



The Implementation and Management of EU Cohesion Funds

Conference Discussion Paper No. 3

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Benchmarking Regional Policy in Europe

Second International Conference
Riga, 24-26 April 2005

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April 2005

Preface

This paper has been prepared as a background discussion document for the Second International Conference 'Benchmarking Regional Policy in Europe' being held in Riga on 24-26 April 2005. The Conference is being hosted by the Ministry of Finance, Latvia, and organised by the European Policies Research Centre, University of Strathclyde, UK.

The Conference is being supported by the following organisations, whose sponsorship is gratefully acknowledged in making the meeting possible:

- Ministry of Finance, Latvia
- Scottish Executive, UK
- Ministry of the Interior, Finland
- British Council Latvia
- Highlands & Islands Enterprise, UK
- European Commission
- University of Strathclyde, UK

The paper has been written by Dr Irene McMaster (Research Fellow) and Dr Vít Novotný (Research Assistant) of the European Policies Research Centre. The paper is the product of desk research, based on EPRC studies in the EU27 countries, and a fieldwork interview survey among national authorities in the new EU Member States and Candidate Countries. The field research team comprised the following EPRC researchers:

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The research team is grateful for the assistance provided by national government officials and experts from the EU Member States and Candidate Countries and their contribution to the papers. The papers will be revised after the Conference and disseminated more widely; EPRC would welcome feedback on any of the issues contained in the papers.

EPRC, April 2005.

THE IMPLEMENTATION AND MANAGEMENT OF EU COHESION FUNDS

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THE IMPLEMENTATION AND MANAGEMENT OF EU COHESION FUNDS

EXECUTIVE SUMMARY

Systems for ensuring effective implementation and management of EU Funds are crucial to the success of Cohesion policy. For the Member States, increasing control over the management and implementation of EU Cohesion policy is associated with both opportunities and challenges, particularly in the key areas of programme management and delivery, partnership and cooperation, and monitoring and evaluation.

The scope for diversity in the implementation and management of Cohesion policy is considerable. However, it is still possible to highlight shared experience, common challenges and potential for learning across programmes, regions and Member States. With this in mind, the paper reviews experiences of the current round of Cohesion policy programmes, taking stock of progress in the EU10 and drawing on experience in the EU15.

The paper begins by discussing the institutional infrastructure and the systems involved in programme management, focusing in particular on the issues of institutional infrastructure, institutional coordination and partnership.

The paper then examines programme implementation, in particular project generation, project appraisal and selection, project implementation and monitoring and evaluation. Similarities and differences in Member States' approaches and experiences of programmes implementation are highlighted. The paper concludes by raising the following questions for discussion:

- How can management and implementation structures maintain absorption capacity and ensure that procedural and administrative obstacles to absorption are minimised? At the same time, how can project quality best be assured?
- How will the administrative infrastructures and systems involved in EU Cohesion policy evolve?
- How can effective vertical and horizontal coordination in the management and implementation of EU funds be ensured?
- What is the appropriate degree of regionalisation in the management and implementation of Cohesion policy funds?

THE IMPLEMENTATION AND MANAGEMENT OF EU COHESION FUNDS

1. INTRODUCTION

Systems for ensuring effective implementation and management of EU Cohesion policy funds are crucial to the success of Cohesion policy. As Cohesion policy has evolved, responsibility for the management and delivery of the Funds has been increasingly decentralised. For the Member States, greater control over the implementation of EU Cohesion policy is associated with both opportunities and challenges, particularly in the key areas of programme management and delivery, partnership and cooperation, and monitoring and evaluation.

The scope for diversity in the implementation and management of Cohesion policy is considerable. National experiences differ according to a range of factors such as the scale and type of EU funding, the coherence of eligible areas, the relative strength of national and regional administrations, and national economic and regional policy traditions. For similar reasons, implementation arrangements may even vary within countries. Also, new approaches to economic development policy, shifts in political power and regulatory changes mean that implementation structures are not fixed.

However, it is still possible to highlight shared experience, common challenges and potential for learning across programmes, regions and Member States. The aim of this paper is twofold. First, the paper reviews experiences of the current round of Cohesion policy programmes, by taking stock of progress in the EU10 (new Member States) and referring to experience in the EU15. Second, bearing in mind preparations for the 2007-2013 programming period, the paper highlights the potential for management and implementation structures to evolve and adapt to the challenges and opportunities raised by EU Cohesion policy.

The paper begins by discussing the institutional infrastructure and the systems involved in programme management. It then goes on to focus on the programme implementation, in particular project generation, project appraisal and selection, project implementation and monitoring and evaluation. The final section raises questions for further debate.

2. MANAGEMENT OF EU COHESION POLICY

2.1 National and sub-national involvement

The institutional infrastructure for implementing EU Cohesion policy is primarily determined by the Member States. The EU lays down the principles of Cohesion policy - concentration, partnership, programming etc - and the detailed requirements for management and accountability, but the institutional structures and administrative systems are established according to national practice (or, in some countries, regional practice). The influence of the EU is, however, clearly evident. Over the past decade, there has been

a progressive regionalisation of Structural Fund management in many EU 15 countries, while in the EU10, the European Commission strongly encouraged centralised management of EU Cohesion policy for the 2004-06 period.

At the apex of the implementation system is the managing authority. Member States are required to designate a managing authority with responsibility for the assistance provided and ensuring compliance with the Council Regulations (planning and management of programmes, monitoring of assistance, communication with beneficiaries etc). In some Member States, there may be a managing authority with overall responsibility for EU Cohesion policies as well as separate managing authorities with specific responsibility for the individual Funds or individual Structural Fund programmes. Member States are also required to designate one or more paying authorities to draw up and submit payment applications and receive payments from the Commission.

Among the new Member States, the overall responsibility for EU Cohesion policy is allocated to several different types of ministry:

- Ministries of finance - Estonia, Latvia, Lithuania
- Ministry of economics - Poland
- Ministries or government offices for regional development - Czech Republic (Ministry of Regional Development), Hungary (Ministry of Agriculture & Regional Development), Slovak Republic (Ministry of Construction & Regional Development), Slovenia (Government Office for Structural Policies & Regional Development)
- Prime Minister offices or agencies - Cyprus (Planning Bureau), Malta (Office of the Prime Minister)

In the smaller countries, all the managing authority functions are handled by the ministries of finance, with the exception of INTERREG in some cases (e.g. Lithuania, where INTERREG III is managed by the Ministry of the Interior). With increasing country size, and scale of EU Cohesion policy, there tends to be a greater spread of programme-specific management responsibilities. For example: in the Czech Republic, the industry and enterprise programme is managed by the Ministry of Trade & Industry, and the infrastructure programme by the Ministry of the Environment; in Hungary, the environmental and infrastructure OPs are managed by the Ministry of Economy & Transport, and the regional development programme by the National Office for Regional Development; and in Poland, the transport OP is managed by the Ministry of Infrastructure.

The distinctive feature of EU Cohesion policy management in the new Member States is the degree of centralisation. In theory, sub-national participation in EU Cohesion policy programmes can involve several functions.

- **Programme development:** Sub-national levels are generally expected to input into national programming documents through formal consultation processes. In some cases, regional administrations coordinated the development of individual operational programmes.

