



Audit Report no 17/26

Funds Earmarked for the Measure of Cooperation within the Rural Development Programme of the Czech Republic for 2014–2020

The audit was included in the audit plan of the Supreme Audit Office (“SAO”) for 2017 under number 17/26. The audit was headed and audit report drawn up by Mr. Pavel Hrnčíř, a SAO Member.

The purpose of the audit was to find out whether the system of management and control and the conditions for providing funds from the EU and the state budget for the *Cooperation* measures in the RDP 2014–2020 were able to ensure effective, economical and efficient spending of public funds and whether such projects were selected and funded that were useful, desirable and conducive to achieving the measures’ objectives.

The audit was performed at the audited entities between September 2017 and March 2018.

The period under review was 2014–2017; both the previous and subsequent periods were also considered for contextual reasons.

Audited entities:

Ministry of Agriculture (hereinafter “MoA”);

State Agricultural Intervention Fund, Prague (hereinafter “SZIF”).

Objections lodged against the audit protocols by the Ministry of Agriculture and the State Agricultural Intervention Fund were dealt with by the heads of the audit teams by means of decisions on objections. The Ministry of Agriculture appealed against the decision on objections and the appeal was dealt with by SAO Board Resolution no 18/V/2018 of 23 April 2018.

At its VI meeting held on 21 May 2018, the Board of the SAO adopted Resolution no 16/VI/2018, whereby it approved the following wording of the audit report:

Key Facts

CZK 3,837 million¹	263	85	5	CZK 186 million
Funds allocated for measure M16 <i>Cooperation</i>	Projects submitted in 2015–2017	Grant agreements concluded in 2015–2017	Projects reimbursed in 2015–2017	Funds paid out in 2015–2017

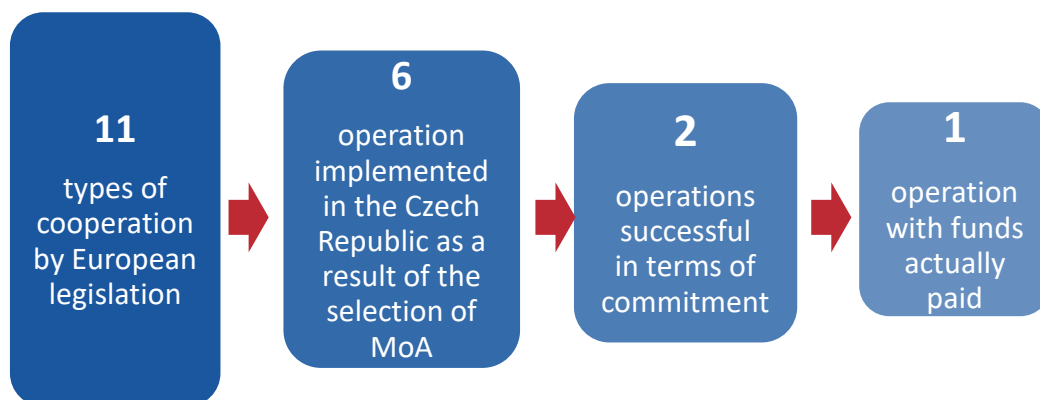
Unsuccessful Operations Unsuccessful are three out of the six operations implemented by the MoA under Measure 16 *Cooperation* (hereinafter “M16 *Cooperation*”).

Structure of Applicants The whole M16 *Cooperation* is primarily implemented through a single operation – 16.2.2. Large food corporations account for 70% of the applicants approved in this operation.

Expenditure on Cooperation Being the key element in M16 *Cooperation*, the funds spent on cooperation in science and research are negligible in operation 16.2.2 as they account for about 1% of the expenditure relevant for the calculation of the grant. Almost all expenditures are attributable to the purchase of machinery, technology and construction work.

Implementation of M16 The implementation of the RDP 2014–2020 and thus also M16 *Cooperation* suffers a marked delay. Only five projects had been reimbursed in M16 *Cooperation* by the end of 2017 (the half of the programming period).

Performance Review The MoA fails to meet the defined material milestone, which is a precondition for releasing the performance reserve.



¹ The European Central Bank’s exchange rate valid for 29 December 2017 (CZK 25.535 for one Euro) was used to convert the allocation of EUR 150,286,386.

I. Summary and Evaluation

The SAO audited the conditions defined for providing funds from the state budget or the European Union (also as the “EU”) for M16 *Cooperation* under the *Rural Development Program of the Czech Republic for 2014–2020* (also as the “RDP 2014–2020”). The audit also covered the system of management and control and how projects were selected.

Overall Evaluation

The system of management and control and the conditions defined for providing funds from the EU or the state budget for measure M16 *Cooperation* in the RDP 2014-2020 show a number of fundamental shortcomings, which negatively affect the effectiveness and economy of public spending. Given the very low volume of reimbursed grants, it is not as yet possible to assess whether or not public spending is effective and the system of control works well. In the area of project selection, the SAO identified shortcomings that significantly jeopardize the selection of efficient and necessary projects as well as the achievement of the objectives of the M16 Cooperation measure. The MoA targeted its support primarily at large processing companies, which spent the funds on the acquisition of machinery and technology rather than science and research. No support reaches small and medium-sized enterprises as the implementation of the operations aimed at providing support to these businesses is unsuccessful.

