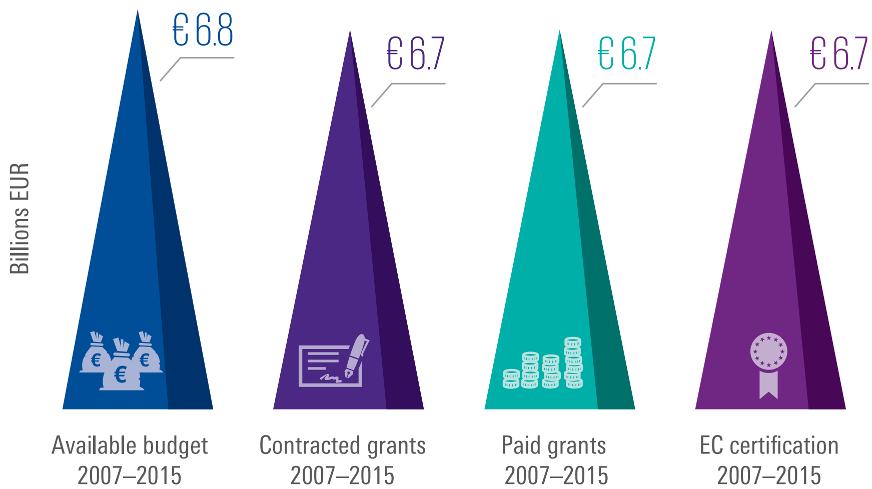
EUR 6.709 billion in total was assigned to the Operational Programme for the European Union Funds' Investments in 2014–2020. The Lithuanian government has almost finished finalizing the measures, which will be implemented under the 2014–2020 program. There are overall 232 measures foreseen under the Operational Programme for the European Union Funds' Investments in 2014–2020, 137 (59%) of which have the approved project selection criteria. Ninety-eight percent (EUR 6.654 billion) of funds were allocated to the approved measures, a call for expression of interest was announced for 18% (EUR 1.188 billion) of funds and 5% (EUR 342 million) have already been paid to the beneficiaries[1].

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 6.8 billion
Contracted grants	EUR 6.7 billion
Contracting ratio	99%
Paid grants	EUR 6.7 billion
Payment ratio	99%
EC certification	EUR 6.7 billion
EC certification ratio	99%

Source: *Cumulative reports for http://www.esparama.lt/; inquiries from Ministry of Finance*

EU funds implementation in Lithuania as at December 2015



Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	99%
CF	100%
ESF	100%

Source: *Cumulative reports for http://www.esparama.lt/; inquiries from Ministry of Finance*

Trends

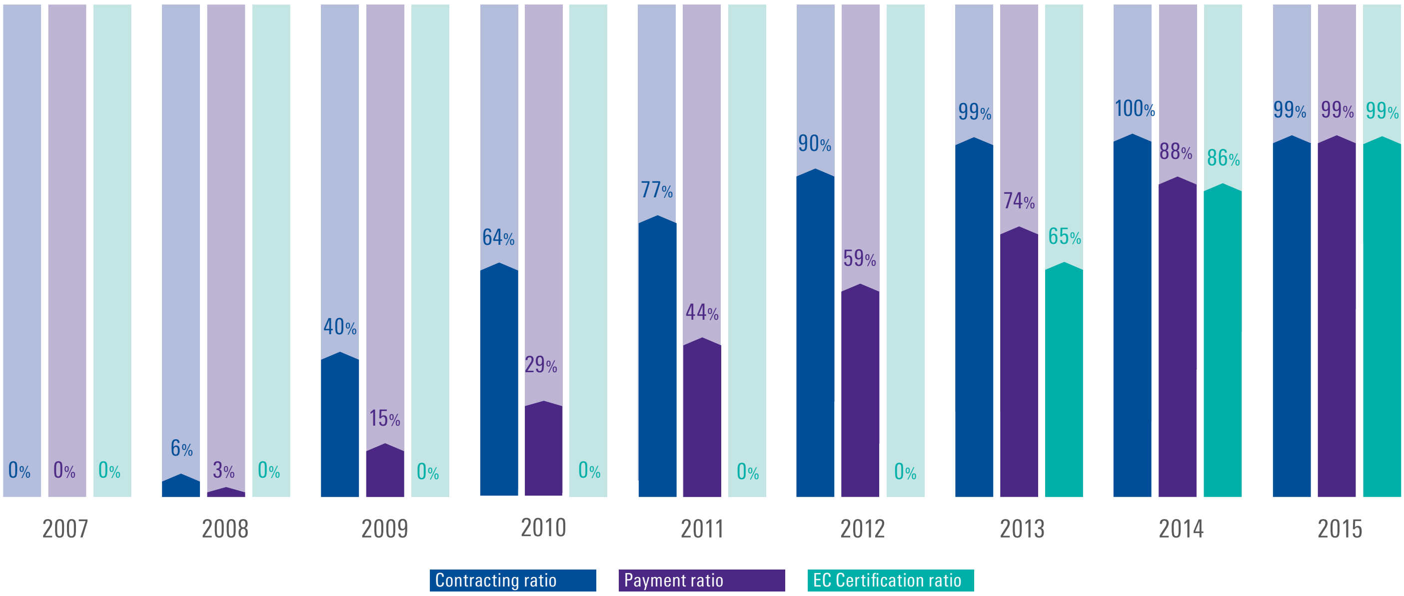
In the 2007–2013 programming period, 46% of the funds was used for Operational Programme for Economic Growth, i.e. making the economic infrastructure more efficient, increasing the share of high value-added businesses and increasing the overall productivity of business, by creating a favorable environment for innovations and SMEs. The biggest proportion of funds was allocated to the development of trans-European transportation infrastructure (railways, highways, airports, port, etc.).

In the 2014–2020 programming period, 17.2% of the funds has been allocated to continue the development of transport infrastructure and promotion of energy efficiency and production and usage of renewable energy sources, while 12.5% of investments has been allocated to environmental measures.

1 Based on the data relevant on 13 January 2016, http://www.esinvesticijos.lt/lt/rezultatai-ir-statistika/es-fondu-panaudojimo-statistika

KPMG

EU funds implementation progress in Lithuania in 2007–2015



Successes

According to the evaluations of programming period 2007–2013, summarized by the Ministry of Finance of the Republic of Lithuania[2], it can be concluded that:

- the real GDP growth in 2004–2013 was 1.57% higher than it would have been without EU interventions;
- the unemployment rate in 2004–2015 is 4.6% less than it would have been without EU interventions;
- the expected return from each invested euro in 2004–2015 is EUR 1.97 (nominal GDP return);
- the ratio of foreign direct investment (FDI) to GDP in 2007–2015 was 16% higher than it would have been without EU interventions;
- roads asphalted from EU assistance funds made up 73% of the total increase in roads in 2007–2012;
- schools in the medium-sized and smaller towns which are outside the target regional development territories renovated from EU assistance made up 25% of total schools in the region. Forty percent of current pre-schools' infrastructure in those regions is also being renovated with EU assistance; and
- in 2015, 44% of the Lithuanian population (or 66% of all Internet users) used electronic public services provided by public institutions. The number increased by 30% compared to 2013. Lithuania is now ranked 8th in the EU based on the usage of electronic government services.

