Central ICT system SL2014: the way to reduce the transaction costs of European projects

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Abstract

Motivation: European funds are these kinds of goods for which effective demand exceeds supply. The market value of European projects in Poland is estimated at approximately PLN 1125,44 bn, of which the EU co-financing is PLN 664,29 bn. Their effective use depends on the quality of the institutions responsible for their aggregation, allocation and proper expenditure (in accordance with the EU policies).

Aim: The analysis of mechanisms determining the market game on the European project market in Poland in the light of the new institutional economics. Particular attention will be paid to the administrative tools that facilitate efficient long-distance communication between the parties to a project co-financing contract (central ICT system SL2014).

Results: ICT systems constitute a part of a wider phenomenon commonly referred to as e-administration. It may be regarded as an institution in the meaning of the new institutional economics. This institution reduces the transaction costs related to handling European projects as well as the transaction costs in other areas connected with public governance. Wherever the e-administration can be applied (e-administration may be found useful in the case of public health emergencies that were triggered by the SARS-CoV-2 pandemic). Central ICT system SL2014 (as an element of e-administration) significantly reduced transaction costs in the field of handling European projects in the 2014–2020 financial perspective.
Keywords: new institutional economics; transaction costs; European project; European funds; SL2014
JEL: D20; D23; All

1. Introduction

There is the same problem with neoliberal economics (mainstream economics) and new institutional economics (NIE) in the study of economy as there is with the theory of relativity and quantum mechanics in physics: both theories describe phenomena well, but they are mutually exclusive (the lack of a “binder” between them is easy noticeable; an element of theory that would connect those methodological approaches, drawing from them what is the most valuable, heading towards a general synthesis).

The attempt to describe economic phenomena that are present on the market using mathematical and statistical tools, as well as the willingness to create a universal model describing the market mechanism by means of a transparent formula, led to the fact that the model of general market equilibrium does not include the basic factors known from the real sphere. Market operators (managing entities) do not always play fair in the process of exchanging ownership rights. They have a propensity for opportunism and they are characterised by different (unequal) knowledge about the subject of transaction. They are not perfectly rational, and a crucial role (sometimes even determining the success of transaction) is played by time. Moreover, non-economic factors influence the preferences of managing entities (consequently also their buying decisions). The communication between contracting parties is important in the process of allocation of resources, especially in the case of European projects implementation. Even though the above mentioned factors generate the transaction costs related to market exchange, they are not included in L. Warlas and A. Marshall’s theory of market equilibrium. It is worth noting here that NIE is not a competitive proposal to neoliberal economics, but supplements its abstract premises.

The development of NIE took place in 1960s. The theoretical basis of NIE was provided by the works of such economists as R. Coase, A. Alchian as well as K. Arrow, but it was only the use of their works by O. Williamson, H. Demsetz, and D. North that set NIE the appropriate pace of development (Rudolf, 2012, p. 13). NEI’s contribution to the theory of economics is to notice in economic activities an element of innovation in the field of various institutional devices protecting market transactions as well as an element of aggregation and feedback (Klimczak, 2005, p. 23).

The aim of this article is to analyse the mechanisms determining the market game on the European projects market in the light of new institutional economics. Particular attention will be paid to the administrative tools that facilitate efficient long-distance communication between the parties to a project co-financing contract, thereby the transaction costs related to the function-
ing of the European funds system are significantly reduced. The application of SL2014 is a basic e-tool in this area. Its significant role in the field of handling European projects is highlighted by the SARS-CoV-2 pandemic. Against this background, general remarks will be made on the beneficiaries of European funds (as participants of this game), the rules concerning the expenditure of European funds, as well as on the contract and the lifecycle of a European project. The beneficiaries of European funds (as well as other participants of the game) are perceived here as learning organizations. The rules of the game are man-made limitations that create their interactions (formal and informal institutions) (North, 1990, p. 3). In this essay, we will also present the advantages of the SL2014 application in the times of the SARS-CoV-2 pandemic (social isolation). The impact of coronavirus is noticeable in both public and private (social) sector.

2. Methods

The adopted research method is based on the analysis of the works of classics of neoliberal economic theory and neo-institutional theory on the essence and types of institutions, information asymmetry and transaction costs in the market.

The analysis of the state of the market of European projects — the main regulatory documents was carried out; at the end of the article a tool for reducing transaction costs in this market is proposed.

The paper is of causal character, therefore detailed empirical data are not presented.

3. The European projects market

European funds are these kinds of goods for which effective demand exceeds supply (Kępa, 2015, p. 175). The market value of European projects in Poland (since the moment of Poland’s accession to the EU) has been estimated at approximately PLN 1125.44 bn, of which the EU co-financing is PLN 664.29 bn.