The overall evaluation is based on the following deficiencies:

1. The implementation of the RDP 2014–2020 has been suffering a marked delay since the very beginning. By 31 December 2017, i.e. by the end of the fourth year of the programming period, as few as five projects comprising total funds of CZK 186 million had been reimbursed in M16 *Cooperation*. Given the implementation delay, the MoA is no longer able to respond effectively to some existing issues, such as the insufficient number of the grant applications submitted.
2. Implementation is unsuccessful in three out of six operations. Most applicants in operation 16.3.1 are not successful because the grant conditions are too complicated; only two grant agreements had been made by 31 December 2017. Operations 16.4.1 and 16.6.1 are not attractive to applicants; by 31 December 2017 a very low number of applications had been submitted and no grant agreement had been made.
3. The European legislation permitted 11 cooperation types which matched the developmental needs of the Czech farming and rural regions. Yet the MoA chose 7 types and implements them in 6 operations. The MoA was unable to substantiate and explain its choice because it has no documents in addition to the RDP 2014–2020 programme document that would give any reason for the decision.
4. Most funds in M16 *Cooperation* are allocated for operation 16.2.2 which supports development in the processing of agricultural products. This operation’s approximate allocation is EUR 111 million, which accounts for 74% of the allocation for measure M16 *Cooperation*; therefore, most funds in the whole M16 *Cooperation* are allocated for implementation through this single operation. The funds in this operation is primarily used by large food corporations, which often draw the funds repeatedly and without

being subject to any grant cap per programming period. However, the funds spent on cooperation in science and research, which are the key element in *M16 Cooperation*, are negligible; most funds are spent on construction work and the acquisition of machinery and technology.

5. Fulfilment of objectives was difficult to assess because only five projects (in operation 16.2.2) had been reimbursed by 31 December 2017. The allocation of most funds to a single operation favours a single objective only, namely the “strengthening of research, technological development and innovation”. No progress in made in the second objective, i.e. support of small and medium businesses”, because little to no success is experienced in the operations aimed at this kind of support.
6. A material milestone (18 businesses to receive support) were defined by the MoA for operation 16.4.1 as a performance review criterion. However, nothing has been achieved as yet and it is very unlikely that the milestone is met by the end of 2018. If negotiations with the European Commission (also as the “EC”) fail, the EC may assign no performance reserve to the priority in question. Therefore, the failure to achieve the milestone may freeze any additional funds for large investment measures, such as 16.2.2.
7. The benefits of *M16 Cooperation* for implementing the *Europe 2020* strategy are and will be difficult to assess as the MoA has not defined any baseline and target values for RDP 2014-2020 or *M16 Cooperation* to measure the contribution of the measure to the implementation of *Europe 2020*. The MoA is not monitoring and evaluating these benefits.
8. In order to consider project innovativeness and other technical project matters, the MoA set up Assessment Commissions and defined their rules. However, these rules do not guarantee transparency. Assessments fail to leave audit trace sufficient for commission decisions to be reviewable. Effectiveness assessment is still another issue that is not quite transparent.
9. In case of appeal against the decision to terminate the administration of the application, the Review Committee required the evaluation of the Assessment Commission for some projects and the composition of this Assessment Commission, which was to judge whether the applicant’s appeal was grounded, was the same as the Assessment Commission which had evaluated the project’s grant application. The appeal was not granted in any project which was considered by the same Assessment Commission. Such a system poses a risk of bias in deciding appeals in *M16 Cooperation*.
10. The MoA’s management actions towards the SZIF demonstrated some ineffectiveness. In 2016 the MoA required the SZIF to complete the application form for a subsidy with, inter alia, data for evaluating the effectiveness of the project. The SZIF had not incorporated this requirement of the Managing Authority by the end of 2017
11. In various operations the MoA treats applicants differently. The applicants in the financially most significant operation 16.2.2 are favoured over the applicants in other operations: the former receive higher grants, have simpler grant application form and are permitted to present their cooperation agreements as late as at the stage of the application for reimbursement.

Table 1: Selected indicators in M16 Cooperation

	16.1.1	16.2.1	16.2.2	16.3.1	16.4.1	16.6.1
Allocation (EUR million)	9.7	17.7	110.9	6.5	4	1.5
Share in total M16 Cooperation Allocation (%)	6.5	11.8	73.8	4.3	2.7	0.9
Number of applications submitted (Rounds 1–5)	29	91	97	38	8	0
Number of Grant Agreements concluded (by 31 Dec 2017)	8	30	45	2	0	0
Number of applications reimbursed (by 31 Dec 2017)	0	0	5	0	0	0

Source: RDP 2014–2020 and the SZIF IS.

II. Information on the Audited Area

1. Programme and measures

The audited measure is part of the *Rural Development Programme of the Czech Republic for 2014–2020*, which was approved by the Czech Government and the European Commission on 9 July 2014 and 26 May 2015, respectively.

M16 *Cooperation* is aimed at strengthening research, technological development and innovation in agriculture. The measure's purpose is to contribute to SMEs² being (better) competitive and the management of natural resources being sustainable. The measure's principle lies in that at least two entities participate in the implementation of a project and cooperate in each operation so that they jointly achieve the defined goal.

M16 *Cooperation* defines a total of five sub-measures and these define six operations, in which applicants submit their projects. Most funds are allocated for operation 16.2.2, which accounts for 74% of the total funds allocated for M16 *Cooperation*. Other operations are financially less significant.

In each operation the Ministry of Agriculture announced calls for grant applications. Five calls with a total allocation for M16 *Cooperation* at CZK 2,956,215,000 had been announced by 31 December 2017. As many as 263 grant applications had been submitted. By the end of 2017 the State Agricultural Intervention Fund had concluded a total of 85 grant agreements with applicants.

2. Entities involved in implementation

Ministry of Agriculture

The MoA fulfils the tasks of the RDP Managing Authority pursuant to Article 66(1) of Regulation (EC) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005. The Managing Authority is responsible for efficient, effective and correct programme

² Small and medium-sized enterprises are defined in Commission Regulation (EU) No 702/2014 of 25 June 2014.

management and implementation. The MoA issues M16 *Cooperation* implementation rules, which define grant conditions for RDP 2014–2020 projects (also as the “Rules”). The Rules are always issued for a specific operation and an application round.