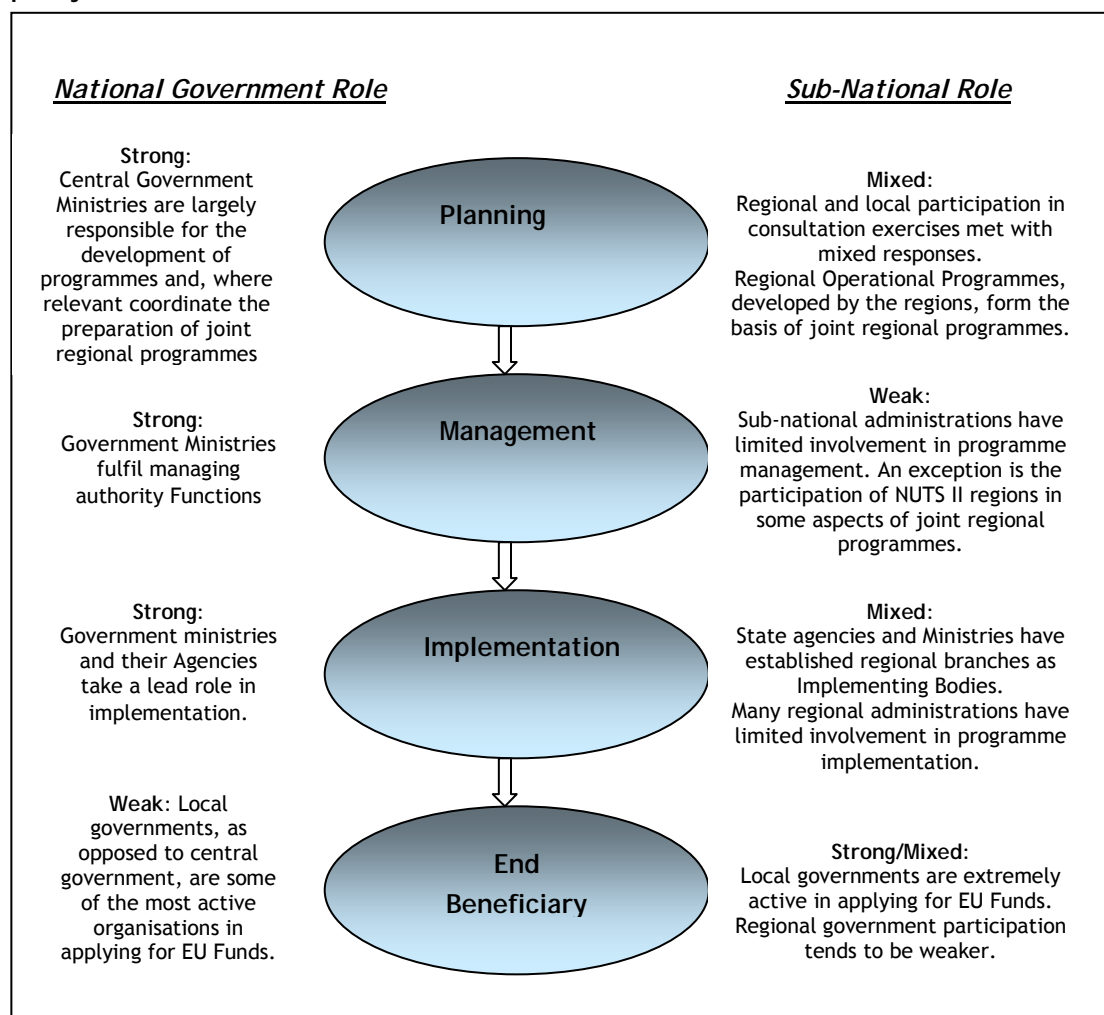
- **Programme management:** For example, sub-national bodies participate in the management of 'regional' elements of programming documents or regional operational programmes.
- **Implementation:** Sub-national administrations may act as implementing bodies, administering regional grant schemes.
- **Beneficiary:** Sub-national authorities have potentially important roles to play as project applicants and end beneficiaries of EU Cohesion policy.

In the new Member States, sub-national participation in the management and implementation of EU Cohesion policy is generally limited to a few key areas, including inputs during programme development and activities as end beneficiaries of funds (see Figure 1). Notable exceptions are the Czech Republic, Hungary and Poland, which have some form of joint, or integrated Regional Operational Programmes (ROPs). In Slovakia, the OP for Basic Infrastructure also incorporates a regional element. In these cases, regional administrations have a slightly greater involvement in programming activities.

In the Czech Republic, Poland and Slovakia, regional authorities participated in the preparation of ROPs, which were used as the basis for subsequent joint programming documents. In the Czech Republic, Regional Councils participate in the management of the Joint Regional Operational Programme. Regional offices are involved in the administration of the Polish Integrated Regional Operational Programme, and, in Hungary, Regional Development Agencies are involved in project implementation. Lastly, in Malta, a Regional Project Committee is involved in implementing special measures for the development of the island of Gozo.

The limited sub-national involvement in EU Cohesion policy management is comparable to the approach taken in several EU15 countries when Structural Fund programmes were first implemented. Since then, however, there has been extensive regionalisation of management responsibilities to devolved levels of government (eg. Italy, UK) or to deconcentrated offices of the State (France, Sweden). In federal countries - Austria, Belgium, Germany - regionalised management has always been the case.

Figure 1: Schematic view of national and sub-national participation in EU Cohesion policy in the EU10



The degree of sub-national involvement depends on the constitutional arrangements and institutional structures of individual countries, in particular the existence and status of regional institutions, and the type/scale of EU funding. Over time, it is evident that EU policies and programmes have also played an influential role in the development of sub-national participation in Structural Fund management, in several ways.

First, the implementation of Cohesion policy - based on the principles of subsidiarity and partnership - has provided political legitimacy and economic resources for sub-national authorities to be involved in regional development where previously their role may have been minimal. Second, the implementation of Structural Funds has stimulated the creation of specific frameworks and institutions that, in some Member States, has filled an institutional void at regional level and boosted regional capacity to steer economic development processes. Third, EU accession negotiations motivated a range of sub-national administrative reforms in the new Member States. Finally, EU programmes have offered direct support for institution-building at the sub-national level, e.g. Phare funding for Regional Development Agencies.

However, the influence of the EU on sub-national participation in the management and delivery of Cohesion policy is not uniform. First, EU legislation does not compel the Member

States to decentralise decisions to regions and municipalities. Indeed, in the larger new Member States expectations of a significant decentralisation in the implementation of EU Cohesion policy have not been fulfilled so far. National governments rather than sub-national bodies of the new Member States are largely responsible for management of the Cohesion funds in the programming period 2004-2006.

Second, in countries with weak, or non-existent, regional administrative structures, centralised, sectoral policy-making offers a more robust platform from which to develop and deliver EU programmes. Even in countries with comparatively well-established regions, the administration of highly complex EU Funds could easily overload regional administrations, undermining what authority they have.

2.2 On-going institutional change?

Looking forward to the 2007-2013 programming period, the experience of the current programmes and the upcoming reform of EU Cohesion policy are likely to result in modifications in the institutional infrastructure of EU programmes. In line with new programming frameworks, ministerial responsibilities could change.

