DELIVERING STRUCTURAL FUNDS IN DIFFICULT TIMES
REVIEW OF PROGRAMME IMPLEMENTATION
SUMMER – AUTUMN 2010

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PREFACE

The research for this paper was undertaken by EPRC in preparation for the 29th IQ-Net meeting held in Prague, Czech Republic, on 13-15 December 2010. The paper was written by Heidi Vironen.

The paper was the product of desk research and fieldwork visits during Autumn 2010 to national and regional authorities in EU Member States (notably partners in the IQ-Net Consortium). The field research team comprised:

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Austria

- State Government of Niederösterreich, Economic and Tourism Department
- State Government of Steiermark, Economic Policy Department

Belgium

- Enterprise Flanders

Czech Republic

- Ministry for Regional Development

Denmark

- Danish Enterprise and Construction Authority

Finland

- Alliance of Länsi-Suomi
- Ministry of Employment and the Economy

France

- Délégation interministérielle à l'aménagement du territoire et à l'attractivité régionale (DATAR)

Germany

- Nordrhein-Westfalen, Ministry of Economy, SMEs and Energy, EU Affairs Unit
- Sachsen-Anhalt, Ministry of Finance

Greece

- Management Organisation Unit of Development Programmes S.A.

Hungary

- Hungarian Enterprise Development Centre (MAG), in association with the National Development Agency (NDA)

Italy

- Lombardia Region, DG Industry, SMEs, Cooperation and Tourism
- Ministry of Economic Development
- Institute for Industrial Promotion (IPI)

Poland

- Śląskie Voivodeship (Marshal's Office)

Portugal

- Financial Institute for Regional Development (IFDR)

Spain

- País Vasco, Provincial Council of Bizkaia, Department of Economy and Finance

Slovenia

- Government Office for Local Self-Government and Regional Policy, EU Cohesion Policy Department

Sweden

- Tillväxtverket, Swedish Agency for Economic and Regional Growth

United Kingdom

- Department of Communities and Local Government
- ONE NorthEast
- Scottish Government
- Welsh European Funding Office

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Disclaimer

It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the IQ-Net Consortium.

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EXECUTIVE SUMMARY

Financial implementation of Structural Funds across the EU27, and amongst the IQ-Net partner programmes, has improved during 2010. Nonetheless, there are significant disparities between the different programmes. Although most programmes are on schedule with regard to decommitment targets (at least for 2010), programmes have been facing specific absorption pressures as a result of the economic crisis and due to other implementation problems.

In the context of these challenges, programme revisions have been common. While evaluations have sometimes provided the basis for programme changes, the strategic reporting exercise has played a rather limited role in this respect. Other management issues, such as the development of monitoring systems and issues related to indicators in particular have also continued to require attention. This is not surprising considering the complexity and evolving nature of monitoring arrangements to ensure effective programme management. Similarly, evaluation activities are under way; the ongoing evaluation approach is appreciated for its flexibility, but there are concerns regarding evaluation capacities and the quality of data used. Programme delivery in the IQ-Net partner programmes has also been affected by a series of other factors, including organisational changes and co-financing challenges.

The new simplification measures introduced in June 2010 have been important for accelerating implementation and lessening the impact of the crisis on programme management. Recent efforts in the Member States have focused on developing proposals to the Commission on simplified cost options. The introduction of simplification measures has also led to frequent revisions to the management and control systems across the partner programmes.

In addition to the delivery of the 2007-13 programmes, closure of the 2000-06 programmes has yet to be completed. The extension to the eligibility of expenditure has generally been welcomed given that it has allowed the possibility to address programme absorption challenges and to achieve the set programme objectives. In terms of financial figures, programmes are generally blocked at 95 percent until full closure takes place in 2011.

Recent developments at the EU level have focused on the Commission's Fifth Cohesion Report, which has set out proposals for reform. The conclusions of the report have generally received a cautious welcome as a basis for debate which will culminate in the Fifth Cohesion Forum early next year before the legislative proposals are submitted in the first half of 2011.

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1. INTRODUCTION

Despite the relatively good progress with financial implementation across the EU27 and amongst the IQ-Net partner programmes, absorption remains challenging for many Managing Authorities. The Commission's simplification measures have helped to address these challenges, in terms of accelerating implementation and lessening the impact of the crisis on programme management. For much of 2010, partner programmes have focused on operational challenges, related to monitoring, evaluation, financial management, control and auditing, as well as programme-specific organisational changes and co-financing problems.

The objective of this paper is to review recent developments in the implementation of the 2007-13 programmes in IQ-Net partner countries and regions. It draws on a mix of desk research and interviews with staff working on the implementation of Structural Funds programmes. The desk-based research has focused on EU-level and programme documents, including financial performance and monitoring data. Interviews were conducted with a Managing Authorities, programme secretariats and national coordination bodies in 16 Member States.

The paper is structured as follows. Section 2 begins with a review of the state-of-play of the 2007-13 programmes, looking at progress with absorption in the EU27 and across the IQ-Net partner programmes. This is followed by a discussion of specific absorption challenges, and the adopted responses. Section 3 examines operational developments, covering general management arrangements, such as revisions to the programmes, strategic reports, monitoring, and evaluation. In the section on financial management, control and auditing, the focus is on the latest set of simplification measures and on the progress with proposals regarding the simplified cost options. Section 3) will discuss latest developments with the closure of the 2000-06 programmes. Section 4 looks briefly at the EU-level developments, particularly with respect to the debate on the future of Cohesion policy. Section 5 concludes the paper.

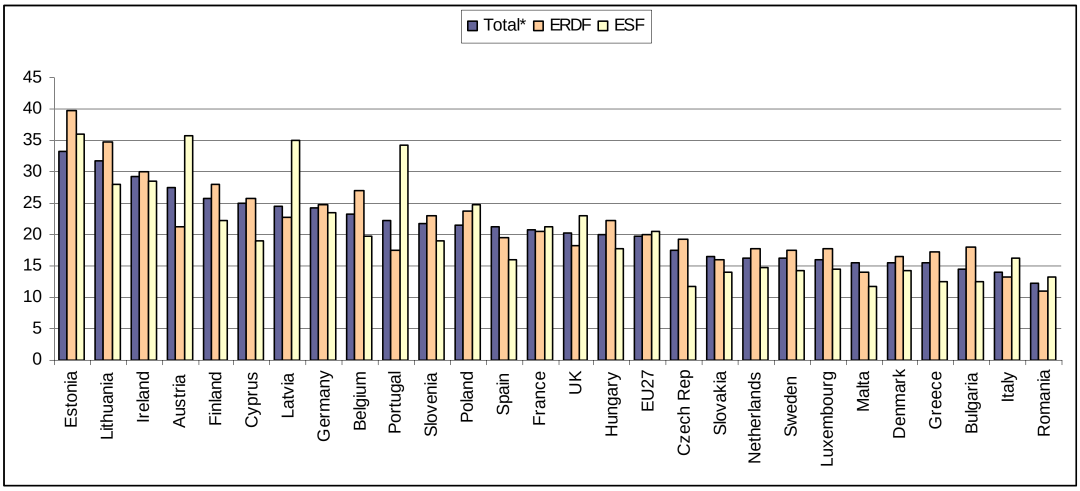
2. FINANCIAL PROGRESS

Although financial implementation has progressed relatively well across the EU27 and amongst the IQ-Net partner programmes, many are facing absorption pressures, partly as a result of the economic crisis and due to other implementation difficulties.

2.1 Financial implementation in the EU27

Since April 2010 when average payment rates stood at 14.5 percent, financial implementation has progressed well across the EU27. Indeed, according to data from November 2010, the average absorption regarding payments stands at 35.8 percent, including both ERDF and ESF funds. Nonetheless, differences remain between the Member States. The Structural Funds absorption rates with regard to payments covering ERDF and ESF are shown in Figure 1.

Figure 1: Structural Funds payments in 2007-13 (23 November 2010)



Source: Commission data from 23 November 2010
* Includes ERDF, ESF and Cohesion Fund
Note: EU27 excludes EU cross-border cooperation and Interregional cooperation programmes.

The highest increase in payment rates (since the last figures of March 2010) has been evidenced in Cyprus (9.8 percentage points), Estonia (9.6 percentage points), Lithuania (9.1 percentage points) and in Finland (8.3 percentage points). By contrast, progress has been more limited in Sweden, Denmark and Ireland, where payments have not progressed since March. Progress has also been slow in other Member States, such as Italy (+1.6) and Luxembourg (+1.8). In November 2010, the highest rates were reported in Estonia (33.2 percent), followed closely by Lithuania (31.7 percent), Ireland (29.3 percent), and Austria (27.6 percent) as well as Cyprus and Finland, where rates are at 25 percent or just above. Lowest rates in turn were found in Romania and Bulgaria, where payments stand just above 10 percent.

There are no major differences between the two funds, with the average payment rate under ERDF being slightly above at 22.6 percent, in comparison to ESF, which stands at 21.5 percent.

2.2 Financial implementation in the IQ-Net partner programmes

Financial implementation is generally perceived to be satisfactory across the IQ-Net partner programmes, although disparities remain between the different programmes and between the commitment and payment levels.

- **Austria.** Financial progress is satisfactory. In Steiermark, 43 percent of funds have been committed and 16 percent paid out (12 October 2010). The business-oriented Priority 1 is slightly below the average with commitments of 41 percent and payments of 15 percent. Priority 2, which focuses on regional potential, has performed better with 54 percent of commitments and 23 percent of payments. In Niederösterreich, commitments are at 44 percent and payments at 16 percent (21 September 2010). Priority 1 is performing better with 49 percent of funds committed and 18 percent paid out, while Priority 2 is behind with commitments at 34 percent and payments at 13 percent respectively.

- **Belgium (Vlaanderen).** Financial progress overall is good. Commitments stand at 63.5 percent, and payments are also on schedule at 26.6 percent. In terms of commitments, Priority 3 (spatial-economic environment) is performing particularly well at 95.2 percent, while Priority 2 (entrepreneurship) is lagging behind at 35 percent, although there will be a greater degree of balance once the new OP has been approved. Priorities 1 (knowledge economy and innovation) and 4 (urban development) lie in between, at 65 percent and 52.6 percent respectively. Payment rates are highest in Priorities 3 (33.7 percent) and 4 (33.7 percent), with Priorities 1 (22.2 percent) and 2 (18 percent) lagging somewhat behind, although this will again change once the new OP is in effect.

- **Czech Republic.** Financial progress has been inconsistent. On the one hand, the submission of project proposals, as well as the reimbursement of funds to final beneficiaries have been increasing over the past six months. However, certified expenditure has not progressed according to expectations. The figures vary significantly amongst the programmes, not least due to the different nature of the projects supported. The progress in the Czech Integrated OP is unsatisfactory, being one of the weakest Czech OPs in terms of payment and certification rates. Commitments stand at 45 percent and payments at only 7.5 percent respectively (6 October 2010). The worst situation is recorded for Measure 3.3 (services in the sphere of employment) and for Measure 3.1 (services in the sphere of social integration) which have almost no commitments. By contrast, commitments are much higher for Measure 3.2 (services in the sphere of public health) at 71 percent, for Measure 5.3 (modernisation and development of systems for the preparation of territorial politics) at 65.6 percent, and for Priority 1 (public administration modernisation) at 60.9 percent. Regarding certification rates, the rates are satisfactory only under Measure 5.3 (48.8 percent).

- **Denmark.** Progress with financial implementation is generally satisfactory. ERDF commitments are broadly in line with spending plans at 61 percent. ESF commitments in turn are slightly behind schedule (36 percent), especially under Priority 1 (better jobs, training for employees). Priority 1 has lagged behind the more traditional interventions under Priority 2 (more jobs, training for the unemployed). On the ERDF side, the overall level of commitment is on target, but the distribution of projects between the various areas of expenditure has favoured innovation over new technology. Related to this, a recent evaluation[1] has concluded that innovation projects also contain significant elements of application of new technology. Following this, it remains to be seen whether the Commission will accept the proposal that as long as the joint project targets are met, the individual demand levels (for innovation and new technology) should not matter.