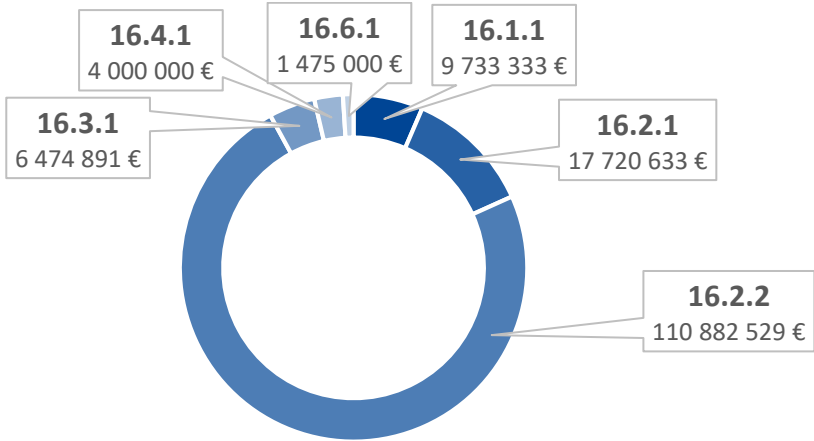
State Agricultural Intervention Fund

The SZIF acts as the Paying Agency pursuant to Article 65(2)(b) of Regulation No 1305/2013 of the European Parliament and of the Council. The SZIF administers and checks grant applications and makes payments to beneficiaries in RDP.

3. Funding

The total allocation for M16 *Cooperation* in the period 2014–2020 is **EUR 150,286,386.66**.

Chart 1: Total public spending on the operations in M16 *Cooperation* (EUR)



Performance reserve

In 2019 the European Commission will carry out a performance review and the release of the performance reserve (a volume of 5% to be released by the EC only after the defined conditions are fulfilled) will depend on the outcome of that review. Performance reserve is only granted to the programmes and priorities which have achieved the defined milestones. Milestone values are specified by each member country.

The MoA only defined one material milestone in M16 *Cooperation* (in operation 16.4.1), namely “number of farms which received aid”, with the objective of 18 farms to receive support by the end of 2018.

4. Operations

Operation 16.1.1 *Support for Operational Groups and Projects in European Innovation Partnership*

This is a brand new form of support in the *Rural Development Programme of the Czech Republic for 2014–2020*, based on the *European Innovation Partnership for Agricultural*

Productivity and Sustainability. This initiative's aim is to provide support for the operational groups set up around a specific innovation project.

Operation 16.2.1 Support for Development of New Products, Processes and Technologies in Agricultural Primary Production

This operation provides support for the development of innovations in agricultural primary production. It is projects that introduce new or significantly improved products, practices or technologies developed in collaboration with a research entity or applicant which can demonstrate sufficient qualified personnel and production resources to develop the new product, process or technology.

Operation 16.2.2. Supporting the Development of New Products, Processes and Technologies in the Processing and Marketing of Agricultural Products

This operation provides support for the development of innovations in the processing and marketing of agricultural products. These are projects that introduce new or significantly improved products, processes or technologies developed in collaboration with a research entity or applicant which can demonstrate sufficient qualified personnel and production resources to develop the new product, process or technology.

Operation 16.3.1 Sharing of Equipment and Resources

This operation provides aid for cooperation of at least two entities in their sharing equipment and resources in the field of agricultural primary production or forestry. The cooperation should result in using resources so efficiently and making such savings that would not be achieved without sharing.

Operation 16.4.1 Horizontal and Vertical Cooperation between Parties in Short Supply Chains and Local Markets

This operation provides aid for the cooperation of a minimum of two entities that should result in creating and developing short supply chains and local markets. Aid should be conducive to integrating primary producers into supply chains and strengthening their competitiveness.

Operation 16.6.1 Horizontal and Vertical Cooperation Sustainable Supply of Biomass for Energy Generation, Food Production and Industrial Processes

This operation provides aid to the cooperation of a minimum of two entities that focuses on setting up sustainable supplies and use of local sources of biomass in energy generation, food production and industrial processes.

III. Scope of the Audit

The audit primarily focused on setting up *M16 Cooperation* in terms of effectiveness, economy and efficiency of public spending, evaluating the implementation progress in the middle of the programming period and identifying weaknesses and threats and thus allowing the MoA to remedy the identified deficiencies during the 2014–2020 programming period. The audited period was 2014–2017.

The audit action was carried out at the MoA and the SZIF.

The audit at the MoA was carried out at the system level and concerned the setting of conditions for the 1st to 5th round of the receipt of applications. The funds audited at system level amounted to CZK 2,956,215,000, which is the allocation for rounds 1 to 5 of the receipt of applications under *M16 Cooperation*.

The audit at the SZIF was carried out on a sample of grant applications from application submission rounds 1–4. Also, the audit at the SZIF included detailed analyses of all grant applications in operations 16.2.1 and 16.2.2 (these being the financially most significant ones) selected for funding.

IV. Detailed Facts Ascertained by the Audit

1. Terms and conditions of *M16 Cooperation*

The Managing Authority is responsible for defining suitable programme implementation terms and conditions. The projects which receive support should contribute to the achievement of the defined goals and results. Inappropriate terms and conditions may lead to EU and Czech Republic public funds not being used in areas where they are most desirable, or not bringing about the maximum effects possible or not attracting enough interest in a specific grant title.