At the sub-national level greater responsibility for the management and implementation of EU Cohesion policy could be delegated to regional levels:

- In the Czech Republic, Slovakia, Hungary and Latvia, the future role of sub-national governments is currently under review.
- In Latvia, the establishment of 'regional one-stop-shops' for Structural Funds has been suggested, in order to simplify regional-level implementation and management post-2007. These institutions might be set up at the level of the planning region.
- In the larger new Member States, Poland, Hungary, the Czech Republic and Slovakia, self-governing regions might take more responsibility for programme management and implementation.
- Hungarian NUTS II Regional Development Councils and Regional Development Agencies may participate in strategic planning, decision-making and monitoring of the country's proposed Regional Operational Programmes.
- In Romania, eight Regional Coordinating Committees may be involved in the first round of Structural Fund programmes, as a way to build regional capacity.
- In Poland, proposed ROPs may be prepared and implemented by regional self-governments. The aim is for new ROPs to encompass a range of socio-economic issues from specific regional perspectives. This has implications for partnership arrangements and co-ordination mechanisms as ministries will have to consult with regional governments on sectoral matters that are likely to affect particular regions.

2.3 Coordination

Whatever the institutional arrangements for EU Cohesion policy, coordination and cooperation across the relevant ministries, sub-national authorities and agencies are essential for effective management and implementation. Related, Cohesion policy is widely acknowledged to be an important factor in bringing together previously disjointed decision-making bodies in the EU Member States. However, effective coordination and cooperation remain on-going challenges for EU programmes, especially as it involves such a wide range of actors and institutions.

In the EU10, new systems to facilitate coordination in the development and delivery of EU Funds have been established. On the one hand, Managing Authorities have coordinating functions, across ministries and levels of government. Inter-ministerial coordination committees have also been created. For example, in Malta and the Slovak Republic, coordination committees are responsible for harmonising the activities of sectoral ministries in the field of regional policy. However, such mechanisms do not necessarily guarantee effective coordination. In practice, newly established coordination structures can be weak and face a number of obstacles:

- Coordination arrangements are not sufficiently formalised or well embedded. Following problems experienced by some CSF managing authorities in the new Member States, national legislation is required to strengthen their coordination functions.
- Sectoral ministries have proved resistant to the idea of their activities being 'coordinated' by an external committee or managing authority, as they are used to having their own distinct sphere of activity.
- The persistent lack of clarity over areas of responsibility compounds coordination problems. Inter-ministerial 'wranglings' over competencies have been a persistent problem, causing delays to programming activities and reducing the scope for integrated/coordinated policy making.
- Coordination across levels of government is weak. Particular problems have been cited with regard to the interface between the national and regional levels. For example, in Poland, the coordination of implementation responsibilities was complicated by confusion over the division of responsibilities between central government and elected units of regional government.

2.4 Partnership

According to the European Commission, partnership has led to "better targeted and more innovative projects, improved monitoring and evaluation of performance and the wider dissemination of information of their results".¹ The definition of partnership in EU legislation is rather loose and the concept leaves significant scope for interpretation.

¹ European Commission, *Third Cohesion Report: A New Partnership for Cohesion*, (EC: Brussels, 2004) p.xxi.

However, in broad terms, partnership requires partners from different institutions and organisational cultures, with varying priorities and interests, to work together in pursuit of shared objectives.

Over time, partnership in the design and implementation of EU programmes has become stronger and more inclusive, involving a range of social partners, regional and local administrations and private sector organisations.² Across the Member States, partnership working takes a variety of forms at various stages in the programme cycle, including working groups, sub-committees, workshops, as well as formal and informal exchanges. Member States still tend to dominate partnership relations. However, the membership and operation of partnerships differs according to specific national and regional conditions.

In the EU10, considerable efforts have been made to take-up the 'partnership principle'. New structures and national legislation are in place, and a range of activities have been undertaken to build partnership activities.

- **Extensive consultations with partners were planned as part of the programming process.** For example, according to the CSF of the Czech Republic, the Ministry for Regional Development, as Managing Authority, has "involved the maximum number of relevant partners in the [NDP/CSF] consultation process". Generally, this form of consultation took place on three main levels: (1) inter-ministerial co-ordination; (2) the involvement of relevant social, economic and regional partners; and (3) public consultation. As part of programme preparations, the National Development Office in Hungary established a database of information on partner organisations, partnership events and the opinions and recommendations expressed by the partners in the framework of the consultations.
- **Partner organisations are included on management and monitoring committees at various levels.** In Malta, the Council for Economic and Social Development, which represents the interests of socio-economic partners, NGOs and civil society, is represented on the government's Inter-Ministerial Committee for Regional Policy. The Estonian Union of Cities is an active partner in programme implementation and monitoring.

Partnership is one of the most difficult and disputed elements of the Funds, mainly because it means different organisations, with different interests, priorities expectations and organisational cultures, having to cooperate and work together. Key concerns regarding partnership include the following issues.

- **Partnership can be pursued in a very formalistic, superficial and limited manner, and simply to meet Commission requirements.**
- **Partnership adds additional complexity to programme development, management and delivery, which can slow down decision making.**

² The Tavistock Institute Evaluation Development and Review Unit with ECOTEC Research and Consulting Ltd. Thematic Evaluation Report of the Partnership Principle, (Report to DG Regio: Brussels, 1999).

- The process of effectively and efficiently taking into account numerous and wide-ranging opinions on so many different issues is a difficult task for programme developers. Programme clarity may suffer as a result.
- Some potential partners may not necessarily have the capacity to fully participate in consultations, e.g. small municipalities.
- The quality of exchanges can be limited, e.g. by lack of experience. On the one hand, partners express the views that 'we were just told what was happening', 'there was no opportunity for us to have any input' and 'they wouldn't listen to us anyway'. On the other hand, government ministries have found that 'potential partners were extremely passive', 'there was limited interest from NGOs', 'the regions just wait to be told what to do', 'poor quality input from partners was a problem' and 'both sides don't talk the same language';
- Lack of time limits the effectiveness of partnership. Frequently, final programming documents were developed according to a very tight time-scale. For example, the formal consultation process on the Latvian draft SPD and its Programme Complement took place between 9 September and 1 October 2002, leaving interested parties little time to develop their responses and input. In the Slovak Republic, last-minute changes in the structure of operational programmes before accession and alleged pressures from the Commission for an early submission of draft programming documents resulted in a minimal degree of participation by regional and municipal authorities and NGOs in the preparation of the documents.
- Partnership can be patchy across programmes and priorities. In Malta and Poland, representatives of private enterprises were critical of the limited extent to which they were involved in the development of relevant programme priorities.³
- Partnership can raise the expectations of the different actors in a way which cannot be met in practice - whether in relation to the amounts of funding that actors expect (and the ease with which they expect to get it) or in terms of the scale and rapidity of socio-economic impact of public funding that they expect.

Partnership will remain a core element of future Cohesion policy. European Commission proposals for the 2007-2013 programming period refer to enhancing partnership, by involving social partners and civil society representatives to a greater degree. Also, tripartite agreements between Member States, regions and local authorities are proposed.

