

Assessment of project applications and contracting

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Check of business plan

- Business plan – what is the purpose?
- To prove viability of project to yourself, banks and to the Agency;
- BP is important source of information about planned investment;
- Some data could be used in the selection process;
- Some elements provided in business plan should be set as indicators and followed during lifetime of contract.



Check of business plan

- IPARD BP was huge improvement comparing to version available during SAPARD implementation;
- Content of BP was agreed with HBOR (Bank for Reconstruction and Development);
- In 2010 Unit for Economy Analyses was established (until then, the control of BP was done by staff of Project Approval Unit);
- 25-30% BPs approved by the Agency haven't been approved later on by the banks;
- Despite the intent to align approach in approval of BPs with banks, it will never be possible;



What would be the best approach?

- Make two types of BP; More complex for bigger investments, and simple one for some small measures;
- Connect selection criteria with financing (giving extra points to applicants with loan contract or binding letter of intent);
- Apart from financial elements, attention to technical and technological elements of project should be given;
- Prevent approval of “viable” BPs with salaries bellow minimum, overestimated prices of products, underestimated costs, etc...
- Bind the applicants to achieve at least certain level of indicators stated in BP;



Check reasonableness of project costs

PURPOSE:

To pay fair price for certain goods, works or services

Several options available

- Three offers system;
- Price reference data base
- Evaluation committee
- External Experts
- Public announcement of calls (Public procurement-like system)



Three offers system

- Largely used during implementation of IPARD in Croatia;
- Considered as the most safe by EC auditors and administration, but....
- Not always easy to find three offers for some goods, which makes applicants to collect fake offers just to meet requirement;
- Winning bidders or consultants sometimes collect other two offers;
- Companies with no references issue offers;
- More job for the agency to try to compare, sometimes incomparable offers;
- Realistic price is not always an outcome;



Price reference data base

- Generally present as a supporting tool for three offers system;
- “Must have” even though it is just one of the options provided by relevant regulations;
- Croatia was the first or one of the first countries with the system in place;
- It’s introduction caused a lot of delays in IPARD implementation in Croatia;
- It is costly system to introduce and to maintain, especially when requested to refresh it quite often without possibility to use data collected through the offers;

- **FINAL OPINION**

- Good to have it, no matter what is the main system in place;



Evaluation committee and external experts

- EVALUATION COMMITTEE

- No experience with evaluation committee;

- EXTERNAL EXPERTS

- Needed in case of tailor made equipment;
- Court experts or professors from relevant faculties;
- Should be under contractual obligations with clear ToR;
- Reports should be supported with documents proving their final opinion:



Public announcement of calls (Public procurement-like system)

- Presently in place in Croatia;
- The applicant announces tender on PA website;
- The applicant announce all technical specification, rules of selection, etc..
- All interested parties can apply;
- No need to collect three offers, while the transparency has been ensured;
- Agency promotes the possibility of bidding through media and chambers;
- Chosen offer is checked against price reference data-base at the end.



What also should be considered?

- **Reasonableness of costs in terms of their necessity**
- Risk of unnecessary costs increases with increase of intensity of support;
- High intensity of support make applicants more wishful in terms of mechanization, equipment, buildings etc., especially if buying of such goods can bring some extra points;
- The applicant should be requested why some mechanization is needed. To explain why he wants to build wall around his parcel (could be imminent danger of wild boars, bears or other wild animals, but could be that element of construction can obtain some extra points);
- These controls should be done by skillful staff of the Agency, which has to be well trained;



Artificial conditions

- Incidence follows the increase of available amounts;
- Very rare during implementation of IPARD;
- Number rapidly increased during implementation of EAFRD;

Main areas:

- Young farmers;
- Artificial establishment of new companies, or splitting of existing ones;
- Artificial splitting of projects;
- Joint projects of linked companies and entrepreneurs;
- Manipulation with offers



What is being done about that?

