

The Evaluation of Absorption Rate of EU Structural Support for 2007-2013

SUMMARY

UAB “PricewaterhouseCoopers”, on the basis of the agreement of the service provision concluded with the Ministry of Finance of the Republic of Lithuania (hereinafter – The MoF) on 15th July, 2010, has carried out the Evaluation of Absorption Rate of EU Structural Support. The general aim of the evaluation foreseen in the agreement is to forecast of absorption rates of 2007–2013 Operational programmes.

The subject of EU structural support absorption in Lithuania is important due to several aspects. First of all, in case N+2 / N+3 rule is broken, the country will lose its appointed EU structural funds allocation. The Government of Lithuania has approved the plan concerning the usage of EU funds. However, in 2009 the plan was not fulfilled. The recent results of the EU structural support absorption process indicate that the plan was not reached in 2010 as well. Therefore, the possibility that the N +2 / N +3 rule could be violated and the appointed EU structural funds could be lost has increased.

It should be noted that the other countries also encounter similar problems. According to EC data, as at 1st January of 2011, Lithuania takes the 3rd place among the 27 EU members (after Ireland and Estonia) by the absorption rate. Among the new EU members by the absorption rate Lithuania was second (after Estonia). According to the EC data, Lithuania has absorbed 23.3% of the total support. This rate is significantly higher to compare with the EU average – 13.6%. On the 31st December of 2009, Lithuania took the 3rd place among EU members, lagging behind Ireland and Belgium. Thus, the absorption in 2009 was the fastest among the new EU members and at the end of the year, 11.76% of the total support was absorbed (the EU average was 4.18%).

Evaluation aims – to examine the EU structural funds absorption rate, dynamics and trends, foresee existing risks and provide possible measures to ensure the appropriate speed of absorption.

For the evaluation of the EU structural support absorption, the model using MS Excel was developed. The aim of the model is based on the analysis of historical periods when the support contracts were signed and support take-up under these contracts was started. The information is used for the future forecasts of time periods when the remaining support contracts will be signed and the absorption of the structural support will start.

The prediction of EU structural support contract amounts

The aim of these calculations is to predict the time and the amounts related to the contracts for the EU structural support that will be signed in the future. For this purpose we have analysed signed contracts in two stages.

At the first stage the amounts of the EU structural support contracts are foreseen by grouping them into the quarters of application for the support. Historical data analysis contains the various phases of the application (submission, evaluation and decision making, signing of the support contract), analysis and calculations of applications that were rejected at each stage. Results of this analysis will be used to foresee the value of the future contracts.

At a second phase, the time, when the new EU structural support agreements will be signed, is forecasted. For this purpose, the signed contracts are grouped into data triangles according to the number of applications for the quarter and the number of quarters passed from the date of the application submission till the date when the contract was signed. That is to say, that we form data triangles reflecting the actual delay. The delay shows the time period passed from the application submission date till the contract signature date.

The data triangles are used for the calculations of the increase factors. The factors show the speed of accumulated amount increase in the following quarters. The calculated percents are used to foresee the quarters of a financing period, when both the submitted and future applications will be signed.

The forecast of the EU structural support absorption

The aim of these calculations is to assess the time period, when the EU structural support is absorbed (the costs is eligible to declare to EC) based both on the signed and projected contracts.

The principle of the calculations is similar to the forecast of contract amounts. The absorption triangles are formed and grouped by quarters of the contract and number of quarters, passed from signing the contract till the absorption. Based on this information and information about the contracts values of the corresponding quarter, quarterly absorption factors are calculated. These factors are compared with the corresponding factors of the previous periods. The possibility to transfer these results into reality is assessed. Support absorption factors are used to calculate quarters when the absorption of the EU structural support is going to happen, following the information about signed and planned contracts.

The result of these calculations is the projected EU structural support absorption for each quarter from the 1st July of 2010 till 31st December of 2015.

