**Macro subsidies and micro effects of building broadband internet in Poland**

An incorrectly conducted competition for the allocation of over PLN 1 billion, failure to enforce contractual obligations from project implementers and long delays in investments - this is how Supreme Audit Office of Poland (NIK) evaluates the construction of broadband internet in the Lubelskie Voivodship. The contracts audited by the NIK concluded in the second half of 2018 provided for the construction of a network of over 14,000 km by 2022. km, which would enable access to broadband Internet to over 200,000. households and nearly 1,200 schools. However, the audit carried out by the NIK shows that over two and a half years after the start of the investment, less than 4% of the target network was ready, which covered approx. 4% of the planned number of households, and at the end of May 2021 it was connected to also slightly more than 37% of the projected educational institutions. In some places, the new network duplicated the existing one, and almost half of the power poles made available for its installation, their owner, i.e. PGE Dystrybucja, planned to modernize or liquidate within 10 years.

To implement such a huge investment in such a short time, Centrum Projektów Polska Cyfrowa (CPPC) chose three small companies. One project was to be carried out by Hrubieszowska Telewizja Kablowa, and the remaining 11, related to large enterprises, Fibee I and Fibee IV, which were established during the competition, had not completed any investment before, and their share capital amounted to PLN 5,000, respectively. and 6 thousand zloty. Despite the fact that these companies did not show the required economic potential in accordance with the terms of the competition, for 19 projects (11 in the Lubelskie Voivodship) they were awarded a total of over PLN 1 billion 84 million in non-refundable support in violation of the law.

Fibee I and Fibee IV won the competition, although its requirements could be met primarily by large enterprises that had the financial means to provide their own contribution to the projects. In the absence of it, it was necessary to present an unconditional credit promise issued by the bank. None of these companies submitted a promise, but experts evaluating their economic potential, guided by the explanations of the CPPC, recognized that they meet the competition requirements. These companies submitted documents which showed that the own contribution would be provided by a Luxembourg company related to them. At the stage of evaluating the applications, the Center assumed that this was in line with the requirements of the competition, but had not previously informed other companies that they could interpret its regulations in this way. It also did not verify the documents themselves, although in the case of other companies taking part in the competition it was a standard.

After the conclusion of the co-financing agreements, in November 2018, Fibee I and Fibee IV received the highest possible advance payments of 40% of the co-financing (PLN 264.6 million) from the Operational Program Digital Poland for 2014-2020. After more than two years of using these funds, the companies did not settle as much as PLN 227 million, and although they did not complete the key stages of network construction on time, thanks to the annexes to the contracts signed with the CPPC, they also did not pay penalty interest in the amount of PLN 17.4 million.

The CPPC also failed to enforce from these companies the timely provision of a security for the proper performance of obligations under the contracts and the commencement of works within four months from the date of signing the contract. It reacted with delay to the changes introduced by the companies in the projects and to the settlement of payment claims by them. Contrary to the rules of the competition, the CPPC also extended the project implementation period and accepted, as a temporary solution, the possibility of connecting schools to the network in a technology other than fiber optics.

The irregularities found by the Supreme Audit Office in the activities of the Centrum Projektów Polska Cyfrowa prove insufficient supervision over this institution, first by the Minister of Digitization, and since October 2020, due to the liquidation of this ministry, also by the Prime Minister.

NIK also has reservations about the system of designating competition areas by the Office of Electronic Communications, including the so-called white spots, i.e. places where there was no access to the Internet with a bandwidth of at least 30 Mb/s, and in the case of schools - 100 Mb/s. UKE did not have up-to-date information on this subject, nor did it have data on the actual route of the existing network.

In order to achieve the broadband Internet goals set by the European Commission and included in the government program, it is necessary to support the construction of the network with public funds in those areas that are not profitable for commercial telecommunications entrepreneurs - in rural areas with low population density and dispersed buildings. However, the NIK audit showed that by the end of 2021, the activities of the CPPC, the Office of Electronic Communications and companies that received funding did not provide residents of such areas in the Lubelskie Voivodship with access to broadband internet.

**Financing the construction of a high-speed network**

As a result of the development of digital technologies, both in public institutions and households, there was a significant demand for fast and permanent access to the Internet, enabling the use of large amounts of data simultaneously on many devices. The fact that striving to meet the growing needs in this area is justified and necessary was confirmed by the COVID-19 pandemic, when remote work became the basic form of performing professional duties in many areas.

Quick and easy access to a large amount of data on the Internet is possible thanks to a telecommunication broadband network, i.e. one that provides a sufficiently high data download speed. Requirements in this area are increased every few years. In 2010, the European Commission adopted a plan according to which, within 10 years, Member States were to provide all their citizens with access to 30 Mb/s networks and at least half of them to 100 Mb/s networks. In 2016, even more ambitious assumptions appeared, and strategic documents from 2021 provide for providing all citizens of the community with gigabit (1 Gbps) connections by 2030.