The law of European funds is a certain structure of incentives and constraints directed at the participants in the exchange. It is an accumulation of “prescriptions and proscriptions together with the artifacts that have evolved as a part of this accumulation. The result is a complex mix of formal and informal con-

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1 For the sake of the consistency of this dissertation, it is assumed that for the purposes of this study, the system of European funds consists of structural funds (the European Regional Development Fund and the European Social Fund) as well as the Cohesion Fund.

straints that shapes the way the game is played” (North, 2014, pp. 1, 13). As a rule, the basic formal institution which regulates the processes of:

- applying for appropriations received from the general budget of the European Union, and
- expending of appropriations received from the general budget of the European Union, is the law of European funds.

The law of European funds is shaped at two levels:
- at the legal level of the European Union,
- at the legal level of European Union Member States.

At European Union level, the law of European funds is shaped by, inter alia, the treaty provisions (Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, 2016) (primary legislation) related to the phenomenon of collecting, distributing and expending funds undertaken in the study, as well as secondary legislation materializing mainly in the form of regulations (Regulation, 1303/2013, p. 320 as well as Regulation, 1304/2013, p. 470) and soft law (Kępa, 2020, pp. 136–139). In Poland, the allocation of appropriations received from the general budget of the European Union is done primarily through European projects. The regulatory framework determining this process shapes two basic sources of law in this area:

- the Act on the principles conducting development policy (2006);
- the Act on principles of implementation of programmes in the area of cohesion policy financed in 2014–2020 financial perspective (2014), hereinafter referred to as the Implementation Act (2014).³

The most important elements of the structure, which characterise the way the game is played within the framework of gaining, spending and accounting for funds received from the general budget of the European Union, are as follows: transparent procedures, equal treatment of beneficiaries as well as effective implementation of projects.

They create some consistent set of values in the system of European funds, which protects the process of their proper spending. The values are implemented through a system of regulations and prohibitions subject to constant modifications. The environment within which the provisions on European funds operate (including the principles concerning their ultimate allocation in the Member States) undergoes constant changes (political, legal and organizational). Legal paternalism in the European funds, so the system of prohibitions and regulations, is designed to reduce information asymmetry in European projects. For the information asymmetry results in uncertainty about the way the game is played among managing entities in every structure. Not only in European projects.

In the light of the Polish legislation regulating the issue of European funds, project is a legal concept. According to Article 2 point 18 of the Implementation Act (2014), the Polish lawmaker decided that the project (commonly called

³ Legislative works are currently being conducted on the new implementation act concerning 2021–2027 financial perspective.
the “European project”) is an undertaking aimed at achieving a set objective defined by indicators with a specified start and end date for implementation, proposed for inclusion in or covered by EU co-financing from one of the structural funds or the Cohesion Fund in the framework of an operational programme. The aims of the operational programme are achieved through the realization of co-financed programmes (Implementation Act, 2014, Article 31).

4. The European project co-financing contract

Project co-financing contract, just like the project itself, is considered as a legal concept defined on the basis of the Implementation Act (2014). In accordance with Article 2 paragraph 26 of the Implementation Act (2014), the project co-financing contract should be understood as:

- the agreement concluded between the competent institution and the applicant whose project has been selected for co-funding, containing at least the elements referred to in Article 206 paragraph 2 of the Act on public finance (2009);
- the memorandum of understanding referred to in Article 206 paragraph 5 of the Act on public finance (2009), concluded between the competent institution and the applicant whose project has been selected for co-funding;
- the agreement or memorandum of understanding concluded between the competent institution and the applicant whose project has been selected for co-funding — in the framework of the ETC programme.

Without going into semantic details, it should be assumed that the agreement referred to in point a is a civil law instrument (liability), whereas the memorandum of understanding that was mentioned in point b is a legal form of action of public administration. In the case when a state budget unit is the beneficiary, the conditions of project co-financing are defined in the memorandum of understanding (in other cases, the reciprocal obligations of the contracting parties are regulated by the agreement in terms of private law). In this essay, we will discuss only the case of a contract in classical terms, referred to in point a, due to the fact that the aim of this article is to show the contractual relation in which one of the contracting parties is outside the administrative system. On this outlined background, the most significant features of the central ITC system SL2014 become more noticeable. Both the agreement (point a) and the memorandum of understanding (point b) can be considered as a contract in the sense of NIE.