- Developed procedures for dealing with such conditions;
- Staff have been undergoing trainings on Artificial conditions;
- It is not easy to decide at first moment if something is fraudulent or irregular, and therefore red flag system has been introduced;
- Checks of artificial conditions are part of checklists in every phase of approval;
- Out of the box thinking is crucial for spotting such conditions;
- It is important to train judiciary, public attorney, other ministries, which is also being done;



Example

Measure 302

- One company (investor) planned to build three guest houses;
- Initial building permit was changed into three (on the name of family members),
- Three different investors appeared claiming 75.000 € each;
- Land parcel was split in three;
- All of them applied for loan being guarantor to each other;
- They all had same contractor;
- Payment was executed to the first project. Other two were refused, and the first one was after requested to return support paid



Verification 'on-the-spot'

- 100% sample at three different stages should mitigate the risk of deviations in projects;
- OTSC before contracting shall establish present situation.
- Main goal to establish whether the project has started;
- To check existing buildings and equipment;
- It has to be linked with administrative services and to perform some additional checks if needed;



Verification 'on-the-spot'

OTSC Before payment

- The most important and the most demanding!
- All the costs have to be checked, measured, counted, compared, etc.;
- It can last for several days in case of some complex investment;
- It has to be supported with sufficient audit trail;
- Eyes of the Agency in the field;
- Has to be closely linked to payment approval department;
- Exhaustive, but main guard of regularity of costs.
- Could be costly