Payment ratio – breakdown according to EU fund

EU fund	Payment ratio (at the end of 2015)
ERDF	98.8%
CF	99.9%
ESF	100.2%

Source: Cumulative reports for http://www.esparama.lt/; inquiries from Ministry of Finance

Certification ratio – breakdown according to EU fund

EU fund	Certification ratio (at the end of 2015)
ERDF	99.67%
CF	99.99%
ESF	99.65%

Source: Cumulative reports for http://www.esparama.lt/; inquiries from Ministry of Finance

2 *Evaluation of EU Structural Aid 2007–2013. Overview of Performed Evaluations. Ministry of Finance, 2015.*

Quotes from beneficiaries

Professor Juozas Lazutka:

"Foundation of the Joint Life Sciences Centre (JLSC) was the result of the implementation of the project 'Development of Joint Life Science Centre' (No. VP2-1.1-ŠMM-04-V-01-016), which has been funded by EU Structural Funds and the state budget. As a result of the project, high-quality infrastructure – modern laboratories and instrumentation – was created for more than 800 students in Bachelor and Master degree programs, and for 160 PhD students and 250 researchers holding PhD degrees. In the context of the project, average annual expenditures on research increased up to approximately EUR 6 million/year, 11 international patents were gained and 215 new research positions based on grants and contracts were created. Consequently, relations with industry partners have significantly improved: 17 local and seven international companies became partners of JLSC, six new collaboration and four license agreements were signed, and four startups were created."

Areas for improvement

The evaluation of investments to local and urban development relevance and assistance sufficiency showed average and lower than average investment relevance for the country as a whole, i.e. insufficient consideration of the general condition of a residential area is inherent in the planning of projects. This situation was created because projects were selected on a sector-related basis, the most apparent objects were nominated for assistance, while the real origin of the problems was insufficiently analyzed.[3]

An analysis of education and science activities financed from European Structural Fund (ESF) implementation results[4] showed that, even though favorable conditions and clear guidelines were created for the implementation of activities within ESF projects, which should lead to increasing the product quality, project-implementing organizations were not subjected to independent scrutiny and pressure to improve product quality. The management system of EU Structural Funds was intended to apply correct procedures for project implementation, but was not entitled to monitor product quality.

An assessment of the impact of EU Structural Assistance on small- and medium-sized business entities[5] revealed that, even though measures related to export expansion were relevant and helped to reduce existing barriers, there were not enough investments into human resources in the field, as lack of eligible personnel is indicated as one of the main reasons why export volumes cannot be increased.

An evaluation of EU Structural Assistance impact on quality of life, social exclusion and poverty reduction in Lithuania[6] concluded that the programming documents of the 2007–2013 period did not clearly express the logic of intervention related to poverty and social exclusion reduction, which lead to funds not being concentrated enough on the most relevant projects. Due to the lack of coherent intervention logic and the planning process being split between different institutions, strategic context, target objectives and outcome measures were not sufficiently aligned.

Lastly, it was found that approximately 20% of all funds was allocated to areas that are not directly related to Europe's 2020 strategy[7]. This is not an extreme deviation; however, in order to reach the targets set in the Europe 2020 strategy, better coordination of measures under implementation in 2014–2020 must take place.

Lessons learned

The programming documentation for 2014–2020 should describe the intervention logic clearly in order to guide all administrative bodies in activities performed in their jurisdiction.

3 *Evaluation of EU Structural Assistance Impact on Local and Urban Development. BGI Consulting, 2015.*

4 *Implementation Results' Analysis of activities in Education and Science fields financed by ESF. PPMI Group and VšĮ Viešosios politikos ir vadybos institutas, 2013.*

5 *Evaluation of the Impact of the European Union Structural Assistance on the Small and Medium Sized Business Entities. BGI Consulting, 2014.*

6 *Evaluation of EU Structural Assistance Impact on Quality of Life, Social Exclusion and Poverty Reduction in Lithuania. ESTEP, 2014.*

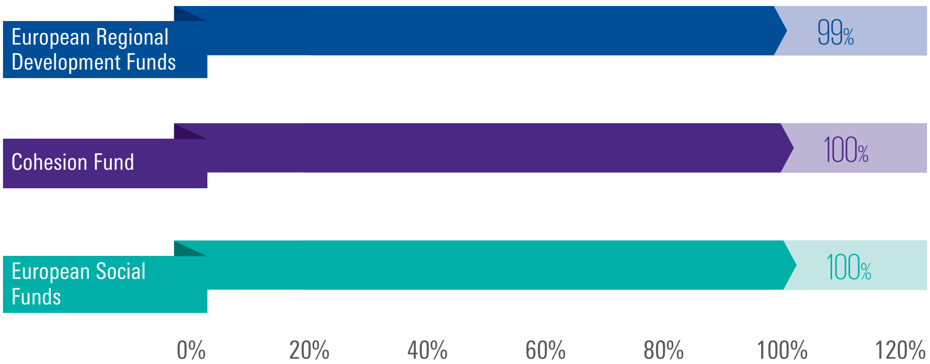
7 *The Evaluation of the Contribution of the Lithuanian Strategy for the Use of European Union Structural Assistance for 2007–2013 and its Operational Programmes in Achieving the Objectives of „EUROPE 2020" Strategy. Ministry of Finance, 2011.*

Photo: National Center for Physical Sciences and Technology. Accelerator mass spectrometer. Project "Creation of National Center for Physical Sciences and Technology".
Source: Edgaras Kurauskas, February 2016

In 2014–2020, it is crucial for the country's cities and small towns to focus on investments which would generate revenue in the long-term, would contribute to the improvement of the economic environment and increase employment rates.

It is also recommended at the project level to apply better quality monitoring procedures, which would allow tracking the usage, distribution and continual relevance of ESF products and services among the intended target groups.

Contracted grants – breakdown according to EU fund



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Poland

EU program information

Sources: EUROSTAT data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 67.2 billion
Contracted grants	EUR 66.9 billion
Contracting ratio	100%
Paid grants	EUR 61.6 billion
Payment ratio	92%
EC certification	EUR 63.1 billion
EC certification ratio	94%

Source: Ministry of Development (KSI SIMIK 07–13)

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	99%
CF	101%
ESF	99%

General observations

In the 2007–2013 period, Poland's main programming document, the National Strategic Reference Framework (NSRF) covered 21 operational programs:

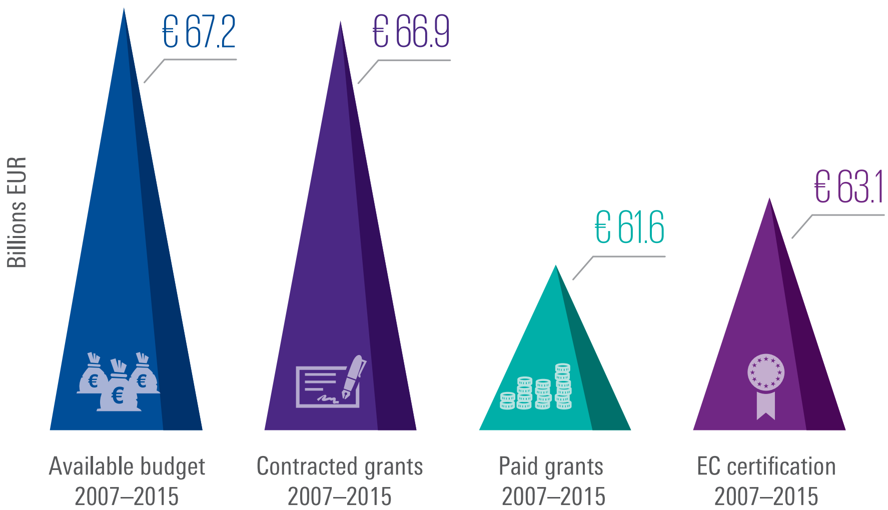
- four sectoral operational programs (OPs):
  - Operational Programme Innovative Economy;
  - Operational Programme Infrastructure and Environment;
  - Operational Programme Human Capital;
  - Operational Programme Development of Eastern Poland;
- 16 regional OPs; and
- one technical assistance OP.