- **Finland**. Financial progress is deemed to be satisfactory, although there are some spending concerns. In the Länsi-Suomi OP, the commitment rate is 41.7 percent and the payment rate 17.6 percent respectively (2 September 2010). Commitments are highest for Priority 1 (promotion of business activity) reflecting the earlier start of business projects, which in turn was possible due to the earlier set up of the respective monitoring system (TUKI2000).[2] However, as the EURA2007 monitoring system has gradually become operational, commitments have also started progressing under Priorities 2 (promotion of innovation activity and networking, and reinforcing knowledge structures) and 3 (improving regional accessibility and operational environments). Priority 4 (development of larger urban areas) in turn remains more problematic, although project animation efforts are starting to pay off. Despite the progress, commitment and payment levels are somewhat behind expectations. The reason behind the current financial state can be linked back to the funding that was carried over from the 2000-06 programme period. This has resulted in accrued funds, and there is some concern about whether all funds will be fully spent by the end of 2013, and indeed before the new programme period.

- **France**. The state of financial implementation varies significantly across the French programmes. The average commitment rate for the French ERDF programmes under the Competitiveness and Employment objective is 50.8 percent and the payment rate 16.6 percent respectively (1 October 2010). However, figures vary considerably at the regional level, with commitments between 29.6 percent (Provence-Alpes-Côtes d'Azur) and 82.7 percent (Haute-Normandie) and payments between 6.3 percent (Provence-Alpes-Côtes d'Azur) and 26.3 percent (Midi-Pyrénées). Figures are slightly higher for the regional ESF programmes, the average commitment rate being 52.8 percent and the payment rate 19.1 percent.

[1] COWI, *Tema-evaluering vedrørende strukturfondsperioden 2007-2013,* Endelig rapport, Silkeborg: Erhvervs- og Byggestyrelsen, 2009.

[2] Business aid projects are managed under a different monitoring system called TUKI2000 (although all data is eventually transferred to EURA2007), which was in operation before the EURA2007.

- **Germany**. In the Nordhein-Westfalen OP, commitments are ahead and payments below the level of expectations. Commitments stand at 55 percent of the total EU allocation (30 August 2010). They are particularly strong under Priority 2 (innovation and the knowledge-based economy); slightly above the level needed for Priority 3 (sustainable urban and regional development); and below the level needed for Priority 1 (strengthening the business base). Payments in turn are relatively strong for Priority 1 and weaker for both Priority 2 and Priority 3. In Sachsen-Anhalt, under the ERDF OP around 53 percent of the EU allocation has been committed and around 31 percent has been paid out (31 August 2010). Under the ESF OP, the commitments are around 38 percent and payments 18 percent respectively. The picture for the two Sachsen-Anhalt programmes varies across Priorities for the two sub-regional financial plans (i.e. the financial plan for the mainstream Convergence regions of Magdeburg and Dessau, and the financial plan for the phasing out region of Halle) but in both sets of financial plans, the ERDF Priority with the strongest level of commitments and payments is Priority 2 (increasing business competitiveness) and the ESF Priority with the strongest level of commitments and payments is Priority C (improving labour market opportunities and the integration of disadvantaged people).

- **Greece.** Financial implementation has progressed significantly in the last six months, although from a low base. At the NSRF level, commitments are at 28.8 percent, while payments are at 11.8 percent (October 2010). The low level of absorption is due to the fact that most programmes are in the stage of submitting proposals and selecting projects. However, financial performance differs widely between the programmes. Regional OPs have generally performed better, with the Thessalía–Sterea Ellada–Epeiros OP having the highest commitment and absorption rate (at 40 percent and 24.2 percent respectively). By contrast, sectoral OPs have lagged behind; the Environment and Sustainable Development OP and the Digital Convergence OP have both reported commitment and payment rates of below 10 percent. Amongst the sectoral programmes, progress has been comparatively better under the Competitiveness and Entrepreneurship OP, which includes state aid actions for support to SMEs, R&D and energy saving measures. The commitment rate of this OP stands at 41.4 percent and the payment rate at 22.9 percent respectively.

- **Hungary**. Financial progress is deemed to be good, particularly in EU27 comparisons. Under the thematic OPs, commitments are highest under the Transport OP at 93.78 percent, the Social Infrastructure OP at 75.84 percent and the Economic Development OP at 66.6 percent, while the others are somewhat behind: 56.3 percent under the Electronic Public Administration OP; 45.1 percent under the Social Renewal OP; 42.8 percent under the State Reform OP; and, 42.5 percent under the Environment and Energy OP (October 2010). In the case of the regional OPs, commitments are highest under the Közép-Magyarország OP (77.9 percent), followed by Dél-Dunántúl OP (69.9 percent), Nyugat-Dunántúl OP, Dél-Alföld OP, and Közép-Dunántúl OP (all around 63 percent), and Észak-Magyarország OP and Észak-Alföld OP (both around 58 percent).

- **Italy**. Financial implementation is advancing according to expectations. For instance, in Lombardia, the level of overall commitment is over 77.5 percent of the total programme allocation. However, it is important to note that the Managing Authority refers to levels of 'activation' (*attivazione*) rather than to commitments. This relates to the amount of resources that the regional budget has set aside to fund the various tenders, for which ranking lists have been or are in the process of being approved. Following this, the progress of the priorities is as follows: Priority 1 (Innovation and Knowledge Economy) stands at 75 percent, Priority 2 (Energy) at 73 percent, and Priority 3 (Sustainable Mobility) at 83 percent.

- **Poland**. There are no major financial implementation problems in the Śląskie OP. Priorities 8 (Educational Infrastructure) and 9 (Health and Recreation) are performing well as these are relatively straightforward to implement. However, progress on measures aimed at technological infrastructure development, energy and research infrastructure and the revitalisation of some areas under Priority 6 (Sustainable Urban Development) has been delayed due to legislative issues concerning state aid. With regard to the Human Capital OP, the best performing priorities in terms of commitments and payments remain Priority 6 (Labour Market) and Priority 7 (Social Integration). These involve so-called 'systemic projects' run over the length of the programme period but involve different activities or sub-projects every year. However, contracting under Priority 9 (Development of Education and Skills in the Region) is going slower than expected. In part, this is explained by lack of experience and awareness amongst some beneficiaries (e.g. the technical colleges), particularly those in more peripheral areas, who have had limited involvement in programmes up to now.

- **Portugal**. Financial progress overall is deemed to be satisfactory, given the challenging economic climate. More than 60 percent of funds have been committed, while payments amount to a fifth (19 percent) of the total allocation (end of September 2010). At programme level, the highest rates of spending are evidenced in Madeira ESF OP (32.6 percent) and Azores ERDF OP (29.7 percent). By contrast, spending in the five mainland ERDF ROPs (Alentejo, Algarve, Centro, Lisboa, Norte) is significantly lower at 10.2 percent on average, while the national OPs (Competitiveness Factors, Territorial Development and Human Potential) lie between the two with an average spending rate of 21.2 percent. In terms of the NSRF's three 'thematic agendas', the human potential agenda has the highest rate of spending, reflecting the domestic priority given to the (ESF-funded) New Opportunities Initiative and support for the building and modernisation of school infrastructures (ERDF) in the government's crisis response plan. Financial implementation has picked up considerably over the last review period, reflected in a 20 percent rise spending during the third quarter of 2010 relative to the second quarter. Spending has increased most rapidly in the ROPs for Lisbon (ERDF), Madeira and Azores (both ESF).

- **Slovenia.** Financial performance is generally satisfactory, with absorption progressing significantly over the last six months. Overall, commitments are at 51 percent, and payments at 23 percent (30 September 2010). The ESF OP has

performed best in terms of commitments, which are 61 percent, while payments are at 19 percent. The highest payment rates of 33 percent are reported from the ERDF OP, which has also high commitment rate (55 percent). The OP supporting infrastructure, which is co-financed by both ERDF and Cohesion Fund, reports commitments of 42 percent and payments of 13 percent.

- **Spain.** In the Pais Vasco ERDF OP, the spending rate is relatively low at 10 percent of total allocations, attributed mainly to the delayed launch of the programme and the late approval of management control systems (December 2009). Similarly, at the level of the Diputacion foral de Bizkaia (DFB), the overall expenditure rate is low. This is mainly because a high share of the funding is concentrated in just one project (the construction of an automotive technology centre) for which expenditure has not been certified yet. There has also been some delay in certifying expenditure for waste treatment infrastructure project due to environmental planning issues. Although there have been initial delays in certifying expenditure, all of the DFB projects are being implemented on the ground and, moreover, it is anticipated that two thirds of the allocation will have been certified by the end of 2010.

- **Sweden**. Financial progress is good. Commitments in Norra Mellansverige OP are at 84 percent (26 October 2010), with no major differences between the individual Measures. Commitments for Measure 1.1 (innovative environments) stand at 81 percent, for Measure 1.2 (entrepreneurship) at 83 percent, and for Measure 2.1 (accessibility) at 88 percent. Following the high demand for funding, the total commitment level is expected to reach over 95 percent by the end of the year. Payments are also relatively high at 37 percent (14 October 2010). In Mellersta Norrland OP, commitments stand at 76 percent (14 September 2010). However, in Mellersta Norrland there are wider differences between the individual measures. While the highest commitment rate is under Measure 1.5 (capital and financial instruments) at 100 percent, the lowest commitment rate can be found under Measure 1.6 (energy and environment) at 39 percent. The situation under this Measure is expected to improve following information dissemination activities. The payment situation is stable, and spending is not perceived to be problematic.

- **United Kingdom**. Financial implementation is progressing relatively well, although there are concerns about the future. In the North East England ERDF programme, commitments stand at 62 percent. The commitment figure of £201 million has fallen by £8 million since September 2010 as a result of cuts in the Regional Development Agencies' own match-funding resources (the Single Pot), public sector cuts and ongoing uncertainty, resulting in partners disengaging from the programme. Payments stand at 24 percent (October 2010). In Wales, commitments are at 75 percent, and payments at 14 percent (August 2010). In Scotland, commitments stand at 69.5 percent for the Scottish programmes as a whole, while payments stand at 16 percent (October 2010).

2.3 Absorption challenges

The effects of the crisis have continued to affect programme implementation, although to a lesser degree than in past.[3] In an economic climate where financial support for business investment, innovation and technological and industrial development has decreased and unemployment has risen, many Member States have been faced with major budgetary difficulties, including problems with co-financing EU projects. In some instances, projects have had to be cancelled, as beneficiaries have found it difficult to secure their own contribution.[4]

The lack of co-financing has remained a particular challenge for IQ-Net programmes, affecting a wide number of programme actors such as local authorities (Länsi-Suomi, Nordrhein-Westfalen, Scotland), or other Intermediate Bodies (England, Scotland). In England, the reduction of the Single Pot (i.e. the Regional Development Agencies' own match-funding resources) is one factor likely to affect the ability of the ERDF programmes to meet the N+2 rule in the future. The UK Government has indicated that it expects private sector funding to help fill the gap, but in many English regions, such as the North East, the private sector is reluctant to get involved, particularly as the Article 55 provisions mean that any potential profit would be lost. In addition, there is concern that the State aid implications of direct aid to business are not being taken into account. Other possible future sources of match funding, such as the newly launched Regional Growth Fund (RGF), involve a considerably smaller amount of resources and a different (and not necessarily compatible) set of priorities. Similarly, in Scotland, match funding is a concern, and there will have to be a review when further details of the Scottish Government budget are known. Budget cuts are expected to affect major partners such as the local authorities (councils) and enterprise agencies, as well as the Scottish Government itself. In Wales, the economic crisis may also affect the availability of match funding, particularly from external public sector partners and from certain Welsh Assembly Government budget lines.

Moreover, in a programme period where the focus has been on ‘soft measures’, such as innovation and innovative businesses, many small businesses have been cautious to take part in projects. These developments have similarly had an obvious impact on the implementation of the programmes.[5] For instance, in Italy, the crisis has had an effect on firms which have requested funding for the Industrial Innovation Projects. Although no partners have yet withdrawn from the projects, many are expected to modify their planned activities, which in some cases may mean a loss of one partner and the redistribution of tasks amongst the remaining partners. In other programmes, the number of project applications may have remained relatively unaltered during the crisis, but the size of projects has decreased and as such affected the level of investment (Steiermark).

[3] For further information see S. Kah, *'On track again after the crisis? Review of programme implementation'*, IQ-Net Review Paper No. 26(1).

[4] European Commission, *Cohesion Policy: Responding to the Economic Crisis: a review of the implementation of cohesion policy measures adopted in support of the European Economic Recovery Plan*, SEC(2010) 1291, 25 October 2010.

[5] *Ibid*

In addition to crisis-related challenges, recent financial absorption issues reported by the IQ-Net partners include the following.

