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Implementing Structural Funds in the New Member States: Ten Policy Challenges

Irene McMaster and John Bachtler

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Preface

This paper has been prepared as a background discussion document for the 'Roundtable on Benchmarking the Ten New Member States', part of the European Week of Regions and Cities - OPEN DAYS 2005. This paper has been written by Dr Irene McMaster (Research Fellow) and Professor John Bachtler (Director) of the European Policies Research Centre. The paper is the product of desk research, based on previous 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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IMPLEMENTING STRUCTURAL FUNDS IN THE NEW MEMBER STATES: TEN POLICY CHALLENGES

INTRODUCTION

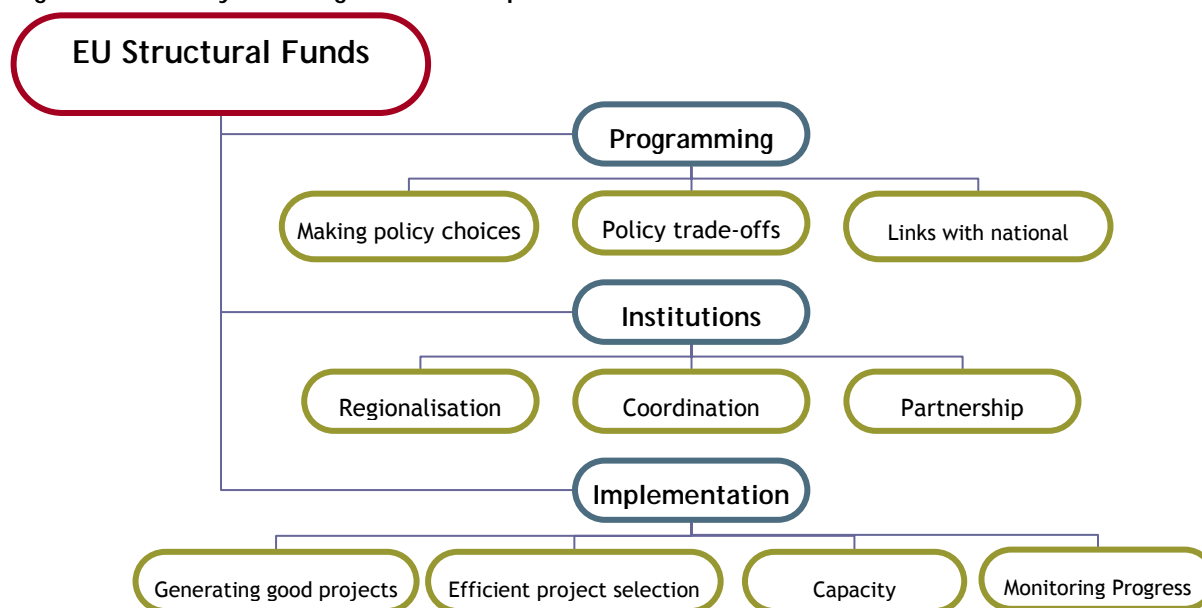
Some 18 months into their first programming period, the new Member States are now past the mid-point of the 2004-06 programmes. Much of the funding has already been committed, and attention has switched to making selective use of the remaining funding as well as ensuring that the commitments are translated into spending within the required timescale. At the same time, policy-makers are increasingly focusing on the challenge of preparing for the 2007-2013 programme period with the prospect of implementing much larger volumes of Structural and Cohesion Funds resources, and the associated demands on management and delivery systems. It is therefore an opportune moment to take stock of progress to date in implementing the Structural Funds in the new Member States, and to look forward at how future challenges will be addressed.

This paper provides a comparative assessment of the key policy challenges for the implementation of EU Structural Funds. The paper assesses recent trends and anticipated developments in regional policies across the EU, with emphasis on how the ten new Member States have responded to the challenges and opportunities of EU Cohesion policy. The report compares and contrasts trends in the development of Structural Funds programming, institutional frameworks and implementation, highlighting examples of innovative and good practice.

The scope for diversity in the development and implementation of EU Cohesion policy is considerable, linked to the size of Member State countries, the extent of regional disparities, eligibility, levels of regionalisation, and the relationship between domestic and EU policy priorities and instruments. Additionally, the EU Member States are currently engaged in major political debates about the budget and the policy orientation of Cohesion policy in the next period. However, whatever the scale of the resources and the allocation mechanism agreed, there are common, fundamental strategic and operational issues facing policy-makers in designing and implementing programmes that deliver jobs, growth and competitiveness.

It is the similarity in the issues faced by Member States that makes it possible to highlight shared experience, common challenges and opportunities for learning across programmes, regions and Member States. This paper is therefore structured around key common questions and issues relating to three main themes of Cohesion Policy programming, institutions and implementation (see Figure 1). Under each of these headings, themes are identified, responses are assessed and future developments are considered.

