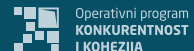


SPECIAL CONSIDERATIONS FOR ESIF IMPLEMENTATION¹

Summary

AUGUST 2020



PROJECT CO-FINANCED BY THE EUROPEAN UNION FROM THE EUROPEAN REGIONAL DEVELOPMENT FUND

¹ Note: This brief is based on the findings presented in the World Bank report “Functional and Governance Analysis” produced as part of the Croatia Public Expenditure Review in Science, Technology, and Innovation.

This brief presents a summary of findings and recommendations for improving the commitment and disbursement of ESIF funds, the largest source of STI funding in Croatia. This analysis comes at an opportune moment to adjust the approach to ESIF funding before the onset of the next funding period (2021-2027). The analysis is based on a review of the grant award process using process maps, as well as a review of the national rules relevant to the process and governance system in order to identify bottlenecks and areas for simplification and improvement.

PROCESS DIAGNOSTIC



The application process in ESIF-funded programs is very demanding for potential applicants

The application and selection process were analyzed in detail by using process maps. Process maps allow visualization of all steps in the process, the roles and responsibilities of institutions at each step, as well as background and supporting documentation required to participate in a call for proposals. Process maps were developed for four representative RDI support programs: SIIF, STRIP, IRI, and PoC.

ESIF-funded programs require applicants to become acquainted with extensive and complex background regulation. In addition, applicants must follow the guidance provided in the question and answer section, which often contains several hundred questions.

Another major difference between ESIF and non-ESIF programs relates to documentary requirements during the application process. ESIF programs require anywhere between 17 and 26 different forms and certificates. In contrast, the analyzed non-ESIF program requires only eight documents including the application form.

The selection process is highly fragmented and complex

The selection process is fragmented, leading to inefficiencies, loss of time and knowledge, and possible duplication of process activities. The selection process in ESIF programs often involves alternating responsibilities and tasks between Intermediate Body 1 (IB1) and Intermediate Body 2 (IB2). And if there are appeals at any stage, the Managing Authority (MA) is also involved.

Difficulties in procuring expert reviewers have caused significant delays

In the selection process of ESIF-funded programs, two separate bodies organize calls for reviewers. One call is used to procure experts for evaluating project proposals and one for evaluating budget items (so-called “budget clearing”). Experts are not always required for budget clearing, but in many cases they are, especially when it comes to RDI, a highly specific and specialized area. All project proposals are required to be prepared exclusively in the Croatian language, and for certain niche areas, Croatian-speaking experts with no conflict of interest can be difficult to find. SIIF took two years to complete the selection process due to difficulties in procuring expert reviewers.

REVIEW OF SELECTED COMMON NATIONAL RULES (CNR)



Despite their relevance and importance for beneficiaries, the CNR are not published

The CNR serve as an operational basis for all Croatian institutions involved in implementing OPCC 2014–2020, which supplies most innovation financing. With the exception of CNR 1, which covers aspects directly related to beneficiaries, the CNR are not published, even though they have an important effect on applicants and beneficiaries. Further, the MA frequently issues instructions, clarifications, and interpretations of the CNR, which also remain unknown to the public.

The multitude of institutions involved in the management and control system could be a source of unnecessary complexity and administrative burdens

The system appears complicated because almost every thematic area (including RDI) has three decision-making levels. It appears that IB1 and IB2 each have their agreements with MA but that no contractual link exists between IB1 and IB2, which could be a source of management inefficiency. The MA supervises the performance of delegated functions at the IB level, which is fully justified. The problem, however, is that other CNRs (e.g., CNR 6, Grant award) give the MA a much more “consent” type of power, which may depreciate the role of IBs.

The MA seems to be immoderately involved in operational details, which might be at the expense of the MA’s strategic and coordinating functions. For example, the MA is responsible for beneficiaries’ appeals in the grant award process before they go to court. This is based on legal and

procedural solutions developed by the MA. The question is to what extent the MA can decide on the substance regarding, for example, a complaint about the quality review.

