

The Evaluation of financial demarcation requirements of EU Structural Support for 2007-2013

SUMMARY

In accordance with the service agreement between Ministry of Finance of the Republic of Lithuania and PricewaterhouseCoopers UAB ("PwC") dated 15 July 2010, PwC has carried out the Evaluation of the system for demarcation of financing sources and prevention and control of double financing of EU Structural funds. The main goal of the evaluation foreseen in the agreement is to improve the implementation of 2007–2013 Operational programmes. The term 'evaluation of the system' is understood as the evaluation of such elements as relevance of administrative system, legal regulation of the system and other aspects affecting the effectiveness of the system.

EU funding and other international funding is made available through different financing channels: structural funds, Cohesion fund, international financial mechanisms and other financial instruments. EU structural funds are a part of the EU policy which is conducted by delivering grants (in a case of financial engineering – loans, equity investments, etc.) and by applying principles of transparency and equal opportunities. According to the Regulation No. 1065/2002: *"in no circumstances shall the same costs be financed twice by the budget"*. The European Commission defines **double financing** as submitting the same item of expenditure (i.e. a specific cost) to different sources separately (either EU, national or regional) in order to obtain financial support from all of them. In other words, it is a fraudulent abuse of public money and is clearly prohibited. It is worth mentioning that different definitions of double financing are set in national law.

The double financing prevention and control system is a system of procedures, means and tools combined to prevent the same expenses being financed twice from different financing sources. The determination and supervision of demarcation requirements is a part of double financing prevention system. **Demarcation requirements** are the set of requirements stated in the laws and other legal documents which deal with division of EU and non-EU financial sources by identifying the risk of particular measure/area of intervention and setting the demarcation criteria.

Double financing prevention and control system is an integrated part of EU Structural funds planning and implementation system and is realised in every stage of the process. It should be noted that in the process of double financing prevention and control the systematic approach is adopted. This means that corresponding procedures of control and supervision are performed at every stage of the project administration. The integrity of it ensures the adequate double financing risk management. In other words every particular procedure is not a critical factor. Neither the entirely successful prevention nor final negative result can be delivered as a result of that particular procedure. However, if adequately performed it creates assumptions for the successful functioning of the control system as a whole. The double financing prevention and control procedures are performed by every institution participating in the administration system of EU structural funds.

The evaluation of double financing prevention and control system

Legal basis. The analysis of legal basis revealed that legislation emphasizes the importance of demarcation of financing sources as well as importance of the double financing prevention and control procedures. However, it does not provide the detailed requirements. In order to ensure the unified requirements, the Managing Authority provides the guidelines to the other participants of the system. It should be noted that the mentioned guidelines, defining double financing prevention and control procedures, are not legally binding document. Because of the latter fact the main ambiguity arise – the practice of recommendations realisation and responsibility are not fully defined. Consequently, it can be assumed that the lack of detailed regulation enables institutions to develop the nature of the procedures themselves.

Information. The evaluation of existing demarcation of financing sources cannot be performed on stand-alone basis, i.e. only evaluating the demarcation lines. In the process of defining and evaluating demarcation lines the information about all possible financing sources is critical. In other words, it is impossible to identify all possible risks of inappropriate demarcation between certain financial instruments without having information about **all** of these financial instruments.

Respectively it is impossible to determine whether the certain expenses of the EU funded projects were financed twice without having information about projects financed from other sources. Thus the main aspect of double financing prevention and control is information. According to the phase in which information is used it can be divided into two main groups: information about financial instruments (the intervention areas, expenditures financed, etc.) and information about specific projects financed by other financial instruments (areas of activities, expenses covered, etc.). It should be noted that the level of details of the information varies depending on the specifics of the intervention area.