Figure 1: Ten Key Challenges for the Implementation of Structural Funds



PROGRAMMING

One of the fundamental principles underlying EU Cohesion policy is a strategic approach to economic development. EU-funded development programmes are required to have an explicit strategic rationale, grounded in an analysis of development needs and opportunities, with clear, measurable objectives and coherence with other policy interventions. Policy-makers face the challenge of how best to allocate limited financial, human and organisational resources in order to maximise economic, social and environmental benefits. In practice, Cohesion policy is characterised by multiple goals, instruments and actors, so the process of developing a targeted and coherent strategy can be complex.¹

1. Making Policy Choices

Cohesion policy finances investment in a wide range of projects that are supposed to contribute to a number of different economic, social and environmental goals. The array of goals and demands that can be addressed pose challenges and questions for policy-makers. For instance, in the new Member States, given the breadth of development challenges, how should Cohesion Policy tackle different economic, social and environmental goals? There is a risk that the range of goals and types of intervention associated with Cohesion policy can undermine the quality of a strategy by a fragmentation of effort, inconsistent interventions, or a lack of clear target-setting. Policy-makers have to find ways of managing tensions between the high expectations of a range of societal groups, the availability of public funding and the speed with which economic, social and environmental change can be

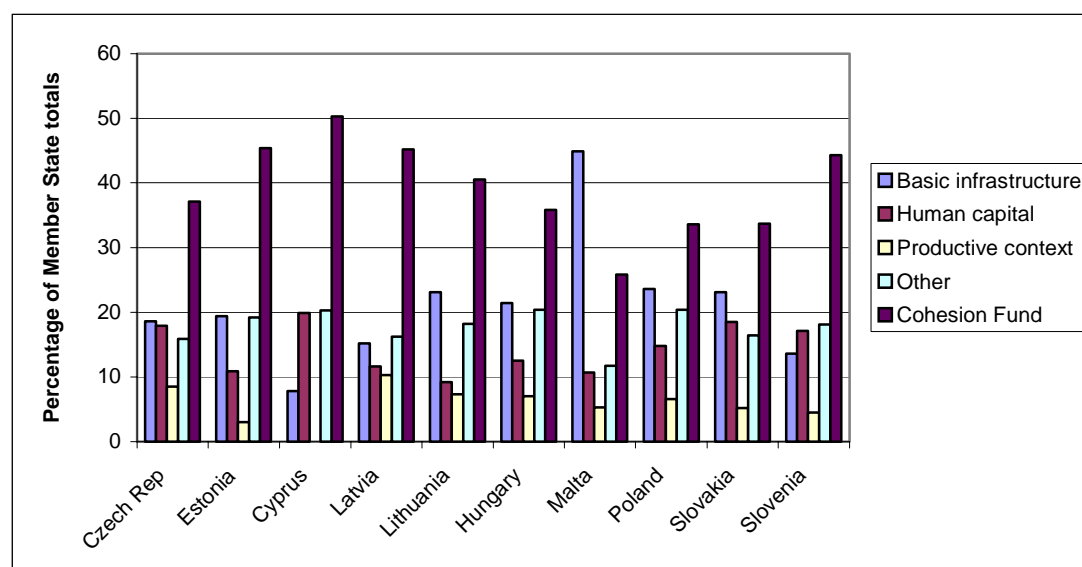
¹ The following section draws on S Davies and T Gross (2005) *The Challenges of Designing Cohesion Policy Strategies: Discussion Paper No. 2*, Benchmarking Regional Policy in Europe, Second International Conference, Riga 24-26 April 2005

achieved. It may be necessary to allocate some funds to interventions that are expected to show rapid benefits in order to meet expectations and maintain momentum. However, funds should also target long-run goals. For example, investment in human capital may not show results for some years, yet it is critically important for long-run economic growth and employment creation.

Several factors play a part in managing these challenges, for example: the sequence of goals and expenditure; the definition of targets for individual projects and measures; and the synergies and trade-offs between specific interventions. These decisions could apply either between or within areas of activity. For instance, decisions on investment in infrastructure may focus on the development of transport infrastructure as a whole or on specific types of transport infrastructure. Trade-offs in relation to business support may involve deciding on whether to focus on providing direct aid to SMEs, rather than on advisory services or on business premises.

The need to take difficult decisions on funding priorities has been particularly pronounced in the new Member States in 2004-06, due to the limited amount of funds provided, the short programming period, and the challenges of implementing Cohesion policy. So far, Cohesion policy in the new Member States generally shows a strong focus on investment in public infrastructure for the 2004-2006 period, not least due to the decision to channel a significant share of EU funding through the Cohesion Fund and thus to trans-European transport networks and major environmental infrastructure. However, there is also diversity in the types of interventions funded, and in the financial allocations, as can be seen in Figure 2, which provides an overview of the thematic distribution of financial allocations from the Structural Funds and Cohesion Fund to the ten new Member States in the 2004-06 programmes.