The EU funds available for the framework program totaled EUR 67.186 billion, which has been the highest amount among those allocated to the CEE countries, while the EU funds per capita in perspective 2007–2013 was equal to EUR 1,762, which places Poland eighth (see more details in the CEE Overview section).

Besides the NSRF there are three other programs being implemented, including:

- the European Agricultural Fund for Rural Development, implemented within the Rural Development Plan;
- the European Agricultural Guarantee Fund; and
- the European Fisheries Fund, implemented within National Fisheries OP.

EU funds implementation in Poland as at December 2015



General observations

In the 2014–2020 period, Poland's main programming document, the NSRF, covered 21 operational programs:

- four sectorial operational programs:
  - Operational Programme Infrastructure and Environment;
  - Operational Programme Smart Growth;
  - Operational Programme Knowledge, Education, Growth;
  - Operational Programme Digital Poland;
- operational Programme Eastern Poland;
- 16 regional OPs; and
- one technical assistance OP.

These OP's were established on the basis of three main Structural Funds which exist at the EU level: the European Regional Development Funds, the Cohesion Fund and the European Social Funds.

The EU funds available for the framework program totaled EUR 76.886 billion, which again is the highest amount among those for the CEE countries, while the EU funds per capita in view of 2014–2020 was equal to EUR 2,022, which ranks Poland the seventh.

EU funds, among other factors, influenced the GDP per capita growth up to EUR 11,254 in 2015.

Progress report 2014–2020

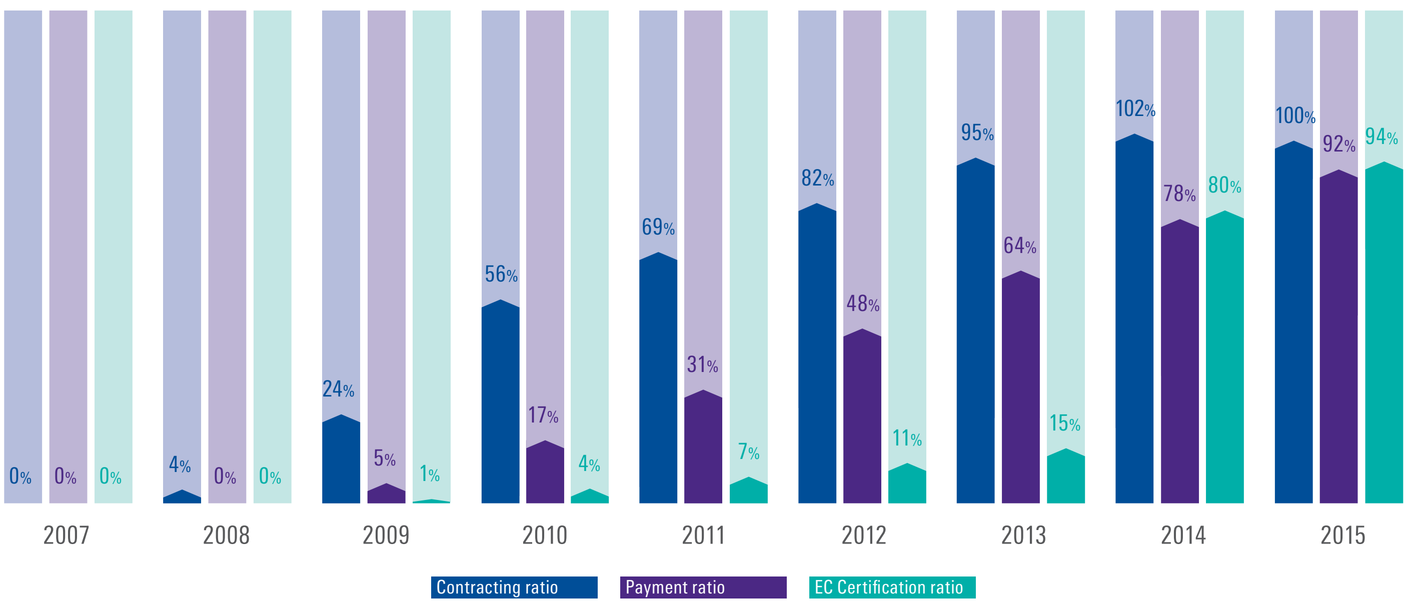
Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 76.9 billion
Contracted grants	EUR 3.5 billion
Contracting ratio	5%
Paid grants	EUR 0.4 billion
Payment ratio	1%
EC certification	EUR 0 billion
EC certification ratio	0%

Source: Ministry of Development (KSI SIMIK 07–13)

Contracting ratio 2014–2020 perspective – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	1%
CF	10%
ESF	4%

EU funds implementation progress in Poland in 2007–2015



Quotes from beneficiaries

OP Innovative Economy 2007–2013, 7th priority axis: Information society – establishment of electronic administration, public sector:

"Reporting and distribution of information between supervising institutions, application and interpretation of the Public Procurement Law, as well as frequent changes in the generator of requests for payment were the main difficulties during the project. The following changes could make project realization more effective: introduction of an invoice minimum to settle, better use of the information contained in the applications for payment, improvement of communication between supervising institutions."

Trends

In the 2007–2013 budgeting period, the greatest proportion of EU funds in Poland was spent on infrastructure. That included a wide variety of projects – from roads, rails, airports, sewage water treatment plants and improvement of hospital buildings to the development of city biking routes. These investments aimed at improving the quality of life in Poland to meet the standards of Western Europe.

In the 2014–2020 budgeting period, projects eligible for aid will have to deal with issues most important for the country's development. Therefore, the EU aid will be available for:

- promoting business environment and facilitating entrepreneurship and innovation;
- social cohesion and active labor market participation;
- network infrastructure for growth and jobs; and
- environment and resource efficiency.

Successes

The Structural Funds have been a useful instrument to reduce the impact of the economic crises. Well invested European Funds have also had a positive effect on GDP growth in Poland and increased the competitiveness of the Polish economy. EU funds helped in the development of entrepreneurship and in creation of new jobs. Additionally, more and more people have had easy access to modern roads, rails, new technologies and water treatment plans.