The project co-financing contract is an adhesion agreement (accession agreement). Only one of the contracting parties (subsidizing body) creates the content of the contract. In principle, the content of the project co-financing contract cannot be negotiated with the applicant (the subsidizing body uses a ministerial contract template, the contents of which it itself is bound by). The applicant may accept or reject the terms of contract (the model of the project co-financing contract is usually a part of the competition procedure). The project co-financ-
ing contract is a typical legal instrument of a private law relationship (in Poland the issue of liability is regulated by the Civil Code). It should be qualified as bilateral unhighb-handed forms of action of public administration (Kania, 2013, p. 139). The doctrine emphasises the virtues of civil law transactions, in particular, the private law agreement, which “ensures the possibility of optimal shaping of mutual rights and obligations by the parties to legal transaction” (Wierzbowski & Wiktorowska, 2008, p. 304). The project co-financing contract is a nominate, causal and consensual contract (Kępa, 2020, pp. 136–139). It is a bilateral obligation, which means that both parties to a contract act as a debtor and a creditor.

Whereas the European project co-financing contract is liable to a legal regime, and in that context is the subject of legal analysis, in NIE contract research extends far beyond the realm of legal rules and comprises comparative transaction evaluation. In accordance with Williamson (1998, p. 210), these include, for instance, alternative governance structure. A project in legal terms and a contract in economic aspect are oriented on their objective. In the case of European projects, it is the realization of a certain undertaking covered by the European funds. On the other hand, according to game theory, a contract is “an agreement about behaviour that is intended to be enforced” (Watson, 2005, p. 128).

The basic research concept-tool in NIE is the institution, understood differently than in law. As North (1990, p. 3) points out, these are man-created constraints that shape human interactions, which create the incentive structure of the political, social or economic exchange process. There are two types of institutions, namely formal (law) and informal (customs, norms, behaviours). While contract plays a crucial role in NIE (Kępa, 2022), transaction costs are defined as costs of using the price mechanism (including costs associated with finding a contractor, negotiating and concluding contracts) (Coase, 1937, pp. 386–390). The contract, by its nature, is not complete because it is “vulnerable” to incompleteness of the contracting process. Therefore, there are attempts to mitigate the effects of incomplete contracting in the ex ante phase. They are usually “reflected” in the ex post phase of contracting. For instance, the institution of mediation in the ex post phase of public procurement (as an alternative to litigation) has recently been introduced into the Polish procurement law system (1.1.2021). In turn, in the European project law, a similar role is played by the “form of amendments to the proposal” allowing to change the project co-financing contract during the project duration. Consequently, the law of European funds is a formal institution in accordance with North.

5. Central ICT system SL2014

E-governance entails using information technology as well as telecommunication in the public governance. E-administration is consistent with e-governance. The concept of governance implies that ruling is based on the following
principles: openness, participation, responsibility, effectiveness, and cohe-
sion — emphasizing: the reciprocity and reflexivity of the relationship between
the government and the citizen (Kępa & Podgórska-Rykala, 2020a, p. 33).
The co-governance understood in such a way involves various civil society actors — at all organizational levels of public governance (Kępa & Podgórska-Rykala, 2020a, p. 33). E-governance uses the Internet and modern means of distant communication.

The basic tools of e-administration are ICT systems. Nowadays, they are commonly used in administration in order to, inter alia, keep the public register: PESEL (Polish Resident Identification Number) and population register (Kępa & Podgórska-Rykala, 2020b, pp. 11–13) as well as the Register of Identity Cards (Kępa & Podgórska-Rykala, 2021). The basic ICT system in the European funds is SL2014. An ICT system is a set of cooperating IT devices and software ensuring processing, storing, as well as sending and receiving data through telecommunication networks with the use of a telecommunication terminal device appropriate for a given type of network, under the provisions of the Telecommuni-
cations law (2004). SL2014 is a central system, which means that there is only one ICT system dedicated to European projects. Even though that the entry of data into the system is decentralised (every beneficiary and every subsidiz-
ing body enters the data individually). Structure and functioning of the central ICT system shall be ensured by the minister in charge of regional development (Implementation Act, 2014, Article 69, paragraph 2). The central ICT system is designed to support the processes related to:

– handling the project from the moment of signing the project co-financing contract or deciding on project co-financing;
– keeping the register of data on the implementation of operational programmes;
– handling the expense certification;
– evaluation (Implementation Act, 2014, Article 69, paragraph 3).

