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PROGRAMMING WITH AN UNCERTAIN FUTURE

Review of Programme Developments: Autumn 2004 - Spring 2005

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PREFACE

The research for this paper was undertaken in preparation for the fourth meeting of Phase III of the Structural Fund exchange of experience network IQ-Net, which is taking place in Newcastle upon Tyne, UK in May 2005. The paper has been written by John Bachtler, Carlos Méndez, Irene McMaster and Fiona Wishlade.

This paper is the product of desk research and fieldwork visits among national and regional authorities in Member States (notably among partners in the IQ-Net Consortium) during spring 2005. The field research team comprised:

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This paper is a draft version and will be revised following the Newcastle meeting in line with the comments of partners and the substance of discussions at the meeting.

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This review of programme developments in partner countries and regions comes at a time of uncertainty about the future of EU Cohesion policy. The focus of attention is the EU Council summit meeting in June when decisions may be reached on the EU financial framework for the 2007-2013 period, as well as the budget for Structural and Cohesion Funds and the allocation mechanisms by which the resources will be divided among the objectives and Member States. An agreement on funding will enable Member States and regions to begin planning for the future – whether it involves preparing the next generation of programmes or winding down programme management systems.

Some Member States are well advanced with their post-2006 strategic planning, having established committees, working groups or consultation mechanisms to develop their national strategic reference frameworks. This obviously applies mostly to the new Member States and EU15 countries/regions that are reasonably certain of Convergence funding in the next period. In some other countries, particularly where future EU support is contingent on a sizeable Competitiveness & employment objective, there is a slower, more cautious approach to strategic planning for the future. Across all Member States, programme managers are also following the debate on the new Regulations closely, and it is clear that there is a range of concerns about the Commission proposals for the next period.

However, programme managers face more immediate challenges. Each programme needs to have its Mid-Term Evaluation (MTE) updated by the end of 2005, to assess the latest progress and performance of the programme and provide information to help inform the next round of development strategies. Countries and regions are taking different approaches, ranging from relatively cursory and formal compliance with the European Commission's guidance to more in-depth analysis to assist with future programme preparations. More generally, some programmes are continuing to encounter difficulties in meeting N+2 targets.

Not surprisingly at this stage in the programme cycle, there are few significant strategic or institutional changes to programmes or programme management arrangements. Where changes are taking place, they tend to be attributable to political factors or administrative reorganisation. However, on-going efforts to improve programme management systems are evident in many programmes, often as part of follow-up to the MTEs and Mid-term Reviews – notably with respect to information, publicity and communication, monitoring, evaluation and the horizontal themes. The paper concludes with a brief overview of first experiences with programming in the new Member States.

PROGRAMMING WITH AN UNCERTAIN FUTURE

Review of Programme Developments: Autumn 2004 - Spring 2005

1. INTRODUCTION

This review of programme developments in IQ-Net partner countries and regions comes at a time of uncertainty about the future of EU Cohesion policy. The focus of attention is on the EU Council summit meeting in June when decisions may be reached on the EU financial framework for the 2007-2013 period, as well as the budget for Structural and Cohesion Funds and the allocation mechanisms by which the resources will be divided among the objectives and Member States. An agreement on funding will enable Member States and regions to begin planning for the future – whether it involves preparing the next generation of programmes or winding down programme management systems. Lack of agreement, however, will prolong the uncertainty – potentially well into 2006 - and managing authorities at national and regional level will be placed in a difficult position in preparing for the post-2006 period.

In anticipation of an agreement, some Member States are well advanced with their post-2006 strategic planning, having established committees, working groups or consultation mechanisms to develop their national strategic reference frameworks. This obviously applies mostly to the new Member States and EU15 countries/regions that are reasonably certain of Convergence funding in the next period. In some other countries, particularly where future EU support is contingent on a sizeable Competitiveness & employment objective, there is a slower, more cautious approach to strategic planning for the future. Across all Member States, programme managers are also following the debate on the new Regulations closely, and it is clear that there are many concerns about the Commission proposals for the next period.

However, programme managers face more immediate challenges. Each programme needs to have its Mid-Term Evaluation (MTE) updated by the end of 2005, to assess the latest progress and performance of the programme and provide information to help inform the next round of development strategies. Countries and regions are taking different approaches, ranging from relatively cursory and formal compliance with the European Commission's guidance to more in-depth analysis to assist with future programme preparations.

More generally, some programmes are continuing to encounter difficulties in meeting N+2 targets. As noted in previous IQ-Net reports[1], some programme managers are having to

[1] Bachtler J, Josserand F, Wishlade F and Yuill D (2004) *New Horizons for the Structural Funds: Review of Programme Developments – Spring/Summer 2004*, IQ-Net Thematic Paper 15(1).

devote disproportionate time and effort to avoid decommitment, and there are on-going concerns that project quality is suffering from the pressure to spend.

Not surprisingly at this stage in the programme cycle, there are few significant strategic or institutional changes to programmes or programme management arrangements. Where changes are taking place, they tend to be attributable to political factors or administrative reorganisation. However, on-going efforts to improve programme management systems are evident in many programmes, often as part of follow-up to the MTEs and Mid-Term Reviews – notably with respect to information, publicity and communication, monitoring, evaluation and the horizontal themes.

This paper examines all of these issues, focusing on developments since the previous IQ-Net review paper of October 2004. It begins with an outline of the current state of the debate on the reform of EU Cohesion policy and some estimates of the possible eligibility and financial receipts of Member States on the basis of the Commission proposals. The paper also discusses the views of IQ-Net partners on the draft Regulations, highlighting the degree of consultation, the specific regulatory concerns and the perceived implications. The paper then examines recent programming developments among IQ-Net partner countries and regions, covering both strategic and operational issues. The paper concludes with a brief overview of first experiences with programming in the new Member States.

2. THE DEBATE ON THE EU BUDGET

Under the three-year strategic programme of the European Council for the 2004-06 period, the Member States are committed to reaching a political agreement on financial planning for 2007-2013 in June 2005. The Luxembourg Presidency has put forward successive versions of a 'Negotiating Box' (the latest version being produced on 21 April 2005[2]) with a view to enabling agreement at the Heads of Government European Council meeting on 16-17 June. However, with big divisions between the Member States on several major issues – such as the size of the budget, the allocation of funding, the absorption cap, the UK rebate – the prospects for an agreement in June are uncertain. The consequence of disunity could be to delay agreement on the budget until the Austrian or Finnish presidency in the first and second halves of 2006 respectively, with significant consequences for financial and programme planning. The following section[3] briefly reviews the main negotiating issues, highlighting differences among Member States, and it then outlines the potential eligibility implications and financial allocations associated with the European Commission's proposals.

2.1 Negotiating issues

The Commission's proposals for the financial framework for the 2007-2013 period were published in February 2004[4]. Its proposals for the future of EU Cohesion policy were published in outline form in the Third Cohesion Report in February 2004[5], followed by draft Regulations in July 2004[6]. The details are well known and were outlined in a previous IQ-Net paper[7] together with a review of the debate as it stood in Autumn 2004. Since then, the debate among Member States has evolved; in particular, the new Member States have elaborated their views in more detail in a series of non-papers. Key issues at the heart of the debate are the overall level of resources, the question of own resources and the UK rebate, the absorption cap and the treatment of transitional regions, as follows.

- **Overall level of resources**. While the Commission's proposals refer to a ceiling for own resources of 1.26 percent of EU GNI, the so-called 'Group of Six' countries (Austria, France, Germany, Netherlands, Sweden, United Kingdom) continue to advocate a much lower ceiling on own resources (of 1 percent of GNI) and, in some

[2] *Non-Paper – Financial Perspective 2007-2013 'Negotiating Box',* Communication from the Presidency to the Council, Brussels, 21 April 2005, CADREFIN 84.

[3] This section draws heavily on Bachtler J, Wishlade F & Méndez C (2005) *The Reform of EU Cohesion Policy*, Paper for the Second International Conference on Benchmarking Regional Policy in Europe, Riga, 24-26 April 2005, European Policies Research Centre, University of Strathclyde, Glasgow.

[4] Communication from the Commission to the Council and the European Parliament *Building our common future: Policy challenges and budgetary means of the enlarged Union 2007-2013*, COM(2004) 101 final, Brussels, 10 February 2004

[5] *A new partnership for cohesion: convergence, competitiveness, cooperation – Third report on economic and social cohesion*, Commission of the European Communities, Brussels, February 2004.

[6] Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, COM(2004)492 final of 14 July 2004.

[7] Bachtler et al (2004) *op.cit.*

cases a national approach to future EU Cohesion policy. Other Member States have a range of positions between these two figures.

- **Own resources and the UK rebate**. Germany, the Netherlands and Sweden have jointly submitted a non-paper[8] criticising the UK position on its rebate and advocating a more generalised correction mechanism that reduces the contributions of other major net payers. Their position is that they will not agree the 2007-2013 budget unless costs are shared more evenly. Finland has also presented a non-paper proposing the phasing-out of the UK rebate. A number of New Member States oppose the rebate (e.g. Czech Republic and Estonia), but contest the Commission's proposals for a step-by-step transition to the generalised correction mechanism. The UK remains strongly defensive of its rebate.

- **Absorption cap.** Many new Member States are concerned at the four percent ceiling on cohesion transfers, because of objections to the methodology for estimating national GDP, the lack of flexibility for individual Member State circumstances and the impact on aid intensities in the poorer parts of the new Member States.

- **Transitional regions.** The treatment of transitional regions has been of particular concern to Spain, seeking a safety net for its ineligibility and potential loss of Cohesion Fund receipts, although other countries are also concerned about the treatment of Phasing-in and Phasing-out regions, especially Greece, Portugal and Ireland. New Member States which do not qualify as a whole for Objective 1 (Hungary, Czech Republic, Slovak Republic) are also keen to see the Berlin formula adapted.

- **Eligibility and trends in GDP.** Several Member States are keenly aware that the time period of GDP per head data used for determining eligibility for EU Cohesion policy makes a significant difference to the receipts of individual countries. The new Eurostat data in January 2005, enabling a shift from 1999-2001 to 2000-2002 averages for GDP per head, affected regions with 9.94 million people changing eligibility status. The April 2005 revision made yet further changes, affecting the status of Dresden, Malta and Burgenland. Delaying the budgetary agreement until 2006 could mean the use of 2001-2003 averages, which is clearly perceived as disadvantageous by Greece and Spain; conversely, delay could mean that much of eastern Germany would qualify for full Convergence priority status.

- **Agricultural spending.** Italy – with some support from Portugal - has called for a re-opening of the 2002 Brussels agreement on CAP spending in order to find savings to permit a lower EU budget without making cuts in EU cohesion policy. A similar proposal has been made in a parliamentary report in the UK. These suggestions are opposed by the European Commissioner for Agriculture, and the Luxembourg Presidency has indicated that it would only discuss changing the accord if all Member States are in favour. As yet, it is not evident that sufficient Member States would support such a move, and it is opposed by France, Ireland and Spain. Some

[8] *Non-paper – excessive net payers (Netherlands, Germany, Sweden).*

countries (eg. the Slovak Republic, Portugal), have suggested more minor changes to the CAP, incorporating appropriations for expenditure for Bulgaria and Romania within the existing ceiling for market-related expenditure and direct payments (rather than increasing the ceiling).