- **Budget shortfalls.** The Śląskie ESF unit is in competition with other regional ESF units under the performance reserve mechanism operated for operational programmes in Poland. The top eight ESF units will be rewarded for efficient spend at the end of 2010. However, the Śląskie unit is just outside of the top eight and its chances of success are being reduced by significant problems in the payment process. These problems stem mainly from significant gaps in the annual budget claimed by the regional labour office from the Managing Authority (the Ministry of Labour and Social Policy) for 2009. There was a shortfall of around PLZ 75 million. The regional labour office is one of the main partners of the ESF unit in implementing the OP and this shortfall has had a serious impact for the ESF unit: planned funding is being cut, payments can no longer be made to beneficiaries in advance, and many new projects have not been approved due to a lack of funding. The ESF unit has responded by reorganising project calls: bringing some forward and combining some calls but this has stretched administrative resources. Some beneficiaries are covering shortfalls with their own money with the ESF unit refunding at a later date. Projections for next year's budget suggest that there has been a further miscalculation in the regional labour office's budget plan.

- **Payment procedures.** In Nordrhein-Westfalen, problems have arisen recently with the calculation and provision of proof relating to staff costs (e.g. on R&D projects where the majority of costs relate to staffing). Although the Commission has recently introduced new rules on simplification (i.e. flat rate costs), these have not yet been translated into practice.
- **Payment cycles.** Sometimes, payment rates seem low due to the fact that payment claims may be concentrated on certain months, or on certain stages of programme implementation. For instance, in Nordrhein-Westfalen, payments are often low in summer periods as many projects put in payment claims only towards the end of each year. In the Czech Republic, the longer duration of many projects, the innovative nature of the interventions in the Integrated OP (e.g. the creation of register of public administration), and the fact that there are mostly *ex-post* payments to final beneficiaries mean that financial progress takes place at a later

- **Other implementation difficulties.** Other difficulties have emerged in relation to: the management of specific instruments due to the complexity of the procedures involved (e.g. the industrial innovation projects in Italy) or in terms of delays in setting up necessary systems and procedures (e.g. the management of innovation instruments by the Nordrhein-Westfalen Bank); the restrictive approach to project decisions (e.g. in Austria, the Research Promotion Agency has taken a restrictive approach to projects due to too lax approval of projects in the past); the complicated implementation structure (e.g. the Czech Integrated OP); the lack of experience (e.g. Intermediate Bodies in the Czech Integrated OP) and insufficient human resources both in terms of quality (Czech Integrated OP) and quantity (Czech Integrated OP, Mellersta Norrland). Furthermore, in the United Kingdom,

the fall in exchange rate has meant that the programmes have more projects to find, which in turn has put pressure on absorption.

- **Conflicting priorities.** In Lombardia, absorption issues have arisen as a result of conflicting priorities. One the one hand, the Managing Authority aims to achieve as high certification rates as possible. However, on the other hand, the regional accounting office prevents them from doing so because otherwise they would exceed the limits set by the Stability and Growth Pact. At the moment, ERDF is exempt from the rules of the Pact, but not the domestic co-financing, which is proving problematic.

2.4 Decommitment rule and responses to financial challenges

Notwithstanding the specific challenges in the current economic climate, financial implementation has progressed relatively well, particularly with respect to the decommitment targets. In fact, **most IQ-Net partners do not anticipate any problems with the decommitment rule.** While many are making good progress towards the targets (France, Śląskie, Vlaanderen), some have already made the required spending for 2010 (Lombardia, Norra Norrland, Norra Mellansverige, North East England, Portugal, Śląskie Human Capital OP, Wales).

The EU's simplification measure allowing commitments to be spent over a longer period has been a facilitating factor in this respect. According to the original N+2 rule (Article 93 of Regulation 1083/2006), if the funds allocated in 2007 had not been spent by the end of 2009, they would have been automatically returned to the EU budget. The changes will allow the commitments for 2007 to be spent over a longer period. This has been a helpful measure in many partner programmes, although some have decided to respect the original spending targets (Wales). For instance, in the case of Finland, had the rule remained unchanged, the N+2 target would have been met only in one ERDF programme, namely in Pohjois-Suomi OP, while the other programmes (Länsi-Suomi, Etelä-Suomi, Itä-Suomi) would have faced considerable difficulties. Overall, across the EU27, changes to the decommitment rule are estimated to be avoiding a loss of around €220 million (€125 million for Spain, €56 million for Italy, €9 million for the UK, €6 million for Germany, €4 million for the Netherlands and €20 million for cooperation projects between several countries).[6] Although most partners will avoid decommitment in 2010, difficulties have been reported with respect to ESF (Sachsen-Anhalt), and regarding future targets (England, Steiermark, Technology Fund OP in Spain).

In addition to the postponement of the decommitment rule, partners have utilised different measures to ensure effective financial implementation in the past review period:

- **Financial measures.** In Steiermark, the cross-financing with the ESF OP has been a useful measure to ensure financial absorption, while some other programmes have continued to frontload expenditure (Finland, Scotland) in response to the crisis. In

[6] RAPID Press Release, *EU adopts new measures to simplify management of funds to help regions tackle the crisis*, IP/10/838 of 25th June 2010, Brussels.

Lombardia, support has focused on interventions in Priority 1 (Innovation and Knowledge Economy), which by nature are faster to implement and which benefit from the certification rules under financial engineering instruments. In parallel, the activities relating to the longer infrastructure investments have been set up and launched, and they will deliver expenditure in the years to come. This approach has allowed the programme to achieve N+2 targets year after year, and to ensure that the final spending targets at the end of the programme period are met.

- **Monitoring decommitment targets**. In the Czech Republic, the National Coordination Authority (NCA) has produced guidelines for monitoring the decommitment rule, although these are still to be approved. For instance, on the basis of the future commitments, it has been calculated that at the end of September 2010, all (R)OPs should have reached at least 8.5 percent of certified expenditure, which in the future should be 10 percent for every six month period. If this target is met by all (R)OPs, then the Czech Republic should meet the decommitment rule at the end of the programme period. However, some doubts remain with regard to the method of calculation, which does not take into consideration, for instance, the potentially high concentration of projects at the end of the programme period. Another problematic issue with regard to the NCA guidelines concerns the heterogeneous nature of interventions. Similarly, in Greece, specific targets for payment claims have been set out in order to raise the absorption rates of Structural and Cohesion Funds.

- **Regular analysis of financial figures**. In Denmark, the programme administrators continue to hold regular meeting with the heads of the regional programme administrations. During the meetings, financial figures are analysed and 'slow' projects identified. After the meetings, contact is made with the identified projects (which are often run by organisations with good cash flow, such as local authorities) in order to ensure that they claim funding as soon as expenses have been incurred. In the Czech Republic, various crisis management measures have been introduced following the insufficient state of reimbursed expenditure. These include: monthly meetings between the representatives of the Managing Authorities, as well as meetings at the management level; a set of questions to analyse the level of risk, to which the concerned Managing Authorities have to respond on a regular basis; and the requirement for the concerned Managing Authorities to prepare a risk analysis for their respective OP twice a year. In France, decommitment risks have been analysed through a study (see Box 1).

- **Accelerating the implementation of projects**. In Scotland, the Managing Authority is proactively looking at which projects have been slow in order to get them to re-profile, spend or withdraw. In Portugal, a 'Strategy for Accelerating the Implementation of Business Projects' was announced in July 2010, comprising 12 measures structured according to three pillars. The first pillar aims to address the lack and excessive cost of bank credit through the creation of the NSRF-Invest credit line, which provides a mechanism for risk-sharing with banks through a system of mutual guarantee. Additional risk capital and business-angel financing is also being provided. The second pillar is a set of management measures for the

incentive schemes that allow the adaptation of the projects to take account of the economic context and the simplification of procedures, particularly in terms of reporting forms during implementation and project closure. The final pillar is the launch of new calls for tender employing the procedural simplifications and geared towards the priorities of economic recovery by focusing on tradable production and value-added services, R&D and innovation, and internationalisation.

- **Use of financial engineering instruments**. For instance, in Sachsen-Anhalt, in order to mitigate the risk of decommitment under ESF, the *Land* aims to set up a financial engineering instrument for ESF interventions (under Article 44 of Commission Regulation No. 1083/2006). Large financial engineering instruments in England have also helped with spending.

- **Legislative changes** In Greece, the government is set to adopt legislation to tackle delays in the implementation of public works and investment projects in general. The legislation aims to: shorten and simplify the judicial procedures concerning the awarding of contracts or decisions relating to land expropriations; shorten the time to get permits by the Central Archaeological Council in Athens; simplify and shorten procedures to complete studies on environmental impacts and to get approval concerning environmental issues for infrastructure projects.

Box 1: Study on the prevention of automatic decommitment risks in France

In October 2009, the internal audit office of the Ministry of the Economy and the Treasury in France was mandated to carry out a study on the prevention of automatic decommitment risks. In its report published in March 2010, it identified a number of shortcomings (mainly relating to structural factors in approaches to Structural Funds management) as well as the following recommendations:

1) To enhance national (DATAR) and regional (*préfets*) steering of the Structural Funds;
2) To simplify management procedures in order to speed up the processing of project files; notably by
    a. simplifying requirements for beneficiaries (single application form, speedy implementation of simplification reforms);
    b. rationalising the selection of small Intermediate Bodies (e.g. requiring their merger);
    c. reducing the number of applications to be examined by management and appraisal services (introduction of minimum funding threshold to be eligible, maximum number of co-financing bodies (mainly for small projects), and minimum threshold of EU co-financing); and
    d. concentrating appraisal and management services at the regional level (i.e. not below).
3) To externalise parts of the management chain;
4) To ease budgetary requirements by spreading the 2007 programming tranche over the entire programming period; and
5) To encourage the use of financial engineering instruments.

Source: Inspection générale des finances, Inspection générale de l'administration, and Inspection générale des affaires sociales (2010) Le risque de dégagement d'office des fonds structurels européens, Rapport.

3. PROGRAMME MANAGEMENT

3.1 Programme changes

According to the General Regulations (1083/2006), Operational Programmes may be re-examined and, if necessary, revised in one or more of the following cases: following significant socio-economic changes; in order to take greater or different account of major changes in Community, national or regional priorities; in the light of evaluations; or following implementation difficulties.[7] Despite the rather late phase of programme implementation, and economic indicators which are pointing towards gradual recovery from the crisis, many IQ-Net partner programmes continue to face spending pressures (see

[7] Council Regulation (EC) No 1083/2006 of 11 July 2006 on laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999.

Section 2.3). **In addition to specific implementation difficulties, in some cases evaluations have provided the basis for reviews and consequent revisions to take place**.

3.1.1 Recent programme changes

The changes in the past review period are not exclusively linked to the economic crisis, but also to specific implementation difficulties.

- **New local strategic skills priority.** In the Lowlands and Uplands OP in Scotland, the uncommitted ESF funding of approximately €62 million under Priorities 1-3 has been vired into a new Priority 5 (Strategic Skills Pipeline). The new priority will concentrate largely on bids from the local authority-led Community Planning Partnerships (CPPs). These will be complemented by bids from selected national partner organisations where a local approach to addressing the needs of certain groups (such as ex-offenders) would be too complex and where best value could be demonstrated by a national approach complementing the local plans.

- **Reallocations towards infrastructure.** In Vlaanderen, the budget was initially split evenly between the four priorities: Priority 1 (knowledge economy and innovation), Priority 2 (entrepreneurship), Priority 3 (spatial-economic environment), and Priority 4 (urban development). However, the Managing Authority anticipated problems with this approach, as large infrastructure projects under Priority 4 and, above all, Priority 3, require more funding than smaller training and consulting projects under Priority 1 and especially under Priority 2. Hence, there was a feeling that there would not be enough absorption capacity for the funds initially allocated to Priority 2, not least since there is a lot of domestic funding available for this type of support. For this reason, there has been a change in the OP, entailing mostly a reallocation of funds from Priority 2 to Priority 3 (approximately €15 million).

- **Focus on SME sector and urban development**. The Śląskie ROP was revised for a number of reasons. In addition to technical amendments to the Polish law on public finance, and, to the timetable for the competitions within the ROP, changes were made to the allocation for the intervention categories. The changes in allocation and a new approach are aimed to increase the effectiveness of support to the SME sector. Furthermore, a new sub-measure 6.2.3. (Revitalization – JESSICA) has been created and allocated €51 million from ERDF and €9 million from the state budget. The Funding Agreement between Silesian Voivodeship and the European Investment Bank was signed on 9 July 2010 for the purpose of establishing the JESSICA Holding Fund. The Holding Fund will make contributions to Urban Development Funds, which will provide equity, loans and/or guarantees to urban projects, aimed at the revitalisation of degraded areas in big and small cities.