Beneficiary authentication (a natural person acting on his or her behalf) re-
quires the use of a trusted profile, personal profile, another electronic identification means issued in an electronic identification system connected to a national electronic identification node (for instance, a certified electronic signature). The trusted profile is the recommended way of logging in to SL2014. However, our identity can be confirmed in a different way, for example, through a com-
mmercial bank where a natural person maintains a personal account, or through the Tax Office. A convenient way to certify an individual’s identity is through the electronic identity card (Kępa & Podgórska-Rykala, 2021). After selecting a login method, the system opens an adequate beneficiary authentication path.

After logging in to the central ICT system, the beneficiary sees only the Eu-
ropean projects “assigned” to him or her. It is impossible to “preview” other projects. Only the projects for which the beneficiary is authorized to handle are visible. The SL2014 application is intuitive to use.
The beneficiary accounts for the project through the payment claim that reports, inter alia, the material and financial progress of the project. After the payment claim is approved, the eligibility of expenditure is applied and the next tranche of projects funds may be advanced.

Monitoring project lifecycle takes place through the material progress as well as through the achieved output and outcome indicators that inform the project coordinator about the proper handling of the project. The indicators are described in details in the project and they constitute part of the co-financing contract. They must be achieved to a certain degree and at a certain time. Failure to achieve them may result in a proportional reduction of the project co-financing value.

The beneficiary and the subsidizing body communicate with each other via the SL2014 application. They use an electronic mailbox. Depending on the importance of the information transmitted to the other party of the contact, the parties may demand to sign the transmitted content of the correspondence using the trusted profile or the qualified certificate. Usually, in such situations, a separate missive is prepared and attached to the correspondence so signed. Working relationships do not require additional authentication. The data included in the ICT system is visible after its entry. There is real-time contact. When handling a European project, the contracting parties seldom communicate using an “institution-organization” (Staniek, 2017, pp. 48–50), i.e. in a traditional way (in the office). The main channel of communication “runs” through the central ICT system SL2014 (virtual space). In this respect, the transaction costs of handling European projects are significantly reduced (compared to, for instance, the 2007–2013 programme period).

6. E-administration during the state of epidemic emergency

The year 2020 was marked by the SARS-CoV-2 pandemic. Social isolation, economic lockdown, fear and other factors affected our way of perceiving the world around us. They left a lasting mark on the consciousness of people who experienced it. While the SARS-CoV-2 pandemic appears to be slowing down in Asian countries, Europe and the U.S. are reporting further increase in coronavirus cases. The hope for the way out of the impasse are the recently developed vaccines that, thanks to the efforts of several research centres, offer hope for controlling the spread of the virus. The coronavirus pandemic is a classic black swan (Kępa, 2021, pp. 219–220). An unusual phenomenon (beyond the domain of ordinary expectations), having a drastic influence on reality, as well as on the studied and analysed post factum (Taleb, 2020, p. 16). These phenomena are characterized by uncertainty and low predictability (Taleb, 2020, p. 17).

The progressive phenomenon of e-administration and, in particular, the central ICT systems, such as SL2014, made its advantages apparent during the coronavirus pandemic. Especially, in the period of social isolation. Thanks
to the e-administration, including ICT systems, public administration has not lost its basic function, namely, the ability to carry out public tasks which de facto constitute the meaning of its existence. The only thing that has changed are the forms of administrative activities. New institutions, such as e-administration, have emerged, which due to their characteristics are “resistant to” the states of social isolation and do not contribute to the spread of the virus. One advantage of IT tools is that they enable impersonal contact, whereas the development of technology (including biometrics) makes it possible to establish the identity of an individual remotely.

The tools of e-administration have been functioning in the European projects for a long time. They were introduced gradually. First, there was an email that considerably shortened the time of making decisions on handling projects. Telephone and ICT contact is essential (vertical hierarchical system: project manager–project team; horizontal non-hierarchical system: project manager–project coordinator). Nevertheless, it was the introduction of the central ICT system for settling European projects that made it possible to reduce the uncertainty of contracting parties. It shortened the time between signalling a problem area and agreeing (sometimes even proposing) a specified solution. What is more, it enabled real-time control of the financial flow, indicators, schedule, etc.

Thanks to e-administration, the realisation of European projects has not been suspended during the SARS-CoV-2 pandemic (employees and representatives of the public administration on the side of the subsidizing body use the application remotely — outside the seat of the office, e.g. from their own place of residence or other place of isolation). The project team manages a project in the same way. The content of the declaration of intent, which is submitted via SL2014, is archived, similarly to every payment claim, financial monitoring, schedules of the support implementation, and monitoring of participants. The data sent to the subsidizing body shall not be modified without the consent of the body, and it constitutes potential evidence in a hypothetical dispute. In this respect, the principle of impartiality and objectivity of a public administration organ is maintained.