In trying to reconcile the different views, the latest version of the Luxembourg Presidency's Negotiating Box acknowledges (for the first time) that agreement among the Member States will require a reduction in the Commission's proposals for future spending[9]:

> *"The Presidency, whilst not presenting any figures at this stage, is aware that finding a balance will inevitably result in some reductions in each and every category of expenditure (although not shared equally between the different headings) by comparison with the Commission proposal."*

The Negotiating Box goes on the make some specific proposals to deal with the concerns expressed by Member States on the funding of EU Cohesion policy (Heading 1b), notably:

- dedicating a slightly higher proportion of the overall figure to the Convergence objective;
- adjusting the multiplicator for calculating the extent to which national prosperity is taken into account in determining allocation levels (to give more resources to the very poorest regions);
- adjusting the ceiling on capping in order to enhance the relative concentration on the least prosperous Member States, and using the latest statistics for the calculations;
- amending the transition arrangements to concentrate funds on the least prosperous Member States; and
- introducing some proposals to address specific cases where regions or Member States are particularly affected by the statistical effect of enlargement (eg. Phasing-out arrangements for the Cohesion Fund for Spain).

However, the Luxembourg Presidency also acknowledges that there are still major issues outstanding, most clearly with respect to own resources, and that "the Presidency continues to be guided by the principle that nothing is agreed until everything is agreed"[10].

2.2 Future EU Cohesion policy – regional eligibility

The new architecture of Cohesion Policy, under the Commission proposals, comprises three objectives for Structural and Cohesion Funds from 2007-2013: (a) *Convergence*, which aims to accelerate the convergence of the least-developed Member States and regions (broadly equivalent to Objective 1 under the current regime), and comprising the Cohesion Fund, the Convergence regions, the Outermost regions, and the so-called 'statistical effect'

[9] Letter from Mr Jean Asselborn, President of the Council to Foreign Ministers, Luxembourg, 21 April 2005.

[10] *Non-Paper – Financial Perspective 2007-2013 'Negotiating Box', (op. cit.)* p.2.

(Phasing-out) regions; (b) *regional competitiveness and employment*, which aims to improve the competitiveness and attractiveness of the regions and promote employment by anticipating economic and social change, and covering the Phasing-in regions and all regions *not* covered by the Convergence heading or Phasing-in; and (c) *European territorial cooperation,* which aims to strengthen cross-border cooperation and applies to all regions and Member States.

Under the different categories of the Commission's proposals, the national and regional eligibility would be along the following lines.

- **Convergence – the Cohesion Fund.** Eligibility is defined as concerning Member States whose per capita gross national income (GNI), measured in purchasing power parities (PPS) and calculated for the last three years available, is less than 90 percent of the Community average, and which have a programme for meeting the economic convergence conditions referred to in Article 104. All of the new Member States, plus Portugal and Greece, would qualify for the Cohesion Fund.

- **Convergence – eligible regions (formerly Objective 1).** The Convergence regions would cover NUTS II regions whose GDP per head measured in purchasing power parities and calculated on the basis of the last three years is at, or less than, 75 percent of the Community average. On the basis of January 2005 Eurostat data (see Table 1), the Convergence priority would cover almost all (92.9 percent) of the population of the 10 new Member States, but just a small proportion (15 percent) of the EU15 (compared with 22.3 percent for 2000-06). Some 70 regions (33 in the EU15 and 37 in the new Member States) would be covered by the Convergence objective, a total population of around 124 million.

- **Convergence – Outermost regions.** Reflecting their special status under Article 299(2) of the Treaty, a separate treatment of the Outermost regions (OMR) is proposed under the draft Structural Funds Regulation. The seven regions concerned are: the four French *départements d'outre mer* (Guadeloupe, Martinique, Guyane and Réunion); the Spanish Autonomous Community of the Canary Islands; and the Portuguese Autonomous regions of the Azores and Madeira.

- **Convergence – Phasing-out regions.** There are 16 regions (about 3.6 percent of the EU25 population) whose Objective 1 status is affected simply by the so-called statistical effect of enlargement (ie. eligible in an EU15 but not in an EU25).

Table 1: Assisted area coverage post 2006?

	Convergence	Statistical effect	Phasing-in	TOTAL
EU25	27.7	3.6	3.6	**34.9**
EU15	15.0	4.3	3.5	**22.8**
NMS10	92.9	0.0	3.8	**96.7**
Belgium		12.4		**12.4**
Czech Rep	88.6			**88.6**
Denmark				**0.0**
Germany	12.5	6.1		**18.6**
Estonia	100.0	0.0		**100.0**
Greece	36.6	55.5	7.8	**100.0**
Spain	36.0	5.9	16.3	**58.2**
France	2.7			**2.7**
Ireland			26.5	**26.5**
Italy	29.2	1.0	2.9	**33.1**
Cyprus				**0.0**
Latvia	100.0			**100.0**
Lithuania	100.0			**100.0**
Luxembourg				**0.0**
Hungary	72.2		27.8	**100.0**
Malta	100.0			**100.0**
Netherlands				**0.0**
Austria		3.4	0.0	**3.4**
Poland	100.0			**100.0**
Portugal	70.1	3.8		**74.0**
Slovenia	100.0			**100.0**
Slovakia	88.9			**88.9**
Finland			13.0	**13.0**
Sweden				**0.0**
UK	4.0	0.6	4.4	**9.1**

Source: Own calculations from Eurostat data (April 2005 update).

- **Competitiveness – Phasing-in regions**. The category of 'Phasing-in' regions - those with Objective 1 status in 2000-6 whose levels of growth have put their GDP(PPS) per head beyond the Convergence threshold, even without the statistical effects of enlargement (ie. above 82.19 percent of the EU25 average) – covers some 12 regions, (including the Outermost regions of Madeira and Canarias), equivalent to 3.6 percent of the EU25 total population.

- **Competitiveness - other regions.** The Commission's proposals foresee the withdrawal of the explicit designation of areas on the basis of EU-wide criteria under Objective 2 in favour of a more thematic approach. Mention is made of a number of types of region with particular territorial development problems, such as islands and mountain areas, as well as urban, rural and fisheries areas. At this stage, it is not clear, whether (and what) specific criteria are envisaged for the special treatment of these areas.

2.3 Future EU Cohesion policy – funding allocations

In addition to the eligibility of countries and regions under the various objectives, a further question is how Member States would benefit financially from the Commission proposals for future Structural and Cohesion Funds. Although full information is not available, EPRC has made some provisional calculations of the indicative allocations under EU Cohesion policy for the 2007-2013 period. These calculations draw on previous work[11] and take account of recent Commission information 'fiches' and the publication of Eurostat GDP data for 2002.[12] The calculations cover the Structural Funds and the Cohesion Fund; they apply capping to expenditure, where relevant; and they include transfers to Heading 2 under the EAGGF Guidance and European Fund for Fisheries. They include all the current Member States, but not Bulgaria and Romania.

The Commission proposal for the global allocation for Cohesion Policy has changed as statistics have evolved: the draft General Regulation[13] earmarked a sum of €336.12 billion (equivalent to €373.9 billion if transfers to rural and fisheries are included); by January 2005, this had fallen to €333.0 billion (€370.2 billion with transfers to rural and fisheries).[14]

The allocation of Cohesion policy funding to any given Member State is the result of the complex interaction of top-down principles on the global breakdown of funding between different priorities and country groupings, and bottom-up criteria determining the share of a given budget. More specifically, the draft Regulation indicated that the overall budget should be allocated with: around 78 percent for the Convergence objective (less-developed regions, outermost regions, Cohesion Fund and Phasing-out regions); around 18 percent for the Regional Competitiveness objective, including the Phasing-in regions; and around four percent for the Territorial Cooperation objective.

Each element of the Commission's proposals has its own mechanism for determining the allocation to any given country: in some cases the approach is 'bottom up', based on a measurement of disparities (notably the regional convergence element); in some cases it is top-down, with a distribution key being applied to a given amount of funding (for example, the Cohesion Fund).

The calculations for each element are affected by several overarching constraints: the annual allocation for Cohesion policy per country should not exceed four percent of GDP as

[11] Bachtler J and Wishlade F (2004) *op. cit.;* and Wishlade F, *Eligible Areas and Financial Allocations under the New Structural Funds: Quarts, Pint Pots and Half Measures*, Paper for the EoRPA research consortium, European Policies Research Centre, University of Strathclyde, October 1999.

[12] The funding calculations presented here use the 2002 GDP data released on 25 January 2005. A revision of this data was released on 7 April 2005, resulting in Dresden (Germany) and Malta gaining Convergence region status and Burgenland (Austria) moving from Phasing-in to Phasing-out status. These changes have not been taken into account in this section, nor does it consider the proposals put forward by the Luxembourg Presidency in the latest Negotiating Box (section 2.1).

[13] *Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund*, COM(2004)492 final of 14 July 2004.

[14] Multiannual Financial Framework 2007-2013, *Financial package for cohesion policy 2007-2013: update on the basis of the latest available statistics,* Fiche no 26, rev 3, 26 January 2005.

forecast for that year; a proportion of the regional convergence, competitiveness and cooperation allocations is transferred to Heading 2 under the EAGGF Guidance and EFF; and, for the new Member States, the Cohesion Fund should represent one third of the Cohesion policy financial allocation.

The outcomes are shown in the figures below, which illustrate estimated Cohesion policy allocations to Member States (Figure 1) and under the Convergence objective (Figure 2) and Regional competitiveness and employment objective and (Figure 3) respectively. Several points emerge from the figures.

- On the basis of the calculations shown in Figure 1, the largest allocations of EU Cohesion policy resources would be to Poland (with more than €60 bn in the 2007-2013 period). Sizeable resources would also be allocated to other new Member States (Czech Republic, Hungary). Further, the figure shows clearly the Commission's efforts to retain sizeable shares of EU Cohesion policy funding in the old Member States – not just in the EU15 Cohesion countries (Spain, Portugal, Greece) but also in Germany, Italy, the UK and France.

- The Convergence allocations (Figure 2), are dominated by Poland whose estimated allocations would account for 45 percent of Convergence funding in the new Member States and one-quarter of the EU25 total. Other countries with major allocations (in the range €150 - €250 bn) would be the Czech Republic, Hungary, Spain, Portugal, Greece, Italy and Germany. The remaining new Member States (Slovak Republic, Lithuania, Slovenia, Latvia, Estonia, Malta, Cyprus) and some old Member States (UK, France, Belgium) would benefit with lesser amounts.

- The importance of Phasing-out funding, as a proportion of total Convergence allocations, is clearly evident in the case of Greece and Germany and, to a lesser extent, Spain.

- Under the Competitiveness objective (Figure 3), three countries – Germany, the UK and France – would be the leading recipients, each with estimated funding of €10-11 bn, and together accounting for 54 percent of EU25 allocations under this heading. Italy, Spain and the Netherlands would also benefit significantly under this objective.

- The provisions for Phasing-in regions would form a large part of Spanish receipts under the Competitiveness objective, and also for Finland and Ireland (although part of smaller absolute totals).