Areas for improvement

The key themes of the projects supported by the EU funds under the new financial framework 2014–2020 are slightly different, compared to the previous scheme. Among the areas of growing importance are:

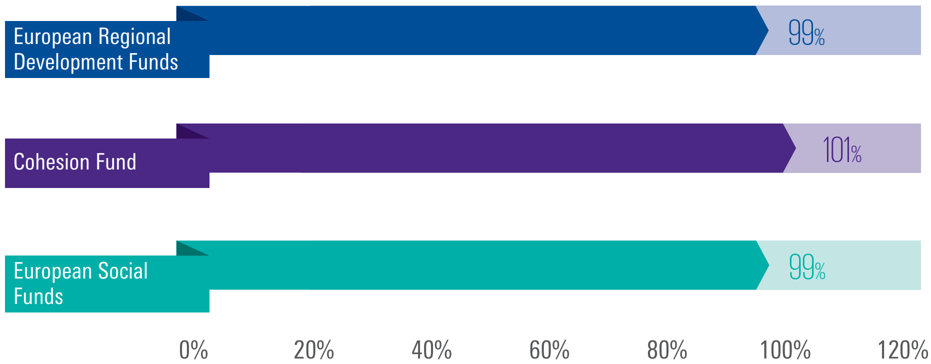
- development of environment-friendly transport (railways, public transport) and key road connections;
- transformation of the energy sector, which means that Poland needs to transform from traditional to "green" energy (renewable energy sources, energy efficiency);
- improvement of the quality of public administration and governance, which means state digitalization, extension of broadband Internet, and electronic access to public services;
- development of scientific research and its commercialization as well as innovation and closer cooperation between R&D and the private sector;
- support for labor activation and human capital development, including:
  - a rise in the number of young people who enter the labor market (supporting better education and trainings, ensuring young people complete their education and get the skills that make them more competitive employees on the market);
  - retraining employees with unprofitable professions and the long-term unemployed.

KPMG

Lessons learned

Contracting and spending EU funds is an important element of the national economy, hence it impacts the GDP of Poland. More equalized contracting and spending will impact more than just economic factors, especially for long-term infrastructure projects. A prolonged project preparation phase leads to peaks in contracting and spending that result in low quality of delivery and increased risk for projects. That's why the key aspect to qualify a project for a grant is to efficiently analyze its contribution to the enhancement of competitive advantages, or minimization of weaknesses in different aspects – infrastructure, regions, social environment, human capital, etc. Just as important is to remember that grants will support undertakings targeted to market innovative solutions which may make the Polish economy more modern and bring long-term effects. Our experience shows that communication and close cooperation between public authorities, social partners and bodies representing civil society at national, regional and local levels throughout the whole program cycle make the entire process more efficient, faster and enable higher profits and optimal execution of procedures within Poland.

Contracted grants – breakdown according to EU fund



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OP Human Capital 2007–2013, Project concerned development and test a simple and rapid financing system of trainings for micro, small and medium-sized enterprises and their employees:

"The main idea was to pay verified and qualified companies for trainings with dedicated vouchers. Participants, after the pilot course, assessed positively flexible selection of themes, forms and training time. Thanks to the European funds, Lesser Poland' region is the first one in Poland which tested this innovative solution."

Development and implementation of smart metering system class AMI, energy sector:

"The biggest benefit of using the European funds was the ability to invest in new technologies with less financial risk. The process of submission, verification of application and the choice of the offer were transparent and understandable."

Romania

EU program information

Sources: EUROSTAT data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 19.1 billion
Contracted grants	EUR 22.1 billion
Contracting ratio	116%
Paid grants	EUR 13.9 billion
Payment ratio	73%
EC certification	EUR 11.2 billion
EC certification ratio	59%

Contracting ratio – breakdown according to EU fund

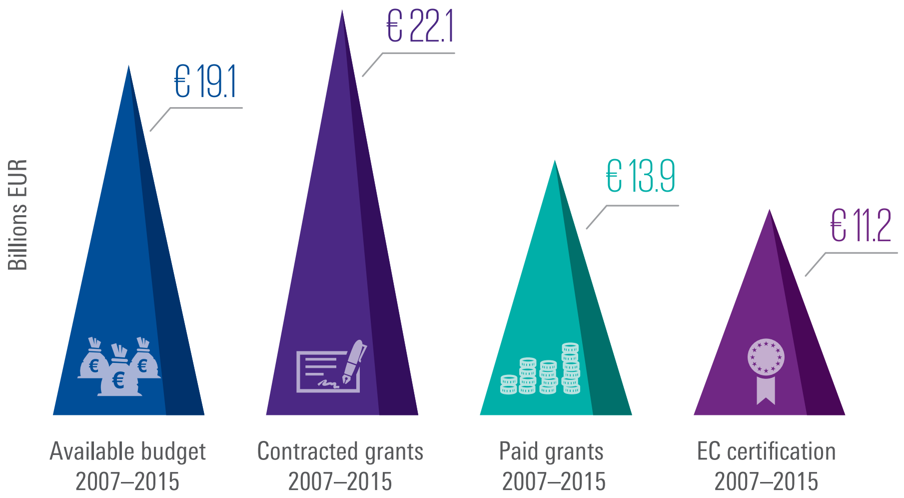
EU fund	Contracting ratio (at the end of 2015)
ERDF	123%
CF	98%
ESF	132%

General observations

The Ministry of European Funds data show that by the end of December 2015, Romania's effective absorption rate[1] stood at 59%, with interim payments from the European Commission reaching EUR 11.2 billion out of a total amount of EUR 19.1 billion available to the country. In a country-by-country comparison, Romania is positioned in one of the last places in the European Union in terms of Structural and Cohesion Fund (SCF) absorption.

Despite an overall poor performance, Romania could reach a higher SCF absorption rate as the deadline for submission of interim payment claims to the European Commission is set for the end of June 2016. As a matter of fact, the level of payments made to the beneficiaries (currently standing at 75%) reveals a more accurate portrayal of Romania's capacity to absorb the SCF corresponding to the 2007–2013 programming period. That absorption rate could grow up to 80% as the Romanian authorities have initiated a list of retrospective projects[2] that is in process of evaluation by the European Commission. As at April 2016, a total number of 47 projects totaling EUR 557 million, with an EU contribution of EUR 466 million were approved, while other 28 projects totaling an EU contribution of EUR 488 million were under evaluation.