Figure 2: Structural and Cohesion Fund Allocations, new Member States, 2004-06²



² S Davies and T Gross (2005) *op cit.*

For the 2007-13 period, most new Member State regions will be eligible under the Convergence priority, giving them access to substantial financial resources and a broad spectrum of interventions. However, the 2007-13 period also raises new challenges. The new programmes will cover a full programming period, as opposed to the three-year period of the current programmes. Politically and financially there is more at stake, particularly as EU programmes are linked to public investment strategies for a prolonged period. Future programmes have to respond to economic and social development in each Member State and, at the same time, reflect the Commission's new priorities. For instance, the proposed Community Strategic Guidelines have a strong emphasis on RTDI and the 'knowledge economy'. The importance of upgrading human and knowledge capital is recognised by many of the new Member States - a number of which (eg. Slovenia) already focused on this objective in 2004-06. However, there is some concern that too narrow a focus on the 'knowledge economy' could imply insufficient funding for other crucial interventions, notably public investment in transport and environmental infrastructure, public transport systems, education and health infrastructure. Similarly, the meaning of the 'knowledge economy' or the 'Lisbon agenda' is not always clear and in many cases might best be interpreted as funding for human capital (education, training, life long learning and other labour market interventions), as well as technology transfer and diffusion.

Issues of thematic eligibility may be particularly acute in non-Objective 1 regions. In Hungary, for example, the likelihood that the Közép Magyarország region (i.e. Budapest and the surrounding agglomeration) will be a 'phasing-in' region after 2006 raises questions over the availability of funding for interventions such as health infrastructure, as well as major urban physical regeneration and land reclamation. In the context of Cohesion policy strategies, difficulties are most likely to be seen in Member States whose aggregate level of GDP per capita is well below the EU average, yet where one or more of the main agglomerations does not have Objective 1 status (as in the Czech Republic, Slovakia, and possibly other Member States after 2006), an issue which is already familiar in Ireland and Portugal. In such cases, there is a risk of strategic fragmentation and insufficient public investment to reduce major bottlenecks to national economic development, such as urban and suburban transport infrastructure, as well as linkages between the capital city and other regions.

Questions for discussion

- What are the main challenges facing policy-makers in setting strategic priorities in the next period?
- How relevant are the proposed Community Strategic Guidelines for individual countries?

2. Policy trade-offs: tackling national economic growth and interregional inequalities

As the previous section suggests, policy-makers face difficult policy choices. In particular, debate has focused in recent years on the question of whether there is a trade-off between aggregate national economic growth and interregional inequalities.³ If policymakers decide to allocate a large share of their public investment to lagging regions or areas, this may constrain the availability of public investment for projects that aim to enhance conditions for aggregate economic development. Yet, many Member States face the political and economic challenges of increasing regional disparities, and Cohesion policy funds may be one of the most effective ways for them to address regional development concerns.

Member States take different approaches to the geographical dimensions of Cohesion policy strategies depending on the size of the country, the scale of the national disparity relative to EU average levels of GDP per capita, the extent of inter-regional disparities, the level of regionalisation and eligibility for EU support. In 2004-2006, some countries chose to focus primarily on the goal of national economic development, not least due to the limited funds available. A number of Member States have - at least in principle - adopted the 'growth pole' approach of endeavouring to target funds on a limited number of agglomerations. Some CSFs or SPDs explicitly pre-allocate funds to certain regions or areas, while others do not. For example, in Lithuania, under some measures, the aim is to fund one project in each municipality. In other cases, project selection criteria may provide for the allocation of additional points to projects in certain locations. Slovenia aims to support both aggregate growth and balanced regional development, targeting 60 percent of total funds on areas designated as 'lagging' under national regional policy, and *inter alia* using geographical criteria in allocating funds.

Geographical goals are more complex in some Member States, with the Slovak Republic, for example, emphasising the aim of developing links between Bratislava and other main agglomerations, but also of enhancing the potential of smaller regional centres, and of stabilising the population in rural areas. Similarly, the Czech Republic aims to target growth poles as well as lagging regions, and to support Prague, but also other core agglomerations, and overall balanced development.

Some of the new Member States, which had prioritised national development in 2004-2006, are now considering shifting their focus towards balanced regional development in the next programming period, even though their national levels of GDP per capita remain low relative to the EU average. In others, notably Poland, there may be a stronger emphasis on concentrating funding on the main metropolitan areas, as well as on enhancing transport linkages between regional centres. Poland is, however, likely to continue to allocate a percentage of funding to lagging regions, notably those undergoing agricultural or industrial restructuring. In Hungary, a key issue for the next programming period is the status of Közép Magyarország (the region of Budapest's agglomeration). Phasing-in status could lead to strategic fragmentation in geographical terms, and would also limit public investment in

³ European Commission (2000) *European Economy*. Luxembourg: Office for Official EC Publications.

the Budapest agglomeration, in core themes such as road links, rail and metro systems, and waste water infrastructure.