Responses to the evolving challenges of partnership are likely to continue to differ, ranging from apparent efforts to 'streamline' and focus 'external' input to developing mechanisms for increasing participation and input. For example, in Poland, a more wide-ranging and intensive process of consultation is underway for the 2007-2013 National Development Plan,

³ A. Borg, 'Creating Opportunities For Industry', speech by the President of the Malta Federation for Industry at the Ernst and Young Conference on EU Accession - Challenges and Opportunities, Malta, 20th June 2003, <http://www.foi.org.mt/press_detail.asp?i=248>; 'Fundusze dla przedsiębiorców: czekając na terminy', 14th June 2004, <www.gazeta.pl>

including partners from sectoral and regional interest groups. This partly reflects increased awareness of the value of incorporating stakeholders' perspectives to successful programme implementation and is also, in part, a pragmatic response to the increase in funding available and the proposed structure of Operational Programmes. For example, the NDP 2007-2013 proposes an Operational Programme for Civil Society. NGOs have been heavily involved in its development, as they will be ultimate beneficiaries.

2.5 Programme management arrangements

As the previous sections suggest, the management and delivery of EU Cohesion policy requires a highly developed institutional infrastructure and a significant mobilisation of effort in participating countries. In terms of how the countries manage the Funds, each Member State has developed its own programme management arrangements. First, programme management arrangements vary according to the extent to which they are integrated into existing national systems. Second, the level of complexity of arrangements varies. Third, management systems differ between national and regional programmes.

In terms of the extent to which EU programme management is integrated into existing national systems, experience in the EU15 suggests that a distinction can be made between countries that have:

- a **differentiated approach** to resource allocation, with separate administrative structures established to deliver the Structural Funds (Netherlands, Sweden or the UK);
- a **subsumed approach**, as in Austria, Spain, parts of Germany and many of the new Member States, where the allocation of resources is channelled through national/regional ministries and agencies; and
- **composite systems**, with a mix of the two approaches, in Finland, France and Italy.⁴

Each type of system has its advantages and drawbacks. Differentiated systems can be administratively complex, but they allow for greater visibility and coherence of EU programmes. Subsumed systems benefit from pre-existing channels and can be simple for applicants, but programmes are likely to be more fragmented and they are more difficult to control.

Another notable distinction across countries is the number and type of programmes to be administered.

- **Single SPDs:** As single NUTS II territories eligible under Objective 1, Latvia, Lithuania and Estonia each have a Single Programming Document (SPD).

⁴ J. Bachtler, *Best Practice in Structural Funds Management (2005) Inforegio Panorama* March and S. Taylor and J. Bachtler, *The New Structural Fund Regulations - Preparing for the New Programmes*, *IQ-Net Review Paper*, 5 (1) (European Policies Research Centre, University of Strathclyde, 1999).

- **CSF and OPs:** Poland has a Community Support Framework (CSF) and six Operational Programmes (OPs), each with distinct management and implementation structures.
- **CSF, SPDs and OPs:** In addition to a CSF and a range of OPs, the Czech Republic and Slovakia both have separate SPDs for Objective 2 and 3, covering their respective capital city regions. In these countries and other Cohesion Countries, separate arrangements must also be made for the implementation of Cohesion policy and Objective 3. The sheer number of programmes in countries such as the Czech Republic, Slovakia, Hungary and Poland adds to the complexity of managing and implementing EU Funds.

Finally, in terms of the types of programmes, combined regional operational programmes, e.g. the Czech Republic's Joint Regional Operational Programme and the Polish Integrated Regional Operational Programme, have some of the most complicated administrative structures, which incorporate regional institutions as well as government ministries and agencies. In contrast, the Cohesion Fund is widely considered to require more straightforward structures.

What is most important is not what type of system is in place but whether the system works well in its domestic context. Institutional capacity to manage programmes was a key concern in the lead-up to EU enlargement. Moreover, according to the European Commission, it is expected to remain an important issue throughout the current programming period and into the next.

Despite early concerns, the overall impression is that the management and implementation of the EU Funds in the EU10 are going relatively well so far. Huge effort has gone into developing appropriate implementation structures, and reducing risks and bottlenecks to programme implementation. In some cases, programme structures were simplified. For example, Poland, the Czech Republic and Slovakia abandoned plans to adopt separate Regional Operational Programmes for the 2004-2006. In other cases, additions were made, making programmes more inclusive and building up a sense of 'ownership' of the programmes.

Ultimately, however, it was only possible for the new Member States to prepare 'up to a point' for Structural and Cohesion Funds. Amongst the key constraints to effective programme management are the following factors.

- **Limitations of pre-accession aid programmes:** Pre-accession aid made valuable contributions, but it did not offer extensive experience of key areas such as multi annual programming, partnership management and communications, project appraisal, support to beneficiaries and financial controls.
- **Lack of experience:** Many of the final arrangements for managing EU Funds were not agreed until a late stage, meaning that support for capacity building was not necessarily targeted on the right institutions, which was a problem encountered in

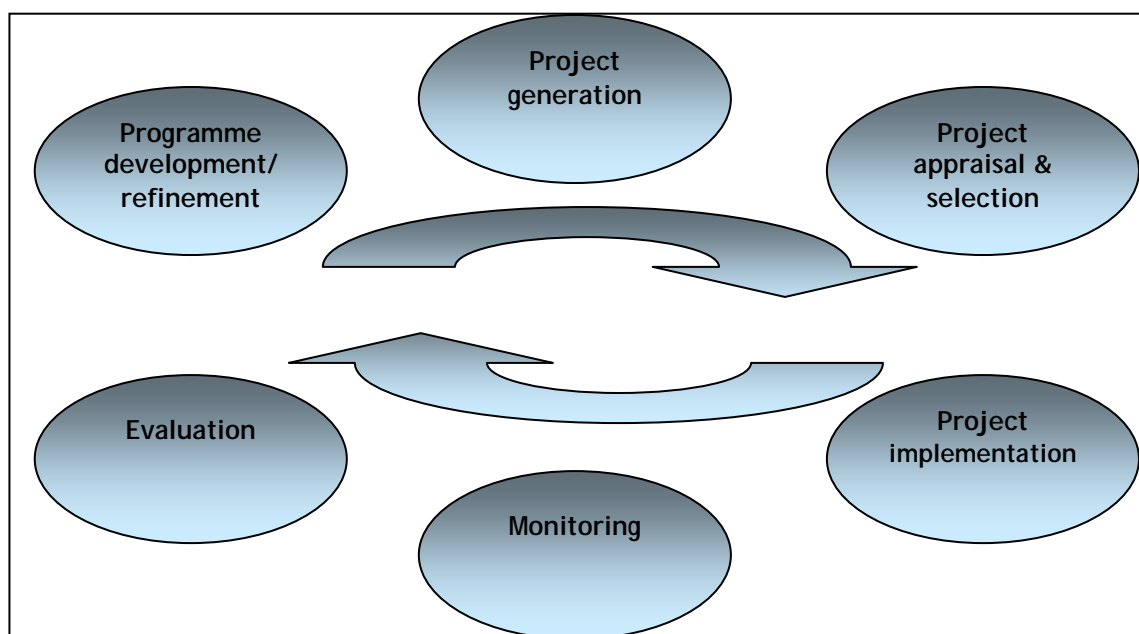
Slovenia. A number of Romanian Ministries designated to take on key management roles in future EU programme have no experience of handling pre-accession aid.