Figure 1: Estimated allocations under EU Cohesion policy by Member States, 2007-2013

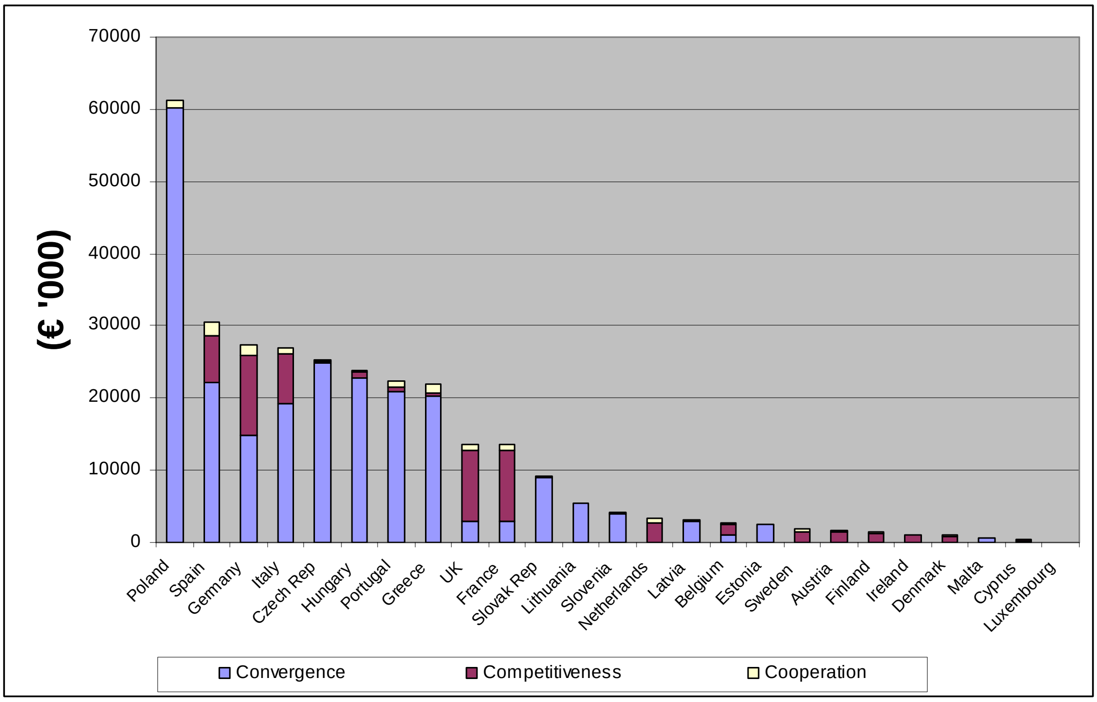


Figure 2: Estimated allocations under the Convergence objective, 2007-2013

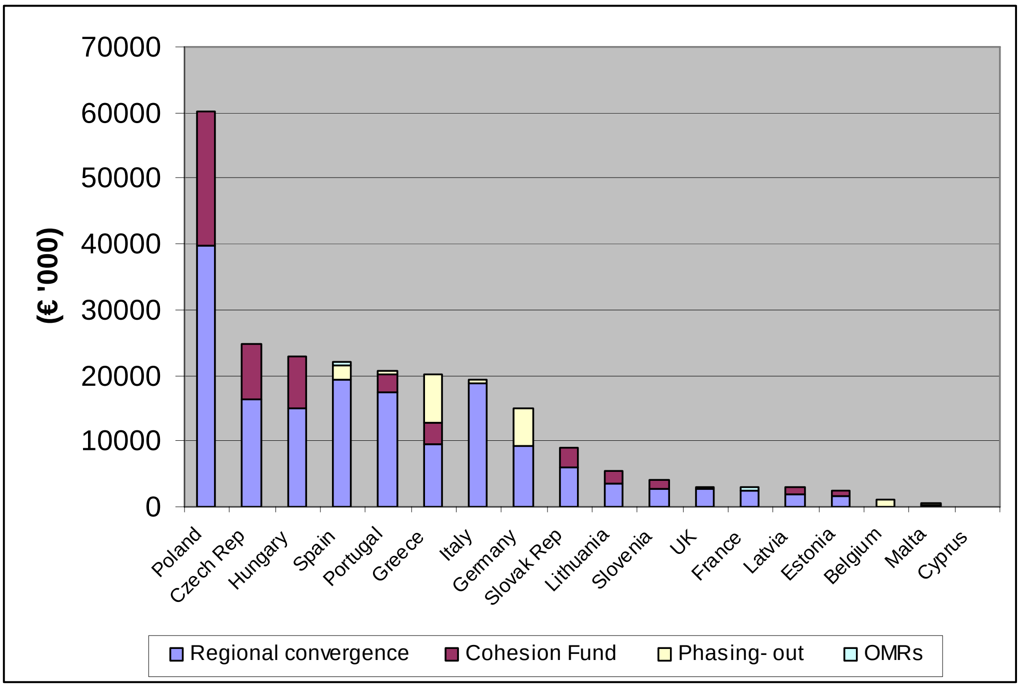
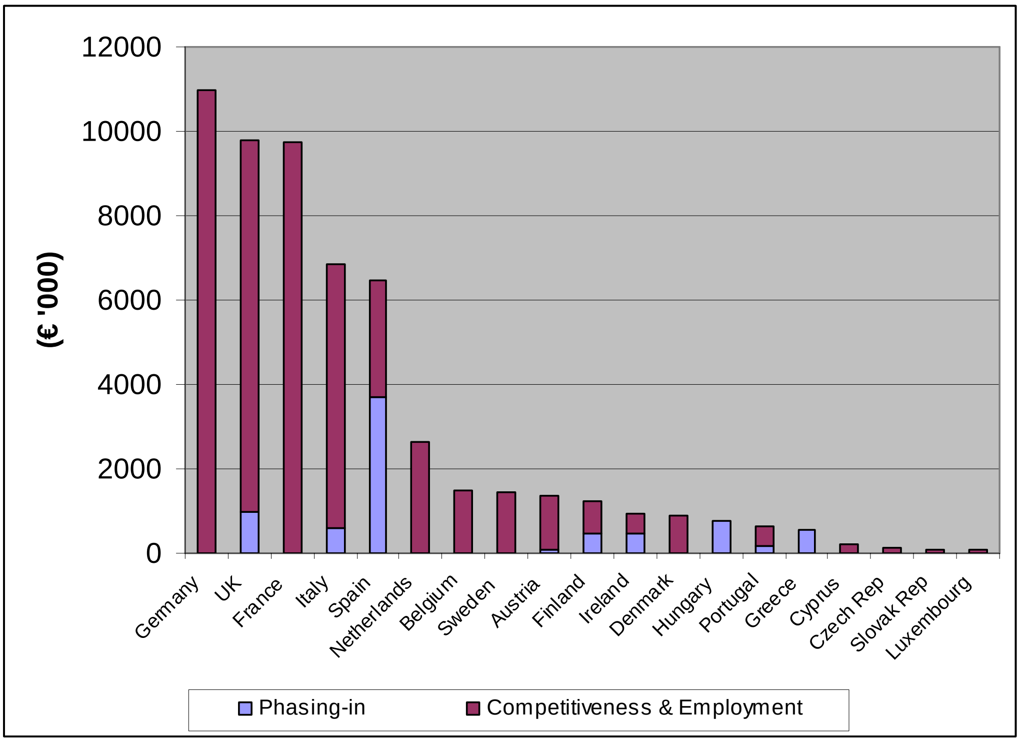


Figure 3: Estimated allocations under the Competitiveness & Employment objective, 2007-2013



3. PARTNER PERSPECTIVES ON THE REFORM DEBATE

The negotiating positions and differences among Member States have been outlined above. The following section explores the views of IQ-Net partner authorities, outlining the degree to which sub-national authorities are involved in the reform debate, and specific issues of concern.

3.1 Consultation mechanisms

Consultation is under way on the reform debate in most Member States, with varying levels of involvement of sub-national authorities. In some countries – **Denmark, France, Spain, Sweden** – the consultation is mainly 'top-down' with national government ministries distributing the Commission's proposals to sub-national authorities and interest groups for information purposes and seeking responses on specific issues. In **Spain**, the regions are updated periodically on the negotiations through the bi-annual 'regional economics and policy forum' which brings together representatives from the regions and the central government with responsibility for Structural Funds management. The most recent meeting, for example, in April 2005, discussed the draft Regulations, the negotiation of the financial perspectives, reprogramming of the Structural Funds and compliance with MTE recommendations.

Other countries – **Finland, Italy, the United Kingdom** – have established consultation groups to facilitate more structured and regular engagement with regions, although these do not necessarily include programme managers whose input to the consultations on the draft Regulations may be relatively limited.

- In **Italy**, a '*Contact Group'* has been set up to support the reform debate and negotiations. It comprises representatives of 11 regions (Lazio, Toscana, Sicilia, Valle D'Aosta, Emilia Romagna, Marche, Campania, Veneto, Puglia, Abruzzo, Friuli Venezia Giulia) and four national ministries (Foreign Affairs, Economy and Finances, Welfare and Agriculture) and is currently carrying out a series of assessments on core issues through thematic sub-groups. A 'Community Policies Working Group for Objective 1' operates in parallel with the Contact Group, bringing together all the national and reguional managing authorities, to scrutinise the draft Regulations. In addition, a private company 'Studiare Sviluppo' (http://www.studiaresviluppo.it/homepage.htm) has been given the mandate of supporting the inter-institutional coordination and the negotiations on the future of the Funds.

- In **Finland**, a working group has been established on the draft Regulations, consisting mainly of representatives from relevant national ministries as well as representatives of the Federation of Municipalities. A Parliamentary Committee has taken evidence from regional representatives and other experts in the field. Two further working groups are in the process of being established, both of which will have regional representation. One will develop proposals on the administrative and

management systems to be adopted under the new programmes looking particularly at whether the respective roles of the ministries and regions need to be changed. The other working group - the National Strategic Framework Reference Committee - is considering the development of the national strategy for presentation to the Commission, again including representatives of central government ministries and the regions.

- In the **UK**, there are two main Structural Fund groups led by the Department of Trade & Industry (DTI) which are reflecting on the reform of the Funds: (a) the Structural Fund Steering Group – chaired by DTI and involving the Devolved Administrations (Scotland, Wales, Northern Ireland) and representatives of selected Government Offices for the English regions; and (b) the Structural Funds Analytical Group, comprising analysts from central government and the Devolved Administrations.

Lastly, in the federal countries – **Austria, Belgium, Germany** – there are constitutional or institutional obligations for formal consultation. As noted previously, the **Belgium** negotiating position in the EU reform debates is determined by the collective position of the regions, while in **Germany** the federal and state (*Land*) government jointly agree the negotiating position. In all three countries, there has been close involvement of regional authorities in discussing the draft Regulations.

3.2 Partner perspectives on the reform debate

In the context of the negotiations on the financial perspective, the main concerns among regional partners are clearly the size of the EU Cohesion policy budget and the scale and scope of the Convergence and Competitiveness objectives. Several partner programmes expect sizeable reductions in funding in the next programme period, ranging from 20 to 60 percent. More generally, many partners are keen for a June agreement on the budget in order to provide some certainty about the future, whether it enables planning for the next period to begin or it involves a winding-down of operations.

- **Eligibility/designation criteria.** For the most part, the Commission's proposals to move away from a map-based approach to determining eligibility has been welcomed as providing the opportunity for a more strategic and integrated approach to areas of need and opportunity. However, several partners (**Finland, Flandern**) are concerned that the combination of thematic priorities and more flexibility for Member States to determine the geographic allocation of support could lead to a diversion of EU support away from the poorest or weakest areas. Specific concerns for **Finland** are the treatment of the sparsely populated areas, and in **France** there are concerns about the criteria for allocating funds to the ultra-peripheral regions.