Questions for discussion

- Is there a 'trade-off' between supporting national economic development and regional development?
- How are regional development goals likely to change in the next round of programmes? Will there be a stronger or weaker regional component to the programmes?
- What special measures will be developed to meet the needs of lagging regions?

3. Coordination with national policy

Cohesion policy strategies interact in various ways with domestic policies. A key dimension of strategy design is thus an assessment of the potential complementarities and tensions, both between different components of Cohesion policy funding, and with the broader policy environment.

Various approaches are adopted by Member States in endeavouring to ensure effective linkages between Cohesion policy and domestic strategies. An example from the EU15 is the National Development Plan produced by the Irish authorities in 2000-2006, which covers domestic public investment as well as EU funds, and which covers a wider range of thematic interventions (including housing) than those eligible for EU funding. Similarly, in Slovenia, the 2004-06 SPD is perceived to be fully consistent with the broader national Strategic Framework for Economic Development, but focuses on a narrower range of interventions, not least due to limits on time, funding and implementation challenges. However, in the case of some of the new Member States, the limited time available for planning the 2004-2006 strategies meant that there was not always effective coordination with domestic policies.

Fiscal and organisational constraints on domestic public investment mean that decisions on the allocation of Cohesion policy funding are particularly critical. There are concerns over the possible implications of a large influx of external funding in terms of potential macroeconomic imbalances, particularly if it implies a strong stimulus to non-tradable sectors, such as the construction industry, as this can potentially lead to inflationary pressures and overheating in the domestic economy. A related issue is the need to ensure coherence between the Cohesion policy strategy and domestic sources of co-financing. A key issue for future Cohesion policy strategies, in at least some of the new Member States, will relate to the possible influence of Cohesion policy priorities on domestic public investment priorities. The combined effects of the scale of future EU funding, constraints on domestic public expenditure and the need to co-finance EU programmes are likely to limit room for manoeuvre in relation to autonomous public investment priorities.

Some of the Commission's proposals aim to facilitate positive linkages between the Cohesion policy strategy and domestic policies. One rationale for the proposal that each

Member State should draw up a National Strategic Reference Framework is to enhance consistency between Cohesion policy and Member States policies. It would also be possible to devise other linkage-building methods that would be more closely adapted to the specific situations of individual Member States. A number of countries, for example, have expressed the intention of adopting Ireland's approach of an overall National Development Plan, which would cover domestic public investment as well as EU co-financed expenditure. Indeed, Poland has already drafted such a Plan for the period 2007-2013.

Questions for discussion

- What mechanisms are in place to facilitate the coordination of domestic and EU policy?
- Does the integration of EU and domestic policy simplify and strengthen interventions, or does it constrain the flexibility and responsiveness of national policies?