- **Lack of time for new institutions to become established:** Many of the structures for the management and implementation of EU Funds were established over a comparatively short period of time. In practice, key organisations had little time to adapt to their new roles, and arrangements were not consistently thought through. In some countries, new legislation is considered necessary to clarify and institutionalise roles and procedures. Some observers note that responses to pressure for organisational change in public institutions thus far can tend to be ad hoc and politicised rather than rationally thought out, and this has had an impact on the administration of Cohesion policy.
- **Breakdown of existing structures:** In some cases, institutional reforms, linked to preparation of EU Funds undermined or complicated the operation of existing development networks, e.g. those linked to pre-accession aid programmes. Late changes to administrative structures could also disrupt personnel and weaken expertise. For example, the Polish Agency for Regional Development, one of the most experienced centres for regional policy and management of EU regional aid, was subsumed into the Polish Agency for Enterprise Development with inevitable disruption to personnel and dispersion of accumulated experience and knowledge.
- **Weak capacity of the sub-national levels.** In a number of new Member States, regional administrations are in a weak political, financial and institutional position, which limits their capacity to participate in Cohesion policy. Polish regional self-governments have found it difficult to hire new personnel due to lack of budgetary sources, but they also suffer from the politicisation (rather than professionalisation) of staff: when there is a change of administration after elections there can be a major turnover of staff. In Slovakia, Hungary, Bulgaria and other countries, measures have been taken to strengthen the capacity of the central level to administer the Funds. The new challenge is to train regional and local administrators.
- **Longstanding weaknesses in the public sector.** High staff turn-over, in large part due to low public sector pay, is a particular problem, which reduces stability, experience and 'institutional memory' within key institutions and weakens their capacity to manage the Funds. In Poland, numerous personnel changes in the Agency for Agricultural Restructuring and Modernisation resulted in more than two years of delay in the implementation of the SAPARD programme.

3. IMPLEMENTATION MECHANISMS

In the early stages of Cohesion policy programming in the EU, institutional deficits meant that programmes were disjointed in terms of management and administration. Progressively a more integrated system has developed, along the lines of a 'virtuous cycle of programming'.⁵ This idealised system involves a system of programming comprising of six interrelated stages, see Figure 2.

Figure 2: The 'Virtuous Cycle' of Structural Fund Programming



Source: S. Taylor and P. Raines 'Implementing EU Cohesion Policy and the Pre-Accession Instruments', *Paper presented at the Benchmarking Regional Policy In Europe Conference*, Forest Hills, Loch Ard, Scotland, 9-12 September 2001, p. 14.

In the following sections, key stages of the programme cycle are considered in greater depth: project generation; project appraisal and selection; project implementation; and monitoring and evaluation.

3.1 Project generation

Project generation is a core element of the whole programming process, since it is through individual projects that EU programmes are actually put into practice. Diverse practices exist across the EU for project generation.

- Projects may be pre-selected as part of the programme development process. For example, programmes may explicitly identify some large projects which will be supported. This practice is most common in relation to large-scale infrastructure investments.

⁵ S. Taylor, S. and P. Raines, *Implementing EU Cohesion Policy and the Pre-Accession Instruments*, *Paper presented at the Benchmarking Regional Policy In Europe Conference*, Forest Hills, Loch Ard, Scotland, 9-12 September 2001.

- ‘Direct’, single applications can be made during programme implementation. The majority of projects applying for funding will be submitted as direct applications, invited during the programming period.
- Applications can be grouped together existing or anticipated projects. In some cases, mechanisms have been established to enable multiple projects to be approved in principle as a group.⁶

In the lead up to accession, major concerns were expressed about potentially poor project submission rates and poor project quality in the EU10. Key reasons for the anticipated lack of good quality projects were weak preparation, lack of experience, particularly in terms of project development, and instability in programme frameworks.⁷ In an attempt to address the anticipated problems, national governments and the European Commission initiated a range of activities to support and generate projects.

- **Projects aimed at building absorption capacity:** In the Czech Republic, the so-called Absorption Capacity (ABCAP) project was highlighted as one of the most useful aspects of the country’s pre-accession programme. The Hungarian government has set up structures to assist partners and applicants, notably the Information Centre (which provides generic information) and the Training Centre (which provides training for organisations involved in Structural Funds management and implementation).
- **Specialist consultancy companies** play a part in helping potential beneficiaries to develop their project submissions (e.g. in the Czech Republic and Estonia). However, their services can be costly and may not be accessible to all. The quality and experience of firms can vary, and the geographic coverage of consultancy firms is patchy. For example, in Estonia, advisory centres tend to be concentrated in areas where project submission rates are already high, around Tallinn and Tartu.
- **Awareness raising and marketing** of the funding opportunities available

Despite early concerns, problems with low application rates have generally failed to materialise, according to many authorities (e.g. in Latvia, Czech Republic, Estonia, the Slovak Republic, Lithuania and Slovenia). Project applications have come in from a wide range of applicants, with municipalities taking a particularly active role in many countries (e.g. Czech Republic and Estonia). For some Structural Fund programmes, demand is already higher than the amount available. For example, all EAGGF funding in Latvia has been committed for the 2004-2006 period. In the Slovak Republic and the Czech Republic, the intake of project applications had to be stopped under some measures. However, high application rates are not universal.

⁶ S. Taylor, J. Bachtler and, M.L. Rooney, ‘Implementing the New Generation of Programmes: Project Development, Appraisal and Selection’ *IQ-Net Thematic Paper 7(2)*, (European Policies Research Centre, University of Strathclyde, 2001) p. 27.

⁷ ECORYS, et. al. ABCAP, *First Quarterly and Final Reports*, (ABCAP: Finalising of Structures and Measures to Increase the Absorption Capacity and National and Regional Level: Prague, 2004).

First, rates differ from country to country. In some countries demand for funding has been particularly high. In Hungary, all the Structural Fund programmes, except the Agriculture and Rural Development OP, which was delayed due to the parallel implementation of SAPARD, received applications for an amount of funding higher than the total funds available for the whole programming period, see Figure 3.