- **Community Strategic Guidelines and National Strategic Reference Frameworks.** There are clearly major divisions among Member States on this issue. The German federal government is completely opposed to the proposal on principle; in particular, it is concerned that recommendations or indicators for each Member

State will be included in the Guidelines (a concern shared by the national governments of the **Netherlands, Sweden** and the **UK**). Other criticisms are that large countries, such as Germany, are too heterogenous for a single national strategy to be meaningful, and that the process of defining strategic indicators and regular monitoring would conflict with the goal of simplification. For the **UK**, the Community guidelines should have minimal prescription, allowing countries and regions to have flexibility to focus on national/regional needs. Italian partners (eg. **Toscana**) regard the frameworks as too top-down, adopting a hierarchical approach rather than a shared definition of objectives; there is also the perception that the programming role for sub-state actors will be downgraded. In contrast, other countries, especially the new Member States, have welcomed the Guidelines (and National Strategic Reference Frameworks) as facilitating a clear strategic approach to the use of EU Cohesion policy resources and a means of resisting political or administrative pressures to spread the resources too thinly or among vested interests.

- **Priorities and eligible expenditure.** Although the thematic priorities have often been welcomed in principle, many partners have concerns about the implications for their flexibility to design programmes to meet regional and local needs. In **Sweden**, for example, **Norra Norrland** considers that the priorities will lead to narrowly focused programmes, which do not reflect specific regional conditions or the scope for absorption in areas such as R&D and innovation. As noted in the previous IQ-Net paper[15], most partners have raised some specific concerns about aspects of eligible expenditure that currently feature in their programmes but may not be eligible under the Commission's proposals.

- **Simplification**. Many partners appear to support the proposal for mono-fund programmes as a mechanism for streamlining strategic planning and administration, notably quicker approval for programme changes. For managing authorities which will be responsible for the two Funds, and for rural development under the EAGGF, there is some concern at the challenges of operating an integrated regional development strategy. The proposal for more proportionality has also been welcomed in most countries/regions, although some new Member States are concerned at having a differentiated approach to administrative obligations which are detrimental to the larger recipients. A particular concern for partners in **Austria** is the need for more proportionality in the administrative burdens for smaller projects, eg. reduced requirements to provide monitoring data and more flexibility in the provision of match-funding.

- **Regionalisation of ESF.** There are tensions in some countries (eg. **Finland, UK**) over the approach to future management of the European Social Fund, with some partners seeking to have the draft Regulations strengthened so that regional management of ESF is not just an option but required wherever possible. The equal split between ERDF-competitiveness and ESF-employment programmes has also

[15] Bachtler et al (2004) *op. cit.*

been criticised in Austria, where this would disproportionately provide funding for Vienna.

- **Regional aid Guidelines.** As noted in the previous IQ-Net paper, the proposals put forward by DG Competition would significantly reduce the scope for national regional aid to be provided in Article 87(c) regions. This of particular concern for regions sharing a border with Article 87(3)(a) areas (eg. **Austria**). The interrelationship between the EU Cohesion and Competition policy reforms is clear in **Finland**: if EU funding is available to aid investment in the north and east of the country, this would release national funding for the west and south; without EU resources, national funding for investment aid would probably be limited to the east and north.

3.3 Institutional issues

Among partner countries/regions, there has been only limited preparation for a possible major loss of EU funding, or for a more restrictive approach to the allocation of funding by priority or type of partner. This is expected to present political and administrative challenges in responding to the needs of projects or beneficiary organisations that rely on, or have become accustomed to, the availability of EU support.

Even if budgetary agreement is reached in June, some managing authorities regard it as almost inevitable that there will be a delay in launching the post-2006 programmes, given the difficulties encountered in agreeing aspects of the Regulations. The prospect of a gap between the current and future programmes (as in 1999-2000) make it important to be clear about the priorities for the new period and how any gap will be bridged.

Other issues arise from the prospect of changes in management and delivery arrangements (eg. in **Flandern** and **Scotland**). One option being debated in **Flandern** is to have a single programme for the whole Flemish Region under the future Objective 2 proposed by the Commission. Therefore, there is great uncertainty as to the future of the current Programme Secretariats which are based at the provincial level (as in Limburg) or at the sub-provincial level (as in the Province of Antwerp, which effectively has two programmes merged together under two separate priorities, one for Kempen and one for Antwerp).

Institutional changes are also possible in **Scotland**. Although a regional programme for the Highlands & Islands would seem likely, given its probable qualification for Phasing-out (statistical effect) status, there may some rationalisation of the other programmes and programme management executives (Western, Scotland, Eastern Scotland, South of Scotland). This could be in the form of a single 'Lowland' programme, or a move to a 'subsumed' approach of resource allocation (within domestic agencies), or a combination of the two approaches.

In both **Flandern** and **Scotland**, there is concern about the implications of reorganisation for the distribution of funding (which may be allocated with less strategic direction and less focus on the weakest areas) and the loss of partnership working built up over many years.

In Flandern, for example, a single Objective 2 programme for the whole region, with a single financial envelope, could lead to one province benefiting disproportionately.

4. PROGRAMMING DEVELOPMENTS: STRATEGIC ISSUES

Reaching agreement on future funding is crucial to enable Member States and regions to begin planning for the future – whether it involves preparing the next generation of programmes or winding down programme management systems. Lack of agreement, however, will prolong the uncertainty – potentially well into 2006 - and managing authorities at national and regional level will be placed in a difficult position in preparing for the post-2006 period. In anticipation of an agreement, some Member States are well advanced with their post-2006 strategic planning, having established committees, working groups or consultation mechanisms to develop their national strategic reference frameworks. This obviously applies mostly to the new Member States and EU15 countries/regions that are reasonably certain of Convergence funding in the next period. In some other countries, particularly where future EU support is contingent on a sizeable Competitiveness & employment objective, there is a slower, more cautious approach to strategic planning for the future.

4.1.1 Programme Closure

Effective programme closure is necessary to ensure full utilisation of structural funds budgets and a timely start to the preparations for the next programming period. Some partners have set up specific working groups to ensure a successful winding down of the programmes and to avoid a repetition of the delays experienced in the last programming period (e.g. **UK**, **Finland**). For others, no preparations have been undertaken so far as this seems premature at this stage (e.g. **Toscana, NRW**), although, in some cases, the issue is likely to appear on the agenda over the coming months (e.g. **France).** Moreover, satisfactory progress with financial implementation across most programmes means that, in many cases, there are no major concerns over the capacity to effectively spend all the resources by the end of 2008. For example, in **Toscana** and **Lombardia** most of the calls for projects are closed and expenditure is relatively high. Further, it is expected that closure will be more effective compared to the last programming period due to the presence of a more stringent monitoring system, the frequent meetings between the Managing Authority and the measure managers and the tutorship activities carried out by the measure managers with the beneficiaries.

4.1.2 Challenges and solutions

Amongst the main concerns expressed by programme managers in relation to closure are the following.

- **Domestic funding arrangements:** In **Finland,** the programme secretariat is keen to ensure that the entire programme budget is drawn down effectively and on time. However, this is more of a challenge than in some other jurisdictions because of the complex way in which funding is allocated within the Finnish system – first to each of the seven regions within the programme area and then to the regional organisations (the funding bodies) within each region (in most cases, there are five or six of these). There is a recognised need for careful planning and decision-making at the programme

level to ensure that the commitments made by priority and measure are matched by appropriate national and regional co-finance.

- **Lack of Demand:** In some programmes there is the problem that, whilst funding is available, there is a lack of demand under certain Measures due to weak economic growth in recent years (e.g. **Niederösterreich**).

- **Unclear EU Rules:** Some have criticised the lack of clarity in the Commission's guidelines for programme closure.

    - **Private co-financing:** the lack of flexibility with respect to the relative amount of public to private co-financing and the possibilities to change these levels is considered to be problematic for programme closure (e.g. **Austria**), an issue which was also discussed in the previous IQ-Net Review Paper.
    - **Timetables:** In most countries no firm schedule has been set for claims deadlines. In **Italy** the deadlines will be established on a Measure-by-Measure basis by the respective managers. In other countries, there is a concern that such flexibility will provide incentives for lagging projects to lag further behind.
    - **Timetables for transitional areas:** Some confusion has been expressed over the issue of integrating transitional/permanent areas in closure timetables. In the **UK**, for example, there is agreement that this will apply for venture capital funds – ie. both are scheduled to end in 2006. The national authorities have argued that this should apply to all types of funding (contrary to the view of the Commission). In **Italy,** there will not be a deadline for the submission of the certified expenditure of transitional support. At the last annual meeting with the Commission in November 2004, the representative of the Commission confirmed that one single claim will be accepted for both transitional and Objective 2 areas at the end of 2008.

To address some of these issues, some potential strategies have been highlighted by the programme partners.

- **Overcommitting:** Some partners have argued that it may be necessary to overcommit funds to ensure effective programme closure (e.g. **Austria).** In **Lombardia,** however, overbooking has not been formally approved under the Objective 2 SPD (unlike under Interreg), despite having made two requests since the beginning of 2004 for resources to be made available. A key concern is that, if domestic resources for overbooking are not made available, then there may be a threat to full programme closure. Others are against such a strategy, on the grounds that projects may be granted funding for which funds are subsequently not available (**Nordjylland**).

- **Committing beyond 2006:** Given that the Structural Funds Regulation does not specify that funds have to be committed by the end of 2006 - it does not say that funds can be committed after that, but just fails to say anything about the last date for commitments (although it does state a last date for payments) - the **Sachsen-Anhalt** managing authority intends to continue committing some funds (on an exceptional basis) in 2007.

- **Reallocate funds across Priorities/Measures:** In **Steiermark,** shifts in funding allocation may be necessary in transitional areas. However, two new major projects are expected to increase absorption significantly. By contrast, in **NRW** funding for phase-out areas is virtually exhausted.

- **Increased financial monitoring and planning:** In **Finland**, financial monitoring and planning have been tightened at the regional level with programme closure in mind. In addition, an ESF closure group and ERDF closure group have been established by the Ministry of Labour and Ministry of the Interior respectively. However, building on the experience gained at the end of the last programming period, it is not expected that closure will bring with it major problems.

- **Project generation activities:** In **Flandern,** a 'reserve' of projects is being set up by the programme secretariats. Similarly, in **NRW**, three recent sub-regional conferences have been held with the aim of encouraging local actors to come forward with high-quality projects to bid for reserve funds, building on the positive experience of a similar conference in 2004. Other partners emphasised the importance of maintaining good communication channels with all relevant partners to ensure that project applications come forward in a timely fashion (e.g. **Nordjylland**)

- **Drawing on past experiences:** In **Sweden,** NUTEK has taken the initiative to organise a seminar on programme closure for the Managing Authorities. Since NUTEK was the responsible authority in the last period, it was thought to be useful to arrange a seminar to relate lessons learned from the last programme closure to the current responsible authorities. During spring 2005, another seminar is planned dealing more specifically with programme closure procedures.

- **Management arrangements:** In a number of countries, working groups have been set up to deal specifically with programme closure issues, either at the national level (e.g. **Finland, UK**) or regional level (e.g. **Norra Norrland**). In the **UK**, there has been early in order to ensure that some of the past failures are not repeated. More specifically, a 'UK Closure Steering Group' has been created, chaired by DTI and with representatives from the regional Government Offices (GOs) and DAs. The group meets regularly and has recently had a 'taking stock and future steps' meeting at the end of February in Cardiff. Under the auspices of the Closure Group are two sub-working groups: Working Group Audit and Compliance; and Working Group Guidance and Instructions for GOs. All the GOs are represented on these, although again their activities are at an early stage. Much more effort is being made to capture the required information as the programme goes on rather than load up tasks at the end of the programme. There are no specific regional organisations for closure – the issue is still at the discussion stage as they are currently preoccupied with the flow of projects – but there is an acknowledgement that expectations will shift. In **Nordjylland,** the creation of a new regional steering committee (the 'growth forum') is also expected to help ease the programme closure process, although this will not be one of its primary functions.