EU funds implementation in Romania as at December 2015



Trends

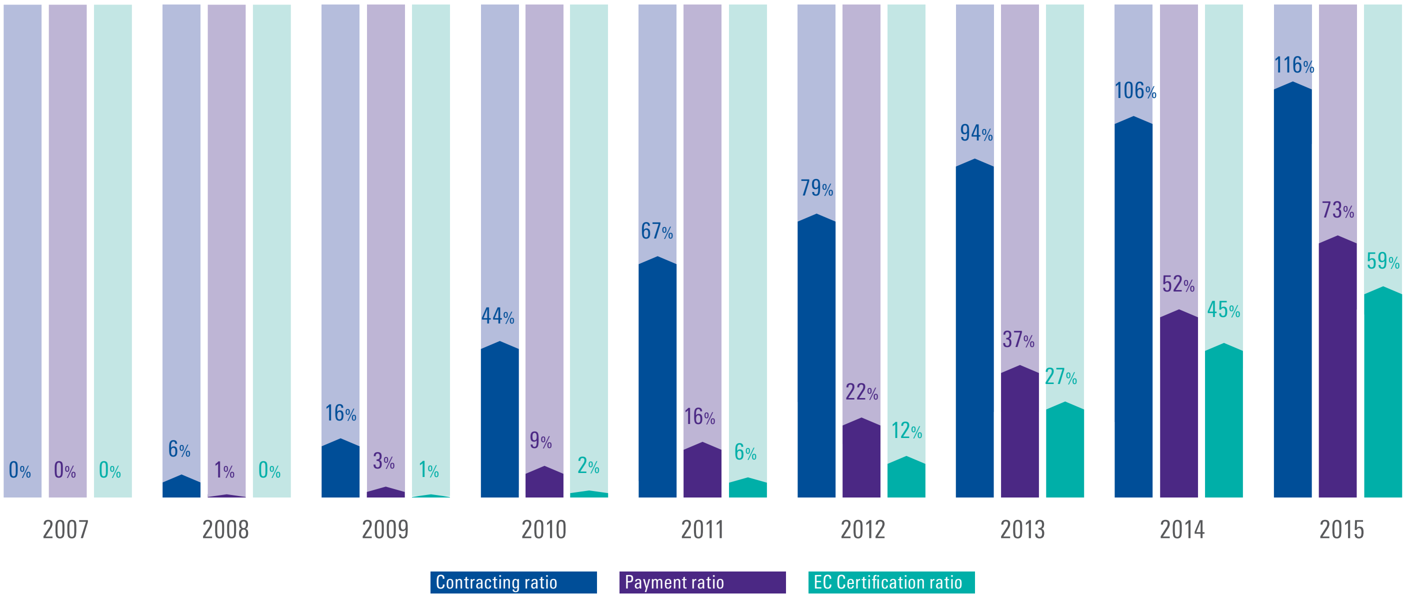
The implementation of the 2007–2013 framework had a slow start, with effective absorption reaching 11.5% at the end of 2012. The implementation saw significant progress in 2013 and 2014, when the contracted ratio exceeded 100% (i.e. 103% in 2013 and 122% by the end of December 2014). A similar upward trend could be noticed in the case of certified expenditures by the European Commission: interim payments grew by 15 percentage points in 2013 (to 26.45%) and 18 percentage points in 2014 (to 44.89%).

In 2015, Romania witnessed mixed results: after a slow start, the last months of the year saw further progress in terms of financial support paid to the beneficiaries and certified amounts by the European Commission. Approaching the end of the

1 *The effective absorption rate is computed as the ratio between the interim payments made by the European Commission (excluding pre-financing amounts) and the SCF amounts allotted to Romania as part of the 2007–2013 programming period.*

2 *Projects initially financed under national schemes, to be subsequently included in EU-funded programs provided that they meet several criteria: existence of an environmental approval, compliance with the public procurement rules, etc.*

EU funds implementation progress in Romania in 2007–2015



programming period, the Romanian authorities undertook substantial efforts to make the most of the available funds from the 2007–2013 framework: the EC certification ratio reached 59%, while payments made to beneficiaries grew by 22 percentage points (to 75%). Nevertheless, Romania is not likely to achieve the target of 80% set for the absorption rate unless a significant number of national projects qualify for retrospective EU assistance.

Successes

The financial performance of SCF exhibits significant differences from one operational program to another. As of the end of 2015, outstanding progress was observed in the case of the sectoral operational program Human Resource Development, where the payments made to beneficiaries reached 86.7% as compared to the previous year when the payment ratio stood at 58.3%. An absorption rate higher than the average value (75%) is also likely to be achieved by the sectoral operational program Increase of Economic Competitiveness, as the payment ratio reached 86% in December 2015. Furthermore, a considerable uptake of the available EU funds is expected for the operational programs Development of Administrative Capacity (DAC) and Technical Assistance (TA), for which payment claims submitted to the European Commission had already exceeded 80% by the end of the year.

Over the past three years, the Ministry of European Union has introduced several measures in order to reduce the administrative burden on beneficiaries and also to maximize the uptake of EU funds. A notable success was the setting up of a direct payment mechanism of invoices issued by the contractors of EU-funded projects. The mechanism improved the cash flow of EU funds' beneficiaries, as they were not supposed to cover the payment of these invoices from their own financial sources. Significant improvements have also been achieved by speeding up the reimbursement claims' processing time frame and by introducing a simplified procurement procedure for private beneficiaries.

Quotes from beneficiaries

Commenting on the world's most powerful laser with 2x10 petawatts, 10% of Sun power) whose implementation interval is 2012–2018 (estimated) and eligible costs comprise EUR 136.4 million for 2007–2013 and EUR 174.5 million for 2014–2020, Prof. Nicolae Zafir, project director, Extreme-Light Infrastructure – Nuclear Physics (ELI-NP), says:

"The necessary energy of the future center, which will be close to 10 MW, will be largely secured by a system of 1,000 geothermal pumps. It will probably be the largest building in Europe supplied with energy from unconventional sources."

Areas for improvement

Romania's difficulties in absorbing SCF stemmed from persistent flaws in the management and control systems which led to frequent suspension or interruption of some Operational Programmes. Romania's low uptake of EU funds is also apparent according to an inconsistent application of the procurement rules which has triggered substantial financial corrections applied to the beneficiaries. Lack of optimized coordination among various institutions involved in SCF management and implementation has also contributed to low absorption of EU funds.

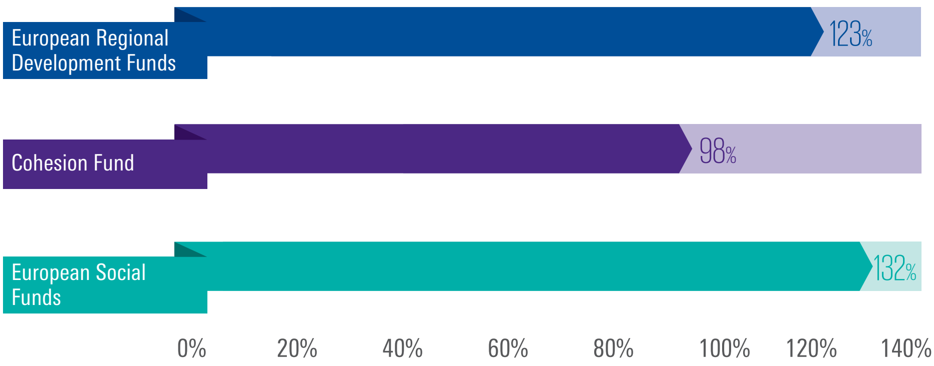
Other factors explaining Romania's poor performance in SCF implementation include: the high staff turnover rate within the entities involved in the SCF system, the applicants' deficiencies in preparation or implementation of sustainable projects, and limited mechanisms to fund beneficiaries' equity contribution to the projects.

Lessons learned

Improvement of absorption rates and effectiveness of public spending is hindered by lack of predictability for the launching of SCF and for the process timeline. The newly implemented system for electronic data exchange between authorities and beneficiaries aims to allow for the electronic submission of applications, and to ensure that all the relevant information for programming, monitoring, evaluation, financial management, verification and audit is available on time. Enhanced efficiency and correlation of technical assistance resources are expected to speed up the evaluation of projects and the assessment of reimbursement claims. Moreover, the recently adopted National Public Procurement Package will facilitate both swifter allocation of technical assistance resources and an enhanced acquisition process by the beneficiaries.

Photo: ELI-NP simulation photo
Source: Extreme Light Infrastructure – Nuclear Physics facility

Contracted grants – breakdown according to EU fund



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European Commissioner Corina Crețu:

"It is an important project for Romania, for the scientific research in the country. At the same time, it is important that the project will run smoothly as it is a very good example of what can be done in Romania with regional development funds. This project is unique in Europe as it implies carrying out the installation of laser and gamma beams, and will benefit the latest technologies which will contribute to studying the impact of very intense electromagnetic radiation on matter."