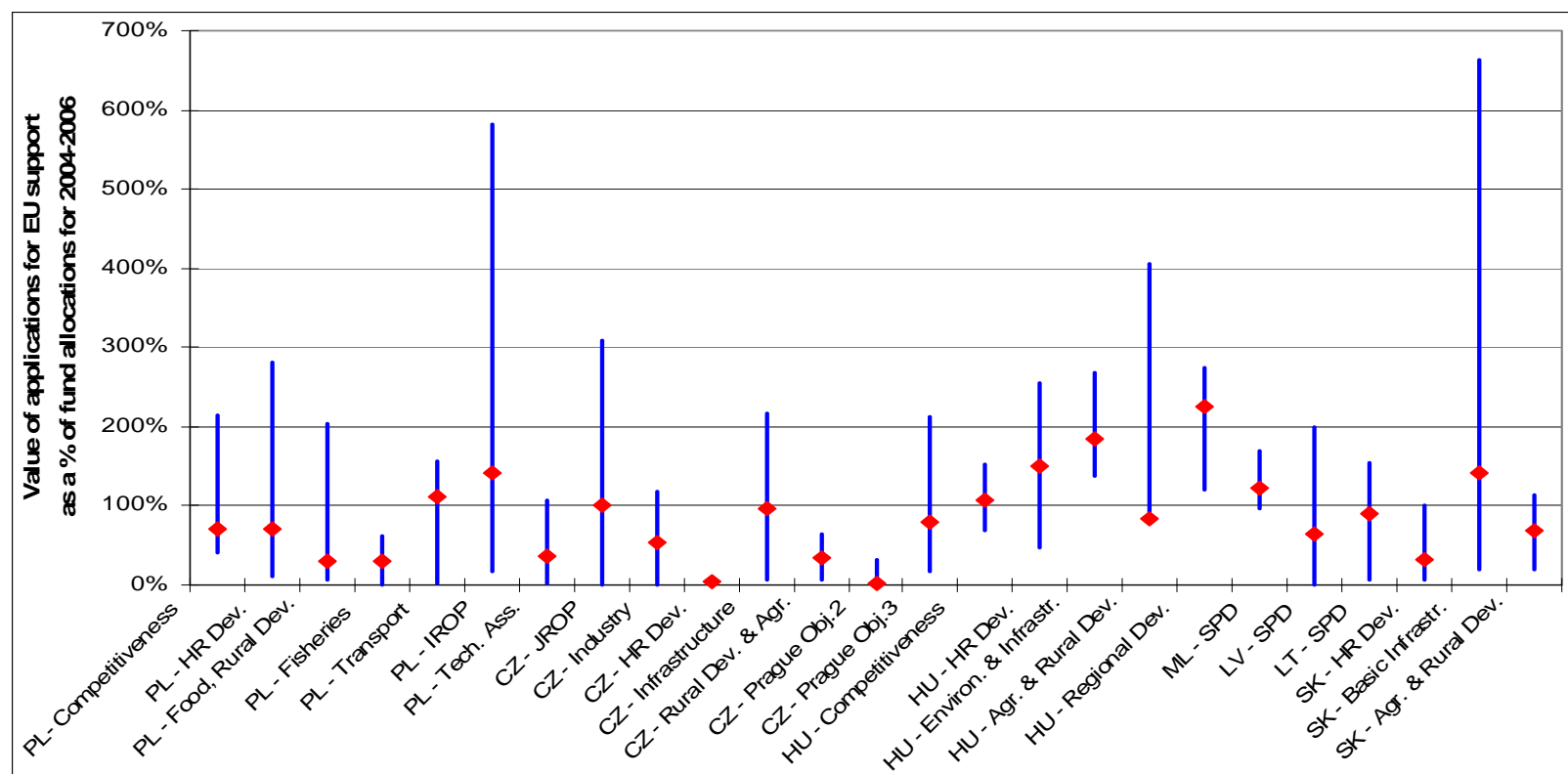
Second, some programmes have attracted higher application rates than others. So far, in the new Member States, Regional Programmes have generally shown the highest application rates: this is the case of the Integrated Regional OP in Poland, the Joint Regional OP in the Czech Republic and the OP Basic Infrastructure in the Slovak Republic, which incorporates the regional programmes originally proposed by the country to the Commission.

Third, some priorities and measures have suffered from weak application rates and poor quality applications. As Figure 3 illustrates, the demand for some measures is particularly high in the Basic Infrastructure OP in the Slovak Republic. For example, measure 3.1 (civil infrastructure) has received applications for funds over 6.5 times higher than those available for the period 2004-2006. For measure 3.5 (local social infrastructure) in the Integrated Regional OP in Poland the value is almost six times higher. For some other measures the demand has been weaker. For example, measure 2.2, modernisation of existing vessels, in the Fisheries OP in Poland has received applications for just 0.10 per cent of the available funding and measure 3.2, social integration in regions, in the Czech Joint Regional OP just 0.40 per cent.

Protracted approval processes have delayed the introduction of a number of grant schemes, with knock-on effects on commitment of funds and project generation (e.g. in Poland). In a number of cases, measures under the OPs for human resource development have recorded poor project application rates. Delays in programme approval and a general lack of experience of 'soft' interventions are explanatory factors. A notable exception is Poland where the Human Resource Development Operational Programme has contracted 124.9 per cent of funding allocated for 2004.⁸

Finally, the number and quality of applications differs considerably between regions. For example, by November 2004, few project applications had been received for projects in the Latgale region of Latvia, (which is the poorest region in the EU). Interestingly, some 'lagging' regions, which have long standing experience of EU support through pre-accession aid, appear to be well placed for developing more innovative and robust project submissions, e.g. Moravia-Silesia Region in the Czech Republic, Silesia in Poland and Tartu in Estonia. A similar situation is found in Romania, where the Phare 'Economic and Social Cohesion Projects' were often found to be of higher quality in 'lagging' regions. In contrast, in Estonia stronger municipalities were found to be more likely to have the financial and human resources to develop stronger project proposals.

⁸ Ministry of Economic Affairs and Labour, Poland *'Report on the implementation of the NDP/CSF: Implementation progress in the fourth quarter'*. (Ministry of Economic Affairs and Labour: Warsaw, 2005)

Figure 3: Value of Applications for Assistance for Selected Measures as a Percentage of Allocations for 2004-2006⁹

Source: Ministry of Economic Affairs and Labour, Poland 'Implementation Progress of EU Funded Programmes in New Member States: Survey; (Ministry of Economic Affairs and Labour: Warsaw, 2005)

⁹ In order to demonstrate the wide range in the value of applications, the graph uses data for measures with the highest and lowest value of applications under each programme and highlights the average rates for the programme as a diamond.

3.2 Marketing and communication

Marketing and communication underpins effective project generation, and Cohesion policy as a whole. Publicity plans are a required element of programmes and serve a number of purposes: to inform and engage potential applicants and grant-holders, ensuring that applicants know how to make an application and how to realise their project; to boost overall awareness of the contribution of the Funds; and to improve the perceived transparency and accountability of Funds, by informing the public about what is happening with 'their' money.

Given the relative scale and 'newness' of EU funding, publicity and marketing of EU programmes are particularly important in the EU10. Substantial marketing efforts were made in the lead up to the current programming period, and they remain ongoing. Examples of best practice include: identifying the information needs of target audiences; choosing the right tools and messages; and developing an appropriate communication management system.¹⁰ Programming documents list activities such as:

- information days and publicity material for the public;
- information targeted at potential project applicants;
- web-sites; and
- media activities, (e.g. Latvia has taken the innovative step of scheduling regular radio and television programmes, covering the opportunities and implementation of EU funds in the country).

Early concerns that not enough information was made available to the right organisations appear to have been addressed, although there are some exceptions. For example, concerns have been raised that some organisations were better informed than others, e.g. municipalities were better informed than private bodies. Also, the quality of information can differ between programmes; some Ministries were considered to be more 'secretive' than others.

3.3 Project appraisal and selection

Across the EU, project appraisal and selection have become increasingly systematic and professional. Ideally, key objectives underlying all selection systems are:

- the need for appraisal and selection systems to be efficient and transparent;
- to have the flexibility to deal with innovative applications; and
- to incorporate after-care arrangements to support beneficiaries with project delivery.¹¹

¹⁰ J. Bachtler (2005) *op. cit.*

¹¹ *ibid.*

However, it must also be acknowledged that “decision-making in economic development is an imperfect process of compromises”.¹² Conflicting pressures include:

- thorough, systematic assessment versus time constraints;
- ensuring transparent and rigorous selection processes versus remaining open to innovative submissions;
- deciding whether to approve lower quality projects which are available now, or to take a risk and wait for higher quality projects to come forward; and
- balancing the involvement of democratically elected representatives and expert officials in the decision-making process.