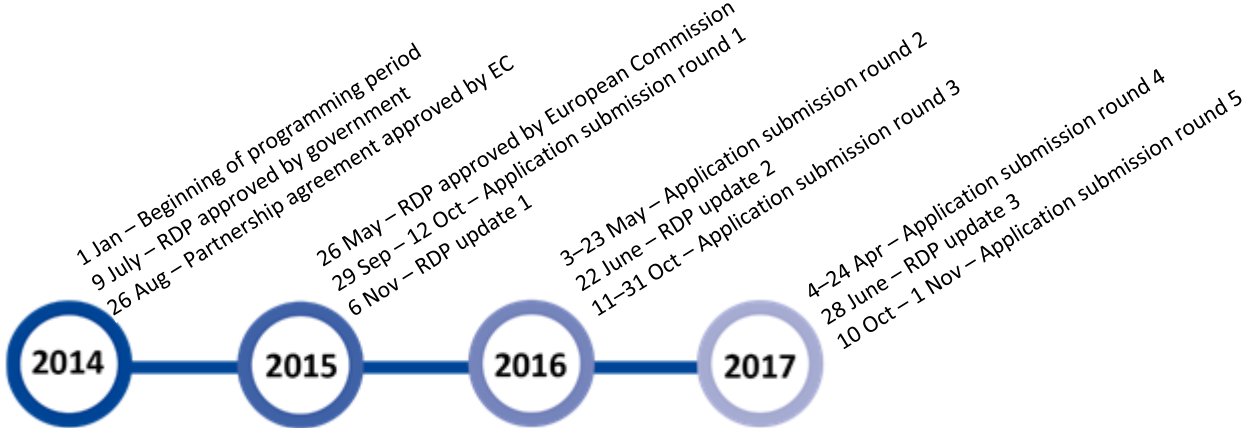
The SAO assessed the preparation and structure of *M16 Cooperation*, and whether the measure had been launched in time and the MoA made use of all the options and opportunities provided by European legislation.

1.1 Delay

The audit concludes that the implementation of the RDP 2014–2020 has been suffering a marked delay since the very beginning. By the end of 2017, i.e. the middle of the programming period, only 5 projects amounting to CZK 186,666,652 in a single operation (16.2.2) had been reimbursed in *M16 Cooperation*. One of the reasons for this delay was the late adoption of European legislation. The problems with project implementation in *M16 Cooperation* is not only due to the delay on the EU side, but also because the MoA failed to make use of all the options and opportunities for timely inclusion of new operations. Only in the autumn of 2015 the MoA announced the first round of applications that included just one operation from *M16 Cooperation*, i.e. 16.2.2 (the first reimbursed projects are from this

round). Operation 16.2.1 was included in the subsequent 2nd round of applications' submission held in May 2016, and the other operations in M16 *Cooperation*, namely 16.1.1, 16.3.1, 16.4.1 and 16.6.1, were included in the RDP's 3rd call held in autumn 2016. As regards operation 16.1.1, earlier announcement was not possible due to the need to allow time for the selection and work of brokers. The MoA justified the delay in other operations by referring to the notification procedure of these operations (16.3.1, 16.4.1 and 16.6.1). As the final version of the RDP 2014–2020 programming document was approved by the EC as early as May 2015, yet the MoA did not start the notification procedure until July 2016. Therefore, the MoA could not respond to the issue of the low number of projects submitted in operations 16.4.1 and 16.6.1 until 2017, that is, the middle of the programming period.

Diagram 1: RDP 2014–2020 Implementation Timeline



1.2 Subsidy terms and conditions setup

As the MoA did not set up some operations optimally, therefore, implementation of three of the six operations failed.

Most applications in operation 16.3.1 were not approved for funding because the grant conditions were too complicated; only two grant agreements had been made by 31 December 2017. Operations 16.4.1 and 16.6.1 attracted very low or no interest. As of 31 December 2017, only 7 grant applications were submitted under operation 16.4.1 and no grant application was submitted under operation 16.6.1. By the end of 2017 no grant agreement had been made in both operations 16.4.1 and 16.6.1. When preparing M16 *Cooperation*, the MoA made no analysis regarding the interest of potential applicants and only relied on the experience gained in the previous period. However, in the previous period the MoA only had experience with two of the six operations implemented in measure M16 *Cooperation*.

1.3 Types of cooperation selected for funding

Pursuant to article 35 of Regulation no 1305/2013 of the European Parliament and of the Council, the MoA could have supported 11 types of cooperation.

The MoA chose 7 types for implementation but allocated most funds for a single type, in sub-measure 16.2 *Development of New Products, Practices, Processes and Technologies in Farming, Food Industry and Forestry*³. This is a sub-measure which accounts for 86% of the total allocation for measure M16 *Cooperation*. Moreover, these funds are distributed with a marked bias in favour of operation 16.2.2, that is, for the processing of farming produce (accounting for 74% of the allocation for M16 *Cooperation*) whereas just 12% is allocated for agricultural primary production. These are operations which the MoA already implemented in the previous period and which generated positive experience as to the actual drawing of the funds. It was sub-measures in Axis I of RDP 2007–2013:

- I.1.3.2 – *Cooperation in the Development of New Products, Processes and Technologies (or Innovations) in Food Industry;*
- I.1.1.2 – *Cooperation in the Development of New Products, Processes and Technologies (or Innovations) in Farming;*

As the other selected types of cooperation did not receive any significant allocation, the MoA did not put them on its priority area list and their contribution to the implementation of strategies, goals and priorities is not significant, and the commitment progress suggests the contribution is unlikely to become significant.

Unselected types of cooperation are focused on assistance in areas that the MoA identified in the SWOT analysis in the RDP 2014–2020 programming document as weaknesses and opportunities and yet were not proposed for funding. Examples include climate change mitigation, environmental protection, efficient water management, the use of renewable energy, social integration and others that could be supported through M16 *Cooperation*.

