

Risks and lessons learned from using European Union funding

*An overview of the implementation of foreign
funding planned in the state budget*

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Summary of audit results

588 million euros - the volume of foreign aid planned for the 2021 state budget, but not used

In the last five years, the state has left unused an average of €318 million of planned foreign funding yearly. Hopefully, the money from the European Union (EU) will not be lost for Estonia, but given the rapid price increases, it will buy us fewer schools, health centres, roads and other necessary things.

Both the government and the officials can do more to ensure a smoother use of foreign funding. The state should refrain from distributing foreign funding between too many activities and from delays in making necessary decisions. The implementation system of foreign funding must be strengthened with people and/or their working time must be divided flexibly, in order to speed up the processes that precede the availability of funds. Possibilities for simplifying the expenses procedure should also be sought, which would reduce the burden on both the donor and the recipient.

The most important observations of the National Audit Office:

- **Estonia is utilizing the foreign aid money more slowly than in the previous EU budget period.** While 89% of the 2007-2013 structural grants had been used by the end of the eighth implementation year, only 70% of the 2014-2020 period funds had been paid out by the end of 2021. Among the EU Member States, Estonia ranks 15th in terms of the rate of utilizing the aid money.
- **Ministries¹ : infrastructure objects have become significantly more expensive, are cancelled or delayed for years.** For example, according to the Ministry of Social Affairs, the establishment of more than half of the primary care centres and many special welfare facilities with foreign aid has been extended by at least a year. The completion of several healthcare facilities is not clear.
- **The state's dependence on EU funding has grown.** According to the ministries, when preparing state budget strategies, the Ministry of Finance has often proposed the task of looking for expenses in the area of governance, which can be financed from foreign funding instead of tax revenues. According to the Ministry of Finance, such

¹ To prepare the review, the National Audit Office requested data, opinions and examples from the Ministry of Economic Affairs and Communications, the Ministry of Social Affairs and the Ministry of Education and Research.

guidelines have come from the government, and the Ministry of Finance is merely the technical executor of the government's decisions.

The Reidi road procurement dispute lasted two years, which, according to the Ministry of Economic Affairs and Communications, also delayed the construction and use of funds.

- **According to the ministries,² the main reason for the slow use of funds is time lost in processes preceding the funds' availability, such as delays in determining the terms and conditions of national implementation.** The implementation of the funding is also hampered by the fragmentation of funds between many activities, delays in the selection of infrastructure objects, and the delay of state reforms. In the past, the COVID-crisis was also a reason for delay; now the energy crisis and the impact of the war in Ukraine are added to the extraordinary circumstances.
- **The use of funds is also significantly inhibited by failed public procurements.** The ministries state that in addition to the price increase and the lack of tenderers,³ the procurements often fail due to complicated and often changing rules for organizing public procurements. Also, the fact that the State Shared Service Centre that advises funding implementers on public procurement and the Ministry of Finance that later inspects the correctness of procurement sometimes interpret the rules differently.
- **According to⁴ the ministries, for processing and disbursing foreign funding, not enough (technical) simplifications are used, which would enable to reduce the administrative burden on both the donor and the recipient.** According to the ministries, the Ministry of Finance is against expanding the use of a standardized unit price, flat-rate payment or uniform payment rate. However, according to the Ministry of Finance, it is up to the ministries and the State Shared Service Centre. The National Audit Office is of an opinion that the different positions of the parties involved refer to the need to solve this issue in cooperation between the ministries and the State Shared Service Centre.
- **Planning and deploying new foreign funding with the same number of people is probably too much for the state.** The snowball effect of unused aid money and the pressure on the implementation system is growing, and the EU budget periods start rolling over. There is no flexibility in the system to increase capacity and consolidate resources at a time when it is necessary to make a final effort to use the old funds and at the same time develop and open new funding measures.

²The Ministry of Economic Affairs and Communications, the Ministry of Social Affairs and the Ministry of Education and Research.

³The Ministry of Economic Affairs and Communications, the Ministry of Social Affairs and the Ministry of Education and Research.

⁴The Ministry of Economic Affairs and Communications, the Ministry of Social Affairs and the Ministry of Education and Research.

The government should strengthen the implementation system of funding and be more demanding of itself and the ministries

The National Audit Office recommendations to the Minister of Finance in order to improve the use of foreign funding during 2022:

- assess (in cooperation with other relevant ministers) the extent to which delays in the planning and implementation of foreign funding (for example, coordination of the terms and conditions for granting funds) are due to the lack/overload of people involved; take account of the results of the analysis in the tasks and schedule of the implementation of the new EU budget period and consider strengthening the implementation system with people and/or flexible use of their working time in order to best meet the challenges of the different stages of the utilization of funding;
- find out what are the pros and cons of simplifying the reimbursement of costs from the funding. The competent authority should decide which simplifications to use more widely, and to favour them when advising the authorities implementing the funding;
- consistently increase and harmonize public procurement awareness among procurement organizers (state agencies, municipalities, etc.), advisors (Ministry of Finance) and auditors, inspectors (Ministry of Finance).

In their reply to the National Audit Office, the Minister of Finance found that the slow progress of cohesion policy funds for the period 2014-2020 is largely caused by force majeure: the health crisis, energy crisis, security crisis, unforeseen inflation, and changes in the government. However, the minister was optimistic and noted that, although as of the end of July 2022, out of the 3.5 billion euros allocated to Estonia for the period 2014-2020, 850 million euros, or roughly a quarter, are still waiting to be used, the money will be effectively utilized for the development of the country by the end of 2023.

The minister's answer shows that they mostly agree with the National Audit Office's recommendations, but they state that most of the recommendations are already in place (flexible and smart implementation of people; increasing public procurement awareness) or the implementation of these recommendations is not the (primary) responsibility of the Ministry of Finance (wider use of simplified reimbursement of costs; more thoughtful planning of foreign funding in the state budget).

The minister confirmed that, based on the recommendation of the National Audit Office to submit to the Government of the Republic an overview of the root causes and problems that prevent the effective implementation of foreign funding, and an action plan to mitigate them, the Minister of Finance will submit respective overview to the government during 2022.

Comment of the National Audit Office: We welcome and look forward to seeing the action plan to be presented to the government. Overly optimistic planning and underuse of aid money has been ongoing for years. The European Union budget period, which is the focus of the overview, began in 2014, and the slower-than-expected progress of aid projects dates back to the pre-crises era, which indicates a systemic problem. In the opinion of the National Audit Office, we cannot be happy

with just being able to spend the funds allocated to Estonia in the entire permitted amount. The issue is also the potential loss of benefit or direct damage to the state if a facility deemed necessary as a result of thorough planning is not completed or if an aid programme does not reach the region. One should consider whether, in addition to the current measures, something could be done in the planning and implementation of foreign funding, so that the spending of funds would be more manageable, streamlined, calculated and important projects could be implemented.