- **Guidance:** In the **UK**, regional programmes have been issued guidance on 'handling slippage'. Although different programmes have different ways of dealing with this, the

guidance – based on a model used by one of the regions – has been well received by Government Offices.

4.2 Preparations for post 2006

For a majority of partners there is broad agreement that it is still somewhat early to make concrete decisions for the post-2006 period given the current stage of the negotiations. As noted, this applies particularly so in Objective 2 areas where there is uncertainty over whether there will be a new programme for the following period, how much will be available and how it will be managed. In most (but not all) cases, partners' efforts are focussed on progressing with the current programmes, with future preparations and planning still at an early stage.

In **Italy,** all programmes have started to prepare for the next programmes, although the Managing Authority for **Local and Economic Development OP** is more advanced than the Objective 2 programmes for which there is a higher degree of uncertainty over future funding arrangements. For the **Local Economic Development OP**, a working group has been created in the Ministry of Productive Activities with IPI, the Managing Authority and external experts on the issue of future Structural Funds support with a view to making some preliminary hypothesis and to assess how to proceed. In the **UK,** post-2006 options are also beginning to be discussed. There is a strong feeling that, regardless of the size of programmes, a lot of administration and management will be required. A key concern is that some programmes could have staffing problems as they are already beginning to lose personnel. At the regional level, preparations for the next programming period are still at the discussion stage. There is the feeling that there is little sense exerting energy at this point when the budget/draft regulations are still under negotiations. However, as soon as a clearer picture emerges there will be an immediate reorientation of activities.

4.2.1 National strategic reference framework

The precise function and nature of the national strategic reference framework is contested amongst Member States, partly reflecting the divisions of powers between the centre and the regions but also the divergent views over the EUs role in structuring national and regional economic development policies and processes. Some have reacted negatively, highlighting the potential for conflict over jurisdictional competencies (e.g. **Germany, País Vasco**). On the other hand, **France,** unsurprisingly, sees the preparation by each Member State of the national framework as a key strategic stage which should be initiated as soon as possible. In this context, DATAR has prepared a road-map for the 2005 with a view to facilitating the preparation of the new operational programmes.

The National Strategic Reference Framework Roadmap in France

To develop the National Strategic Reference Framework, DATAR has prepared a road-map for 2005 with a view to facilitating the preparation of the new operational programmes whilst ensuring the participation and ownership of a wide partnership to draft the national framework and maintain a coherence between the three (community, national and

regional) decision-making levels. This process will be articulated around a series of key stages.

- The preparation of an introductory document that will set the parameters for the debate (March 2005). This document will put questions to the regions which will be expected to provide their perspectives. This document will formulate the conclusions of the 'national strategic framework working group' convened by DATAR, with the SGCI, other ministries concerned and associations of elected officials, This group has met regularly since September 2004 to consider different key aspects of the future framework.

- The regional prefects will organise a consultation exercise involving key actors at the regional level to articulate answers to the introductory document (April to May 2005).

- These regional contributions will be synthesised during six inter-regional meetings bringing together the regional prefects, the regional councils, the regional economic and social councils and the ministries concerned (May to June 2005).

- Following these six inter-regional meetings, a first version of the national strategic framework will be established (summer 2005). Following the necessary examinations and validations by the national ministries, the modified first version of the framework will be forwarded to the regional prefects.

- The regional prefects will organise a regional consultation in each region, bringing together the European Commission, regional decision-making bodies (prefects, regional council, regional economic and social councils, etc.) and national associations of elected officials (September to October 2005).

- A second version of the national strategic framework will be established on the basis of these regional submissions. After examination and validation at the national level, a final version will be prepared (November 2005).

- This final version will be presented by the Prime Minister and the National Council for Spatial Planning (CNADT) will be consulted (December 2005).

- The national framework will be adopted at a special meeting of the cross-departmental council for spatial planning (CIADT), as soon as the financial perspectives are known (January 2006). The framework will then be submitted to the European Commission.

4.2.2 Future structure of the programmes

In a number of countries, particularly those with strong regional governments, the future operational programmes are likely to be embedded and conditioned by the existing regional economic development planning frameworks (e.g. **Austria, Spain**). In **Finland**, there is a system of strategic regional programming as part of the national regional policy regime. The current national regional programmes run from 2002-06, and the next four-year phase will run from the start of 2007. By way of preparation, the Ministry of the Interior is in the process of requesting national regional programmes from the regions for the 2007-2010

period. By next autumn, the idea is that SWOT analyses will have been carried out at the regional level for the national regional programmes and that ideas will be forming with respect to the main strategies to be followed. These programmes will then feed into the EU programmes when the time comes for them to be developed.

Preparations for the post-2006 period appear to be most advanced in **Germany.** Discussions at an operational level are underway in **NRW and Sachsen-Anhalt** over the possible structure and thematic focus of the future programmes, although there is a degree of uncertainty due to forthcoming elections which could lead to changes in overall economic development strategies.

In **Sachsen-Anhalt**, where a significant Structural Funds budget is assured given its future Convergence Objective status, the current *Land* administration is going ahead with the broad planning and discussion processes. A series of half day workshops with the five sub-regions was held in April and May, led by professional communications experts in order to help the partners discuss their ideas and to consider the relative priority to be allocated to the different spending categories. A workshop at *Land* level will also be organised with the social and economic partners represented on the Monitoring Committee. An external consultant may also be commissioned to undertake an assessment of the strategic needs to feed into the decision making process. It is expected that the political decisions on the future OPs will be made by December 2005 and will be followed by a conference to announce the results and decisions to all relevant partners. At present, it is not clear whether the *Land* will decide to draft six Operational Programmes as part of an overall development strategy or six (or three - ERDF, ESF, rural development) separate strategies which would then be brought together at the end of the process. In **NRW,** discussions have centred on the thematic focus, geographical allocation of resources and the procedures and decisions that need to be taken to take the process forward. There seems to be a relatively broad consensus on the desirability of focusing on innovation, start-ups and SMEs and urban regeneration.

In **Sweden,** an important priority is to embed sustainable economic development more firmly within future Cohesion Policy plans and interventions. To facilitate this, NUTEK has been commissioned to produce a guide for developing programmes in the next period. [16] The output of the project will be a guidance document for the production of future national/regional Structural Funds programmes. The key themes covered will be: entrepreneurship; business development; SME financing; co-operation between SMEs and higher education institutes; innovation systems and clusters; functional regions and local labour market regions, cities etc; private sector participation; and sustainable development and horizontal themes.

In a number of countries and regions, a key question concerns the responsibilities of the national and regional levels for the next programming period. In **Finland**, a working group is being set up to address the issue. From a national perspective, and notwithstanding the

[16] NUTEK (2005), *Projektplan. Verksövergripande aktivitet till EU:s sammanhållningspolitik. Vägledning/guide för framtagende av program inom ramen för EU:s sammanhållningspolitik 2007-2013*. Utgåva:4, 8 February 2005.

fact that there is in Finland a general policy to try to devolve matters as much as possible, there is a view that any move towards a further decentralisation of Structural Funds responsibilities might not be easy. A key issue is whether Management Authority tasks could be devolved to the regions? If so, should the monitoring system also be regionalised? With final decisions expected at the end of the year, it is difficult to judge what the outcome might be.

In **Sweden,** the Minister of Industry, Employment, and Communications has initiated a review to assess the organisational arrangements for the Structural Funds in Sweden and to propose how the national regional policy could be implemented in accordance with Structural Funds programmes and the European Employment Strategy in the 2007-2013 programme period.[17] The review started in December 2004, and the final report will be submitted in November 2005. Amongst the key issues which the review will cover are the role and function of the partnership principle across the various stages of the decision-making cycle; the notion of establishing a single national authority with a strategic role in supporting the national regional policy and local/urban economic development and planning; the geographical scope of the regional competitiveness and employment objective; and, the significance of a clearer division of labour between state and municipality and a cohesive effective county administration.

In **Denmark,** preparations for post-2006 will be conditioned by the Danish local government reform and the impacts of this on regional development policies and processes. Furthermore, the Danish government is currently debating a proposal for a bill that, amongst other issues, defines the conditions for, and structure of, regional 'growth fora'. This document may be characterised as a sketch of the organisational structure for the post-2006 period, and assuming that it is possible to implement it within the EU Cohesion policy framework, it is likely to determine the new architecture for Structural Fund programmes in Denmark.

Finally, in **Sachsen-Anhalt**, the discussion over future management responsibilities are more developed. The current managing authority has proposed that it should retain this role for all six OPs. However, there is no agreement as yet regarding the two rural OPs, where the Agriculture Ministry could also potentially assume this role. Problems could arise if the management tasks were separated across different Ministries or departments, eg. there would not be a single monitoring system that would allow the *Land* to gain an overall view of the strategy's progress. Similarly, if there were two managing authorities, each would deal separately with different Commission Directorates General and would get different messages from the Commission because of limited effective inter-DG communication.

[17] Kommittedirektiv 2004: 177, *Organisation för genomförande av EU:s sammanhållningspolitik, m.m.*, Beslut vid regeringssammanträde den 22 december 2004.

5. PROGRAMMING DEVELOPMENTS: OPERATIONAL ISSUES

The main operational issue for programmes in recent months has been the launch of the Mid-Term Evaluation (MTE) updates. For some regions, N+2 continues to be a problem; otherwise, changes are region-specific and relate mainly to the upgrading of programme management systems.

5.1 Update of the Mid-Term Evaluation

The Structural Funds Regulation requires an Update of the Mid-Term Evaluations to be submitted to the Commission by December 2005.[18] The aim of the Update is to build on the work of the Mid-Term Evaluations by assessing the latest programme performance and providing information which can help inform the next round of development strategies. Rather than repeating information already provided in the MTEs, the Updates should focus on areas where there is added value to be gained. In this context, the "minimum core content" which must be provided is set out in the Commission's guidance document, including the following components:[19]

- a review of the implementation of recommendations made in the 2003 Mid-Term Evaluation;
- an analysis of outputs and results achieved to date, analysed in the light of programme targets and financial performance;
- an analysis of the impacts achieved to date and the likely achievement of objectives;
- any other evaluation question(s) appropriate to the region, Member State or sector concerned; and
- conclusions on efficiency, effectiveness and impact and recommendations for the future.

Although the Updates must be submitted to the Commission and Monitoring Committees by December 2005, they may be completed earlier to facilitate the necessary planning and preparation for the following round of programmes.

5.1.1 Scope of the Updates

The EC guidance states that "the most important component for the Update is the achievement of outputs and results to date and the likely achievement of programme impacts".[20] Most programmes managers are of the same view and consider that financial and physical performance should take centre stage in the Updates. For some, the financial absorption analysis is seen as being more important than the impact analysis.

[18] Article 42 (4) of Council Regulation (EC) 1260/99.

[19] CEC (2004) 'The Update of the Mid Term Evaluation of Structural Fund Interventions' The 2000-2006 Programming Period: Methodological Working Papers, Working Paper no 9.

[20] *Ibid,*p.4.