The MoA was unable to explain the choice of the types of cooperation included in M16 *Cooperation* and had available no document in addition to the RDP 2014–2020 programming document that would support the choice.

2. Financial management

The Managing Authority is responsible for managing the programme in accordance with the principle of sound financial management. The Managing Authority should ensure the allocated funds are distributed to those areas where they generate the maximum effect for the Czech Republic and is responsible for drawing funds in accordance with the principles of efficiency, economy and effectiveness and the requirements of the European legislation.

Poor financial management and failure to comply with the obligations laid down in European regulations can have a negative impact on the Czech Republic.

³ Sub-measure 16.2 *Support for Pilot Projects and the Development of New Products, Practices, Processes and Technologies* consists of two operations:

- 16.2.1 *Support for the Development of New Products, Processes and Technologies in Primary Agricultural Production;*
- 16.2.2. *Support for the Development of New Products, Processes and Technologies in the Processing and Marketing of Agricultural Products;*

The SAO assessed how the MoA had set up and adjusted the allocations for the operations in M16 *Cooperation*, and how it set and fulfilled the milestones for reviewing the programme performance, the achievement of which is a precondition for the release of the performance reserve.

2.1 Allocation

The MoA set the allocation for M16 *Cooperation* without making any absorption capacity prediction – survey of the expected interest from potential applicants. The allocation's financial setup clearly shows that the MoA only focused on implementing the strategies, goals and priorities linked to sub-measure 16.2. This sub-measure includes two operations in which funds had been actually paid out by 31 December 2017 and shows a high number of committed projects (approximately two thirds of the funds allocated for 16.2 had been committed by the said date). The audit ascertained that most funds in M16 *Cooperation* are allocated for operation 16.2.2 targeted at providing support for businesses processing agricultural produce and food producers. This operation is the only one included in the 1st round of application submission and also the only one in which funds had been paid out by 31 December 2017. The funds allocated for this operation had been raised from the original approximate amount of EUR 71 million to about EUR 111 million, which accounts for 74% of the allocation for M16 *Cooperation*.

2.2 Material milestones

Pursuant to the European Legislation the MoA defined several material milestones for RDP 2014–2020. Material milestones are defined for each priority. Each priority covers operations from different measures. A single material milestone was defined in M16 *Cooperation*, for priority P3 – *Promote food chain organisation, including processing and marketing of agricultural products, ensuring animal welfare and risk management in agriculture*. Creating the setup of operation 16.4.1, the MoA failed to analyse absorption capacity and thus failed to determine any real value for the milestone.

The audit ascertained that the milestone of 18 projects/businesses, determined for operation 16.4.1, will not be achieved by the end of 2018 because no project had been committed or reimbursed by 31 December 2017.

Although the MoA had taken action to raise awareness of operation 16.4.1 and softened significantly the requirements for selecting projects for funding, this did not result in any increase of interest on the part of applicants.

The MoA has started negotiations with the European Commission to reduce to zero the material milestone's target value by a process of modifying the RDP programming document. The Czech government sent pertinent documents to the European Commission in late January 2018, and the approval procedure is likely to take months.

There is a risk that if the EC does not approve the MoA's proposal to reduce the said operation's milestone value, no performance reserve will be released for priority P3, which covers operations 4.2.1 *Processing and Marketing of Agricultural Products*, 16.2.2 *Aid for the*

Development of New Products, Processes and Technologies and 16.4.1 *Horizontal and Vertical Collaboration between Parties to Short Supply Chains and Local Markets*, and measure M14 *Welfare of Livestock*. The total performance reserve at risk of not being released for P3 is EUR 7.2 million.

Table 2: Allocation for Priority P3 Operations

Operation/Measures	Operation	Allocation (Total Public Spending in EUR)
4.2.1	Processing and marketing of agricultural products	144,448,978
16.2.2	Aid for development of new products, processes and technologies	110,882,529
16.4.1	Horizontal and vertical collaboration between parties to short supply chain and local markets	4,000,000
M14	Welfare of livestock	133,333,334

Source: RDP 2014–2020 programming document.

The table shows that the operation with the lowest allocation – 16.4.1 – may, if the milestone fails to be achieved, thwart the release of additional funds for large investment operations 4.2.1 and 16.2.2, which have much higher allocations, and even for the whole measure M14.

3. Achievement of objectives

The Managing Authority is responsible for the running of the programme and the achievement of the defined objectives. For the benefits of the programme and the funds spent to be assessed effectively it is necessary to define clearly specific objectives and measurable indicators for determining progress in the objectives. Failure to achieve the objectives reduces the efficiency of public spending.

The SAO examined the objectives determined by the MoA in M16 *Cooperation*, the progress in these objectives and the measure’s contribution to the implementation of the *Europe 2020* goals.

3.1 Achievement of RDP objectives

M16 *Cooperation* is linked to two thematic objectives (also as “TOs”) of RDP 2014–2020:

- TC 1 – Strengthening research, technological development and innovations;
- TC 3 – Enhancing the competitiveness of SMEs, farming, fisheries and aquaculture.

The contribution to TO 1 is difficult to assess so far because hardly any funds had been paid out in M16 *Cooperation* by 31 December 2017 and the funds assigned for collaboration and innovations are negligible if compared with those assigned for investments.

The contribution to TO 3 received no support from the MoA, for example by defining preferential project selection criteria or higher grants for applicants from micro, small or medium-sized enterprises. The MoA provides no aid for micro, small or medium-sized enterprises because the implementation of the operations (16.3.1, 16.4.1 and 16.6.1)

targeted at these businesses is unsuccessful. Conversely, the operations implemented with success are not designed to favour small and medium-sized enterprises.