- **Responding to changing domestic policy environment.** A programme revision for the Convergence ERDF programmes has been proposed to reflect the content of the new Welsh Economic Renewal Programme. Modifications to the ERDF programmes include redirecting funding away from generalised business support to more

targeted support for key sectors and investments in economic infrastructure (next generation broadband and transport infrastructure). In this way, the ERDF programmes will be realigned to where domestic match funding will still be available. This may include virement between priorities to reflect the new policy direction, and may include the introduction of new activities such as ICT infrastructure under the Competitiveness programme (East Wales) and the broadening of ESF programmes to include the use of micro-finance loan facilities.

In addition, there have been **a number of small-scale changes to programmes,** including: changes to the scope and geographical targeting with respect to urban generation and rural development (Scotland) or challenging areas (Länsi-Suomi); reallocation of school infrastructure support to regional programmes and clarifications of the division of responsibilities in relation SME support (Portugal); inclusion of new financial engineering instruments, such as JESSICA (Scotland); and, changes in the follow-up of the development of Regional Innovation Strategies (France).

While circumstances have changed, in some instances, these have not been reflected at the programme-level. For instance, in Länsi-Suomi, the flexibility between the financial allocations amongst the regions within the programme has meant that problems do not necessarily occur at the programme level. Similarly, the Danish Enterprise and Construction Authority (DECA) have instigated an informal round where regions can mutually trade financial allocations in line with the actual demand. To date, this voluntary process has not led to any adjustments to the programme. Also, in some instances, transfer of funds has occurred below the OP level, which in turn has avoided changes (Sachsen-Anhalt, Steiermark). Further reasons behind the lack of programme changes may be related to the fact that programme documents were designed to be flexible and broad (Denmark, Finland, Paìs Vasco, Sweden), which in turn has ensured that strategies have continued to remain valid even in changed circumstances. For instance, in Denmark, the Lisbon-oriented strategy of the programmes has been found to be very robust in the face of changing economic conditions. This is in contrast with programmes which are structured on the basis of different groups of beneficiaries, and which need to be revised when an economic downturn suddenly makes it necessary to increase efforts in relation to a particular target group. Amongst some partners, the actual programme documents have not been changed, instead, amendments have focused on the programme complements (Steiermark), or on the implementation documents (France).

3.1.2 Planned programme changes

Despite the relatively late stage of the programme period, and lengthy procedures (Czech Republic) associated with revisions, programme changes are expected to continue in the future, not least motivated by the review processes (Czech Republic, France).

In most partner programmes, **planned changes entail a refocusing of themes.**

- For instance, in Nordrhein-Westfalen, some limited changes in emphasis of the OP are being considered. These include **a stronger focus on eco-innovation and carbon neutrality**, notably by focusing competitive calls under Priority 2 (innovation and the

knowledge-based economy) more strongly on a smaller number of themes, with a particularly strong focus on eco-innovation. Other changes may also be introduced in Nordrhein-Westfalen, such as the use of OP resources to fund environmentally-friendly energy infrastructure (e.g. thermal power stations or local authority heating networks), and the allocation of further resources to encourage businesses to be more energy efficient.

- Similarly, in the Polish Human Capital OP, discussions are ongoing on the potential reorientation of some initiatives. For instance, under Priority 7 (promotion of social integration) there is a **focus on business start-ups in social integration projects** (e.g. preparing people who have suffered from alcoholism to re-enter the business environment). There is also increasing focus on 'spin off' **initiatives that draw universities closer to the process of new business creation.** Furthermore, there has been some discussion of the development of a financial instrument, beyond co-financing, that could lead to **more cooperation between firms, universities, research institutes** etc. Although most funding is already committed such an initiative could be piloted on a small scale to create more cooperation and perhaps inform future programmes.

- Planned thematic reorientations also include the need focusing on **R&D** (Slovenia)**, entrepreneurship** (Greece, Slovenia)**,** and **competitiveness** (Greece, Niederösterreich).

Further changes among IQ-Net partner programmes relate to financial tables and indicators. In the Czech Republic, an important impetus for changes to the Integrated OP are related to the 'additional financial sources' received from the European Commission. The National Coordination Authority recently submitted a proposal to the Czech Government indicating financial distribution of these sources among the Czech regional OPs. It is expected that the Integrated OP will receive €18.4 million for Priority 5.1 (cultural services). This additional finance will imply changes to the programme, particularly with respect to monitoring indicators and financial tables. Furthermore, **discussions have taken place with respect to financial engineering instruments**. For instance, in Lombardia, partners are considering how to make a financial engineering instrument more appealing to firms, including considerations about simplifying the administrative requirements. Moreover, a written procedure has been launched to insert a major project to the OP relating to the **introduction of broadband in areas of the regional territory where this service has not yet been available**.

3.2 Responses to strategic reports

The national strategic reports were intended to improve transparency, to encourage accountability, and to provide the key tools for monitoring the implementation of Cohesion policy in the Member States. According to the Commission's overview[8], the strategic reports have provided both qualitative and quantitative data of implementation. However, due to the fact the programmes are still at early phases in terms of spending, information is limited with regard to outputs, results or impacts. This conclusion echoes the views of the

[8] European Commission, *Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013*, COM(2010)110, 31 March 2010.

IQ-Net Managing Authorities, who have generally found the reports to be informative but not having strategic conclusions (Finland) or leading to strategic changes (Austria, Greece, Nordrhein-Westfalen, Sachsen-Anhalt, Śląskie).

Despite the fact that the findings of the strategic reports may not have explicitly suggested changes in the programmes, **some partners have responded to the recommendations**. In some instances, the reactions have been small-scale, such as in Denmark, where for the focus on innovation and new technology projects under a common heading (see Section 2.2) can be seen as a response to the findings of the Danish strategic report. However, for instance, in the Czech Republic, the report led to a more detailed examination (see Section below).

(i) Study on regional dimension in the Czech programmes

The findings provided by the Czech strategic report[9] suggested that there was no need to undertake any significant changes in the programme settings of the (R)OPs. Nonetheless, the Government asked the National Coordination Authority (NCA) to prepare an overview of the (R)OPs spending, including proposals how to solve the insufficient state of reimbursed allocations. In addition, the NCA prepared a progress report[10] summarising how the proposals in the overview were handled and implemented. One of the proposals entailed the examination of the regional dimension of Structural Funds interventions. The examination included questions, such as whether the individual Managing Authorities of the (R)OPs target certain measures at specific regions and why. In short, the results suggested that the regionalisation of the Structural Funds interventions is undertaken in most of OPs, particularly in the Enterprise and Innovations OP, in the Environment OP, and in the Human resources and Employment OP. Regionalisation is implemented through: differentiated support intensities; spatial delimitation of target groups, which entail specific calls for project proposals; differentiated measures and policy instruments; differentiated administrative procedures; and, special bonuses for projects planned to be realised in the defined regions.

3.3 Monitoring

The development of monitoring systems and issues related to indicators in particular continue to require attention in the IQ-Net Managing Authorities. This is not surprising considering the complexity and evolving nature of monitoring arrangements to ensure effective programme management.

In most partner programmes, monitoring systems are in place and working reasonably well. Nonetheless, some problematic issues remain. For instance, in Greece, the monitoring system is still considered to be too burdensome, and discussions have continued to focus on

[9] Ministry for Regional Development, National Coordination Authority, *Strategic Report for the Czech Republic 2009*, December 2009.

[10] Ministry for Regional Development, National Coordination Authority and Ministry of Finance, *Analysis of realisation measures implemented for the purpose of efficiency improvements of Structural Funds and Cohesion Fund*, Material prepared to be discussed at Government meeting at the end of September, September 2010.

simplifications, as well as on clarifications with regard to differences between programme- and project-level monitoring. In France, a major analysis was carried out in order to adapt the monitoring system, notably in order to achieve complete and homogeneous information which is usable for monitoring, evaluation and communication purposes (see Box 2). However, **in the majority of IQ-Net partner programmes, developments in recent months have concerned mainly technical improvements.**

- **Project application systems**. In the Polish Human Capital OP, changes to the software associated with applications are set to be carried out. The changes will require the beneficiaries to select indicators from a menu provided. Although the menu is still under development, a particular emphasis is being placed on indicators that would suit the purposes of *ex-post* evaluation. In Denmark, improvements have focused on the digital application form, concerning two issues in particular: adjustments to ensure that applicants include measurable success criteria for the proposed projects; and, a requirement for applicants under innovation or new technology themes to fill in information regarding both areas of expenditure.

- **Data updates and analysis functions**. In the Czech Republic, the National Coordination Authority (NCA) has concluded an arrangement with the Czech Statistical Office (CSO) regarding regular data updates. Following the agreement, the NCA is able to provide up-to-date and relatively reliable data (with links to time series and regional comparative data) for the purpose of monitoring the performance of the (R)OPs. The database is publicly accessible (www.strukturalni-fondy.cz), although further improvements are expected in order to improve its user-friendliness. In Slovenia, the Managing Authority has carried out improvements to the data entry systems and to the data analysis module, as well as adapted the system to the needs of the Intermediate Bodies.

- **Physical monitoring modules**. In Portugal, progress in the last six months has been made in the context of developing and testing the physical monitoring module of the IT system. This is a significant development because prior to this physical data was extracted and analysed through excel files.

Whilst changes to the monitoring systems are pressing also in other programmes, these may be still ongoing (Hungary, Lombardia) with delays faced due to **resource constraints** (Finland). In Finland, discussions relating to improvements to EURA2007 monitoring system have been ongoing for some time now. Indeed, the development of the monitoring system has been in the middle of two conflicting priorities. On the one hand, the monitoring and controlling side have been pressing for new functions to EURA2007. On the other hand, the programme side requires further development with respect to the reporting functions in order to obtain better data at the regional level. Meeting these needs has been difficult, not least due to the lack of resources in the EURA2007 implementation unit. Similarly, in Spain the development of the new IT system has reportedly been far more onerous than anticipated, although the strong efforts made by users and managers have resulted in a positive outcome.

Aside from the more general issues related to the monitoring systems, **indicators have remained a key challenge in most programmes.** In Sachsen-Anhalt, there are a number of concerns with regard to the monitoring of physical indicators, which may be specific to larger programmes. First, there are difficulties to ensure that all Intermediate Bodies are entering valid monitoring data, not least due to the high number of staff involved in inputting data, and the consequent scope for errors and for inconsistent interpretation to occur. Second, the indicator systems in place are not seen to have been well thought out either domestically (by the *Land* State Chancellery) or at EU level (the approach set out for the ERDF OPs through the DG REGIO working document[11]). The Managing Authority argues that it has been very difficult to implement the approach set out by DG REGIO via an electronic data management system, largely due to the type of indicators in place. For instance, some of the indicators which seem to be a single indicator (e.g. number of jobs created) are in fact multiple indicators (male, female, total). A further weakness is related to the core indicators, which have not been defined at EU level, and as such do not allow DG REGIO to collect or process data across the Member States. Lastly, insufficient attention is paid to monitoring physical indicators, partly because of the pressure to meet financial rules such as N+2. The Managing Authority feels that for these reasons they do not succeed in reporting effectively in relation to physical indicators.

[11] DG REGIO Working Document No. 2 Indicative Guidelines on Evaluation Methods: Monitoring and Evaluation Indicators, Annex 1, http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd2indic_082006_en.pdf

Box 2: Adapting the monitoring system in France

In France, an analysis of regional monitoring systems, covering the OPs and the State-region contracts (CPER), was carried out by Ernst & Young in 2010. The aim of the study was to identify, quantify and qualify problems encountered by the regions, notably concerning data entry in the computerised system PRESAGE, and to make suggestions for improvement. The themes that were addressed in the analysis included: framework of the monitoring system; human resources involved and training; information collection and entry; control of data entry and support; exploitation of data; and, data reliability.[12]

Following the results of the analysis, an action plan was developed, which introduced a number of changes and improvements:

1) Clarify data entry procedures and level out the bases of PRESAGE;

2) Exploit monitoring data and present it to the monitoring services in order to show the usefulness of their work;

3) Adapt PRESAGE to monitoring and evaluation needs; technical adaptations required by the regional level will be carried out in the coming months in order to better align it with users' approaches and needs;

4) Adapt the status of indicators due to divergent regional approaches to data entry, notably concerning appraisal criteria in the fields of environment, ICT and innovation (data reliability has been heterogeneous notably with respect to OPs and CPER).