The results of the assessment show that:

- OP1 target plan will not be implemented in any year. The largest gap from this plan is projected in 2012; later declared amounts of the funds are likely to converge to the target level of the plan. The critical level of OP1 would be reached in 2012. However, in 2015 a small deviation from it will occur. Similar situation occurs when analysing the enforcement of N +2 / N +3 rule. Up to 2015, the surplus will be generated annually. However in the last year the negative deviation from the result will appear.
- For OP2, a target level of ERDF will not be reached as well, except the period 2013-2014. The critical level of the plan will be implemented till 2015. This will ensure the compliance of N +2 / N +3 rule. However, in 2015 negative deviation will appear.
- OP2 CF target plan will deviate similarly to the results of ERDF. However, the N +2 rule will be violated only in 2015, when the LTL 99 million of unabsorbed funds will be accumulated.
- The implementation of ERDF and the CF plans will be quite similar while prosecuting OP3. A target plan of both funds will be implemented only in 2013-2014. The critical level will be reached two years earlier. The N +2 rule will be implemented until 2015, when the ERDF will have LTL 19 million of unabsorbed allocations and the Cohesion Fund will accumulate LTL 29 million.
- For OP4, both the target and critical plan levels will be not achieved and N +2 / N +3 rule requirements will be violated in 2014.

According to the results of forecasts we recommend to redistribute LTL 50 from OP4 to OP1 priority. The best way is to appoint the money for the first OP1 priority. However, the funds could be used for the other priorities as well. The internal redistribution of the OP2-5 should also be considered.

It should be noted that such redistribution is a way to solve the final problem. However the nature of the problems would not be eliminated. As the main reasons for the slower absorption we identified:

- Delayed start of implementation of the measures;
- Lack of share capital;
- Litigation;
- Savings in the projects;
- Inefficient layout of the calls in time;
- Disparity in the quality of applications;
- The political environment.

In the different priorities and measures, there exist individual causes of absorption problems, such as follow-up tenders, incompatibility between intermediate and implementing bodies, reorganization in different sectors etc.

In order to prejudice the risk of violation of the N +2 rule in time, the proper planning and monitoring system is needed.

The following advantages of current EU structural support absorption plan and N+2 rule implementation monitoring system could be identified:

- Detailed quarterly reports for the government, which allows the timely recognition of the discrepancies in actual absorption of EU funds and promptly corrective actions.
- Quite high accuracy of the detailed plans, permitting effective monitoring.
- Relatively high meanings of critical level during the first years allow predicting possible risks of violation of N+2 rule in advance.
- Fairly common monitoring of the absorption of EU structural support in intermediate and implementing bodies.

Nevertheless, there are some disadvantages. The planning system is quite complex and includes almost the entire absorption system. However, some of its individual elements are not linked to each other. Therefore, we can identify the following disadvantages – opportunities for improvement:

- In the planning process there are no links between the measures implementation plans and a master plan.
- Inadequate exploitation of detailing plans when trying to assess the N +2 rule implementation risk in the short-term period.
- Low-regulated involvement of intermediate and implementing institutions when implementing and monitoring the risk of N +2 rule.
- Inappropriate approach of the intermediate and implementing institutions to the EU structural support plan values.
- The linearity of the critical plan, regardless the specification of different priorities and measures.
- Involvement of intermediate and implementing bodies only in the preparation of detailing plans. The institutions do not participate when determining the plan of EU funds for the particular year. The opposite situation would both ensure more precise plans, and motivate the authorities.
- There is no clear definition of allowable deviations from the expected values.

Based on the findings we formed the following key proposals:

- Reallocation of resources;
- Master Plan update;
- Harmonisation of calls for proposals procedures;
- Creation of interlinks between plans;
- Use of detailed plans;
- Monitoring of all development stages;
- Clarification of monitoring regulation;
- Promotion of integrate institutions involvement;
- Tolerance setting.