In Poland, support for the construction of broadband internet in hard-to-reach places is provided under operational programs co-financed from the EU. In the period audited by NIK (2016-2021), it was possible to apply for funding from the Operational Program Digital Poland for 2014-2020 in competitions organized by the CPPC. The Supreme Audit Office examined the implementation of projects from the first round of the third competition announced in November 2017.

**Delays with impunity**

Experts who at the end of 2018 assessed applications for co-financing the construction of broadband internet in the Lubelskie Voivodeship decided that the project schedules and their financial scope were feasible. They took into account the time necessary to organize competitions for contractors, as well as the impact of external factors. Meanwhile, more than two and a half years after the start of the investments, which were originally supposed to be completed in December 2021, the works have not even reached the halfway point.

By the end of February 2021, as part of the four audited projects, Fibee I had built only 0.2% of the planned length of the network, to which 25.4% of educational institutions and 1.7% of households were connected. On the other hand, Fibee IV implemented 3% of the planned length of the network, to which 3.5% of educational units and 7.5% of households were connected.

At that time, the local micro-enterprise Hrubieszowska Telewizja Kablowa (HTK) built 39.5% of the length of the network under one project, 6.5% of households and almost 78% of the planned schools gained access to it.

However, work delays occurred in all 12 projects audited by NIK. In the case of Fibee I and Fibee IV, the main reason was the selection of contractors for the works only after nine months from the date of signing the co-financing agreements. This was due to the fact that the companies delayed the announcement of the tender, and it became necessary to repeat it. Delays in the case of HTK resulted from a change in construction technology.

According to the audited companies, the COVID-19 pandemic had a significant impact on the delays, but as NIK reminds, the restrictions related to it began to be introduced in Poland only in the second half of March 2020. More than 18 months have already passed, i.e. almost half of the time provided for the implementation of projects .

In May and June 2021, CPPC signed annexes to co-financing agreements with all three companies, based on which the completion periods of the projects by Fibee I and Fibee IV were extended from December 2021 to September 16, 2022, and the HTK project from September 30, 2021 to April 28, 2022. This happened against the requirements of the competition, the regulations of which provided for a maximum of 36 months for project implementation (from the date of commencement of works). According to this provision, the extended deadline for completing the projects in the case of Fibee I and Fibee IV could be set for June 19, 2022 at the latest, and for HTK on January 28, 2022.

The conclusion of annexes to the agreements, which also changed the dates of settlement of advance payments, meant that Fibee I and Fibee IV did not have to pay penalty interest in the amount of PLN 17.4 million.

According to NIK, due to the low progress of works, the completion of the 11 projects by Fibee I and Fibee IV is at risk, both by June 19, 2022, in accordance with the competition rules, and by September 16, 2022, i.e. within the time limit adopted in the annexes to the agreements.

In turn, the durability of the investment is threatened in the long term in the case of a broadband network suspended from power poles. If, after the mandatory seven-year maintenance period, PGE Dystrybucja modernizes the poles or removes them, white spots in the access to high-speed Internet may again appear in the rural areas of the Lublin region with low population density. The company managing the network may decide that its re-construction in this area is unprofitable.

**Conclusions**

The NIK audit showed that, contrary to the objectives of the National Broadband Plan, resulting from the European Digital Agenda, by the end of 2020 not all residents of the Lubelskie Voivodeship had access to the Internet with a bandwidth of at least 30 Mb/s. What's more, the projects controlled by the NIK did not assume this at all. The companies implementing them did not foresee the connection of over 59,000 to such a network. households, i.e. 18.4% of those eligible for coverage. The choice of address points depended solely on the decisions of those companies that took into account the most densely populated locations. This meant that residents of hard-to-reach places, where connecting to the network is more expensive and more complicated, remained without broadband Internet.

The results of the audit also indicate that the implementation of another goal resulting from the European Digital Agenda is at risk - ensuring access to the network with a capacity of at least 100 Mb/s to all households in Poland by 2025. Therefore, more effective actions are necessary to support the construction of high-speed internet with public funds, and therefore the NIK submitted applications, among others, to the prime minister about:

Providing support for the construction of broadband networks in the 2021-2027 financial perspective, as part of the coordination of the work of the ministers responsible for computerization and regional development:

adopting a support model enabling equal access to funding for potential beneficiaries from the SME sector;

developing project selection criteria to ensure the selection of beneficiaries with economic potential and experience appropriate to the scale of the planned projects.

Taking action to:

strengthening supervision over the Centrum Projektów Polska Cyfrowa in the scope of activities of this institution in the process of co-financing projects for the construction of a broadband network;

minimizing, in the long-term perspective, the risk of recurring white spots in areas where there are broadband networks suspended from utility poles;

providing support mechanisms preventing duplication of a properly developed broadband infrastructure by new investments.

In connection with the results of the audit, NIK also submitted requests to the President of the Office of Electronic Communications, Director of the Digital Poland Project Center and companies implementing projects of the Digital Poland Operational Program for 2014-2020.