5) Continue supporting programming services in the regions as is currently done via the national technical assistance OP (Europact);

6) Make use of the website 'Europe en France' (http://www.europe-en-france.gouv.fr/) to improve support offered to actors in the regions (e.g. FAQs, on-line provision of documents, training material).

Source: DATAR (2010) *Action plan on regional monitoring systems*.

Despite the challenges with indicators, actual changes have been limited. Developments in the last review period have covered new indicator definitions (Finland, Sachsen-Anhalt), horizontal indicators (Finland, Polish Human Capital OP), and discussions about future indicator revisions:

- **New indicator definitions.** In Finland, indicators have remained unchanged, but small adjustments have been made with respect to the definition of the indicator 'new jobs'. In the past, data has been collected on the basis of 'number of annual units'. However, a decision was taken to change this to 'number of new jobs' in

[12] DATAR and ASP (2010) *Analyse des systèmes de suivi régionaux des CPER et des POs*, Séminaire Evaluation du 2 juillet 2010.

order to follow similar procedures on the ESF side and across the other EU Member States. In Sachsen-Anhalt, some minor changes have been made to target-values associated with individual indicators, due to the reallocation of resources below Priority level.

- **Horizontal indicators.** Further area of discussions has focused on the need to adjust the horizontal indicators (Finland, Śląskie). For instance, in the Śląskie OP, following the revisions to the horizontal indicators, beneficiaries are required to include information about the realisation of horizontal indicators in their final project claims.

- **Planned revisions.** Some programmes are discussing potential future changes to their respective indicators (Greece, Lombardia). In Greece, the changes introduced have been of technical nature and rather limited, not least because of a focus on core indicators. However, the indicator system is set to be revised following revisions to the NSRF and the OPs. Also in Sachsen-Anhalt, some of the *Land* Ministries have stated that they would like to see changes in the indicators and target-values at mid term, but no decision has yet been taken to make such changes.

3.4 Evaluation

Halfway through the 2007-13 programme period, evaluations are well under way in the IQ-Net partner programmes (see Section 3.4.2). The perceptions of the new ongoing evaluation approach are generally positive. This is not surprising considering the flexibility that ongoing evaluation provides. Given that there is no longer a need to undertake evaluations at a fixed point in time, programme authorities have been able to decide what should be evaluated and when. While mid-term evaluations can still be undertaken, the ongoing evaluation approach has provided opportunities to carry out more in-depth evaluations of particular areas of intervention or using more complex methods. Nonetheless, some problematic issues remain, particularly regarding evaluation capacities and the quality of data used (see Section 3.4.1 below).

3.4.1 Perceptions of the ongoing evaluation approach

Experience and learning have been important factors facilitating evaluations in 2007-13. For instance, in Sachsen-Anhalt, the evaluators' work in the early part of the programme period has meant that they have gained a better understanding of the programmes, which in turn is expected to feed into future evaluations. Similarly, in France, after three years of setting up the structures for evaluations (including the necessary committees and indicators), 2010 has been the year of knowledge production. In Sweden, the development of evaluation capacities has been important given the unfamiliarity with the ongoing evaluation approach, particularly at the project level. Evaluations were not always put in place on time, because many project-level actors simply did not understand the benefits of ongoing evaluation. Examples of efforts to improve evaluation capacities include University courses on evaluation which are being organised jointly by the two Managing Authorities, namely *Tillväxtverket* and the ESF Council (i.e. the Managing

Authority for ESF)[13], and the regional and national conferences on evaluation. In Slovenia, the approach to developing an evaluation culture has tied together a number of different policy areas. Evaluators for different policy evaluations have been asked to look at possible synergies with respect to Cohesion Policy.

Despite the fact that most partner programmes have created a new evaluation framework for 2007-13, there is still **some tendency to follow past approaches and to organise evaluations at specific times**. For instance, in Vlaanderen, ongoing evaluations are not perceived to be relevant, and emphasis is given to mid-term evaluations and to Annual Implementation Reports. In other Member States, ongoing evaluations are considered to be working well, but there seems to be a natural preference for having *ex ante* evaluations and mid-term evaluations (Czech Republic, England), not least due to the alignment of the OPs with domestic instruments (France).

Regardless the timing of the evaluations, **many partners have opted to concentrate on specific themes.** In France, where a majority of regions have launched mid-term evaluations, some chose to focus on certain themes, including employment, environment, R&D&I, energy, sustainable development, or equal opportunities. In Finland, the focus on thematic evaluations has been perceived as successful in comparison to the programme-specific evaluations. However, at the same time, the thematic concentration has sometimes meant that regional perspectives (i.e. individual regions within the programme area) have been neglected to a certain extent. These issues will be given further thought in the next round of evaluations, which is being organised during the remainder of the programme period.

More generally, **issues remain with regard to the quality of data used**. In France, the flexibility of the ongoing evaluations is welcomed; however, such evaluations are felt to be sometimes similar to monitoring and alert-type exercises. This, in turn, is seen to be detrimental to evaluation, since there is greater focus on quantitative data, and as such there is a need to use additional methods (e.g. interviews, qualitative criteria) in order to gain insights into the qualitative aspects. Related to this, there are still problems at the national level with regard to processing and exploiting indicators in an aggregated way. Hence, the provision of monitoring data remains patchy, and reservations remain regarding the data used for evaluations. More analysis in this respect is set to be carried out in the coming years, most notably in the context of evaluating employment effects. In a similar vein, in Hungary, there is seen to be a need to clarify the distinction between evaluation and monitoring, as well as data treatment and data transfer practices.

3.4.2 Overview of recent evaluation activities

With the exception of Vlaanderen and Greece, evaluations have progressed steadily in the IQ-Net partner programmes over the past six months. In Vlaanderen, the lack of progress is due to the fact that evaluation activities are kept to a minimum. Indeed, apart from the 2009 Strategic Report, no particular evaluation activities are planned for 2010. In the case

[13] 'Följeforskning – ny utvärderingsmetod leder projektet rätt', *Tempo - Nyheter från Tillväxtverket*, 4/10.

of Greece, evaluations remain important, although efforts in the past six months have continued to focus on the actual contracting of the evaluators rather than evaluations themselves. The main reason behind the delay is related to the short implementation period of the programmes. **In other IQ-Net programmes, evaluation activities in the past review period have advanced in a timely manner** covering a number of different issues.

Some examples of recent evaluations include the following.

- At the federal level in Austria, an evaluation of the activities of the Intermediate Body (*Förderstelle*) Kommunalkredit Public Consulting (KPC)[14] has been launched. The evaluation will look at the role of KPC both in the context of Structural Funds and in domestic programmes, with the aim of identifying best practices. In Niederösterreich, there have been two main developments with respect to evaluations. The Managing Authority is one of eleven project partners from eleven Member States participating at the INTERREG IVC project OSAIS (Observatory on State Aid Impact)[15]. The objective of the project is to analyse the effectiveness of different forms of financial aid. In Niederösterreich, Structural Funds projects under the 2000-06 OP since 1 January 2005 and all projects in the current programme period are analysed as part of the project. Another new development relates to the ongoing analysis of the codes and indicators used in the OP.

- In the Czech Republic, recent evaluations have included: evaluation of the absorption capacity of selected OPs; evaluation of employment in the Visegrad countries, which is a joint project of all four countries with the aim of examining the effects of Structural Funds on (un)employment; evaluation and optimisation of the project appraisal system, which is a comparative evaluation of the project appraisal systems and their criteria in 16 selected Czech (R)OPs; ongoing evaluation of the realisation of the development of the integrated urban plans and assessment of the functionality of their implementation; and *ex-post* evaluation of the Community Framework Support 2004-2006.

- In France, a recent evaluation at the national-level has been being carried out regarding the contribution of ERDF to rural development. The aim of the evaluation has been to find out whether rural territories have benefited from Structural Funds or whether they are outperformed by more dynamic territories. In addition, at the regional level, evaluations have also been launched, with most regions carrying out a mid-term evaluation.

- In Lombardia, evaluations have progressed according to plan. An interim report has been submitted containing both operational and strategic aspects, such as the advancement of the programme under each priority and an assessment of progress

[14] Kommunalkredit Public Consulting (KPC) is one of four federal intermediate bodies implementing Structural Funds in Austria (there are many more in each *Land*). More generally, KPC manages support schemes as well as energy and climate-protection programmes and provides consultancy services for international projects.

[15] http://www.osais.eu/

with the programme's cross-cutting themes (including environment, equal opportunities, Lisbon earmarking). The report also included an international benchmarking on earmarking and a position paper on the reform of Cohesion policy.

- In Portugal, evaluations over the past review period have included: one NSRF overall evaluation; one NOP evaluation (Territorial Development); four ROP evaluations (Lisbon, Azores, Madeira, Alentejo); one evaluation of the ERDF/CF specific national regulations, which govern the OPs; two ROP evaluations for Norte and Centro regions; one NOP Territorial Development evaluation; and one Incentives Schemes evaluation.

- In Spain, an evaluation of equal opportunities is being carried out internally by the national evaluation unit and is expected to be concluded by the end of 2010. Once this evaluation is complete, the unit will focus on evaluations of 2011, which will cover themes such as R&D&I. A key challenge with this evaluation is the availability of data, since financial implementation is likely to be very low.

Considering the large number of evaluations undertaken, many have focused on analysing the evaluation results (Denmark, England, Finland, Lombardia, Slovenia).

- In Finland, the evaluators[16] have submitted their first and second interim reports to the respective Monitoring Committees. The discussions in the autumn were scheduled to cover the conclusions from the perspective of the individual OPs, and the evaluation needs for the remaining programme period. Related to this, in the Länsi-Suomi OP, the Monitoring Committee has decided that there is a need for a more focused evaluation on Priorities 1 (promotion of business activity) and 2 (promotion of innovation activity and networking, and reinforcing knowledge structures). The results will be used to contribute to the Annual Implementation Report of 2010.

- In Slovenia, the Managing Authority is set to look more closely at the results of domestic research carried out under the so-called 'Target Research Programmes' (*Ciljni Raziskovalni Programi, CRP*)[17], which are run by a number of different Ministries. The Managing Authority will examine how past and planned research in these programmes can contribute to the planned evaluations in the context of Cohesion policy.

- In the Czech Integrated OP, following the evaluation of the implementation system, the Managing Authority has now developed an action plan to implement the proposed recommendations. The action plan encompasses concrete tasks targeted at the Intermediate Bodies and at the Managing Authority, including deadlines and responsibilities.

Although in some programmes, such as in Sachsen-Anhalt, the Managing Authority has a contract with the evaluators for the full 2008-15 period, **other partners are updating their**

[16] Evaluations in Finland have covered four themes namely: promotion of businesses; promotion of innovations and networking, and strengthening of knowledge structures; improving regional accessibility and business environment; and, environmental impacts and sustainable development.

[17] More information on CRP in English: http://www.arrs.gov.si/en/progproj/crp/predstavitev.asp

evaluation plans for the remainder of the programme period. In the Czech Republic, following the update of the evaluation plan of the NSRF in April 2010, the next actualisation is planned to take place at the end of 2010, while for the Integrated OP, the evaluation plan for 2011 has been finalised. The evaluation plan for the Integrated OP encompasses: thematic evaluation of the Priority Axe 4 (national support for tourism); studies to look at the revision of the programme; evaluation of communication and publicity in 2007-2010; internal evaluation of absorption capacity (which is undertaken annually); and, an assessment of control activities. Similarly, in Portugal, the annual evaluation plan is being revised and updated and planning for the mid-term evaluation cycle has begun in the NSRF evaluation network. Indeed, looking ahead, other evaluations that are to be launched in 2011 will be assessing: the ‘Cities Policy’; the information and data collection systems/tools used by the OPs[18]; and, coordination/inter-linkages between ERDF and EAGGF.