3.2 Europe 2020

The thematic objectives determined in RDP 2014–2020 are designed in order to contribute to the implementation of *Europe 2020*. Committed to achieve two TOs, M16 *Cooperation* should contribute to the implementation of *Europe 2020* through these TOs.

The benefits of M16 *Cooperation* for implementing *Europe 2020* are and will be difficult to assess as the MoA has not defined any baseline and target values for RDP 2014–2020 and measure M16 *Cooperation* to measure the benefits. The MoA does not monitor any indicator and collect any information that would be used to monitor and assess the contribution of RDP 2014–2020 to the implementation of the *Europe 2020* goals on an ongoing basis.

The audit ascertained that the MoA does not continuously monitor the contribution of RDP 2014–2020 to the implementation of *Europe 2020*.

4. Evaluating and selecting projects Co-funded through M16 Cooperation

The responsibility for designing the criteria for choosing projects suitable for co-funding lies with the Managing Authority. The selection procedure is carried out by the Paying Agency. An expert body may be involved in assessing certain technical issues. Selecting inappropriate projects may lead to that the EU and Czech Republic public funds are not spent on funding efficient and desirable projects.

The SAO reviewed the project evaluation and selection process.

There are two methods of selecting projects financed under M16 *Cooperation*, depending on the type of operation:

1. projects in operations 16.1.1, 16.2.1 and 16.2.2 are subject to two-round selection: projects are first scored by the SZIF and then evaluated by assessment commission;
2. projects in operations 16.3.1, 16.4.1 and 16.6.1 are subject to one-round selection – scoring by the SZIF.

The audit ascertained that the rules of procedure for assessment commissions are not in compliance with guidance notes of the Ministry for Regional Development (*Guidance Notes on Managing Calls, Evaluating and Selecting Projects in Programming Period 2014–2020*), which are part of the uniform guidance environment. Evaluation rules for the Assessment Commission do not guarantee transparency because the defined system of scoring does not allow to ascertain what the individual scores were (with the exception of the evaluation in the 1st round of applications' submission in operation 16.2.2). Assessments fail to leave sufficient audit trail to review the Assessment Commission's decisions.

Effectiveness assessment is another rather non-transparent aspect. Effectiveness is assessed by the experience and practice of the Assessment Commission members but without any relevant figures, data and effectiveness calculation formula (with binding calculation rules).

Therefore, it is not guaranteed that all Assessment Commission members follow uniform rules in their assessments, the fact of which poses a risk of making wrong grant decisions and awarding the EU and Czech State Budget funds in conflict with the effectiveness principle.

5. Remedies

Applicants have the right to appeal against decisions made during project administration. The managing authority must ensure objective assessment. Objective assessment of remedies is conducive to proper administration and the elimination of wrong decisions.

The SAO examined the system of remedies in M16 *Cooperation*.

It was ascertained that, in M16 *Cooperation* and the innovation assessment in operations 16.1.1, 16.2.1 and 16.2.2, the Review Committee requested assessment from the Assessment Commission for projects that were appealed. The composition of the Assessment Commission requested to review the grounds of the applicant's appeal was the same as that of the Assessment Commission which had assessed the applicant's grant application. In all such cases the Assessment Commission gave the same opinion and the Review Committee made a decision conforming to the Assessment Commission's opinion.

This poses a risk of bias in the deciding of appeals in the operations considered by Assessment Commission. The deciding of appeals in the projects assessed by Assessment Commission thus lacks brand new consideration of grant applications. Grant applications are considered twice, each time by the same group of people (Assessment Commission), which is unacceptable for procedural rules in general and administrative procedural rules in particular. In all the cases the reconsideration resulted in the same outcome – the appeals were refused and no grant was awarded.

6. Paying Agency management

The relationship between the Managing Authority and the Paying Agency is regulated by contract. Both organisations should act in concert. The Paying Agency must follow the directions of the Managing Authority. Poor cooperation may negatively affect the implementation of the programme.

The SAO examined the relationship between the MoA and the SZIF.

The audit found that the application form for the grant in the first round did not contain a field for data for the evaluation of effectiveness. Prior to the 3rd round of application submission, the MoA requested the SZIF to modify the content of these grant applications. The SZIF was requested, among other things, to add data for project effectiveness evaluation in operation 16.2.2. In spite of the MoA's explicit request, the SZIF did not add the field for data concerning the project effectiveness evaluation for operation 16.2.2 in the grant application forms. Moreover, these data fields were not included even in the grant application forms for the 5th round. A number of other the MoA's requirements concerning various RDP operations 2014–2020 were not added.

The content of the grant application is critical for project assessment and selection process. The absence of some important data jeopardises effective project selection process.

7. Conditions for applicants

Conditions for applicants should be non-discriminatory, that is, they should not permit unjustified bias in favour of any group of applicants.

The SAO examined the conditions for applicants in each operation.

The audit ascertained that in M16 *Cooperation* the MoA treats applicants in different operations differently. For example, applicants in the most financially significant operation 16.2.2 are favoured over applicants in other operations:

- the maximum grant amount per project in the said operation is the highest of all the operations in M16 *Cooperation* – CZK 75 million, which is in contrast to the maximum amount range from CZK 750 thousand to 50 million for other operations depending on the type of applicant.
- The grant application form for operation 16.2.2 is much simpler than those for financially less significant operations (for instance, applicants in operation 16.2.2 are not required to fill any project effectiveness data).
- Also, applicants in the said operation are not required to submit their cooperation agreements until they file the reimbursement request, which is in contrast to other operations, in which cooperation agreement must be submitted along with the grant application.

Consequently, this poses a risk that applicants in different operations in M16 *Cooperation* being are treated differently, and even in operations which have the same focus on innovation and are evaluated by the Assessment Commission.

Marked variations were established in similar operations: 16.2.1 is aimed at primary producers and 16.2.2 at processors of farming produce.