Some of the scope and volume of work defined in the CNR requires significant time, financial and human resources

Significant resources are especially required for ex ante and ex post verification of procurement documentation, verification of payment claims, on-the-spot checks, and identification of irregularities. These processes seem overly prescriptive and demanding.

For example, the time required to handle irregularities cases has been rather long. According to CNR 13 Irregularities, IB2 is obliged to issue a decision within 30 working days after a suspected irregularity has been identified. In practice, for MSE programs, the decision on irregularities takes 60 days, on average, and in several cases it took more than 150 days.

The selection and appeals processes have scope for further streamlining

According to CNR 6, project assessment can include up to five stages. IBs may suggest to the MA doing it in less by merging some steps. All things considered, it seems reasonable to have three instead of five stages. This can be done by conducting a single/unified eligibility assessment (without dividing it into applicant/partner, project, activity, and expenditure eligibility check). The current solution used in the OPCC, with the eligibility of expenditures executed after the quality review, is counterproductive. It can lead to “undermining” high quality projects by cutting off some important costs at the later (eligibility)

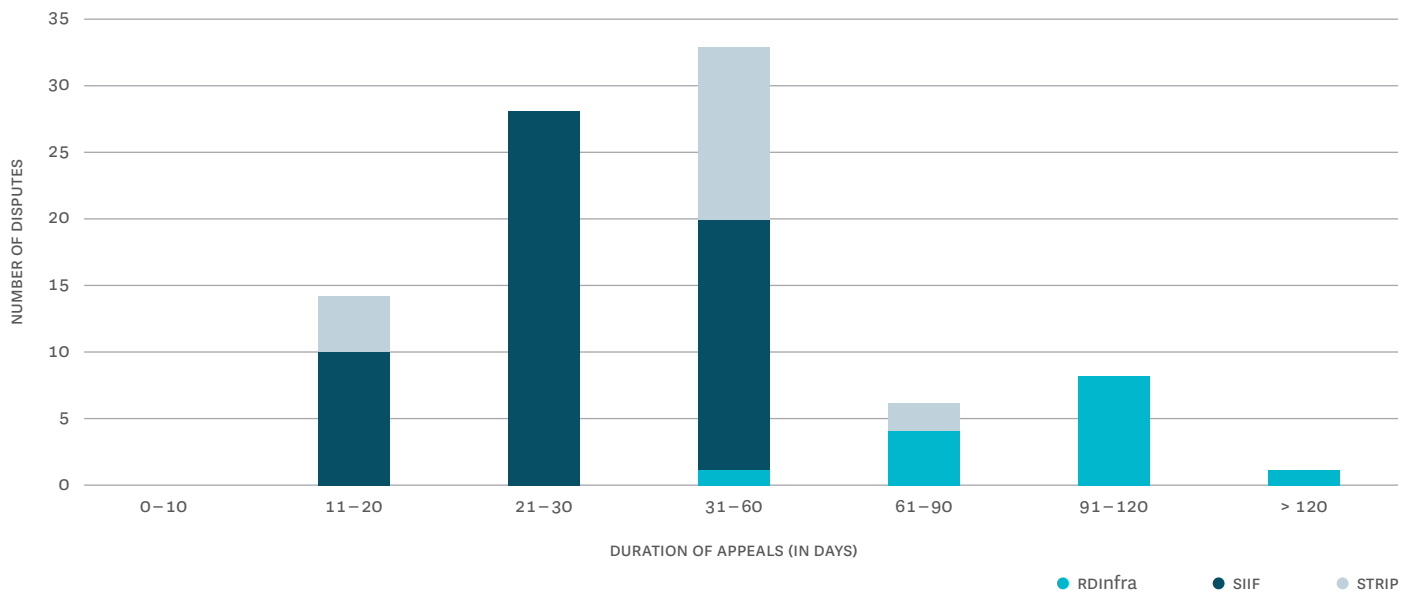
stage while offering limited possibility to reshape (modify or adapt) these projects. The process of budget clearing can be bundled with the quality assessment. Both aspects require expertise, and by covering this in a single step, the need for time and resources can be reduced.