In a number of regions, programme managers are keen to exploit the results of the Updates to lay the foundation for future programming (e.g. **Wales, Italy, Nordrhein-Westfalen (NRW)**). For example, in **Italy**, the Update for the **OP for Local and Economic Development** will provide an in-depth analysis of the most innovative instruments of the programme (e.g. the PIA Networking initiative) in order to understand the implications for a future programme. Programme managers in **Toscana,** drew attention to the importance of using the Updates to demonstrate the added value of Cohesion policy, particularly in view of the potential loss of resources in the future and in a situation where the central government may have greater discretion in targeting resources across regions.

In **Spain,** the national guidance states that the objective of the Update is not only to analyse the performance of the current programmes, but also to prepare the ground for the next round. In the final section of the Update, the evaluators must identify potential future 'lines of action' based on the development challenges of the region concerned and the potential fit with the new thematic proposals for Cohesion policy. In addition, the evaluators must identify progress towards a series of Lisbon objectives and quantified indicators covering the areas of employment, innovation and research and the knowledge society, environment, and education and training. To complement this, the evaluators should also analyse progress across the Commission's 14 structural indicators,[21] where this is possible. The results of this analysis aim to identify areas where there are development gaps and strong public intervention would be needed to progress towards Lisbon goals in the following programming period.

In **Germany, NRW** would also like the results to feed into the new programme, particularly in terms of the thematic orientation. On the other hand, the call for tender in **Sachsen-Anhalt** specified that the MTE Update would assess the current programme and would not aim to look at the shape of the future Operational Programme, although the managing authority notes that it is possible that they will use some of the results for future planning e.g. in terms of identifying needs for investment or changes in approach.

A number of countries will be undertaking supplementary thematic studies (e.g. **Finland, Italy, Sweden**). In **Finland**, a 'Knowledge and networking' evaluation related to the future competitiveness programme will be included. The main question to be addressed is how the inter-relationships between universities, research institutes, development bodies and the private sector are operating. The view is that different regions have different levels of success with respect to such networking. The Finnish authorities aim to identify concrete examples of success which they can then disseminate and on which they can build for the next programming period. The theme-based evaluation will cover both Western and Southern Finland (ie. the two Finnish Objective 2 areas), and there will be a similar study in Eastern and Northern Finland (ie. the two Objective 1 areas). The aim is to generate data/information on how knowledge is transferred between different bodies – and also between central parts of a region and surrounding rural areas.

[21] Communication from the Commission (2003) Structural Indicators, COM(2003) 585 final, 8.10.2003, Brussels

In **Sweden**, thematic studies are being prepared on three themes: regional conditions for innovation; entrepreneurship/enterprise; and attractive living environments. **Norra** will focus on the innovation and entrepreneurship/enterprise themes, whilst in **Norra Norrland,** agriculture and fisheries will be covered in addition to the innovation and entrepreneurship themes.

5.1.2 Implementing the Update

(i) Internal or external updating?

Managing authorities have the freedom to decide whether to appoint an external evaluator or to undertake the Update internally, as long as the core components specified by the Commission's guidance document are covered. In a number of countries, the Updates will be undertaken solely by external consultants (e.g. **Italy, Austria, Spain).** In some cases, the Update will be undertaken by the same evaluator used for the Mid-Term Evaluation. For example, in all **Austrian** regions except Vienna the Update evaluation is part of the Mid-Term Evaluation contract[22]. Whilst this is not formally stipulated in the **Italian** MTE Updates, most programmes will nonetheless be using the same evaluators, as a high level of cooperation and satisfaction with the results was reported. Other programme managers justified this approach on the grounds that the evaluators were already familiar with the programmes and could build on established knowledge and expertise (e.g. **Denmark**). Similarly, in **Spain,** the same consultancy will undertake the Update for the overall Objective 1 CSF and also provide the national guidance documents for both Objective 1 and 2 Updates, although in most cases these will be undertaken by different evaluators (as in the **País Vasco**).

In a second group of countries, a mixed approach is being adopted. In the **UK**, the Department for Trade & Industry has decided to undertake the Updates as a joint exercise with the regional Government Offices. The Government Offices will be responsible for points 4.1, 4.2 and 4.3 of the Commission guidelines (review of the implementation and recommendations made in the 2003 MTE; analysis of outputs and results achieved to date, analysed in the light of programme targets and financial performance; and analysis of the impacts achieved to date and the likely achievement of objectives). Some Government Offices are planning to do this 'in-house', others by hiring consultants. Meanwhile, the Office of the Deputy Prime Minister (ODPM) will undertake a 'ground-clearing' exercise, entailing a comprehensive review of past evaluations with the aim of filling in identified gaps. The ODPM will be tendering for a consultant to carry this out by November. The Government Offices have until June 2005 to do their part of the exercise, and this will feed into the ODPM work. In **Western Scotland**, external consultants will not be involved in the Update. By contrast, all of the MTE Updates in **Wales**, apart from Urban, will be put out to tender. Similarly, in Germany, the **NRW** Update will be internal, whereas in **Sachsen-Anhalt** an external Update will be undertaken.

Another approach is being employed in **Finland**, where the thematic evaluation component (covering 'knowledge and networking') will be undertaken by a consultancy, whilst the rest

[22] ÖROK, 11 November 2004.

of the Update will be undertaken internally by the programme managers. In **Sweden,** some of the Update work in **Norra** may also be outsourced, but in this case it is due to insufficient human resources in the CAB.

(ii) Guidance/Consultation

A number of countries have produced national guidance documents to facilitate the work of the managing authorities and evaluators (e.g. **Italy** and **Spain**). For example, in **Spain**, two comprehensive guidance documents have been drawn up for Objective 1 and 2 regions respectively by the CSF evaluator in close consultation with the Technical Evaluation Working Group. The guidance covers a range of issues such as a proposed questionnaire for analysing the application of the MTE recommendations; a methodology for calculating effectiveness, efficiency, results and impacts; and guidance for analysing the horizontal themes. In **Italy**, the national Ministry of Economy and Finance (MEF) and its evaluation unit (UVAL) also provided some guidance to the managing authorities on how to 'generate evaluation questions' for the MTE Update.

Consultation in the Update process in Toscana

In **Toscana**, a particularly strong effort is being made to use the MTE Update to respond to information needs expressed by partners and stakeholders. To do so, several meetings were organised by the Managing Authority with measure managers, partners and stakeholders, and the evaluator. The starting point for this was a 'reflection day' held at the end of July 2004, involving measure managers, provincial authorities and professional organisations, which was used to illustrate the main aims of the evaluation Update and the method adopted to identify shared evaluation demands, also in line with the indications provided on this topic by the national Ministry of Economy (DPS-UVAL). At this meeting, a number of possible questions were reviewed relating to sectoral, thematic and local issues, some of which had not been dealt with in the MTE. This work has served as the base for the MTE Update and has also been useful in highlighting issues that will be of interest for the *ex post* evaluation of the current programme and for the *ex ante* of a potential 2007-13 Operational Programme. Between September and October 2004, proposals were collated, with over 100 being received. The proposals tended to reflect the interest and nature of proponents: for example, the provincial authorities tended to focus on the effects of the policies implemented, in particular areas or sectors, while the measure managers tended to suggest more operational questions, pertaining to the implementation of the measures.

At the end of October 2004, a meeting of the Evaluation Steering Group short-listed a number of evaluation questions, taking into account the 'frequency' of each theme. Finally, on 3 November, a seminar with all the implementers, partners and stakeholders was held to present and discuss the questions. This led to the further introduction of some changes and to the final selection, by the Monitoring Committee in December 2004, of seven evaluation questions (out of 12 short-listed) for in-depth treatment. These seven topics will be dealt with by the same evaluator utilised so far with deadlines extending beyond the end of 2005.

(iii) Timetable

According to most programme managers, the evaluation Updates should be completed and submitted in the September-November 2005 period, ie. prior to the formal submission date. The situation appears to be particularly advanced in **Niederösterreich,** where it is envisaged that the Update will be completed prior to the next monitoring committee meeting to be held in June. A first draft will be presented by the end of April, then handed over to KAP-EVA in early May and submitted to the monitoring committee members in late May, before formal submission to the European Commission in August. Elsewhere in Austria, in **Steiermark** (as well as in Burgenland and Kärnten) the Update is expected to be completed by autumn this year since ESF data will be made available later.

5.2 Recent programme progress

5.2.1 Commitments and expenditure

Most partner programmes are reported to be progressing smoothly and moving effectively towards programme closure. Programme performance in **Sweden** continues to be amongst the strongest. The Objective 2 **Norra** programme has a commitment rate of 96 percent and payments at 55 percent as of March 2005. Expenditure rates are broadly similar in **Norra Norrland** (53 percent), although commitments are lower (89 percent). There is now great competition for the meagre funds left to commit. In June 2005, **Norra** may activate their reserve list of projects for Measure 1.3 on the assumption that there will be returned funds. In **Norra Norrland**, the situation is similar, with a low level of funds remaining and a healthy supply of project applications in the pipleline.

Financial progress also remains strong in the **País Vasco**. By the end of 2004, total expenditure for the part of the Basque SPD managed by the **Bizkaia Provincial Council** stood at 84.1 percent of total programmed funds. The Measure with the highest financial weight (‘roads and motorways’, accounting for 70 percent of the Council’s programme) has spent around nine-tenths of its total allocation, although the increase has been marginal over the past six months. As noted previously, Measures 2.2 and 2.6 had already spent their allocation by the end of 2002. The slowest performing Measure is ‘professional training centres and local development agencies’ (Measure 5.9) with an expenditure rate of 34.9 percent. No problems are foreseen in spending the remaining resources, however.

In **Finland,** progress is on track with almost two-thirds of the budget committed in Objective 2 areas (as at November 2004). For both commitments and payments, the most rapid progress has been made in respect of Priority 3 (‘developing the area structure and living environment) and the slowest progress under Priority 1 (‘developing business activity, renewing the industrial structure’). Variations around the average are not viewed as a concern by the programme managers. A similar position is evident in **Germany**, with the **NRW** programme having committed two-thirds of total funds, and decisions having been taken on how to spend 50 percent of the remaining funds, although they have not been formally committed. In **Sachsen-Anhalt**, the programme is also progressing well.

In **Austria**, progress is reported to be positive with no significant changes since the last Update across both programmes. In the **Steiermark** programme, Measure 1.3 ('modernisation of enterprises') has performed particularly well, although progress under the Measures supporting consultancy have been less promising. A new encouraging development in **Steiermark** is that two of the five nanotechnology projects have been supported with EU funds for the first time.

The rates of commitment continue to progress across all Objective 1 and 2 programmes in **France**. For Objective 1 programmes, commitments rates of 71.3 percent by 1 January 2005 were close to the optimal rate at that date (71.4 percent). For Objective 2 programmes, the rate of commitment was at 72.4 percent of EU allocations on 1 January 2005, slightly superior to what the optimal rate would be at that date (71.4 percent). However, the rates of expenditure are still lagging behind. For Objective 1 programmes, expenditure was at 35.7 percent of total cost and 30.4 percent of EU allocations on 1 January 2005. This is significantly below the optimal rate of 55.6 percent. For Objective 2 programmes, the overall rate of expenditure on 1 January 2005 was at 50 percent of total cost and 37.4 percent of EU allocation, again below the optimal level of 55.6 percent.