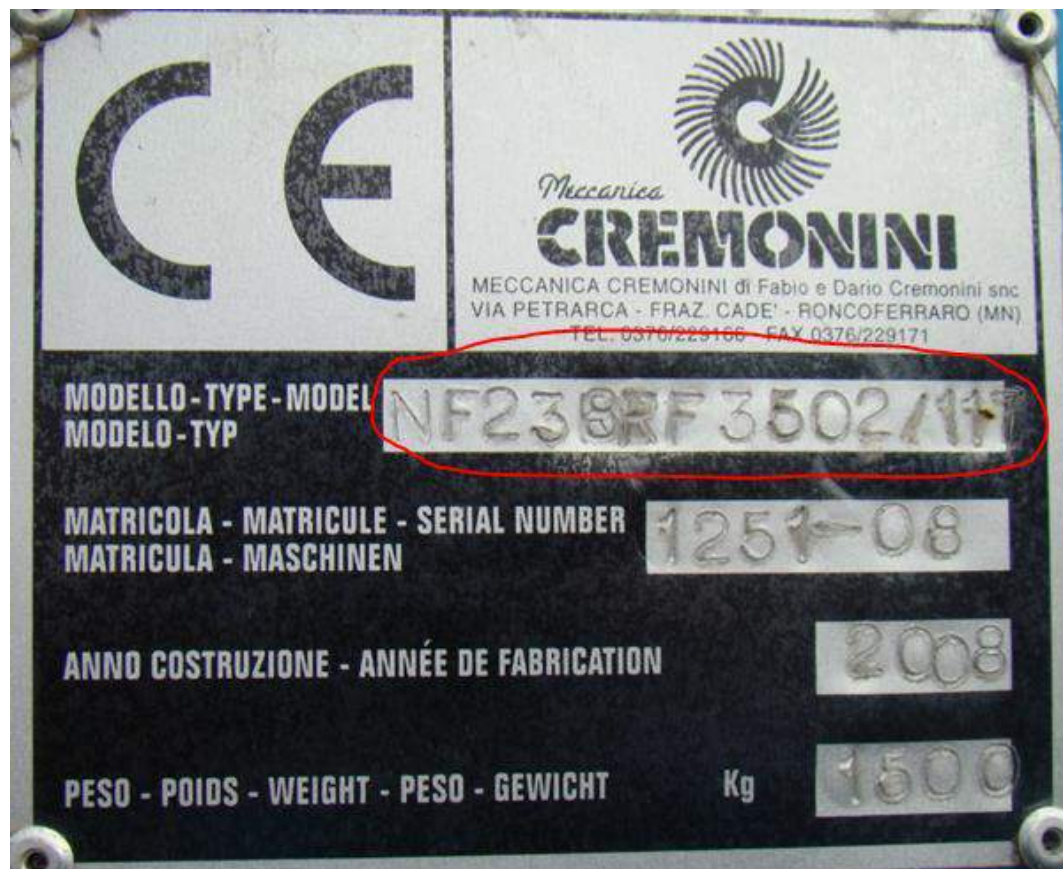


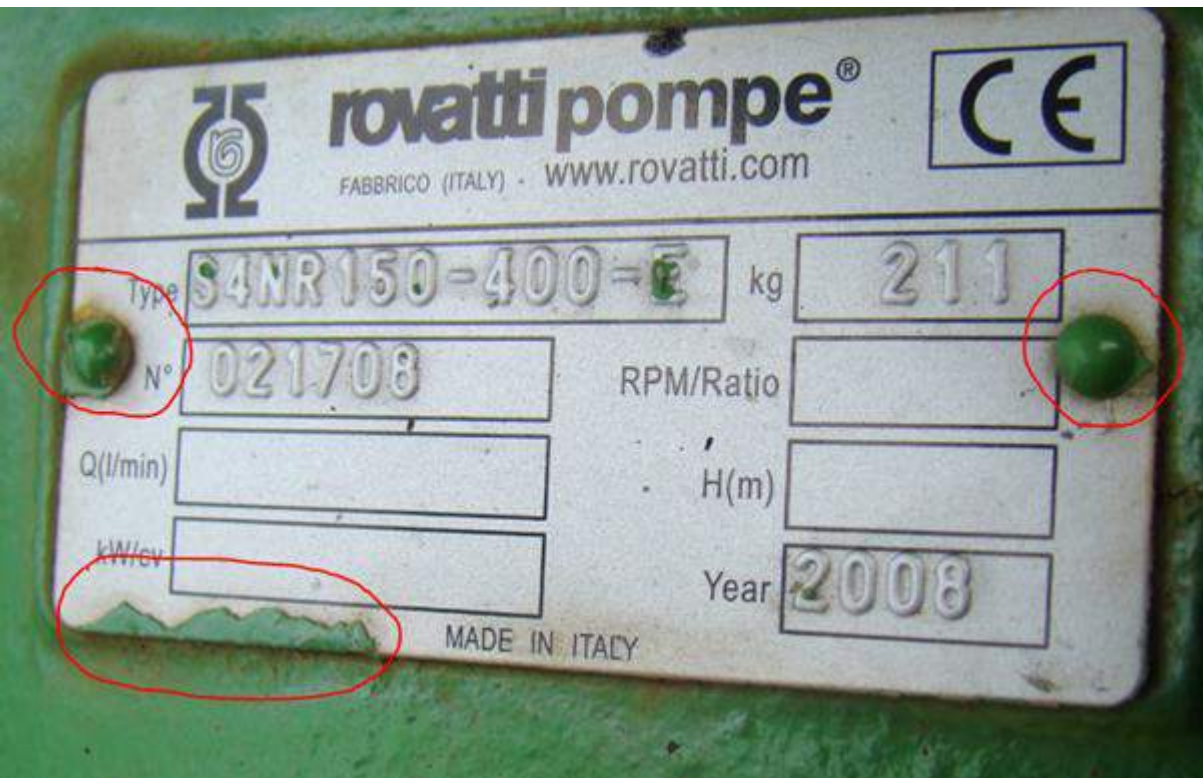
Verification 'on-the-spot'