Dumitru Noane, administrator of Oradea fortress built in the 11th century on the EUR 19 million rehabilitation project:

"European funds represented the salvation of the fortress, as in the second half of 20th century it was utilized in innumerable ways which were totally inappropriate for this specific historical monument."

Slovakia

EU program information

Sources: EUROSTAT data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 11.7 billion
Contracted grants	EUR 14.2 billion
Contracting ratio	122%
Paid grants	EUR 11.3 billion
Payment ratio	97%
EC certification	EUR 8.1 billion
EC certification ratio	70%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	123%
CF	118%
ESF	128%

General observations

Slovakia implements EU funds through various programs. The priorities of the National Strategic Reference Framework (NSRF) are implemented through 11 operational programs (OP) in which there are seven operational programs[1] under the Convergence objective, three multi-objective operational programs[2] (for the Convergence objective and the Regional Competitiveness and Employment objective) and one operational program[3] under the Regional Competitiveness and Employment objective. Besides NSRF there are programs implementing the European Agricultural Fund for Rural Development, the European Fund for Fisheries and the Cross-Border Cooperation programs.

EU funds implementation in Slovakia as at December 2015

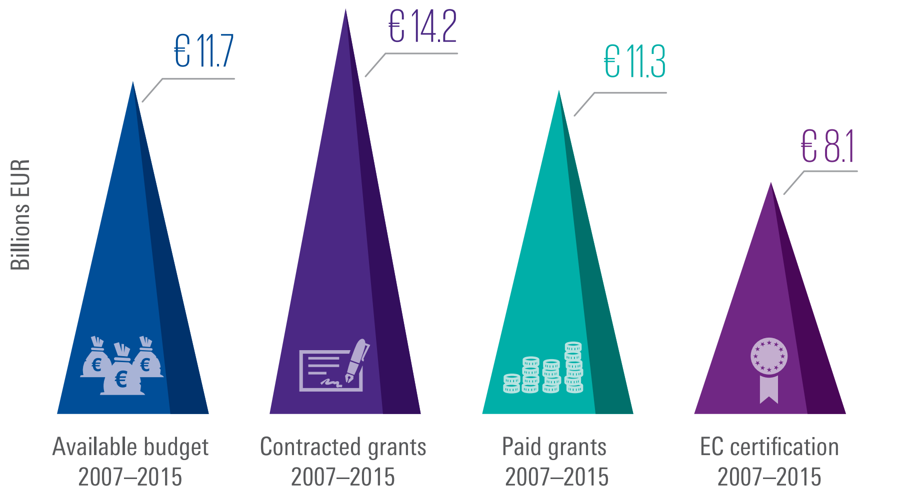


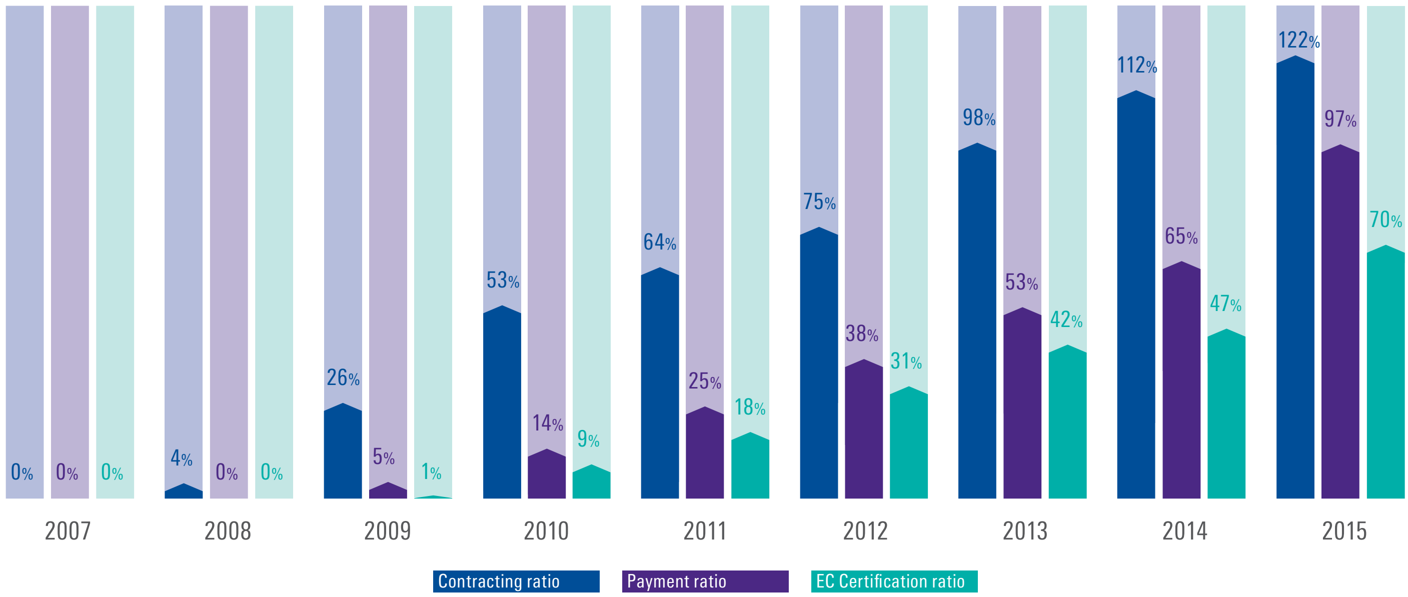
Photo: Development of thermometers and magnetic sensors based on chalcogenides for practical applications
Source: Ministry of Education, Science, Research and Sport of the Slovak Republic

1 *OP Transport (ERDF and CF), OP Environment (ERDF and CF), Regional OP (ERDF), OP Health (ERDF), OP Informatisation of the Society (ERDF), OP Competitiveness and Economic Growth (ERDF) and OP Technical Assistance (ERDF)*

2 *OP Research and Development (ERDF), OP Employment and Social Inclusion (ESF), OP Education (ESF)*

3 *OP Bratislava Region (ERDF)*

EU funds implementation progress in Slovakia in 2007–2015



Trends

The beginning of the programming period 2007–2013 was marked by delayed management and control mechanism settings for each operational program. The low rate of contracting and withdrawal in the initial years for some operational programs became an urgent issue.

Slovak implementing bodies took crucial measures to improve the state of implementation. Several revisions of operational programs, as well as transfer of funds to areas more attractive for the beneficiaries, assisted in this improvement.

Successes

EU funds have been a useful instrument for reducing the impact of the economic crisis, to slow growth of unemployment and in securing contracts, especially for domestic suppliers. One of the major successes was the partial modernization of infrastructure in the areas of education, social services, culture, non-commercial rescue services and other civil infrastructure in towns and municipalities, creating the necessary precondition for increasing benefits to citizens and entrepreneurs from services linked to supported infrastructure as well as the implementation of a number of "major projects" whose total cost exceeds EUR 50 million, which could not have been achieved without the support of the EU.

Areas for improvement

The delays in implementing the operational programs themselves could be regarded as the most serious problem of NSRF implementation. Factors which delay implementation include repeated deficiencies associated with public procurement, its realization by beneficiaries, changes to the Public Procurement Act and insufficient verification of public procurement processes by the managing authorities.