Table 3: Operations 16.2.1 and 16.2.2 compared

	Sub-measure 16.2	
	Operation 16.2.1	Operation 16.2.2
Share in Total Allocation for Measure M16 <i>Cooperation</i>	12%	74%
Maximum Eligible Expenditure	CZK 90 million	CZK 150 million
Maximum Subsidy	CZK 45 million	CZK 75 million
Average Eligible Expenditure	CZK 7.9 million	CZK 83 million
Share of Cooperation Expenditure	10.20%	1.27%
Average Cooperation Amount	CZK 1.85 million	CZK 1 million
Effectiveness Evaluation	To some degree	None
Share of Large Beneficiary Businesses	4.88%	70%

Source: Programming document 2014–2020 and the rules for each operation.

The table clearly shows that the rules for the awarding of grants, the conditions for applicants and project implementation are in all the parameters markedly more favourable for processors of agricultural produce than primary producers.

8. Operations

The Managing Authority is required to define implementation conditions for each operation in accordance with the principles of efficiency, economy and effectiveness. Too stringent conditions may deter applicants whereas too mild conditions may put at risk the efficiency and effectiveness of the money spent.

The SAO audited the conditions for each operation in M16 *Cooperation* and analysed the submitted applications and the progress in their administration.

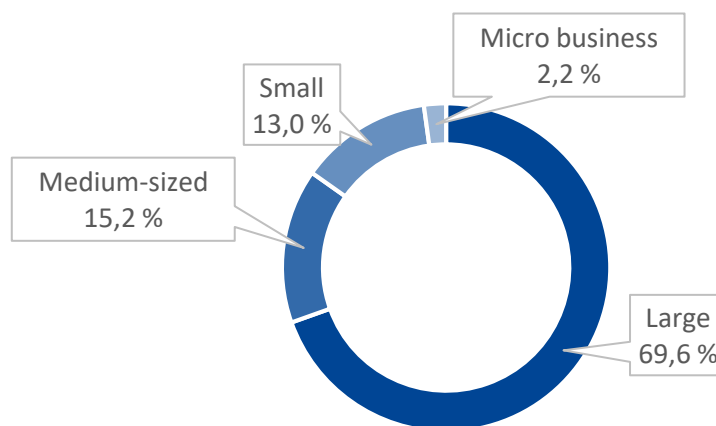
Operation 16.2.2. Supporting the Development of New Products, Processes and Technologies in the Processing and Marketing of Agricultural Products

Analysis of grant applications and administration progress

In operation 16.2.2 the SZIF selected for funding a total of 46 projects/grant applications out of 61 applications submitted (success rate 75%) in the period under review, i.e. calls 1 and 3. The SAO audited all the grant applications selected for funding (46 grant applications) in the information system and the following facts were established:

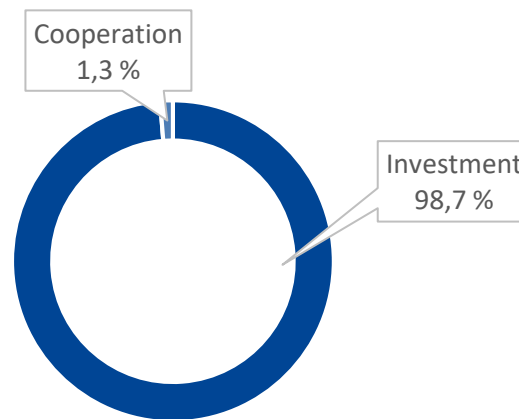
- The forty-six projects were comprised of 32 large companies, seven medium-sized enterprises and one micro business. The success rate of large companies was 70%.

Chart 2: Successful applicants by business size



- Total eligible expenditure for the 46 projects in operation 16.2.2 amounted to CZK 3,819,697,590, of which CZK 3,771,226,790 was investment expenditure (acquisition of plant and equipment, and construction work) accounting for 98.73%. Accounting to 1.27%, cooperation (research and development) expenditure amounted to CZK 48,470,800.

Chart 3: Investment and cooperation expenditure



- Average cooperation expenditure was CZK 1,053,713. The lowest cooperation expenditure permitted in the Rules, i.e. CZK 1,000,000, was claimed in 28 cases (accounting to 61%).
- Highest amounts of cooperation expenditure were claimed by micro, small and medium-sized enterprises (CZK 1,223,333 on average). On the other hand, lowest amounts of cooperation expenditure were claimed by large companies (CZK 1,030,619 on average).
- The cooperating entity was the University of Chemistry and Technology Prague and MILCOM in 29 and 6 cases (63% and 13%), respectively. Thus three quarters of projects were implemented through two cooperating entities.

Conditions for operation 16.2.2 and similar operations/Sub-measures compared

In the current programming period the aid for the development of new products, processes and technologies is designed for processors of agricultural produce (operation 16.2.2 in RDP 2014–2020) markedly more favourably than it was in the previous period (sub-measure I.1.3.2 in RDP 2007–2013). Also, in the current period it is more expedient for applicants to apply under operation 16.2.2 than investment operation 4.2.1 *Processing and marketing of agricultural produce*.

Table 5: Programming periods 2007–2013 and 2014–2020 compared

Programming period	2007–2013	2014–2020	
Sub-measure/Operation	I.1.3.2 Cooperation in the development of new products, processes and technologies (round 20)	16.2.2 Support for the development of new products, processes and technologies (round 5)	4.2.1 Processing and marketing of agricultural produce (round 5)
Share of Grant	Max. 50%	50%	40% 35% and 45% depending on purpose
Maximum Permitted Eligible Expenditure per Project	Not specified	CZK 1–150 million	CZK 0.10–30 million
Maximum Grant per Beneficiary and Programming Period	CZK 90 million	Not specified	CZK 150 million
Cooperation Expenditure	<u>Up to CZK 25 million:</u> CZK 1 million at minimum <u>Over CZK 25 million:</u> CZK 2 million at minimum	<u>Up to CZK 5 million:</u> 15% at minimum <u>Over CZK 5 million:</u> CZK 1 million at minimum	No

Source: Rules for each sub-measure/operation.