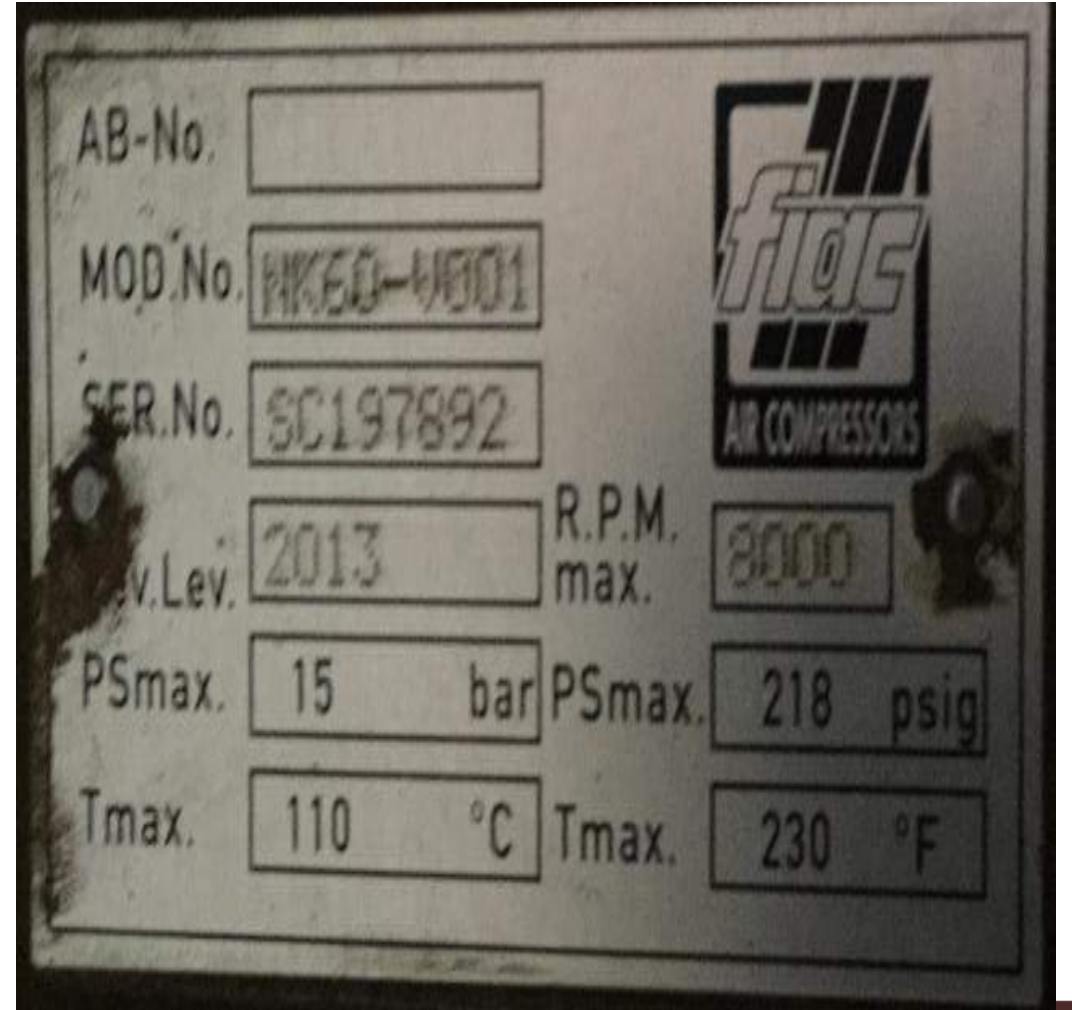
Ex-post OTSC

- Main purpose to check if everything is still in place and if the contractual obligations are still respected;
- **If there is no administrative follow-up of projects the main tool to monitor projects;**
- It has to be checked if there are some suspicious transfers between applicant and suppliers (kick-back payments, etc.);
- There are findings related to selling, rental of projects, bankruptcy, technological connection of artificially split projects, etc...
- Such situations are followed by termination of contracts;









Contracting

- Used all the time of implementation of IPARD;
- Procedures of contracting were time consuming with involvement of Legal services even though it was made on template;
- There was possibility for two amendments in terms of content of project and amendments related to other information;
- Changes of projects were quite frequent due to long duration of project approval;
- Additionally, projects were not always prepared well;
- Prior to every approval of changes it had to be rechecked by authorization services;



Contracting

- It was abandoned in first calls for EAFRD and substituted with decision
- re-introduced in new calls, but in different order;
- Changes of project (if insignificant) just notified on payment approval;
- Bigger changes have to be approved by the Agency;
- Administrative burden significantly decreased;
- Generally, by the increase of number of projects, new ideas have to be introduced, ensuring that eligibility criteria are always respected.





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