Administrative capacity. The main capacity needed for adequate analysis of double financing prevention and control is linked to the information management and expertise on the specifics of intervention areas. It should also be mentioned that the lack of governmental institutions and civil servants capacity (capabilities, the knowledge of information analysis, long working hours) is closely linked to unsatisfactory quantity and quality of information (also the lack of regulatory base) which results in inadequate double financing prevention. The aforementioned factor not only increases the need of human resources but also creates preconditions to omit the general recommendations on prevention of double financing. Thus, the solutions of information management problems would also partly solve the problems of human resource management.

Inter-institutional collaboration. Without having enough means to perform procedures of double financing prevention and control (especially those linked to information management) the importance of collaboration between the information owners increases significantly. The main owners are the institutions administrating the specific financing instruments. Results of the evaluation revealed that inter-institutional collaboration in the area of double financing prevention and control is insufficient. The main factors affecting the level of collaboration between institutions are as follows: the lack of double financing prevention and control regulation and uneven understanding and experience of double financing specifics.

The lack of regulations and means have the most significant effect on the efficiency of inter-institutional collaboration. The process often becomes dependant on the proactive position of institution and general workload. Correspondingly, the experience and understanding of double financing risk and specifics reduces the negative effect.

Best practice. The analysis of practices of EU Structural support administrating bodies in Lithuania and other EU countries has been carried out and the best practice examples were identified. It can be concluded that general practices of double financing prevention and control in Lithuania are in line with the practice of other EU countries. The main examples of best practice were identified in the area of information management (the usage of databases).

Databases. It is worth mentioning that the most effective instrument for prevention and control of double financing would be those connected to the improvement of information management process – a complete database of the projects financed by the structural funds and other financial instruments would ensure the prevention of double financing. The results of the analysis support the idea that the development of such database is attainable and purposeful. Even if the completeness (i.e. it do not contain information about all the financial instruments) of the information stored would not be fully assured, the use of the database would help to reduce the risk of double financing significantly. The diverse needs of the institutions of information to be stored in the database should also be taken into account.

On the other hand, the thorough cost – benefit analysis should be conducted before the implementation of such database. This would clarify whether the anticipated benefits are greater than the costs associated with the database implementation and administration.

The evaluation of demarcation system

The evaluation of demarcation system. After the evaluation of demarcation system, the list of measures that has potentially the highest risk of double financing was developed. The list includes information on the areas financed, the risk of possible double financing and demarcation criteria.

Four areas with the highest risk of double financing were determined:

- Research and development;
- Public administration;
- Education;
- Technical assistance.

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It is worth mentioning that the risk of double financing cannot be eliminated even by the most explicit demarcation system. The main restrictive factors are:

- The limitations of details. It is impossible to describe in great detail all types of expenses financed at all different financing measures and instrument. This means that in the definitions of the financing measures the actions financed can comprise different types of expenses.
- The specifics of project financing. Indirect project expenditure remains the same at most different financing projects (e.g. project administration, wages).

Considering the aforementioned limitations the evaluation of present financing demarcation defined in 2007 – 2013 action programs and their annexes indicates that primary prevention of double financing is established and operating. However, it should be noted that this is the result of the system as a whole and the lack of regulation in particular elements of demarcation system do not ensure that the same result will be sustained in the future.

To sum up it can be concluded that the double financing prevention and control system in Lithuania ensures the appropriate level of double financing prevention and control over related risks. However, it is often a result of the individual elements of the system and is often based on the individual expertise of the individuals or institution. Respectively the main improvements are to be focused on the systematisation of the current practice and implementation of the tools and instruments facilitating the implementation of double financing and control system.

The recommendations for system improvement were formed as a result of the evaluation. The main group of recommendations focuses on information management. It involves systematization of the information about the financial instruments available in Lithuania and demarcation requirements. The continuous monitoring and updates of the latter should be a base of the system of demarcation monitoring. Another important part of the recommendations is designed to improve the inter-institutional collaboration. In addition other tools are proposed in order to improve the effectiveness of the prevention and control of double financing.

Conclusions and recommendations of the evaluation were discussed with the Ministry of Finance during the meetings. The results of the evaluation were also presented to the other institutions participating in the double financing prevention and control system.