The table shows that:

- No maximum permitted eligible expenditure per application/project was defined for sub-measure I.1.3.2 *Cooperation in the Development of New Products, Process and Technologies* implemented in RDP 2007–2013. Defined was maximum grant per applicant and programming period: CZK 90 million.
- The maximum permitted eligible expenditure per project in operation 16.2.2 in RDP 2014–2020 is CZK 150 million and such a grant's cooperation expenditure must not drop under CZK one million. This operation defines no maximum grant per full programming period 2014–2020 and thus applicants may submit multiple grant applications during the programming period.
- Investment operation 4.2.1 in RDP 2014–2020 offers a lower percentage of support and significantly lower maximum permitted eligible expenditure per project – CZK 30 million (as opposed to CZK 150 million for 16.2.2 projects). Also, maximum support per applicant and programming period is defined: CZK 150 million.

The audit ascertained that no maximum grant per beneficiary and programming period was defined in operation 16.2.2 for the period 2014–2020, which resulted in applicants submitting multiple grant applications during the period. As projects in this operation are quite expensive, this allows a narrow range of large companies to apply for and draw a major share of the allocation for M16 *Cooperation* (see Annex 1).

Operation 16.3.1 *Sharing of Equipment and Resources*

A total of 26 grant applications were submitted in the period under review (i.e. in application submission in the 3rd round). Only 2 projects successfully passed the SZIF administrative checks and grant agreements were made with the beneficiaries. The most frequent reason

for ending the administration of grant applications was the existing cooperation, where according to the SAIF assessment, it was not a new project.

The preparation of the grant applications is much more complicated than in other operations. For example, in much more financially significant operations (16.2.1 and 16.2.2) applicants are required to fill no or just a few economic indicators that could be used for effectiveness assessment. Therefore, this is unequal treatment of applicants. Large and expensive projects are subject to milder grant conditions than small projects submitted by micro, small or medium-sized enterprises.

Operation 16.4.1 Horizontal and Vertical Cooperation between Parties to Short Supply Chains and Local Markets

During the period under review this operation was announced in three rounds of application submissions and only seven projects had been submitted by 31 December 2017. The SZIF terminated administration of five projects and requested the remaining two applicants to complete missing information and remedy the defects in their applications. Therefore, there is a risk that even after 3 calls and the MoA's considerable promotional efforts (and the expenditures spent on them), no project from this operation will eventually be approved

For the application submission in the 5th round, the Ministry of Agriculture reduced the minimum permitted assessment score to just two points. The specified requirements clearly show that applicants in the 5th round could meet just one preferential criterion to receive the grant. Consequently, each applicant which passes administrative checks will in theory be selected for funding from RDP 2014–2020.

Operation 16.6.1 Horizontal and Vertical Cooperation in Sustainable Supply of Biomass for Energy Generation, Food Production and Industrial Processes

Not a single project had been submitted in this operation by the end 2017. Applicants show no interest in this operation. The MoA submitted no document that would justify the support in this operation, which is based on non-investment rather than investment expenditure of the project. It is clear that the absence of any interest in operation 16.6.1 results from the MoA having designed the operation inappropriately.

Applicants with Multiple Applications in Operation 16.2.2 Distributed in Rounds 1, 3 and 5

Applicant	Project Registration Number	Required Eligible Expenditure in CZK	Required Grant in CZK	Required Total Grant in CZK
FRUTA Podivín, a.s.	15/001/16220/564/000032	69,000,000	34,500,000	82,500,000
	16/003/16220/564/000065	46,000,000	23,000,000	
	17/005/16220/564/000072	50,000,000	25,000,000	
Kostelecké uzeniny a.s.	15/001/16220/563/000022	98,600,000	49,300,000	194,437,500
	16/003/16220/231/000047	150,000,000	75,000,000	
	17/005/16220/563/000056	140,275,000	70,137,500	
Madeta a.s.	15/001/16220/231/000030	150,000,000	75,000,000	225,000,000
	16/003/16220/231/000048	150,000,000	75,000,000	
	17/005/16220/231/000095	150,000,000	75,000,000	
OLMA, a.s.	15/001/16220/671/000004	130,000,000	65,000,000	179,500,000
	16/003/16220/671/000072	79,000,000	39,500,000	
	17/005/16220/671/000059	150,000,000	75,000,000	
Polabské mlékárny a.s.	15/001/16220/120/000016	130,030,000	65,015,000	195,515,000
	16/003/16220/342/000087	111,000,000	55,500,000	
	17/005/16220/120/000074	150,000,000	75,000,000	
Slovácká Fruta, a.s.	15/001/16220/672/000029	52,000,000	26,000,000	78,000,000
	16/003/16220/672/000066	69,000,000	34,500,000	
	17/005/16220/672/000094	35,000,000	17,500,000	
Vodňanská drůbež, a.s.	15/001/16220/231/000019	106,000,000	53,000,000	203,000,000
	16/003/16220/231/000076	150,000,000	75,000,000	
	17/005/16220/231/000057	150,000,000	75,000,000	
ZEMAN maso-uzeniny, a.s.	15/001/16220/120/000005	150,000,000	75,000,000	223,000,000
	16/003/16220/120/000064	150,000,000	75,000,000	
	17/005/16220/120/000081	146,000,000	73,000,000	

Source: The SAO using the data published on the MoA website.