3.5 Financial management, control and audit

The 2009 annual report of the Court of Auditors, which was published on 16 November 2010, recognised that improvements have taken place in terms of management and control related to Structural Funds. The report concluded that the amount of errors in payment claims made by Member States has decreased from 11 percent from previous years to five percent in 2009. According to the Commission, the action plan launched in 2008 to help Member States in the management of structural actions has been a facilitating factor[19], although the European Parliament has questioned the figures, not least with respect to the sample of countries used for the report.[20]

Reflecting this, it is not surprising that **the management and control systems have been subject to intense revisions in the IQ-Net partner programmes.** In the Italian OP for Research and Competitiveness, the description of the system is still pending approval from the Commission. The Commission has rejected the description of the system three times, which the Italian authorities perceive to be excessive, particularly in terms of the details requested. At the time of writing, the Managing Authority had received a letter from the Commission outlining a list of 19 detailed points that required compliance in order for the description to the approved. One problem has concerned the assignment of delivery functions to certain banks in continuation with past practice; however, the Commission has argued for the need of public tendering to take place. Other concerns have been raised about the role of Invitalia in the OP (the national agency for inward investment promotion and enterprise development). Notwithstanding the fact that the management and control system is pending approval, the first payment declaration was sent to the Commission at the end of 2009, and a further one is planned for the end of 2010.

[18] Although the evaluation has been approved, it is possible that it will be postponed due to the contraction in public spending budgets.

[19] Inforegio-Newsroom, *Fewer errors reported in cohesion policy payments,* 16 November 2010.

[20] European Parliament, Discharge: *MEPs critical of EU2009 budget implementation*, Press Release of 9 November 2010.

Revisions to the systems are also ongoing in other partner programmes, largely to take account of the EU's simplification measures. In Greece, revisions to the system took place in June 2010 to reflect the new simplification measures. These included: introduction of the principle of 'general costs'; clarifications to VAT eligibility; exemption from the obligation to submit 'revenue-generating' studies to those projects which have a budget under one million; and, compulsory requirement for the implementing bodies and the Managing Authorities to keep timetables for projects. Similarly, in Austria, revisions to the national eligibility rules and to the management and control systems respectively have taken place following the introduction of simplified cost options and due to new rules concerning revenue-generating projects. With respect to revenue-generating projects, the key changes relate to: the size of projects; deduction of revenues at the end of the programme period; and, the abolition of the ten percent threshold. In the Czech Republic, amendments have taken place with regard to national guidelines for financial management, including: measures of financial engineering; revenue-generating projects; major projects; and unit costs.

In the remaining programmes, revisions have been more limited in nature, and as such have not necessarily required the approval by the Audit Authorities (Steiermark). Indeed, in many instances, changes have been undertaken with respect to organisational structures (Śląskie), following institutional changes (Finland, Nordrhein-Westfalen, Śląskie), or due to other procedural changes, such as new rules (Portugal, Polish Human Capital OP), changes to the control procedures (Slovenia), new approaches to calculating administrative costs in projects (Polish Human Capital OP) etc.

In addition to revisions to the management and control systems, **partners have been occupied with intense auditing** (Czech IOP, Diputacion foral de Bizkaia, Niederösterreich, Polish Human Capital OP, Śląskie ROP), and **bureaucratic verification procedures** (Lowlands and Uplands Scotland):

- **Audit issues.** In the Czech Integrated OP, the Audit and Certifying Authority has been carrying out frequent auditing, which in turn has put pressure on the personnel at the Managing Authority to respond to the audit findings. Similarly, in the Diputacion foral de Bizkaia, the key challenge has been the ongoing intensity of audit and control work. Despite the fact that no particular problematic issues have arisen, a considerable amount of effort has been required in terms of preparing the visits and responding to reports. In the Polish Human Capital OP, the Managing Authority is also influenced by audit requirements, particularly at EU-level.

- **Delays with verifications.** In the Lowlands and Uplands OP in Scotland, some problems have emerged with regard to the bureaucracy with the payments system. The verification of payments has been slow (particularly under ESF, which tends to have more transactions than ERDF), as they have to verify each payment before they can move onto the next. Money may have been spent by projects, but with delays in verification claims.

3.5.1 Simplification

Simplification has been an ongoing feature in the Commission's policy agenda since the landmark reforms of 1988. The most recent simplification measures in the context of the 2007-13 programmes have been a direct response to the economic crisis. While there is some evidence that the introduced measures have been effective, not least in terms of accelerating spending or introducing special instruments and initiatives; the longer term focus has been on the simplification of the administratively complex management and control system.[21] The following sections discuss the perceptions of the IQ-Net Managing Authorities to the simplification exercises, with a particular focus on latest set of simplification measures introduced on 24 June 2010, and on progress with regard to the proposals to the Commission on simplified cost options.

(i) New simplification measures

The latest set of simplification measures were introduced by the Commission on 24 June 2010.[22] The new measures complement other initiatives which have been adopted since the beginning of the crisis under the European Recovery Plan. The changes are intended to facilitate access to the funds and to accelerate flows of investment at a time when public budgets are under pressure. Amongst the IQ-Net Managing Authorities, **the new simplification measures are generally welcomed given their role in accelerating implementation and lessening the impact of the crisis on programme management.**

- **Single ceiling of €50 million for all types of major projects.** The measure is supported, particularly in those partner programmes where major projects are present (Czech Republic, Greece, Sachsen-Anhalt, Slovenia), but also in those where such projects may be introduced at a later stage (Nordrhein-Westfalen). The threshold will allow smaller-scale environmental projects to be approved by Member States alone, which will help them to start up more quickly, and as such is perceived to reduce the administrative burden significantly.

- **Multi-programme funding for major projects.** Allowing major projects (such as the construction of a major motorway section which cuts across different regions) to be co-financed by several regional programmes, is found to be useful (Slovenia), although the opportunities have not yet been fully exploited in some programmes (Greece, Sachsen-Anhalt).

- **Simpler procedure for revision of programmes.** The simpler procedure for changing programmes in order to adapt more quickly to emerging challenges is generally welcomed (Czech Republic, Niederösterreich, Nordrhein-Westfalen, Slovenia, Vlaanderen). In Sachsen-Anhalt, the Managing Authority sees the measure

[21] J. Bachtler and C. Mendez, *Review and Assessment of Simplification Measures in Cohesion Policy 2007-2013*, Study presented at the Workshop on simplification in Cohesion Policy held at the European Parliament on 21 June 2010.

[22] RAPID Press Release, *EU adopts new measures to simplify management of funds to help regions tackle the crisis*, IP/10/838 of 25th June 2010, Brussels.

as a genuine simplification and good in principle. However, they may not take full advantage of the procedure, because it is found that external evaluators can be useful to get certain messages across to the *Land* Ministries and to the intermediate bodies about the consequences of particular changes to the programmes. In the Czech Republic, the authorities would like to have a clearer definition to what constitutes as a significant 'change' in the General Regulation (1083/2006) that allows programme revision. Furthermore, the Czech authorities perceive that the procedures surrounding the submission and approval of a revision do not represent any real simplification, particularly in terms of the time that the Commission requires for this.

- **Financial engineering for energy related measures.** The possibility of setting up loan schemes to boost spending on energy efficiency and renewable energies in housing has been perceived as beneficial in many IQ-Net partners (Czech Republic, England, Greece, Sachsen-Anhalt). For instance, Greece aims to exploit the possibility of the Entrepreneurship and Urban Development Fund until the end of 2010. Furthermore, a call for tenders to support projects under the action 'Saving at home' is expected to be launched during 2010. The action aims to increase energy efficiency in private buildings. In Slovenia, a holding fund was set up under the ERDF OP to encourage SMEs to provide loans with subsidised interest rates. While the measure is also seen as useful in Sachsen-Anhalt, there is some concern that the Commission has not yet clarified all the loose ends relating to implementation rules. Related to this, a COCOF meeting of 1 October 2010 has aimed to clarify issues such as: the interest flowing back into loan/venture capital funds from businesses; the level of documentation needed; and, the rules on loan instruments that do not fall under Article 44 (e.g. individual loans to firms).

- **Easing the obligation to maintain investments.** The new rules which are intended to apply only to projects where appropriate such as infrastructure and productive investment sectors, are supported by many IQ-Net partners (Czech Republic, Sachsen-Anhalt, Slovenia, Vlaanderen), although in some instances the implementation may be difficult due to national legislation (Greece).

- **Simplification of rules on 'revenue-generating' projects.** The measure is perceived to be important in terms of reducing the administrative burden given that revenues will now only be monitored until the closure of the programme (Czech Republic, England, Finland, Greece, Niederösterreich, Nordrhein-Westfalen, Sachsen-Anhalt, Vlaanderen). However, for instance in Nordrhein-Westfalen, the EU rules are still perceived to be very complex, particularly in the case of smaller projects that do not involve capital spending. This applies also to Sachsen-Anhalt, where there are few revenue-generating projects due to the fact that EU rules are perceived to be too burdensome to implement such projects with Structural Funds resources.

- **Additional advances.** The targeting of an additional advance of €775 million concerns only those Member States which have received a loan under the IMF balance of payment scheme, or seen a GDP decrease of more than 10 percent

(namely, Estonia, Latvia, Lithuania, Hungary and Romania). Nonetheless, it is perceived as a positive development also by other Member States (England, Finland, Greece).

- **Postponing 'N+2 decommitment' rules.** The changes which allow commitments for 2007 to be spent over a longer period have been widely supported by IQ-Net partners (Czech Republic, Greece, Finland, Nordrhein-Westfalen, Spain). However, despite the fact that measure has been important in terms of avoiding decommitment in many programmes, the usefulness of the measure has been questioned. For instance, in Sachsen-Anhalt, the Managing Authority has noted that programmes that were at risk of automatic decommitment will need to pay out an even greater sum of money in the remainder of the programme period as a result of the measure. This in turn could be difficult to achieve because of: limited demand for project funding; limited administrative staff capacity; and, difficulties in obtaining domestic co-financing. There is also a risk that the quality of implementation in the remainder of the programme period could be undermined by increased pressure to get a larger volume of funds spent.

Despite the general support for the above measures, they have not been found relevant for all programmes (Portugal, Spain)**,** not least due to the lack of knowledge on the impacts of the measures (Hungary). For instance, Sweden has not adopted any of the measures, while in Denmark and Vlaanderen, only a very few of the measures are of particularly relevance due to the nature of the strategy and the projects supported. In similar vein, in the Czech Republic, many of the measures are important at the national level, but are not relevant to the Integrated OP.

(ii) Simplified cost options

Amongst the various simplification measures, recent efforts in the Member States have focused on developing proposals to the Commission on simplified cost options. This follows the amended 2007-13 ERDF (397/2009) and ESF (396/2009) regulations, which allow Member States to claim: (i) indirect costs (overheads) on a flat rate basis up to 20 percent of direct costs of an operation; (ii) flat-rate costs calculated by application of standard scales of unit cost as defined by the Member State; and (iii) lump sums which cover all or part of the cost of an operation. These regulatory changes introduced a deviation from the reimbursement of 'real costs' used in the past towards greater use of lump sum or flat-rate payments. The simplification is intended to relieve the administrative burdens on beneficiaries and management and control bodies, as well as to contribute to a more efficient and correct use of funds.[23]

In the case of the flat rate for indirect costs, Member States are invited to submit the description of the system and calculation method to the responsible DG for *ex ante* **agreement.** The respective DGs will consider the systems submitted, and once satisfied, approve it. However, there is no legal requirement for the Member States to do this. The *ex*

[23] European Commission (2010) Working document prepared by the Coordination Committee of the Funds (COCOF), COCOF 09/0025/04-EN.

ante agreement process does also not apply to the standard unit costs and lump sums. In these cases, the Commission will gain information through the annual control reports submitted by the national audit authorities. Nonetheless, some IQ-Net Managing Authorities are considering the submission of proposals to the Commission concerning the standard units costs and lump sums (Austria). So far, standard scales of unit costs schemes are being developed in Belgium, Czech Republic, Italy, Latvia, Poland, Lithuania and in the Netherlands; while lump sum schemes have been utilised by France and Lithuania.[24]

As of 25 October 2010, **the Commission had approved 15 national schemes.** A further 21 cases were undergoing a process of re-assessment or pending replies from the Member States. In addition, 13 schemes had been received already in 2009 from Italy.[25] At the time of writing, among the IQ-Net Managing Authorities, proposals have been approved in Austria, Denmark, Vlaanderen and Wales, while approval is pending for Finland and Slovenia. In others, proposals are due to be submitted (Greece), or are still being developed (France, Sweden). Some partners have decided not to submit a proposal, not least due to difficulties with standardised costs in the case of ERDF and Cohesion Fund (Portugal). In cases where a description of the system has not been submitted and agreed by the Commission in advance, audits carried out by the Commission will cover the calculation method, and the correct application of the flat rate.[26]

In Austria, Denmark and Vlaanderen, the approved flat rates on overheads are 20 percent, 18 percent, and 15 percent respectively. In the Danish case, the submission to the Commission concerned both ERDF and ESF funds and the calculation was made on the basis of extensive statistical documentation using existing projects. In Austria, the submission was partly a result of an Austria-wide study carried out by a consultancy, which was steered by a working group of three Managing Authorities (Niederösterreich, Oberösterreich and Tirol). In Vlaanderen, the decision was made to generalise the use of simplified costs. Indeed, depending on the type of project and costs, the authorities have decided to use standard scales of units costs for staff (based on national standards), flat rates to calculate indirect costs, and where necessary 'real costs' to cover other non-standard direct expenditure. These are used in projects which focus, for instance, on training or career guidance. Lump sums are also used where it is possible to define a standard price for operations, for instance, in the preparatory phase of a transnational project (where there are clearly defined actions, goals and results).[27]

Although the rules on flat rate costs are generally supported amongst the IQ-Net partners, some concerns have been raised. For instance, in Denmark, the shift from 'real'

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[24] European Commission, *Cohesion Policy: Responding to the Economic Crisis: a review of the implementation of cohesion policy measures adopted in support of the European Economic Recovery Plan*, SEC(2010) 1291, 25 October 2010.

