

Use of European Union funds in promoting information society

Has the use of EU aid by the state in the development of information society from 2007-2010 been balanced?

Report of the National Audit Office to the *Riigikogu*, Tallinn, 16 March 2012

Summary of audit results

The National Audit Office audited the use of the aid allocated from the structural funds of the European Union (hereinafter EU aid) in the information technology (IT) area of the state. The National Audit Office checked whether the distribution of funds for the development of the information society has been balanced and transparent, and whether the distribution of aid is adequately supervised. Balanced distribution of aid means that development of the information society entails paying attention (and ideally providing proportional funding) to information systems aimed at the public sector, private business as well as citizens. The National Audit Office sees a situation as transparent if all applicants can obtain the reassurance that preferring certain projects to others was justified.

In 2010, the policy instrument on information society that was approved in the European Union in 2005, emphasised that 25% of the increase in the GDP of the EU and 40% of the increase in productivity have been achieved due to the development of information and communication technology. Although Estonia is above the EU average in terms of many indicators that reflect IT development, we still lag behind countries with a higher standard of living when it comes to IT expenses per person. There is no doubt that the state has an important role in reducing this difference in expenses, and it plans to allocate more than 160 million euros to the development of IT from 2007-2013. Approximately 60 million euros of this amount is EU aid.

The National Audit Office is of the opinion that the **state is too focussed on financing the IT developments aimed at the state when distributing aid for the implementation of the National Information Society Development Plan**, and not paid enough attention on improving the competitiveness of companies and supporting the IT development projects that are aimed at the third sector. Also, the selection of IT projects has not been transparent and the state's supervision of the implementation of the projects has been regarded as a formality.

■ **EU aid has helped to curb the consistent decrease in the share of IT expenses in the state's expenditure.** The foundation for the success story of Estonia as an IT country was laid in the 1990s, when the state's IT investments comprised approximately 1% of the state budget. This indicator has decreased considerably in the 21st century and only amounted to 0.2% in recent years. However, the share of IT investments has started to grow again with the help of EU aid.

■ **50% of aid has been granted primarily for the development of information systems aimed at the state**, although the role of the private businesses and the citizens in the development of information society has also been touched upon in the Information Society Development Plan. This means that state agencies have received as much aid as the other two target groups put together. The state is also favoured in the distribution of aid within the scope of implementation schemes: the actual target group of the open application call (local authorities, non-profit associations), for example, only received 15% of the money distributed on the basis of the scheme.

■ **Private business has not received targeted support proceeding from the Information Society Development Plan.** The Ministry of Economic Affairs and Communications decided right at the start that Enterprise Estonia will be dealing with the increase in the competitiveness of private businesses that results generated by information technology. The latter has indeed supported the IT projects of companies, but it has been done independently of the Information Society Development Plan. Nobody has studied the impact these projects have had. The National Audit Office believes that the management proceeding from the Information Society Development Plan has not been

comprehensive. Achievement of one of the goals set in the Information Society Development Plan – the share of ICT companies must comprise 15% by 2013 – is therefore not possible.

■ **The applicants cannot see the aspects, which are the basis of declaring certain projects successful.** As the evaluation criteria have deliberately been left too general and subjective, then finding the common reason of the committee is also rather difficult. This means that an evaluation of projects has to be as transparent as possible in order to create the situation that is not only fair, but also looks fair. At the moment, disputing a refusal is generally only possible if procedural rules have been breached, as the applicants have not been given the opportunity to compare their project with the projects of others in terms of their content.

■ **Supervision of projects is a formality: the achievement of substantive goals is not always evaluated.** There is a thorough inspection of whether the expenditure for which the aid is paid out is actually the expenditure indicated in the project, but the achievement of the project's goals is almost not evaluated at all. This is the result of vague evaluation criteria, which usually don't even expect the projects to have a specifically measurable impact. The attention paid to the sustainability of the created information systems is also insufficient, i.e. there is no evaluation of the administration and maintenance costs of the information system or the extent to which further development is required.

■ **The feedback given by the Ministry about the impact of the aid changes year on year, and is sometimes the most suitable for the Ministry itself.** The expected levels of many indicators that measure the results achieved with the use of the aid have been changed with several of them now more modest than initially determined. This applies mostly to the indicators that were determined in the first years of the programme period and the new indicators added in recent years have generally not been changed. As the Ministry of Economic Affairs and Communications has been one of the quickest to use the EU funds due to its attempts to reduce the impact of recession on the IT sector, then such volatility may have been caused by rushing into things without thinking them through.

Response of the Minister of Economic Affairs and Communications:

The Ministry of Economic Affairs and Communications agreed with the main conclusions of the audit in general, but emphasised that although one-half of the EU aid has been spent on the development of the public sector, the works required for this have mainly been done by the private sector, which means that the private sector has also been able to gain some new knowledge and experience from this. The existence of the IT component in projects has also been an advantage for many companies in obtaining money from Enterprise Estonia. The Ministry gave a lengthier explanation of its positions regarding the project "Increasing the Security of Support Systems to State Information System" of the Estonian Information System's Authority, the purposefulness of which is not questioned by the Ministry. The Minister promised to consider the recommendations made in the report mainly from the viewpoint of the next programme period.

Response of the Minister of Finance:

The Ministry of Finance deemed it necessary to specify that various additional activities were launched after the end of the audited period of 2007-2010 (Enterprise Estonia and the Estonian Agricultural Registers and Information Board have starting granting aid for the establishment of the broadband network). The Ministry also believes it is obvious that the IT projects of the government sector are in many cases also aimed at private businesses and citizens. The Ministry does not agree that the share of an area in the state budget reflects the priority of the area in question. The Ministry of Finance agreed with the recommendations made by the National Audit Office.

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