

CMZR Bank, Praha

Study:

The Role of the CMRZ Bank in EU Structural Funds

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1. Introduction

Upon accession into the European Union (EU), the Czech Republic (CR) will be eligible to draw on financial assistance from EU Structural Funds (SF). One prerequisite in qualifying for this assistance is the founding of a Paying Authority (PA) in accordance with EU regulations. The PA is defined as one or several state, regional or local authorities or bodies designated by the Member State (MS) to prepare and submit payment applications as well as receive payments from the EU. The MS itself determines all the modalities of its relationship to the PA as well as the relationship of the PA to the European Commission (EC).

This study proposes a PA for the period after the CR's accession into the EU as a MS and is linked to current EU SF payment mechanisms in use during the pre-accession period.

The study evaluates the experience gained from Phare programme management up to the year 2000 (the Programme Management Units (PMU)) and is in accordance with EU regulations for the pre-accession programmes Phare (new), Ispa and Sapard in place for the period after the year 2000 up to the date of accession. These regulations lay down the requirements to gain accreditation and function as an Implementation Agency (IA) (including the transfer of payments under the direction of the IA, the tasks of the National Fund (NF) at the Ministry of Finance (MF) and its relationship to the IA and the EC). The study also proposes a method for preparing and building a payment system in the CR in accordance with EU Regulation n. 1260/1999 (Regulation 1260), which will take effect in the CR immediately upon EU accession (the working date is 1.1.2004).

The period mentioned above was characterised by the following volumes of financing: from 1989 to 1999, the total amount of the Phare programme budgeted for the CR was more than 25 bln. CZK (2.5 bln. CZK annually) and for the current three year period from 2000 to 2002 the total amount budgeted for the new Phare, Ispa and Sapard programmes is 8.5 bln. CZK (2.8 CZK bln. annually). Over the entire 2000 to 2006 period, the following commitments are planned for all 10 Candidate Countries (CC) in Central Europe: the Phare programme 56 bln. CZK annually; for the Ispa programme 37 bln. CZK annually; for the Sapard programme 19 bln. CZK annually.

Planned SF commitments for new MS will be increased to 400 bln. CZK annually from the year 2006 (the figures listed are based on currency values in 1999 and are for orientation purposes only). Furthermore, it is also necessary to add additional sources of co-financing by the state, regions, municipalities, the European Investment Bank (EIB), other banks and the private sector to these figures; further information is available in the financial tables of the National Development Plan (NDP).

Experience with SF assistance in EU MS is gained through formal planning periods under contractual agreements, which is called the Community Support Framework (CSF). The initial period of SF assistance of this type provided was for the years 1994 to 1999 (CSF I), the second period is currently running. It began in the year 2000 and will end in the year 2006 (CSF II), the third period is being prepared for the years 2007 to 2014 (CSF III).

The above overview of financial resources and schedule outlines the limits to the analyses and proposals presented in this study.

The objective of this study according to the contract is to propose and describe the role of the CMZR Bank as the paying unit during the pre-accession period (primarily focusing on the new Phare programme, mainly Phare 2002) as well as the role of the CMZR Bank in programmes for the years 2003-2006 (with the prospect of participating within the framework of CSF III activities).

The study proposes several steps, which must be carried out in order that the CMRZ Bank may become a part of the payment authority structure, and if so, then in the role of a body, which provides methodical organisation and financial input integration to the payment system (management and control of payments, their financial aggregation and managing adjustments and the resulting risks).

The study proposes that the Central Paying Authority – CPA be formed at the CMRZ Bank and outlines its activities and relationships from „bottom to top,, to the EC and the MF and from „top to bottom,, to the payment authority system; to the PA, (for example to the sector ministries of state administration) and to the sub Paying Authority (subPA, for example to NUTS 2 or NUTS 3 regions) being responsible for drawing on (expenditures) state public sources of investment co-financed by

resources from EU SF assistance, the EIB and other public and private sector subjects within a decentralised system.

The study outlines the extent of work and competencies of the CPA within the life cycle strategy of programmes/projects, which will be co-financed by EU sources. Therefore the activities of these cycles will be under full legislative direction and increase its legal value at the time of the CR's accession into the EU (this study assumes that it will primarily be the already mentioned Regulation 1260).

This study was prepared under the assumption, that the CMZR Bank has the required experience to successfully execute the fundamental changes to the payment system presently taking place within current and planned EU assistance programmes for CCs. Above all, the management and payment functions and their explicit segregation from the programme/project life cycles must be fully understood, so that financial controls and financial/performance audits may be carried out in a simple, unified (standardised) and transparent environment of financial flows.

It is emphasised, that effectively handling this problem does not lie in carrying out scientific research or applying rigid technical solutions. It is a political organisational problem, primarily one of communication between the partners involved.

To conclude this introduction the following is an unusual but telling summary:

a vendor selling hot dogs meets a friend he hasn't seen in a long while. His friend, as is polite, asks, How's business? „Fine,, answers the vendor just as politely. „I just deposited one hundred thousand EUR in the bank,,. „That's excellent,, answers the friend congratulating him. „Surely then, you can lend me 10 EUR!,, „I'm sorry but I can not,, says the vendor in a serious tone of voice. „And why not?,, „Because I'm not allowed,,. „How come you're not allowed? The money is yours, isn't it?,, his friend asks in disbelief. „Well yes it is. But I have this agreement with the bank: I won't go around lending money and they won't go round selling hot dogs!“