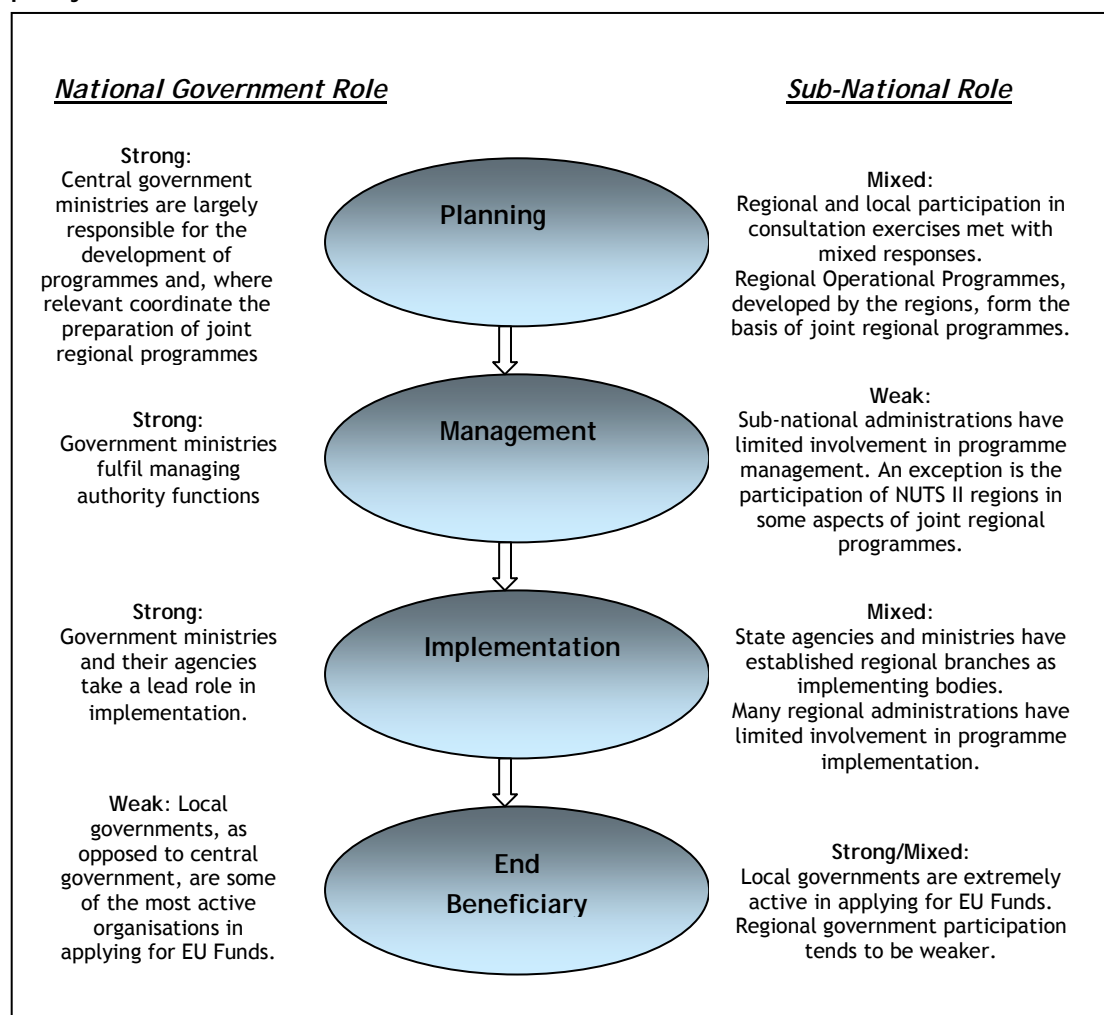
INSTITUTIONS

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).

4. Scope for Regionalisation

Over the past decade, there has been a progressive regionalisation of Structural Fund management in many EU 15 countries. However, for the 2004-2006 period, the new Member States decided to implement most Structural Funds resources through centralised systems.

Figure 3: Schematic view of national and sub-national participation in EU Cohesion policy in the new Member States



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. Related, 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 3). 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.

The experience of the current programmes and the reform of EU Cohesion policy are likely to result in modifications to 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. For instance, in the larger new Member States, Poland, Hungary, the Czech Republic and Slovakia, self-governing regions or regional agencies might take more responsibility for programme management.

Alternatively, depending upon the constitutional arrangements and institutional structures of individual countries, centralised, sectoral policy-making could still offer 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. For instance, institutional reforms linked to the preparation of EU Funds may undermine or complicate the operation of existing development networks, and late changes to administrative structures could also disrupt personnel and weaken expertise.

Questions for discussion

- What are the merits of regionalisation of Structural Fund management? What pressures are there for regionalisation?
- What types of investment in regional institutional capacity have proved to be effective?
- To what extent do centralised administrative structures continue to provide a more robust platform for Structural Funds programme management?

5. Improving 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 this involves such a wide range of actors and institutions.

In the new Member States, 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 has been complicated by confusion over the division of responsibilities between central government and elected units of regional government.

Looking to the future, the next round of Cohesion policy programmes could raise new challenges for policy and institutional coordination. For instance, the integration of domestic and EU policy measures demands greater integration in planning and delivering policy. Increased regionalisation could place particular demands upon vertical co-ordination between levels of government. In Cohesion countries, the loss of a CSF managing authority could have a negative impact on the level of overall coordination.

Questions for discussion

- What systems and structures have proved to be effective in ensuring effective coordination?
- To what extent are the requirements of new Regulations likely to require more or less coordination?

6. Deepening Partnership

Partnership requires actors from different institutions and organisational cultures, with varying priorities and interests, to work together in pursuit of shared objectives. According to the European Commission, this has led to “better targeted and more innovative projects, improved monitoring and evaluation of performance and the wider dissemination of information on their results”.⁴

Yet, partnership can be pursued in a very formalistic, superficial and limited manner, and simply to meet Commission requirements. The process of effectively and efficiently taking into account numerous and wide-ranging opinions on many different issues is a difficult task for programme developers. It adds additional complexity to programme development, management and delivery, which can slow down decision-making. 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), and, consequently, the quality of exchanges may be limited. 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 obtain it) or in terms of the anticipated scale and rapidity of the socio-economic impact of public funding.

In the new Member States, considerable efforts have been made to take up the ‘partnership principle’ and address some of challenges that are inherent in the partnership approach. 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.

⁴ European Commission, *Third Cohesion Report: A New Partnership for Cohesion*, (EC: Brussels, 2004) p.xxi.