[25] *Ibid*

[26] European Commission (2010) Working document prepared by the Coordination Committee of the Funds (COCOF), COCOF 09/0025/04-EN.

[27] European Commission, *Cohesion Policy: Responding to the Economic Crisis: a review of the implementation of cohesion policy measures adopted in support of the European Economic Recovery Plan*, SEC(2010) 1291, 25 October 2010.

costs to flat rate is expected to facilitate the process for future project applicants and project holders; however, difficulties have been faced in the context of implementing the flat rate in the digital application platform. Similarly, in Sachsen-Anhalt, there are difficulties with regard to the implementation of the flat rate cost. Indeed, in order to reduce the administrative burden in relation to financial management and control, the authorities argue that there is a need for a simple method for calculating and documenting the application of flat rate costs. In Wales, a number of elements have proved to be very useful, but there are issues around the fact that COCOF guidance does not provide any legal certainty. These issues are echoed by the partners in Nordrhein-Westfalen, who have various practical concerns, including that:

- the Commission may come back with questions on flat rate costs at a later stage, which in turn would cause problems near the end of the programme period;

- there are some potential obstacles in domestic rules. For instance, the domestic rules on the final project closure check state that projects need to show evidence of actual costs (and hence do not allow for flat rate costs);

- in many projects, the main costs relate to staffing and there are particular problems in calculating and providing evidence of staff costs (e.g. the provision of information on staff hourly costs and work-plans). Related to this, there are seen to be particular problems in the case of R&D projects because some R&D-oriented firms/research centres do not require staff to fill in work-plans and have a working culture where managers do not want to (be seen to) check up too closely on staff activities;

- it is unclear how various types of special payments should be treated in relation to flat rate costs for staff. One example concerns the additional monthly pay-check which many public sector staff in Germany receive at Christmas (*Weihnachtsgeld*). Another example relates to bonuses which some staff in the private sector receive.

3.6 Other management issues

Programme delivery in the IQ-Net partner programmes has also been affected by a series of other factors, including organisational changes, project animation and selection, co-financing challenges, and issues related to the implementation of major projects.

3.6.1 Organisational changes

Many IQ-Net partner programmes have been undergoing organisational changes in the last review period. **Whether as a result of government changes, part of domestic regional reform projects, or due to internal reorganisation efforts, programme delivery arrangements have been affected.** In England, the change of UK Government in May 2010 has led to sweeping changes to the domestic regional policy delivery framework. The key issues concern the abolition of the Regional Development Agencies (RDAs), which are the designated Intermediate Bodies for ERDF, and the Government Offices, which managed the ERDF programmes in 2000-06. Future management arrangements remain uncertain, with announcements not expected until next year’s budget (23 March 2011). Similarly, in

Hungary, the new government is reviewing programme delivery arrangements, and there are plans to clarify the role of involved actors and simplify the system of intermediate bodies. In Lombardia, a recent internal reorganisation has lead to certain changes in the internal allocation of responsibilities relating to the programme. Changes have affected the Managing Authority, Central Coordination Authority, Environmental Authority, representative of the regional body for equal opportunities and the Audit Authority.

While organisational changes aim to strengthen the delivery systems in place, they may also lead to lack of steering and ownership. For instance, the Italian OP for Research and Competitiveness has lacked political ownership following the resignation of the Minister for Economic Development. The absence of a Minister (although an interim has been in charge) has consequently meant a lack of direction, and difficulties in taking certain decisions without political ownership. Another problem in the programme has been that it is managed by two ministries. Rendering the Ministry of Economic Development into an Implementing Body is considered to have been detrimental. The necessity to come up with a common management and control system and with common or harmonised procedures has been difficult to manage, especially given the diversity of the types of interventions included in the two parts of the programme. The current system of responsibilities is very complex and not conducive to efficient management and delivery. In Finland, despite the aim of strengthening the regional development system through the regional reform, there is some concern with regard to the cooperation between regional councils and the newly created centres for business, traffic and environment (ELYs)[28]. Indeed, some view that the steering of the new authorities is too loose and that the procedures vary between the different ELYs.

Organisational developments have also affected human resources in many partner programmes. In England, following the planned abolition of the Regional Development Agencies, staff losses have already been encountered, particularly in services such as accounting, procurement and state aid, while staff morale has also been affected. The Department for Communities and Local Government has been looking at the numbers of staff that will be needed to continue work on the nine English ERDF programmes. There is a great deal of concern that this core number is higher than the staff figure that will be retained. Options, such as outsourcing tasks for Article 13 monitoring are being considered (some regions had already been doing this). In Finland, the State's productivity programme has meant that the newly created centres for business, traffic and environment are due to operate with fewer resources, while the actual workload is on the increase. Responsibilities have increased also at the Regional Councils due to the transfer of certain tasks from the former State Provincial Offices. In the Czech Republic, many ministries have undergone changes of personnel as a result of the parliamentary elections in June 2010. This has in turn affected the units in charge of implementing the OPs. The situation has been particularly severe at the Ministry of Education, Youth and Sport, which is responsible for the OP Research and Development for Innovation and at the State Environmental Fund,

[28] The ELY centres' tasks relate to economy, labour force, expertise, culture, traffic and infrastructure, as well as environment and natural resources. However, only nine of the ELY centres perform functions in the above mentioned fields, while the other six centres are more specialised.

which is the Intermediate Body for the OP Environment. Many officials dealing with the Structural Funds have been made redundant, and the replacement and training of new staff has been difficult. These developments in turn have affected institutional knowledge, and increased the level of frustration amongst the officials involved. Also in the Italian OP for Research and Competitiveness, the Directorate General in charge of the programme is poorly staffed.

3.6.2 Project animation and selection

Another management issue in the last review period has concerned project animation and selection procedures. **Developments have taken place with regard to improvements to information dissemination procedures among the various levels of the implementation bodies** (Czech Integrated OP), to **competitive calls**, following the introduction of new themes (Nordrhein-Westfalen), to **project animation activities** in order to encourage applications under an urban theme (Länsi-Suomi), to **project selection criteria** (Sachsen-Anhalt), and to the **processing of applications** (Denmark).

In Denmark, the time elapsing between the submission of applications at the regional programme administrations and the final approval by the Danish Enterprise and Construction Authority (DECA) at the national level has been an issue. The situation has emerged as a result of different factors. First, the process is complex at the regional level in terms of the political handling of the applications within the new Regional Growth Fora set-up. Second, the prevalence of large and complex projects in the current programme period has increased the need for ongoing close dialogue between the regional and national levels of programme administration. In response, the Danish authorities have introduced a series of measures to facilitate the flow of applications through the system, including:

- a fast-track procedure, which involves DECA undertaking informal approvals before the final political go-ahead has been given by the Regional Growth Forum. This process relies on most experienced administrators at both the national and regional levels. Hitherto, this measure has only been used by one region, namely that of North Jutland, while the other regions are satisfied with the standard 30-day time limit for DECA approval;
- a Structural Funds Academy that provides training for administrators; and
- a small network of selected senior administrators who meet to discuss solutions to complex cases and the possibility of transferring these to other applications.

These measures are expected to speed up and improve the handling of individual projects in the short term. In addition, they are also intended to underline the character of the Danish Structural Funds activities as 'learning programmes' in terms of furthering continuous development of administrative competences at all levels.

3.6.3 Co-financing challenges

In the context of the economic crisis, co-financing has remained an ongoing problem in many partner programmes. **Problems have been experienced particularly in relation to**

domestic co-financing, especially among local authorities (Finland, France, Nordrhein-Westfalen), and **other delivery bodies** (England), as well as with **specific projects** (Czech Republic, Vlaanderen).

As noted earlier (see Section 2.3), in Finland, the economic situation has affected the financial situation of the municipalities, and consequently their ability to co-finance projects. During the current economic situation, municipalities have tended to participate mostly in infrastructure-related investments. Some have argued that there is a need to lower the municipal co-financing rates and replace these by state co-financing. Despite the fact that these issues are being discussed, revisions depend on the future economic situation, and as such may not take place until during the next Government's term of office. In England, co-financing problems have surrounded the Regional Development Agencies (RDAs). Following their planned abolition, they are unable to provide any match-funding for ERDF beyond March 2011, when the new delivery arrangements are set to take place. Other public sector sources of match-funding are also facing pressure from budget cuts and uncertainty, in particular, the higher education sector and local authorities (councils). The effects have already been felt, in terms of many projects having been cancelled, particularly those where the RDA was to be the final beneficiary.

Other problems have concerned raising the necessary co-financing for certain projects (Czech Republic, Vlaanderen). In Vlaanderen, the Ministry of Economics has set aside funding specifically for co-financing purposes. Hence, every project that is primarily economic can receive co-financing quite easily. However, when projects are rooted in other domains, e.g. energy efficiency in social housing, other ministries must co-finance them.

3.6.4 Implementation of major projects

The issue of major projects has also emerged over the last review period, although this has been quite specific to certain programmes. For instance, in the Czech Republic, there has been a lack of progress with regard to the implementation of major projects (over €50 million). One reason behind this relates to the barriers of communication between the Managing Authorities of the relevant OPs and the Commission. Furthermore, in preparation of the major projects, a major methodological bottleneck relates to the financial models, including feasibility studies and verifications regarding the rates of return. In other words, the Commission demands multiple warrants that the selected financial models and predictions are the most suitable ones. Another bottleneck occurs in the preparation of major projects, particularly concerning the environmental impact assessment and granting of the construction permits. The limited number of major projects in implementation is of concern, since these could be used as pilot projects and providing good practice for the preparation of future major projects (particularly motorway infrastructure projects). A plan has been devised to submit a further 65 major project applications during 2010-2011.

4. CLOSURE OF THE 2000-06 PROGRAMME PERIOD

4.1 General closure issues

Closure of the 2000-06 Structural Fund programmes has been high on the policy agendas, not least due to the extension of eligibility by six months (or by twelve months in the case of some Greek and 18 INTERREG programmes). Request to make payments until the end of June 2009 (or until 31 December 2009) was agreed with a total of 385 out of 555 programmes covering all funds. Since there is no deadline for the EU to refund the money to the Member States, the Commission has continued to reimburse payment claims for expenses incurred in 2009.[29] The extension has generally been welcomed given that it has allowed the possibility: to address unexpected programme absorption challenges; to close projects, particularly those with longer timeframes; to achieve the set objectives of the programmes; to have evaluations; and, to finalise closure procedures (including closure reports).

Amongst the IQ-Net Managing Authorities, closure has been progressing without major challenges, although certain projects may be still be ongoing (Nordrhein-Westfalen). The first closure documents to the Commission were submitted by Austria, Germany and the UK. In these countries, programmes with high absoprtion rates, such as Niederösterreich, have been able to proceed with closure already in 2009. However, **the majority of partners have submitted the required closure documents to the Commission during the last review period.** The Commission's deadline for the submission of the closure documents is between 31 March 2010 (for programmes with no extension to the final date of eligibility, such as Denmark) and 31 March 2011. Most closure documents were expected by 30 September 2010, which allows the Commission five months to examine the documentation and execute the final payments.[30] Amongst the IQ-Net partners, only in the case of Greece, has the closure process not yet been completed because of the extended deadline given to a number of programmes due to the major fires in 2007.