Decision-making on applications involves at least two distinct stages: project appraisal leading to a recommendation, and then formal selection. There is considerable variation in the form and functioning of these systems and in how different types of project are appraised and selected. Systems depend on: the size of projects (smaller projects may have simplified structures); project type; the co-financing partner (national government versus regional authorities or public versus private sector/NGO); and whether projects are part of the main programme or sub-programmes.¹³

In the EU15, the types of systems that are in place range from automatic ‘yes/no’ appraisal systems, which can be administered by administrators, rather than thematic experts, (e.g. in some Italian and Belgian programmes), competitive systems, using expert appraisals, to scoring systems, entrusted to relevant competent authorities, (commonly part of the UK and Dutch Structural Fund decision-making process). The following approaches have been put into practice.

- **Competition based procedures** where the applicant submits a project proposal to by an announced deadline. The relevant body organises technical checks of the application and content appraisal (against overall quality criteria but also other projects submitted by the same deadline) involving, when necessary, outside experts.
- **Queuing based procedures** where applications can be submitted continuously throughout the year, the projects go through technical checks and assessments.
- Some operations will be **implemented directly**. For these operations, there will be no competition, the relevant body approves the use of funds and ensures compliance with the SPD objectives.
- For **large-scale public infrastructure** investment projects the governments may decide once per programming period or once a year the list of investments to be

¹² S. Taylor, S. and P. Raines (2001) *op. cit.* pp. 21-22

¹³ S. Taylor, J. Bachtler and, M.L. Rooney (2001) *op. cit.* p. 34

co-financed from the Structural Funds. The measure and priority Intermediate Bodies ensure compliance with the programme objectives.

- For some priorities applications are prioritised at the sub-national level and then submitted to the government for approval. The measure and priority Intermediate Bodies ensure compliance with the SPD objectives.¹⁴

The selection criteria that are used in each system generally comprise of: **universal eligibility criteria**, applied by every programme to every project, **quality criteria**, such as impact on employment or horizontal objectives, and **entry criteria**, occasionally used to insist that projects must address a given programming issue. Hierarchies of criteria then apply across programmes, priorities and measures.¹⁵

Large number of project applications, such as those recorded in the newer Member States, place considerable pressure on nascent administrative structures. Consequently, the processes of refining and reinforcing project appraisal systems are likely to be on-going processes. Key challenges include:

- **Harmonising EU and national project appraisal systems.**
- **Increasing transparency and efficiency of project selection systems.**
 - **Refinement of project selection criteria.** For example, in Estonia specific problems have been experienced with project selection criteria being too wide and open to differing interpretations.
 - **Simplification and rationalisation** of project appraisal and selection systems is an objective in a number of the new Member States, e.g. in Lithuania and Latvia.¹⁶
- **Recognition of strategically important and innovative projects**, in order to ensure the sum of the projects add-up to more than their parts and contribute to programme objectives.
- **Addressing bottlenecks.** For instance, in Latvia, new legislation is required to ensure that decisions remain transparent and to stop legal challenges being made to project decisions. Competition for funding, combined with the traditionally weak public administration and lack of trust in public authorities, has led project selection decisions to be questioned in court, which has negative knock-on effects on project implementation rates.

¹⁴ Ministry of Finance: Estonia, *Estonian National Development Plan for the Implementation of the National Development Plan of the EU Structural Funds: Single Programming Document, 2004-2006*, (Ministry of Finance: Tallinn, 2003) p.242

¹⁵ S. Taylor, J. Bachtler and, M.L. Rooney, (2001) *op. cit.*

¹⁶ Ministry of Economic Affairs and Labour, Poland (2005) *op. cit.*

In terms of the results of existing project appraisal processes, official reports tend to imply that the quality of projects is good, with comparatively few applications being declined in a number of countries. However, although large number of projects may meet the approved selection criteria, the quality of projects across the board can be questioned.

- Concerns have been raised about the potential for so-called **deadweight displacement**. The concept of deadweight displacement relates to the effects or impacts of Cohesion policy interventions which would have been realised even if EU funding had not been available. For example, in a scheme to give grants to SMEs to attend international trade exhibitions, a proportion of the beneficiaries would have attended the exhibitions even if the grant was not available. In this case the grant was helpful, but not necessarily essential.
- **Quality varies across areas of intervention**. Low-quality applications have contributed to high rejection rates under some measures and placed additional pressures on project appraisal and selection systems (e.g. in Poland, Estonia, Lithuania and Malta). For example, experience of active labour market policy is comparatively limited in a number of the new Member States, which can have negative impacts on project quality. Prior to EU enlargement, few projects and schemes in this field were in place for EU funds to co-finance, meaning that experience of developing these types of projects has yet to be built up. In contrast, the quality of transport and infrastructure projects has benefited from past experience of large-scale investment and lessons learnt from the ISPA programme. Notable exceptions to this are Cyprus and Malta where ISPA funding was not available.
- Projects are **activity, rather than objective, driven and do not address basic issues of need and demand**.¹⁷ So far, large numbers of projects tend to focus on physical outputs in 'tried and tested' areas of activity, possibly at the expense of 'softer' or more 'innovative' measures. Projects can suffer from fragmentation, restricted scope/imagination and, at times, limited use.
- **Difficulty in transforming good quality ideas into good quality project submissions**. The opportunity to develop more sophisticated approaches to, for example, enterprise support is constrained by administrative weaknesses. Also, most project leaders found it difficult to comprehend the complexity of the Structural Funds.¹⁸ Yet, as previously noted, support for project development can be patchy.
- **Weak participation**. Amongst some applicant groups, such as municipalities, project award rates are high. However, lack of knowledge of the EU funding system is still a major obstacle to the full participation of all potential partners,

¹⁷ ECORYS, et. al. ABCAP, *First Quarterly Implementation Report*, (ABCAP: Finalising of Structures and Measures to Increase the Absorption Capacity and National and Regional Level: Prague, 2004).

¹⁸ Ministry of Economic Affairs and Labour, Poland (2005) *op. cit.*

particularly social partners. Lack of experience and, possibly, lack of ambition or awareness has contributed to limited participation by some organisations, including NGOs. In some countries, even government ministries and state agencies have tended to limit themselves to their familiar roles of technical administration and application of the rules as opposed to taking a more active role, leaving project development to municipalities or private bodies.

- **Lack of applicant resources.** A major obstacle to regional involvement can be the perceived lack of financial resources for co-financing. In Poland, regional government representatives have consistently complained that the government has not set aside enough money for administrative restructuring and regional self-governing units' tax-raising powers are still too limited at regional level. Related, regional self-governments may feel that they do not, therefore, have the financial competence to provide match funding and co-finance regional development projects with EU funds.

3.4 Project implementation

Effective implementation structures are vital to the success of the programme, particularly in light of the introduction of the decommitment rule and the performance reserve. The operational effectiveness of project implementation structures in the new Member States is still somewhat uncertain, as many are newly established and were not previously involved in pre-accession aid projects. However, a number of issues are beginning to emerge.