Partnership will remain a core element of future Cohesion policy. However, 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, 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 country's NDP 2007-2013 proposes an Operational Programme for Civil Society, and NGOs have been heavily involved its development, as they will be ultimate beneficiaries.

Questions for discussion

- What are the main contributions of partnership? What are the main bottlenecks and limitations to the partnership approach?
- How can the quality and effectiveness of partnership be developed and maintained?
- How well-embedded is partnership in domestic policy structures?

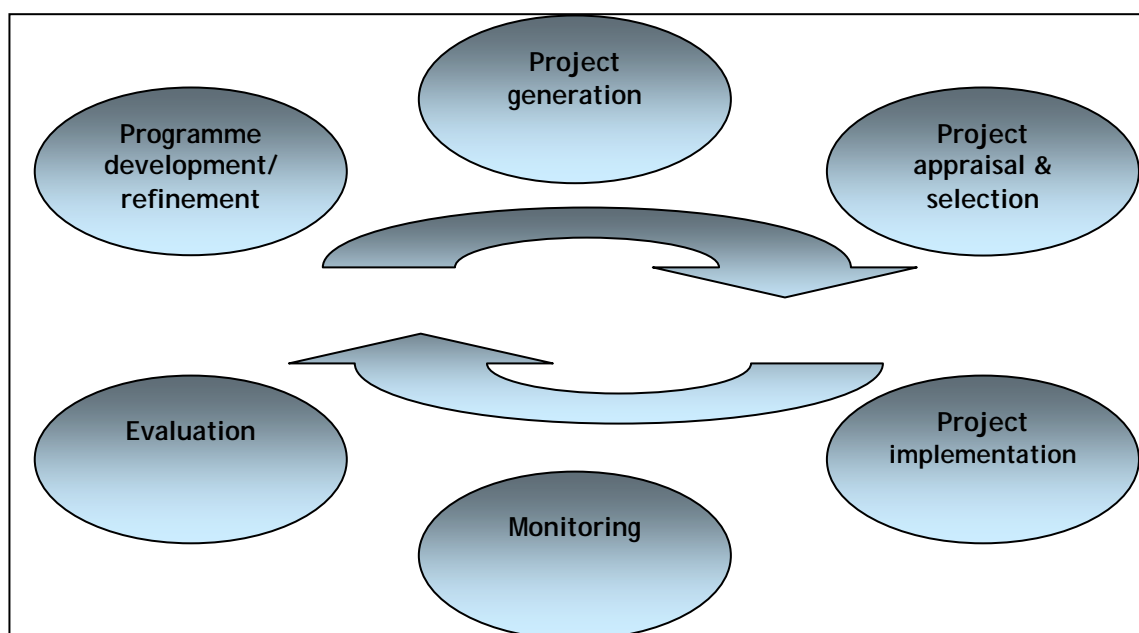
IMPLEMENTATION

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.

In the new Member States, the overall impression is that the management and implementation of the EU Funds in the new Member States 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.

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.

Figure 4: The 'Virtuous Cycle' of Structural Fund Programming⁵



⁵ 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.

7. Generating good projects

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. There are, however, many problems that Member States experience in this area. There is a common difficulty in transforming good quality ideas into good quality project submissions. Projects may be activity-driven, rather than objective-driven and may not address basic issues of need and demand.⁶ Some programmes, priorities and measures suffer from poor-quality applications and low application rates. Low-quality applications contribute to high rejection rates under some measures and place additional pressures on project appraisal and selection systems. Participation rates amongst key groups can vary substantially. For instance, the number and quality of applications can differ considerably between regions and interest groups for a number of reasons including lack of resources and experience.

In the lead-up to accession, major concerns were expressed about potentially poor project submission rates and poor project quality in the new Member States. Despite these concerns, problems with low application rates have generally failed to materialise, according to many authorities (in Latvia, Czech Republic, Estonia, the Slovak Republic, Lithuania and Slovenia) - see Figure 5. 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 has had to be stopped under some measures.

However, high application rates are not universal, and there are several characteristic variations. 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.

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. Protracted approval processes have delayed the introduction of a number of grant schemes, with knock-on effects on commitment of funds and project generation. In a number of cases, lack of experience on the part of applicants and administrations could be a factor. For instance, some measures under the OPs for human resource development have recorded poor project application rates, due to a general lack of experience in the types of support on offer.

⁶ 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).

Finally, the number and quality of applications differs considerably between regions. 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.