Although the closure reporting has been relatively straightforward, some programmes have perceived the process as onerous and time-consuming (Denmark, Slovenia). Furthermore, in programmes such as Vlaanderen, **there has been some concern that the process will have to be resumed due to a misunderstanding**. The authorities in Vlaanderen prepared one joint report for the ESF and ERDF funds rather than one for each fund in addition to the joint report. Moreover, they have not prepared an Annual Implementation Report for 2008, because this was the final year of implementation. Rather, it was perceived that a short separate chapter in the final closure document covering the year 2008 would be sufficient. The Commission's exact requirements from Vlaanderen remain to be seen. Similarly, the Welsh authorities are dealing with Commission

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[29] European Commission, *Report from the Commission, 21st Annual Report on Implementation of the Structural Funds (2009)*, COM(2010) 587, 21 October 2010.

[30] European Commission, *Cohesion Policy: Responding to the Economic Crisis: a review of the implementation of cohesion policy measures adopted in support of the European Economic Recovery Plan*, SEC(2010) 1291, 25 October 2010.

feedback on irregularities. Although all closure documents were submitted on time, and the majority has been deemed acceptable, the main problems so far have related to compatibility issues with the (national) BIS database, and currency variations.

Aside from the closure processes, **in some programmes, the success of the programmes has suffered from lack of public interest.** For instance, in the Czech Republic, there has been limited interest in the accomplishment of the 2004-2006 programme period despite the good financial results. It has been found that there has been very little interest from the media and almost no publicity devoted to the presentation of successful projects. Rather much of the attention has focused on the 2007-13 programmes and on the possible underutilisation of funds.

4.2 Financial absorption

In terms of financial absorption, programmes are generally blocked at 95 percent until full closure takes place in 2011. For the ERDF, the absorption rate at the end of 2009 was 93.5 percent. However, the budget for 2010 has sufficient payment credits to cover the gap between the 95 percent ceiling and the 93.5 percent absorption rate of 2009. The same argument applies to ESF. In the case of those Member States which have not yet reached the 95 percent absorption rate, the unpaid amounts are not lost. However, payments will not be made until the Commission receives the payment claims for the related amounts.[31]

[31] *Ibid*

5. DEBATE ON THE FUTURE OF COHESION POLICY

The debate on the future of Cohesion policy has been given firmer direction following the Commission's Fifth Report on Economic, Social and Territorial Cohesion, published on 10 November 2010. On the one hand, the report indicates that cohesion policy has made a significant contribution to growth and to the promotion of prosperity and balanced development across the EU. However, following economic and social developments over recent years, the policy is facing new challenges. In this context, the report sets out a number of different options for adapting the policy after 2013.

Among the proposals, the report recommends that future funding should focus on a limited number of priorities, in line with the goals set by Europe 2020 strategy for smart, sustainable and inclusive growth. This would involve the establishment of a common strategic framework (CSF) for all funds (ERDF, ESF, AGFRD, EFF), which would detail priorities, objectives, and the reforms needed to maximise the impact of cohesion investment. Based on the CSF, a contract between Member States and the Commission would set out how these would be met, building on the countries' future National Reform Programmes. This would include the setting of clear and measurable targets and emphasise the importance of national coordination of funding from different EU sources to ensure effective delivery and visible results.

Another key proposal put forward in the report concerns incentives in order to make implementation of the cohesion programmes as efficient and ambitious as possible. This would entail setting a percentage of cohesion funding aside and making it available to national and regional authorities based on the quality, and progress, of the programmes they submit. The report also proposes ideas for simplifying the delivery system by reducing red-tape, and improving evaluation, performance and results through more effective target-setting.[32]

The conclusions of the report have been welcomed, not least in terms of providing a good basis for the debate. Among local and regional representative organisations, support has been given to plans such as the continuation of funding in all regions, the improvement of coordination of the various EU funds, the bold proposals on multi-level governance, and the suggested transition arrangements for regions that are set to drop out of the highest funding category.[33]

However, regarding the more controversial proposals, concerns have been voiced particularly with respect to the plans to suspend payments of EU funds to countries that breach the Stability Pact. It is argued that it is unfair to punish regions for decisions taken at national level, particularly since this is not viewed to be consistent with the principle of subsidiarity. In response, Commissioner Hahn has pointed out that the proposal is yet to be

[32] RAPID Press Release, *Commission sets out options on future cohesion policy*, IP/10/1490 of 10 November 2010, Brussels.

[33] Committee of the Regions, *Regional and local leaders welcome Commission plans for cohesion funding,* Press release of 16 November 2010.

accepted by Member States, but also admitted that it was unlikely that the Council of Ministers would agree to impose such sanctions on a country facing serious difficulties with its national finances.[34] At the Member State level, while there is consensus to reinforce a greater result-orientation, there is no agreement on the idea of macro-economic / external conditionalities.[35]

Another problematic issue raised relates to the partnership principle. Indeed, while the efforts by the Commission to establish partnership contracts have been welcomed, at the same time it is viewed that regions are still not involved in the main decision-making processes.[36] These views are echoed by the Member States, who attach importance to the flexible approach to implement Europe 2020 through Cohesion policy, underlining the need to take the different regional needs into consideration (and for regions to have an essential role for the success of Europe 2020). Further decentralisation of cohesion policy and the strengthening of local dimension have also been supported. The local dimensions would entail urban and rural areas, as well as the link between the two.[37]

Other issues that have been addressed as requiring further investigation include questions such as the process of introducing more earmarking while also promoting a better concentration of funds[38]; the need to have other than cohesion policy funding instruments to achieve the goals of Europe 2020[39], but in a context of clearer rules; and the need to look at the menu approach, the new category of regions, and the topic of possible conditionalities in greater detail.[40]

Following public consultation, the Fifth Cohesion Forum between 31 January and 1 February 2011 provides a final opportunity to discuss the orientations of the report before the legislative proposals are submitted in the first half of 2011.

[34] 'Regions reject linking EU funds to budget rules', *EurActiv*, 18 November 2010.

[35] Réunion informelle des Ministres de la Politique de Cohésion, Conclusions de la Présidence, 22-23 November, Liège.

[36] Assembly of European Regions (AER*), It is a good start, and we are ready for further negotiations*, Press Release of 16 November 2010.

[37] Council of European Municipalities and Regions (CEMR), *CEMR welcomes 5th cohesion report and recommends further decentralisation of the policy*, Press Release of 15 November 2010.

[38] Committee of the Regions, *Regional and local leaders welcome Commission plans for cohesion funding,* Press release of 16 November 2010.

[39] Council of European Municipalities and Regions (CEMR), *CEMR welcomes 5th cohesion report and recommends further decentralisation of the policy,* Press Release of 15 November 2010.

[40] Réunion informelle des Ministres de la Politique de Cohésion, Conclusions de la Présidence, 22-23 November, Liège.

6. CONCLUSION

In most IQ-Net programmes, programme implementation has been progressing well over the past six months, although specific absorption challenges remain. Notwithstanding these challenges, most partners are well on course to meet their decommitment targets, at least for 2010.

Although the effects of the crisis continue to be felt, programme authorities have also been faced with other implementation challenges, which have, in many instances, led to programme revisions. Efforts over the past six months have focused on the development of monitoring systems (including indicators), while evaluations are starting to provide insights into various programme issues. Programme delivery has also been affected by a series of other factors, including organisational changes and co-financing challenges.

With regard to financial management, control and auditing, the focus has been on the new simplification measures introduced in June 2010. These have been perceived generally helpful in terms of accelerating implementation and lessening the impact of the crisis on programme management. Amongst the various simplification measures, recent efforts in the Member States have focused on developing proposals to the Commission on simplified cost options.

Improving the Quality of Structural Funds Programme Management through Exchange of Experience

IQ-Net is a network of Convergence and Regional Competitiveness programmes actively exchanging experience on practical programming issues. It involves a programme of research and debate on topical themes relating to Structural Funds programme design, management and delivery, culminating in twice-yearly meetings of members. IQ-Net was established in 1996 and has successfully completed three periods of operation: 1996-99, 1999-2002 and 2002-07. The fourth phase was launched on 1 July 2007 (Phase IV, 2007-10).

IQ-Net Meetings

28 partners' meetings and a special 10th anniversary conference have been held in twelve European countries during 14 years of operation of the Network. Meetings are held at approximately six-month intervals and are open to IQ-Net partners and to observers interested in joining the Network. The meetings are designed to facilitate direct exchange of experience on selected issues, through the presentation of briefing papers, plenary discussions, workshop sessions and study visits in the hosting regions.

IQ-Net Website

The IQ-Net Website is the Network's main vehicle of communication for partners and the public. The launch of Phase IV has been accompanied by an extensive redesign of the site which comprises two sections:

Partner Intranet Pages available exclusively to IQ-Net members.

Public Pages which provide information on the Network's activities and meetings, allow the download of IQ-Net Reports and Bulletins, and provide a news section on issues relevant to the Network.

The Partners' section of the website provides exclusive services to members of the Network, including access to all materials prepared for the IQ-Net meetings, a list of EU27 links (programmes, institutions, economics and statistics etc.), partners' contact details, a partners' blog and other items of interest.

IQ-Net Reports

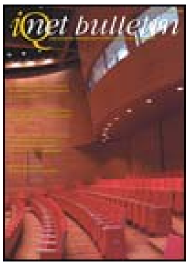
The IQ-Net Reports form the basis for the discussions at each IQ-Net meeting. They present applied and practical information in a style accessible to policy-makers, programme executives and administrators. The reports can be downloaded, at no charge, from the IQ-Net website. To date, around 26 thematic papers have been produced on both 'functional issues' (e.g. management arrangements, partnership, information and communication,

monitoring systems) and 'thematic issues' (e.g. innovation, enterprise development, tourism). A similar number of papers have also been produced to review developments in the implementation of the Network's partner programmes.

IQ-Net Thematic Papers

- The Reform of Cohesion Policy after 2013: More Concentration, Greater Performance and Better Governance
- New Partnership Dynamics in a Changing Cohesion Policy Context
- Pandora's Box and the Delphic Oracle: EU Cohesion Policy and State Aid Compliance
- The Financial Management, Control and Audit of EU Cohesion Policy: Contrasting Views on Challenges, Idiosyncrasies and the Way Ahead
- From Environmental Sustainability to Sustainable Development? Making Concepts Tangible in Structural Funds Programmes
- Making sense of European Cohesion Policy: 2007-13 on-going evaluation and monitoring
- Turning ideas into action: the implementation of 2007-13 programmes
- The New Generation of Operational Programmes, 2007-13
- National Strategic Reference Frameworks and OPs, 2007-13
- Preparations for the Programme Period 2007-13
- Territorial Cohesion and Structural Funds
- Cohesion Policy Funding for Innovation and the Knowledge Economy
- The Added Value of Structural Funds
- Information, Publicity and Communication
- Mid-term Evaluation of the 2000-06 Programmes
- Mainstreaming Horizontal Themes into Structural Fund Programming
- The Structural Funds: Facilitating the Information Society
- Information into Intelligence: Monitoring for Effective Structural Fund Programming
- At the Starting Block: Review of the New Programmes
- Tourism and Structural Funds
- Preparations for the New Programmes
- The New Regulations and Programming
- Strategic Approaches to Regional Innovation
- Effective Responses to Job Creation
- The Evolution of Programmes and Future Prospects
- Equal Opportunities in Structural Fund Programmes
- The Contribution of Meso-Partnerships to Structural Fund Implementation
- Regional Environmental Integration: Changing Perceptions and Practice
- Structural Fund Synergies: ERDF and ESF
- The Interim Evaluation of Programmes
- Monitoring and Evaluation: Principles and Practice
- Generating Good Projects
- RTD and Innovation in Programmes
- Managing the Structural Funds – Institutionalising Good Practice
- Synthesis of Strategies 1994-96

IQ-Net Bulletin



The IQ-Net Bulletin promotes the dissemination of the Network's activities and results. Fourteen issues have been published to date, over the period from 1996 to 2009. Bulletins are published using a standard format, with each providing summaries of the research undertaken and reports on the discussions which take place at IQ-Net meetings. The Bulletins can be downloaded from the IQ-Net website (public pages). A printed version is also sent out to the IQ-Net mailing list.

Admission to the IQ-Net Network is open to national and regional Structural Funds Managing Authorities and programme secretariats. For further information or to express an interest, contact Professor John Bachtler (john.bachtler@strath.ac.uk) or Laura Polverari (laura.polverari@strath.ac.uk).