During the SARS-CoV-2 pandemic, the value of other Internet-based data transmission channels was also recognized. They can be used out of charge, and the only limitations are connected with access to the Internet and possession of appropriate electronic equipment. The author’s observation shows that social media more often constitute the basic source of information for residents of self-governing communities. Basically, this phenomenon should be taken into consideration in terms of administrative policy. Social media fulfil a role that no one could have predicted beforehand. Due to their universality, availa-

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4 Currently, the author is in charge of two European projects implemented for local government units. They have an educational character. The research group, aside from five local government units, consists of participants (residents of local self-governing communities) — a total of about 2,500 people.
bility, simplicity and constant demand, they are increasingly becoming the first choice news channel among the residents of local and regional communities. Such people look to them in order to find information about the life of their community that is not covered by the national media because of the lack of coverage. Today, the use of Facebook, Instagram, YouTube, TikTok, or Twitter by local government administration is not a marketing fad anymore. It is also not a political strategy aimed at a short-term gain. In fact, its value is practical. It supports the implementation of public tasks by the local self-government in unconventional forms (Kępa, 2021, pp. 219–220). These tools can also be used in the case of European projects. The projects have their own websites or social media accounts. In this respect, both the information requirement for the product lifecycle (project implementation phase) and the requirement for dissemination of projects results are met.

7. Conclusion

SARS-CoV-2 is the black swan that triggered the adverse phenomenon — a danger to public health. However, the functioning of e-administration (including ICT systems, such as SL2014) was and is possible thanks to another black swan, namely the Internet (Kępa, 2021, pp. 219–220).

During the period of social isolation caused by the SARS-CoV-2 pandemic, the advantages of e-administration, whose features enabled the efficient implementation of public tasks, were recognised. Moreover, they significantly reduced transaction costs, including those related to European projects. It turned out that some administrative activities do not require direct contact (face-to-face contact in real time). They can be carried out remotely. Contracting parties turned to informal institutions to a greater extent (trust has increased). Officials increasingly see the other side of contracting as the client of public administration, rather than the “depersonalized” party to administrative proceedings. They are beginning to understand that, for example, on the market of European projects, the common goal of the subsidizing body (public administration organ) and the beneficiary materializes.

A significant role in reducing the transaction costs of European projects is played by the so-called ministerial guidelines, which are not the common law, but “internal” law of European projects. The beneficiary undertakes to follow these guidelines in the project co-financing contract which constitutes the source of these obligations in this respect. The path for changing the guidelines and adapting them to the current situation is much shorter than in the case of European funds law (generally applied).

In conclusion, it is worth highlighting one more aspect of the market of European entities. The participation of managing entities in the market game in the system of European funds makes these organizations constantly seek new opportunities to achieve their objective. Accordingly, they shape unconventional thinking and patterns of non-standard behaviours. In addition to classic
learning on the basis of life experience, the organizations learn through teamwork. According to Garvin (1993), learning organizations adapt more quickly to reality in response to new knowledge and experience. Senge (2012, pp. 151–278) claims that in order to transform an undertaking into a learning organization it is necessary to develop 5 competencies: systems thinking, personal mastery, mental models, creating a common vision, and co-operative learning. These remarks apply to both parties to the co-financing contract:

– representatives of the beneficiary (project management stuff: project manager, substantive coordinator, financial coordinator, indicators and evaluation coordinator, etc.),

– representatives of the subsidizing body (project coordinator, people responsible for the eligibility of expenditure, etc.).

To sum up, ICT systems as part of a wider phenomenon: e-administration, can be perceived as an institution within the meaning of new institutional economics. This institution, thanks to its values described in the essay, enables to reduce the transaction costs related to handling European projects as well as to other areas where administration can be applied. We are currently witnessing a civilizational change. This change is based on the gradual replacement of the traditional forms of implementing public tasks with new ones: e.g. written records are being replaced by registers maintained within ICT systems. The increasing use of the Internet and ICT tools will expand the scale of this phenomenon. The phenomenon that significantly reduces the transaction costs of public administration functioning and is heading towards more efficient ways of performing its activities. This can be seen on the example of the European project market. The central ICT system SL2014 (as an element of e-administration) considerably reduced the transaction costs in the field of handling European projects in the 2014–2020 financial perspective.

References


Acknowledgements

Author contributions: author has given an approval to the final version of the article.

Funding: this research was fully funded by the author.

Note: the results of this study were presented at 4th Scientific Conference: Institutions in Theory and Practice (March 25–26, 2021, Wrocław, Poland).