In **Italy,** the programmes are deemed to be progressing well overall. In **Toscana**, transitional support is already fully committed and the Objective 2 part of the programme is progressing smoothly, (with a commitment rate of 88 percent and a payment rate of 65 percent as of January 2005) partly due to the success of the so-called Parco Progetti for infrastructure interventions: every two years the regional *Giunta* approves with a deliberation further projects in the Parco, using the same selection criteria of the first Parco Progetti. The aid schemes are also progressing well, notwithstanding some problems in Commission notified measures and those of an innovative or experimental nature, which are nevertheless not considered to be problematic for programme closure. In **Lombardia**, progress seems slower, with commitments estimated at 55 percent in March 2005.

In the **UK**, recent progress in **North-East England** has been good; at the end of 2004 80 percent of resources had been committed, with a target of committing all ERDF, ESF and Urban resources by the end of 2005. Notwithstanding slow progress in the past few months it is anticipated that the announcement of a 'Single Pot' for match-funding in April will spark fresh momentum through joint applications with the Regional Development Agency for **North-East England** (ONE North East). In **Western Scotland**, between 80 and 100 percent of resources have been committed under virtually all measures, the main areas of concern being measure 2.3 (marketing competitive locations) and, to a lesser extent, measure 3.2 (routes to opportunities). In Wales, under the Objective 1 programme for **West Wales and the Valleys**, 73 percent of resources had been committed at the end of January 2005, although with considerable variations between funds (ERDF, 74 percent; ESF, 70 percent; EAGGF, 81 percent, FIFG, 55 percent). Under Objective 2 (**East Wales**), 72 percent of funding had been committed at the end of 2004, with a forecast of 94 percent by the end of 2005.

5.2.2 Challenges and issues

The main challenges facing programme performance have been reviewed extensively in the previous two IQ-Net papers. For the most part, there have been no specific new challenges confronting the partner regions over the last six months, with the exception of some difficulties with decommitment outlined below. At this stage, most programme managers are focussing their attention on accelerating commitment and expenditure levels, notwithstanding some minor shifts in the allocation of funds and corrections to the financial tables in certain cases (e.g. **Austria, Finland**). For example, in **Finland**, there continues to be an issue relating to the sufficiency of public (municipality) funding under Measure 1.1. This measure focuses on SME support, an area of policy where the municipal contribution is generally low. The problem arose because the contribution of municipalities under this measure was originally wrongly classified. The problem now is to try to overcome the technical difficulty which has been created. The current approach is to transfer municipality funding between measures. If this does not prove to be acceptable, another solution will have to be found. It is viewed as unfortunate that considerable energy has had to be spent on what is essentially a technical issue which does not change the operation of the programme on the ground. In **Denmark,** changes have been made to the **Nordjylland** programme to simplify its administration through abolishing the subdivision of certain Measures. In addition, the National Agency for Enterprise and Housing has drawn up guidance material to facilitate project applications. The expectation is that that the efficiency in dealing with project requests will increase as a result. In **Flandern** the main challenge continues to be securing sources of co-funding for projects, although this issue is less critical than in the past. The implementation of major projects, which form a key component of the programme, also remains complex and problematic.

One issue which has received increasing attention in **Finland** has been the poor progress in meeting equal opportunities targets. Female indicators are, virtually across the board, significantly lower than male indicators. For instance, in respect of new jobs, males are currently 58 percent of the target while females are 28 percent. There is a similar wide difference between males and females with respect to new enterprise formation. How to tackle these disparities has been a key theme addressed in the recent Monitoring Committee meeting - and also in meetings held by the Objective 2 Secretariat in Helsinki. In addition, there was a seminar held on equal opportunities last year, which proved to be very helpful, although there is still a long way to go.

In several programmes, further progress has been made recently in the implementation of the Mid-Term Review proposals. In **NRW,** the main change arising from the Mid-Term Review was the creation of a new Measure for the so-called O-Vision health project in Oberhausen (amounting to €90m). The proposal for this new major project is still being examined by the European Commission services. Similarly, in **Lombardia,** a new Measure was also introduced (supporting the modernisation of commercial services and the development of proximity services), whilst another was cancelled (supporting the promotion of networking among firms). Again, these changes do not represent a significant change in strategic terms.

In **France,** progress has continued on implementing one of the key recommendations of the Midterm Evaluation of the PNAT (National Technical Assistance Programme). This related to the need to strengthen interregional cooperation and the exchange of good practice and experience between programmes. As a result, DATAR has developed a new Strand for Regional Initiative (*Volet d'initiative régionale* - VIR) to encourage stronger relationships between all Objective 1 and 2 programmes. A first call for tender targeting regional partners was issue by DATAR in January 2005.

5.2.3 Financial management

Experience with N+2 has been mixed across the partner programmes. A number of regions have reported no difficulties in meeting decommitment targets (e.g. **Austria, País Vasco, Finland, Germany, North East**). The main reasons which facilitated compliance with N+2 targets were:

- programming changes, such as the merging of Measures (**Steiermark**) or annual reviews of programmed allocations (**Finland**);
- a relatively low Structural Funds budget (**Finland, País Vasco**);
- strong performance in the programme or specific Measures (**Steiermark, Toscana, País Vasco**);
- the introduction of new schemes (e.g. a new venture capital fund in **Nordjylland**)
- strategic changes, such as targeting larger projects (**Steiermark**) or a new decommitment strategy (**North East England; Western Scotland**);
- a strong publicity campaign and political commitment (**Flandern, Finland**); and
- closer and more effective financial monitoring (**Sachsen-Anhalt**).

Another group of countries reported potential problems on the horizon, despite not having to decommit funds in 2004. In **Flandern,** the N+2 objectives set by the Ministry were comfortably met due to the efforts made during the course of October and November 2004 in contacting all programme managers and encouraging them to submit payment claims. However, the exercise is likely to be even more challenging in 2005 as a larger amount of funds are due to be spent. Further, the Ministry is concerned that the quality of projects may suffer as a result, with programme managers forced to devote a significant proportion of their time to resolving the issue. A similar situation is apparent in **Denmark,** where the N+2 targets for 2004 were considered to be more challenging than the previous year. Furthermore, the National Agency for Enterprise and Housing predicts that it will be even more difficult in 2005.

In **Italy,** the decommitment target in **Toscana** had already been met by the end of September 2004, whilst **Lombardia** and the **Local Economic Development OP** face potential difficulties over the forthcoming year. In **Lombardia**, a close watch is being kept on a number of potentially problematic measures that will require constant monitoring to

avoid de-commitment. The TA will shortly be visiting the Measure managers to discuss expenditure progress and will request that two expenditure estimates be provided: one at July and one at November 2005 (as opposed to the one estimate provided last year). For the **OP LED**, potential problems are mainly related to the ESF measure (measure 3). Measure 2 (the PIA) is also marginally behind. However, it should be noted that most of the OP expenditure was concentrated in the first three years of the programming period and in Measure 1.1. The fact that de-commitment was avoided in 2004 represented a big success as this was the real big threshold. This was facilitated by the use of overbooking with national resources and of projects in the territorial pacts and programming contracts. However, this mechanism is not available for the ESF, representing a challenge for Measure 3, particularly over the coming year.

Finally, three IQ-net partners reported automatic decommitment over the course of last year (**France, Sweden, Denmark**). In **France**, there was a small but significant level of decommitment, amounting to €16.8m across all French Structural Funds programmes, excluding INTERREG. This was largely concentrated on the ESF component of the Objective 2 programmes, accounting for €10.8m across six regional programmes. This problem was anticipated but could not be resolved in time for it to be avoided. The main reason lies in the difficulty experienced in the absorption of ESF funds in micro-designated Objective 2 areas and also partly due to the regional elections of March 2004, which slowed down the implementation of the programmes for a few months. In **Sweden,** the Fisheries Fund in Objective 1 **Norra Norrland**, will have to return SEK2.6m in the course of the year as a consequence of the N+2 rule. The Fisheries Board, which has a key administrative role in the implementation of the Fisheries Fund, is now in talks with all relevant authorities to produce a detailed plan on how to predict and address problems with regards to funding in light of the low demand in Northern Sweden. In **Denmark**, **Nordjylland** faces decommitment of €2.8m as a result of the slow pace of certain projects.

5.3 Management and implementation

In most countries there have been no significant changes to the management and implementation of programmes over the past six months. Some of the most noteworthy changes reported by the partners are as follows.

- In **Germany**, the OP managing authority for **Sachsen-Anhalt** was moved from the Ministry of Economics and Labour to the Ministry of Finance at the start of 2005. The change is viewed positively, providing for a closer integration of the OP into the Land's overall budgetary processes (e.g. budgetary allocations and financial monitoring) and a greater political profile for the Managing Authority.

- In **Denmark**, **Nordjylland** is currently establishing a new regional steering committee (the 'growth forum') which may present future challenges in the operation of the committee structure.

- In **Sweden, Norrbotten** has recently undergone an administrative re-organisation, although the procedures and division of tasks have not yet been finalised.

- In the **UK,** the most recent progress in programme management and implementation for the ODPM revolves around the development of the TESA project, website with exhaustive information on ERDF applications, eligibility requirements and training provision. The project, intended to be operational by the end of the year, will also be used as a management tool that will provide a web-based means for the Government Offices to process claims, integrated with their own systems. This function will include a 'question and answer' facility that will log Frequently Asked Questions.

5.3.1 Information, publicity and communication

Most programmes are progressing with the implementation of their communication plans. In **North East England,** the Government Office is regarded as particularly strong in terms of information and publicity arrangements. The aim is to popularise the programme and break down barriers in understanding. A current plan is to organise a 'mid-summer day' event for the partnership. This would include an awards ceremony for the best environmental project, best equal opportunities project, best business assistance project etc. A series of information day 'road shows' is currently underway, involving Government Office staff delivering presentations on various themes related to the Programme (e.g. sustainable development/the payment process etc.). These have been attended by over 100 people and are also seen as a good means of staff development. The website continues to be reviewed and updated and has received good feedback.

In **Italy**, the most significant developments in this sphere are reported by **Toscana** where attention is now shifting from the promotion of the programme to the dissemination of first results. With the programme moving towards its end, the communication activities are being retargeted from the potential beneficiaries to the general public. In May-June a new campaign will be launched to present the results of the SPD and the experiences of recipients.

In **Niederösterreich**, the performance of 150 projects is being assessed in relation to the programme's goals. Of particular interest are communication processes between the managing authority and the development agencies. Which are working in general rather well.

5.3.2 Monitoring and evaluation

In **Finland**, it is recognised that the indicator data is satisfactory rather than good. This reflects the fact that different agencies are involved in the collection of the data, each using different definitions and calculation methods. For instance, there are several different ways of recording new jobs across agencies. In addition, different agencies have different resources available for this type of activity. For the most part, relatively few people are charged with generating what is a lot of information. It can perhaps be argued that there are simply too few resources devoted to this activity. A seminar relating to indicator information was held in December, with a paper produced which will be discussed further in Brussels by an EU technical working group. The paper focused on how different indicators were developed and also how they relate to each other. Such insights are increasingly being taken on board as the system of indicators is being built up and

developed. The key points are that it is necessary to take indicators into account at the start of the programme when consideration is being given to objectives, strategies and targets; it is important from the outset to be clear about the relationship between programmes, strategies, targets and indicators.

In **Austria,** it had been noted in the previous IQ-Net review paper that **Niederösterreich** has created a database for ongoing project evaluation. Questionnaires have been sent out to project holders in order to receive feedback on administrative and implementation aspects. In general, responses from 'innovative' enterprises were considered to be good with a return rate of 80 percent. It is expected that the results will be incorporated in the Mid-Term Evaluation Update. The database, however, has led to an increase of administrative efforts and is not yet fully completed.