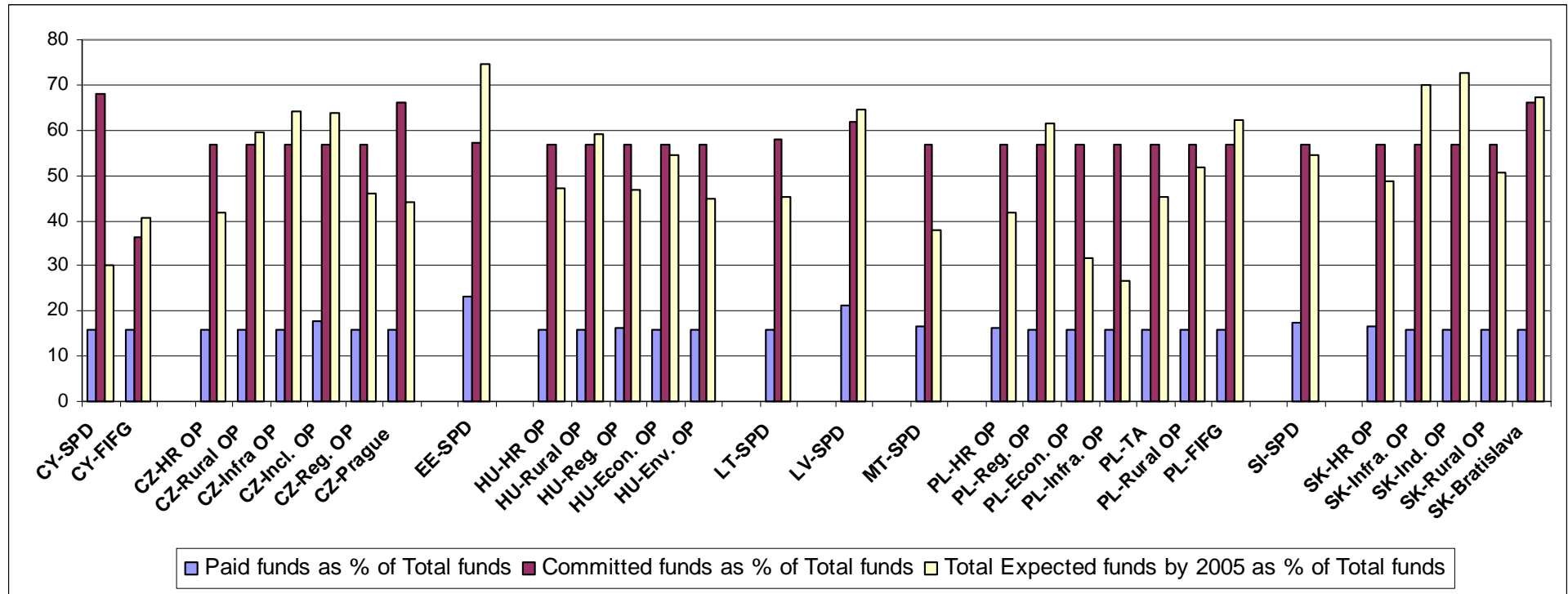
Despite the initially high project application rates, the pressure to continue to develop and implement high quality projects persists, particularly in light of the emerging disparity between financial commitments and payments, and high expenditure forecasts for 2005, see Figure 5. With this in mind, considerable efforts have been made to boost project application rates in the current period and to address these problems and develop absorption capacity.

- 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. Similarly, 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, through 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).

Questions for discussion

- How to increase and maintain the necessary quality, as well as quantity of projects?
- How to best provide services to support good project development?
- How to increase application rates for particular measures and from particular groups?

Figure 5: Structural Fund Commitment & Payment Rates (September 2005)⁷



⁷ EPRC calculations based on M. Hill, DG Regio, 'Commission overview of the effectiveness of Paying Authorities in the new Member States', paper presented at the International Conference 'Experience of Paying Authorities in EU Member States - the First Year' Warsaw, 12-13 September, 2005.

8. Increasing the efficiency of project selection

Project appraisal and selection have become increasingly systematic and professional. Decision-making on applications generally involves at least two distinct stages: project appraisal leading to a recommendation; and 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.⁸

In the new Member States, official reports tend to imply that the quality of projects is good, with comparatively few applications being declined in a number of countries. However, 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 issues which continue to be addressed include harmonising EU and national project appraisal systems, and increasing the transparency and efficiency of project selection systems. This may involve refining project selection criteria. For example, in Estonia specific problems have been experienced with project selection criteria being too wide and open to differing interpretations. It may also require the simplification and rationalisation of project appraisal and selection systems, which is an objective in a number of the new Member States. Recognition may need to be given to strategically important and innovative projects, in order to ensure that the sum of the projects adds up to more than their parts and contributes to programme objectives. Lastly, there may be a need to address bottlenecks and delays in project selection. For instance, in some cases new legislation is required to ensure that decisions remain transparent and to stop legal challenges being made to project decisions. In some cases, 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, which has negative knock-on effects on project implementation rates

Questions for discussion

- Which appraisal systems can meet the demands of project selection?
- Is there a balance to be struck between rigid and formal appraisal systems and responsiveness, flexibility and adaptability?