Quotes from beneficiaries

Mayor of Nove Sady Ms Silvia Halvoníková:

"Manor House in Nove Sady was literally in ruins in the last forty years, with a disintegrated roof and masonry ruined by rain. It's a miracle that the building, on which the first written record dates from the 13th century, has not fallen apart. This reconstruction has saved a cultural monument and increased interest in tourism."

Mayor of Kuty Mr Branislav Vavra:

"We have over 4,000 inhabitants and trying to create a pleasant living environment, especially for young people. Without EU funds we would not have had enough of our own money to rebuild school facilities. We can re-invest savings from insulation into further repairs."

Based on the problems identified with implementation, several recommendations/measures have been received by the responsible Slovak authorities. One of these was drawing up action plans to accelerate fund absorption, which clearly set out the tasks, responsible bodies and deadlines necessary to make progress in the implementation. The most risky operational programs according to their development and status of implementation are OP Transport, OP Environment, OP Informatization of Society, OP Research and Development, OP Education and OP Bratislava Region, which showed long-term contracting or withdrawal under the average OP NSRF.

Among the most fundamental weaknesses is dependence on the political cycle, which is quite unpredictable and difficult to be prepared for. As a consequence, the political cycle often leads to changes in programming documents in terms of the priorities of the newly formed government, or changes in already set and commenced processes and the individual steps in the implementation of various operational programs.

In addition, frequent deliberations among experts in various management positions disturb work continuity and the implementation of individual projects.

Previous experiences are crucial in the context of audits performed either by the Slovak audit authority or the relevant EU authorities.

Lessons learned

The Slovak Republic is taking steps to increase the transparency of fund management, and process simplification, such as simplified submission and evaluation of project applications, and smooth preparation and implementation of projects with reduced administrative burden for applicants. Strict rules need to be set on controls and audits while ensuring that these procedures are adequate and do not pose an unnecessary burden. In the programming period 2014–2020, Slovakia is respecting the recommendations of the European Commission as outlined in a position paper, partnership agreement and operational programs, as well as according to experiences and lessons learned from the previous programming period. As a result, Slovakia has reduced the number of operational programs compared to the previous programming period.

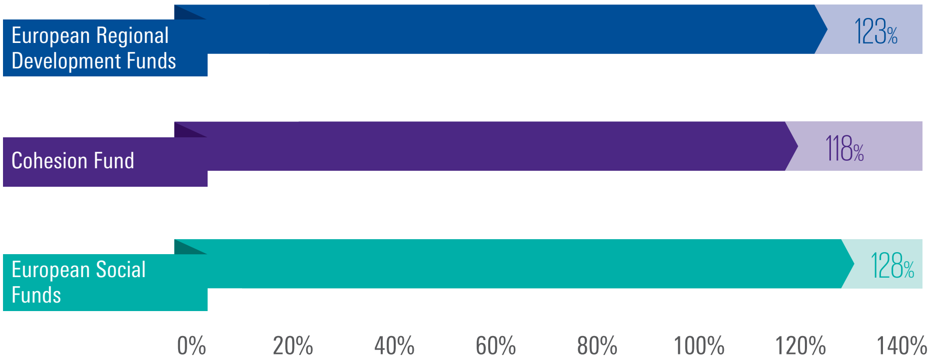
Programming period 2014–2020

Preparations for the start of the programming period 2007–2013 lasted longer than expected as well as the new partnership agreement and operational programs for the programming period 2014–2020. A partnership agreement was sent to the EC on 14 February 2014 and was signed on 20 June 2014. Operational programs were approved by the end of 2014.

One of the main challenges is the transfer of best practice, know-how and lessons learned from the programming period 2007–2013 to the 2014–2020 period and ensuring the implementation of ongoing projects in parallel with project development of the programming period 2014–2020.

The main funding priorities of the Slovak Republic in the programming period 2014–2020 are the promotion of science and innovation, and their interconnection; investment in infrastructure (transport and ICT); the promotion of human resources; the fight against unemployment; education and inclusion of marginalized communities; public administration reform; and investment in environmental protection, including anti-flood measures and investment in the region (for municipalities, cities and other relevant partners).

Contracted grants – breakdown according to EU fund



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School director Mr Vasil Kolesar:

"This school project, co-financed by the ESF, provides training opportunities for its employees and students. The preparation has been aimed at improving foreign language education and the modernization of working and teaching methods through training in advanced ICT tools. The school has created a total of 58 courses and 279 innovative teaching aids."

Mayor of Mana Mr Igor Sadovsky:

"Everything that the municipality does is about its relationship to citizens. We were missing a central square near the municipal office. Thanks to the EU funds the central square now linked the area in front of the church with the area next to the municipal office, cultural house, nearby school and the former manor house."

Slovenia

EU program information

Sources: EUROSTAT data, KPMG calculation

Progress report 2007–2015

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 4.1 billion
Contracted grants	EUR 4.4 billion
Contracting ratio	107%
Paid grants	EUR 4.3 billion
Payment ratio	105%
EC certification	EUR 4.0 billion
EC certification ratio	97%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at the end of 2015)
ERDF	106%
CF	111%
ESF	101%

General observations

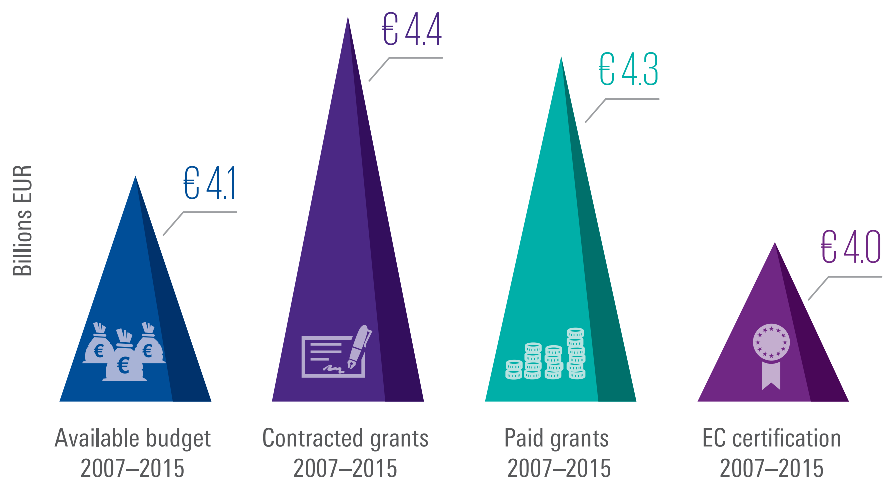
Fund disbursal in Slovenia is being controlled by the government's Office for Development and European Cohesion Policy. Slovenia has established a system of EU cohesion policy execution because payments to beneficiaries are primarily made from national accounts for which the state is later reimbursed from sub-accounts established for EU fund collection.

Compared with the year 2014, payments from the state budget for EU projects increased in 2015. At the end of December 2015, Slovenia ranked fourth among the top five EU member states for EU fund collection.

In the last 10 years, Slovenia has financed more than 5,000 projects in total. These projects contributed to:

- the reduction of the development gap among the Slovenian statistical regions;
- increased competitiveness and innovation volume;
- the creation of conditions for improving and protecting water resources and cultural heritage;
- the exploitation of cross-border entrepreneurial potential; and
- consequently, to improving living conditions for citizens.