- First, implementation structures can easily become overly complex. For example, Slovenia has already expressed a desire to radically simplify its implementation system. Even in Latvia, a comparatively small country with a single SPD, there are eight implementing agencies covering different sectors. In some of the larger Member States, some operational programmes can have as many as 30-40 implementing bodies.¹⁹
- Second, implementing bodies are increasingly expected to take on a proactive role in promoting economic and social development.²⁰ For example, CzechInvest, an agency of the Czech Ministry for Trade and Industry which administers a number of co-financed grant schemes, takes an active and strategic role in determining how money should be managed, what projects should be funded etc. However, it is not uncommon for implementing agencies to uphold very 'traditional' or 'compartmentalised' approaches, by limiting themselves to purely administrative activities or well-established areas of activity.

¹⁹ M. Šumpíková, J. Pavel, and S. Klazar, (2004) EU Funds: Absorption Capacity and Effectiveness of Their Use, With Focus On Regional Level in the Czech Republic, presentation to the 12th NISPAcee Annual Conference "Central and Eastern European Countries Inside and Outside the European Union: Avoiding a New Divide" Vilnius, Lithuania, May 13 - 15, 2004.

²⁰ C. McClements (National Co-ordinator) and H. Smolkova (Team Leader). *Final Report of the ABCAP Project*, (ABCAP: Finalising of Structures and Measures to Increase the Absorption Capacity and National and Regional Level: Prague 2004).

- Finally, the capacity of implementing agencies to fulfil even their more 'administrative' functions is affected by both the quality of the projects they are working with and the experience of final and end beneficiaries. For example, the speedy payment of claims can be negatively affected by the quality of claims.²¹

3.5 Monitoring and evaluation

Monitoring has been one of the most challenging aspects of EU Cohesion policy implementation for all Member States. EU Regulations stress the need for rigorous financial and physical monitoring to ensure the transparency accountability of expenditure to the Council, Parliament and Court of Auditors, as well as a pre-requisite for effective programming in providing critical intelligence to inform programme planning and delivery.

Among the EU15 Member States, monitoring has progressively improved over successive programming periods with respect to the development of hierarchies of indicators (from programme to measure level), the setting of relevant benchmarks and targets, investment in data collection and analysis systems to ensure the input and collation of accurate data, effective IT infrastructure, and human resources for managing monitoring systems. Notwithstanding the improvements over time and particularly in the current programming period there are still significant problems in obtaining data with respect to physical outputs, results and impacts.

In the EU10 Member States, the focus of programme monitoring committees and monitoring systems has been on financial management issues, in particular to ensure adequate oversight of the absorption of funding. Although there has been substantial investment in monitoring, programming authorities face a range of challenges, notably: delays in establishing effective monitoring systems (eg. Latvia, Poland); problems with IT (Poland); inadequate of human resources (Slovenia); indicators with insufficiently clear definition and focus; poor coordination and data-gathering systems (Poland, Slovak Republic, Slovenia); and difficulties in dealing with the differing requirements of ERDF, ESF and EAGGF.

Complementing programming monitoring, evaluation is a further vital component of the programming process, helping to assess the effectiveness and efficiency of policy, guide the design of new policies, and support the implementation of policy programmes and instruments.²² Evaluations of EU programmes are required to be undertaken at an *ex-ante*, mid-term and *ex-post* stage, which are stringent requirements compared to national policy standards.

Evaluation analyses focus on three main areas:

1. Achievements: identifying outputs and results achieved and using this information consider future impacts and programme effectiveness.

²¹ Ministry of Economic Affairs and Labour, Poland (2005), *op. cit.*

²² L. Polverari and J. Bachtler Assessing the Evidence: The Evaluation of Regional Policy In Europe, *EoRPA Paper 04/5*, prepared for the twenty-fifth meeting of the EPRC Regional Policy Research Consortium held at Ross Priory, Loch Lomondside on 3 - 5 October 2004.

2. Context: assessing the impact of wider economic trends and institutional and policy change on the programme, which provides insights into how a programme has performed and an assessment of the continuing relevance of the programmes.
3. Process and systems analysis: analysing the effectiveness and efficiency of the programmes processes and systems.

In the EU15 evaluation experience, techniques and skills have developed and become increasingly embedded in the programming process, although there are still significant variations in the approach and attitudes of Member States and in terms of the extent to which they are embedded in national policy practices. For example, some countries have explicit and coordinated frameworks for evaluation, which extend beyond regulatory requirements for EU funds, e.g. in Finland, Ireland, the Netherlands and the UK. In other countries, evaluation is evolving from a previously limited focus on what is required by the European Commission, e.g. in Austria, Greece and Portugal.

In most of the EU10 countries, policy evaluation is a relatively recent phenomenon.²³ Some experience of the evaluation of EU programmes was gained through pre-accession aid programmes and the *ex-ante* evaluations of the countries' National Development Plans (NDPs). Many countries have now established specially-designated evaluation units and adopted extensive programmes of evaluation activity, in order to learn as much as possible from the current of programmes and to prepare for the next round of programming, e.g. in the Czech Republic.

Even during the comparatively short period between 2004-2006, evaluation has a particularly important role to play in the new Member States, by enabling lessons to be learnt, providing feedback, and improving transparency and accountability. In a number of cases, evaluations and evaluators already provided valuable inputs into the development of programming documents, by working alongside programme developers during the *ex-ante* evaluations of National Development Plans and CSFs.²⁴

At the same time, programme evaluation is an area of potential weakness, mainly due to the limited experience and lack of qualified evaluators. Pressures on nascent evaluation structures are likely to increase in the future. First, finding enough evaluators could be a problem, particularly in smaller Member States, 'where everyone in the Structural Funds community in the country knows everyone else'. Second, evaluators are likely to face the prospect of presenting controversial assessments of high status, high profile programmes. Third, the quality of evaluations could be negatively affected by weaknesses in monitoring systems and evaluation experience. Finally, problems could be encountered with ensuring that evaluations play a constructive role in improving programmes. Relevant authorities

²³ K. Olejniczak 'Towards the Evaluation Culture in Poland - Experiences and Prospects', *Paper for the Annual Conference of Regional Studies Association Evaluation and EU Regional Policy* Aix en Provence, 31st May and 1st June 2002

²⁴ J. Blažek and J. Vozáb 'Ex-Ante Evaluation of the National Development Plan - Instrument for the Identification and Elimination of Problems in Preparation for EU Cohesion Policy' in Benč, V. (ed) *Readiness of the Candidate Countries for EU Regional Policy* (Conference Almanac, 3-5. November 2003 Bratislava: Slovakia, 2003) p. 163-170.

have to be prepared to feed into the evaluation process, as opposed to taking a ‘defensive’ stance against evaluators, and authorities have to be sufficiently flexible and open to acknowledging the results of evaluation.

4. QUESTIONS FOR DISCUSSION

In terms of the management and implementation of EU Cohesion policy, the following questions provide a starting point for discussion.

- i. Regarding the current programming period, effective absorption of EU Funds remains a key concern for Member States. How can management and implementation structures maintain absorption capacity and ensure that procedural and administrative obstacles to absorption are minimised? At the same time, how can project quality best be assured?
- ii. In light of experience of current management implementation mechanisms and taking account of debates around the issue of simplification, how will the administrative infrastructures and systems involved in EU Cohesion policy evolve?
- iii. Specifically, how will Member States ensure (a) effective vertical and horizontal coordination in the management and implementation of EU funds, and (b) the appropriate degree of regionalisation in the management and implementation of the funds?