The appeals process may be reorganized by allowing the first instance to be managed by the IB organizing the respective call for projects. The MA could experience objective barriers when going into details related to the context of the respective call for projects or to practical problems connected with application assessments. Further, having clear prerequisites for submitting appeals could help prevent unjustified complaints and reduce the burden on the MA and IBs. This could be done in different ways; for example, by limiting the number of complaint “windows” or imposing requirements for complaint filing (e.g., a certain threshold of points received could be required). In any case, a filed appeal should not prevent the selection process from going forward.

A panel approach could be considered to allow for a more comprehensive understanding of the project proposal

Major assessment work (eligibility and quality checks) should be done by Project Selection Committees (PSC) mainly composed of external experts organized into panels. Even when eligibility checks are done by the PSC’s internal experts, involving external experts earlier, rather than only at the end for the quality assessment, would be a good move. For this to work efficiently, pools of experts must be established and nurtured.

Figure 1 Resolving appeals on award procedures often takes longer than mandated



Source: Staff elaboration based on MSE data.

PRACTICAL GUIDANCE RELATED TO ESIF FINANCING



Increasing commitments

Before application submission

- Strengthen the quality of information applicants receive through different (mainly digital) channels by providing operational (practical) knowledge and real-world experience to applicants.
- Provide more support in preparing applications, including through intensive workshops focusing on practical guidance.
- Key selection criteria should be modified and upgraded based on experience from earlier calls as well as on the progress of the OPCC.
- Improve the predictability of calls by, for example, dividing calls into separate rounds with defined application deadlines. If few calls occur or their timetable changes often, it is difficult for applicants to plan their investment.

After application submission

- Reduce time needed for application assessment, including by conducting a single/integrated eligibility check. Publish application assessment duration to ensure accountability.
- Allow project applications to be amended based on requests from experts, provided that the maximum scope of corrections is defined beforehand by the IB responsible for the selection process.
- Organize the entire project selection system on a one-stop-shop basis, meaning a single IB is fully in charge throughout the selection process and makes all decisions related to it.

- Introduce the option of interactive in-person panel assessments, allowing experts to better understand the projects and providing an opportunity for applicants to respond to the panel's questions and adapt and improve their application.
- Create a broad pool of experts, including foreign experts, especially where local knowledge is lacking and where the community is too small to include sufficient numbers of experts with no conflicts of interest. Submitting applications in English should be possible.
- Monitor and support the quality of expert work through training for experts, clear guidance, and performance checks.

After project selection

- Beneficiaries should submit declarations at the application stage (to the extent possible), and only after the selection of projects should the necessary documentary evidence be provided.
- Allow more flexibility in the form and content of grant contracts for RDI projects.
- Streamline the appeals process by reducing the number of appeal windows. In any case, appeals should not prevent the grant award process from going forward.

Increasing disbursement

- Simplify procurement for non-public entities by modifying thresholds for procurement obligations, simplifying further the tendering system by creating a user-friendly, business-oriented, online bidding platform, and providing much more hands-on assistance for beneficiaries.
- Improve and simplify the payment request procedure to shorten the time needed to prepare payment claims and avoid delays in disbursing funds.
- Facilitate changes to contracts by extending the catalogue of minor contract changes that can be made by the beneficiary without IB consent.
- Actively manage payment requests to reduce financial stress for beneficiaries such as smaller companies with poor access to other sources of financing.

Addressing systemic issues

- Ensure adequate human and organizational capacity to successfully handle the OPCC successor program, through long-term training plans, attractive career prospects and wages. Fear of decision making, excessive meticulousness, and lack of a holistic approach should be addressed.
- Optimize the institutional setup and periodically review the functioning of the management and control system. This may involve setting up a dedicated innovation agency which would act as IB for the OPCC successor and an OP dedicated to smart growth.
- Engage more with stakeholders in preparing future OPs and improving their implementation.
- Take a reasonable approach to the CNR, avoiding unnecessarily prescriptive language, and allowing flexibility for institutions to exercise necessary decision-making autonomy.



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