EU funds implementation in Slovenia as at December 2015



Successes

In times of economic and social crisis, it was essential to maintain investments in the competitiveness of Slovenian companies and their human resources. In this respect, the European cohesion policy funds have been typically used as a significant source of funding for various development projects. Each region or municipality was involved in at least one project co-financed from EU funds during the period observed.

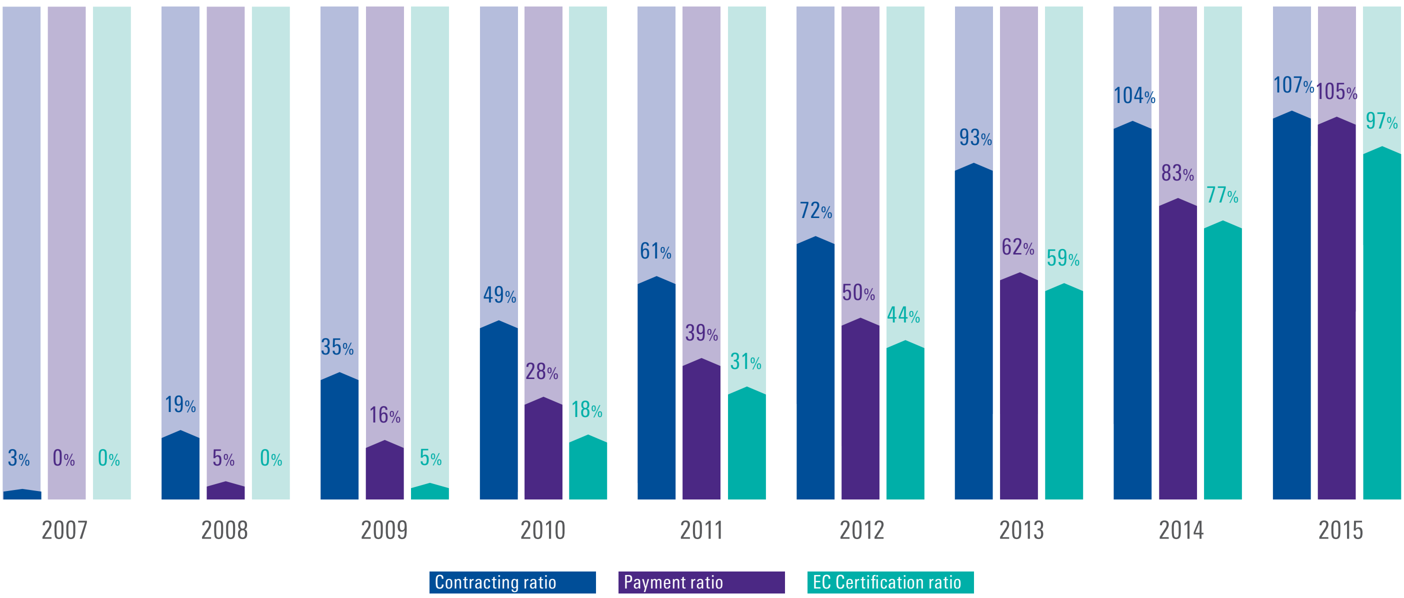
The Office for Development and European Cohesion Policy was established as a strong institution, responsible for management and implementation of the cohesion policy. With the help of the ministries, the office monitors the risks and performs measures for optimal use of cohesion funds. Decisions for fund allocation are based on the probability of a project's success.

The office maintains flexibility of funds transfer among individual development priorities in a range of up to 10% of the value of all available funds, giving the management authority an additional option to achieve 100% absorption of EU funds.

The government also wants to ensure punctually:

- clearly defined responsibilities of various governmental institutions;
- greater transparency, efficiency and responsiveness of the system;
- ongoing coordination and better communication between the participants in the funding-allocation system;

EU funds implementation progress in Slovenia in 2007–2015



Quotes from beneficiaries

At the opening of the Center, Minister for Education, Science and Sport, Maja Makovec Brenčič, commented:

"In the Pod Poncami valley we managed to combine the readiness and dedication of stakeholders of all sorts: local inhabitants, skiing and ski-jumping experts, representatives from government and politics, as well as environment protection, cultural heritage, architectural and spatial planning representatives. We are grateful to all for their contribution. A special compliment goes to the Directorate for Sport of the Ministry of Education, Science and Sport and to the Institute for Slovenian Sport Planica for realizing one of the largest infrastructural achievements for Slovenian sport. It also means the reconstruction of cultural and technical heritage on one hand and with a substantial expansion of the sports and tourism offerings in Slovenia."

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- simplified and efficient financial management;
- imposition of uniform rules and guidelines for the implementation of EU funds policy;
- concentration of knowledge and experience; as well as
- faster transfer of knowledge and information.

Areas for improvement

The main challenges of European cohesion policy implementation in Slovenia lie in the effective coordination of all ministries, the complex system structure and the significant number of various technical procedures. Transparent and functional monitoring is required, which can be achieved with adaptive organizational and management structure. The regulatory policies are not always consistent.
On occasion, the same types of tasks are being determined by various procedural decrees and by using a variety of different descriptions. The staff involved in the implementation of EU funds policy therefore faces many operational issues.

One of the key problems in the area of EU funds policy implementation is the ISARR information system. Because the data in some cases derived from this system is inaccurate, the implementation of a new system is planned. The new information system shall allow all the functionality required by Brussels' financial period (2014–2020) framework, while the existing (old) system ISARR will only be used in the future related to the framework of the past financial period.

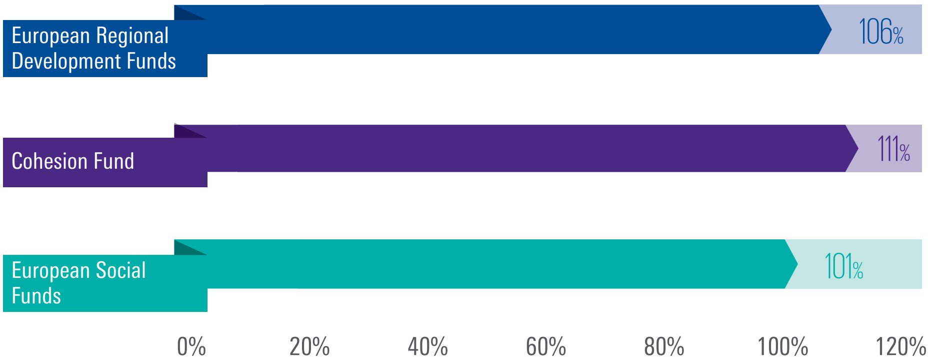
Lessons learned

Slovenia is quite successful at disbursement of EU funds in comparison with most of other 28 EU Member States. At the end of 2015 Slovenia ranked fourth in this respect, which is a significant improvement from when it sat in 10th place in 2014.

Photo: National Gallery, Ljubljana

Source: http://www.ng-slo.si/si/razstave-in-projekti/razstava/prenovljeni-narodni-dom?id=3723

Contracted grants – breakdown according to EU fund



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At the gala opening of the National Gallery, Slovenia's resident, Borut Pahor, said:

"From now on, the National Gallery has an additional exhibition space for valuable artwork. Guardians of cultural heritage have been given new working space and the building itself has been modernized with lots of technical improvements."

Director of the National Gallery, Barbara Jaki, added:

"The constant challenge of a lack of space is finally solved. We are glad to welcome all visitors, who can now experience a new and modern museum, which encourages and supports the national consciousness."

Acknowledgments

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