⁸S. 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. 34

9. Building Implementation Capacity

Effective implementation structures are vital to the success of programmes, particularly in light of the introduction of the decommitment rule and the performance reserve. Developing effective structures and systems for translating project proposals into practice and committed funds into expenditures are key challenges. In the new Member States, emerging disparities between commitment rates, final expenditures and the resources available mean that implementing bodies, along with paying authorities, are now under considerable pressure to implement projects efficiently and to draw down resources, see Figure 5.

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.

- Implementation structures can easily become overly complex. For example, Slovenia has already expressed a desire to 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.⁹
- Implementing bodies are increasingly expected to take on a proactive role in promoting economic and social development.¹⁰ For example, CzechInvest, an agency of the Czech Ministry for Trade and Industry that 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.
- 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.¹¹

⁹ M. Šumpíková, J. Pavel, and S. Klazar, 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.

¹⁰ 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).

¹¹ 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).

Questions for discussion

- Should implementing agencies take on a more 'strategic' role?
- How can capacity be retained and developed at the level of implementing bodies?
- How can implementation structures be improved, in order to promote coordination and efficiency?

10. Monitoring Progress

The monitoring and evaluation of EU programmes have been some 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 and accountability of expenditure to the Council, Parliament and Court of Auditors and as a pre-requisite for effective programming, providing critical intelligence to inform programme planning and delivery.

In the EU15, 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 improvements over time and particularly in the current programming period, all Member States still face significant problems in obtaining data with respect to physical outputs, results and impacts.

In the new 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; problems with IT; lack of human resources; indicators with insufficiently clear definition and focus; poor coordination and data-gathering systems; and difficulties in dealing with the varying requirements of ERDF, ESF and EAGGF.

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.¹² Evaluation analyses focus on three main areas:

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

¹² 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.

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 to evaluation and in terms of the extent to which they are embedded in national policy practices. For example, some of the old Member States 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 most of the new Member States, policy evaluation is a relatively recent phenomenon.¹³ As a result, programme evaluation is an area of potential weakness, mainly due to limited experience and lack of qualified evaluators. As the next programming period gets underway, pressures on nascent evaluation structures are likely to increase in the future for a number of reasons. First, with an increasing workload, finding enough evaluators could be a particular problem, especially 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 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.

Some valuable experience of the evaluation of EU programmes has already been 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. 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.¹⁴ Thus, even during the comparatively short programming 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.

¹³ 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

¹⁴ 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.

Questions for discussion

- How can the quality of monitoring and evaluation systems be improved?
- How can best use be made of evaluation materials?
- Do the Commission's demands for monitoring and evaluation place an undue burden on the Member States?

QUESTIONS FOR DISCUSSION: SUMMARY

Programming

1. *Making policy choices*

- What are the main challenges facing policy-makers in setting strategic priorities in the next period?
- How relevant are the proposed Community Strategic Guidelines for individual countries?

2. *Policy trade-offs: tackling national economic growth and interregional inequalities*

- Is there a 'trade-off' between supporting national economic development and regional development?
- How are regional development goals likely to change in the next round of programmes? Will there be a stronger or weaker regional component to the programmes?
- What special measures will be developed to meet the needs of lagging regions?

3. *Coordination with national policy*

- What mechanisms are in place to facilitate the coordination of domestic and EU policy?
- Does the integration of EU and domestic policy simplify and strengthen interventions, or does it constrain the flexibility and responsiveness of national policies?

Institutions

4. *Scope for regionalisation*

- What are the merits of regionalisation of Structural Fund management? What pressures are there for regionalisation?
- What types of investment in regional institutional capacity have proved to be effective?
- To what extent do centralised administrative structures continue to provide a more robust platform for Structural Funds programme management?

5. *Improving coordination*

- What systems and structures have proved to be effective in ensuring effective coordination?
- To what extent are the requirements of new Regulations likely to require more or less coordination?

6. *Deepening partnership*

- What are the main contributions of partnership? What are the main bottlenecks and limitations to the partnership approach?
- How can the quality and effectiveness of partnership be developed and maintained?
- How well-embedded is partnership in domestic policy structures?

Implementation

7. Generating good projects

- How to increase and maintain the necessary quality, as well as quantity of projects?
- How to best provide services to support good project development?
- How to increase application rates for particular measures and from particular groups?

8. Increasing the efficiency of project selection

- Which appraisal systems can meet the demands of project selection?
- Is there a balance to be struck between rigid and formal appraisal systems and responsiveness, flexibility and adaptability?

9. Building implementation capacity

- Should implementing agencies take on a more 'strategic' role?
- How can capacity be retained and developed at the level of implementing bodies?
- How can implementation structures be improved, in order to promote coordination and efficiency?

10. Monitoring progress

- How can the quality of monitoring and evaluation systems be improved?
- How can best use be made of evaluation materials?
- Do the Commission's demands for monitoring and evaluation place an undue burden on the Member States?