5.4 Horizontal themes

In **Sweden**, The Working Group for horizontal themes has been very active over the past six months. Since August 2004, the Group has run one-day seminars in each Managing Authority on each of the themes. There were a total of 13 seminars and each seminar had about 40 – 50 participants, with a positive response from both the Managing Authorities and the participants. In addition, the Managing Authorities have initiated their own seminars on the horizontal themes. A national conference was held on 5–6 February in Stockholm, with 140 participants and representatives from DG Employment and the Swedish Government. As a continuation of this work, a working seminar is planned in April 2005 to focus on horizontal themes indicators. This work is expected to last until Autumn 2005 and will provide some additional insight to the Working Group on indicators to be set up by the Ministry of Industry. The general feeling in NUTEK is that programmes can now afford to be stricter in implementing the horizontal themes because of the limited funding remaining and the scope for authorities to be more selective when choosing project applications.

Three Strategies for Sustainable Development: Sweden

The final report of the Working Group on the horizontal themes is called "Three Strategies for Sustainable Development: Environment, Equality, and Integration in Regional Development"[23]. The study aims to gather ideas through contacts with programmes in other countries on how to integrate better the horizontal themes into programme implementation. Three programmes were chosen as case studies: Objective 1 West Wales and the Valleys; Objective 2 Nordrhein Westfalen; and Objective 2 East Netherlands. The study is based on the fact that the horizontal themes are important elements for change in regional development work and should be regarded as such. The main proposals are as follows.

1. Drafting process: The horizontal objectives should be included in all phases of the drafting of programmes. Therefore, it is important to include expert knowledge about the horizontal objectives from the beginning.

[23] NUTEK (2005), *Tre strategier för hållbar utveckling. Miljö, jämställdhet och integration i regional utveckling.*

2. Programme Design: The horizontal objectives should be designed on the basis of the problems within the programme area and also be defined at measure level. The programme should also support projects which will work vertically to integrate the horisontal objectives.

3. Definition of horizontal objectives: There should be a logical and objective correspondence between the programme and the horizontal objectives. The objectives should be defined on the basis of how the region's prerequisites for regional development are viewed within the programme. Promoting clear definitions is very useful for clarifying the implications of the objective.

4. Selection criteria and indicators: As well as clearer definitions of selection criteria and indicators, there should be a move towards the creation of internal targets specifying how many of the projects should reach a certain class or level with regard to the horizontal themes.

5. Project applications: At an early stage, Lead partners should contact the drafting secretariats. The design of the application form could force lead partners to take important issues into account, and the guidance notes could also include examples of how to deal with the horizontal objectives. Another improvement could be a referral to advisory groups at an early stage of the secretariat's drafting process. A third suggestion is that the applications should include descriptions of the consequences for the environment, equal opportunities, and ethnic integration. Finally, the horizontal objectives should be visible in both the project budget and the action plan.

6. Processing and evaluation of project applications: A model with advisory thematic groups would bring the advantage of project ideas being established and evaluated at an early stage. If applications are assessed simultaneously by Advisory Groups and the drafting Secretariat, the quality can be improved without increasing the processing time. Also, the development of a scoring system and/or checklists as well as the use of SWOTs ought to be promoted.

7. Reward system to stimulate competition: It is important to use resources to encourage a sufficient number of high standard projects in order to create competition for funding. In this way, there will be increased opportunity for a stronger focus on the horizontal objective. In order for the horizontal objectives to have an impact, various contribution levels could be introduced to encourage an incitement to increased integration of the horizontal objectives.

8. A reformed decision procedure: Expert knowledge specific to the issue areas of the horizontal objectives should also be added to the Decision Groups. As an alternative to the current procedure, a model based on advisory groups and decisions made by executive officers could also be considered.

9. Support for a competent administrator: The administration of project applications and evaluations of projects is best promoted by a competent administrator, and it is important to support this administrator through training and expert backing. This could be done

through a national network linked to the Structural Fund programmes. Introductory training for new staff and recurrent training are vital to the maintenance of competence within the organisation.

Follow up of project activities: For good follow up, the most important prerequisite is a clear and logical link between programme, measures and indicators. Also, it is important that planned activities targeting the integration of the horizontal objectives, as well as a budget for these activities, are accounted for within the project. The horizontal objectives should also be accounted for in NUTEK's progress reports for the programmes, and should be discussed at every meeting with the Monitoring Committee and the Decision Groups.

6. PROGRAMMING IN THE NEW MEMBER STATES[24]

6.1 Management arrangements

Among the new Member States, the overall responsibility for EU Cohesion policy is allocated to several different types of ministry: Ministries of finance (Estonia, Latvia, Lithuania); Ministry of economics (Poland); Ministries or government offices for regional development (Czech Republic, Slovak Republic, Slovenia); and Government or Prime Minister's offices or agencies (**Hungary**, Cyprus, Malta).

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

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

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

6.2 Coordination

New systems to facilitate coordination in the development and delivery of EU Funds have been established. On the one hand, Managing Authorities have coordinating functions, across ministries and levels of government. Inter-ministerial coordination committees have

[24] This section is based on: McMaster I and Novotný V (2005) *The Implementation and Management of EU Cohesion Funds*. Paper prepared for the Second International Conference on Benchmarking Regional Policy in Europe, Riga, 24-26 April 2005, European Policies Research Centre, University of Strathclyde, Glasgow.

also been created. For example, in Malta and the Slovak Republic, coordination committees are responsible for harmonising the activities of sectoral ministries in the field of regional policy. However, such mechanisms do not necessarily guarantee effective coordination. In practice, newly established coordination structures can be weak and face a number of obstacles.

- Coordination **arrangements are not sufficiently formalised or well embedded**. Following problems experienced by some CSF managing authorities in the new Member States, national legislation is required to strengthen their coordination functions.

- **Sectoral ministries** have proved resistant to the idea of their activities being 'coordinated' by an external committee or managing authority, as they are used to having their own distinct sphere of activity.

- The persistent **lack of clarity over areas of responsibility** compounds coordination problems. Inter-ministerial 'wranglings' over competencies have been a persistent problem, causing delays to programming activities and reducing the scope for integrated/coordinated policy making.

- **Coordination across levels of government** is weak. Particular problems have been cited with regard to the interface between the national and regional levels. For example, in Poland, the coordination of implementation responsibilities was complicated by confusion over the division of responsibilities between central government and elected units of regional government.

6.3 Partnership

Considerable efforts have been made to adopt the 'partnership principle'. New structures and national legislation are in place, and a range of activities have been undertaken to build partnership activities.

- **Extensive consultations with partners were planned as part of the programming process.** For example, according to the CSF of the Czech Republic, the Ministry for Regional Development, as Managing Authority, has "involved the maximum number of relevant partners in the [NDP/CSF] consultation process". Generally, this form of consultation took place on three main levels: (1) inter-ministerial co-ordination; (2) the involvement of relevant social, economic and regional partners; and (3) public consultation. As part of programme preparations, the National Development Office in **Hungary** established a database of information on partner organisations, partnership events and the opinions and recommendations expressed by the partners in the framework of the consultations.

- **Partner organisations are included on management and monitoring committees** at various levels. In Malta, the Council for Economic and Social Development, which represents the interests of socio-economic partners, NGOs and civil society, is represented on the government's Inter-Ministerial Committee for Regional Policy.

The Estonian Union of Cities is an active partner in programme implementation and monitoring.

At the same time, partnership can be most difficult and disputed elements of the Funds. Key concerns and limitations include the following issues.

- Partnership can be pursed in a very formalistic, superficial and limited manner, and simply to meet Commission requirements.
- Partnership adds additional complexity to programme development, management and delivery, which can slow down decision making.
- The process of effectively and efficiently taking into account numerous and wide-raging opinions on so many different issues is a difficult task for programme developers. Programme clarity may suffer as a result.
- Some potential partners may not necessarily have the capacity to fully participate in consultations, e.g. small municipalities.
- The quality of exchanges can be limited, e.g. by lack of experience.
- Lack of time limits the effectiveness of partnership. Frequently, final programming documents were developed according to a very tight time-scale.
- Partnership can raise the expectations of the different actors in a way which cannot be met in practice.

6.4 Programme types and progress

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

- **Single SPDs:** As single NUTS II territories eligible under Objective 1, Latvia, Lithuania and Estonia each have a Single Programming Document (SPD).
- **CSF and OPs:** Poland has a Community Support Framework (CSF) and six Operational Programmes (OPs), each with distinct management and implementation structures.
- **CSF, SPDs and OPs:** In addition to a CSF and a range of OPs, the Czech Republic and Slovakia both have separate SPDs for Objective 2 and 3, covering their respective capital city regions. In these countries and other Cohesion Countries, separate arrangements must also be made for the implementation of Cohesion policy and Objective 3. The sheer number of programmes in countries such as the Czech Republic, Slovakia, **Hungary** and Poland adds to the complexity of managing and implementing EU Funds.

Finally, in terms of the types of programmes, combined regional operational programmes, e.g. the Czech Republic's Joint Regional Operational Programme and the Polish Integrated

Regional Operational Programme, have some of the most complicated administrative structures, which incorporate regional institutions as well as government ministries and agencies. In contrast, the Cohesion Fund is widely considered to require more straightforward structures.

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

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

- **Limitations of pre-accession aid programmes:** Pre-accession aid made valuable contributions, but it did not offer extensive experience of key areas such as multi annual programming, partnership management and communications, project appraisal, support to beneficiaries and financial controls.

- **Lack of experience**: Many of the final arrangements for managing EU Funds were not agreed until a late stage, meaning that support for capacity building was not necessarily targeted on the right institutions, which was a problem encountered in Slovenia. A number of Romanian Ministries designated to take on key management roles in future EU programme have no experience of handling pre-accession aid.

- **Lack of time for new institutions to become established**: Many of the structures for the management and implementation of EU Funds were established over a comparatively short period of time. In practice, key organisations had little time to adapt to their new roles, and arrangements were not consistently thought through. In some countries, new legislation is considered necessary to clarify and institutionalise roles and procedures. Some observers note that responses to pressure for organisational change in public institutions thus far can tend to be ad hoc and politicised rather than rationally thought out, and this has had an impact on the administration of Cohesion policy.

- **Breakdown of existing structures:** In some cases, institutional reforms, linked to preparation of EU Funds undermined or complicated the operation of existing development networks, e.g. those linked to pre-accession aid programmes. Late changes to administrative structures could also disrupt personnel and weaken expertise. For example, the Polish Agency for Regional Development, one of the most experienced centres for regional policy and management of EU regional aid, was subsumed into the Polish Agency for Enterprise Development with inevitable disruption to personnel and dispersion of accumulated experience and knowledge.

- **Weak capacity of the sub-national levels**. In a number of new Member States, regional administrations are in a weak political, financial and institutional position, which limits their capacity to participate in Cohesion policy. Polish regional self-governments have found it difficult to hire new personnel due to lack of budgetary sources, but they also suffer from the politicisation (rather than professionalisation) of staff: when there is a change of administration after elections there can be a major turnover of staff. In Slovakia, **Hungary**, Bulgaria and other countries, measures have been taken to strengthen the capacity of the central level to administer the Funds. The new challenge is to train regional and local administrators.

- **Longstanding weaknesses in the public sector.** High staff turn-over, in large part due to low public sector pay, is a particular problem, which reduces stability, experience and 'institutional memory' within key institutions and weakens their capacity to manage the Funds. In Poland, numerous personnel changes in the Agency for Agricultural Restructuring and Modernisation resulted in more than two years of delay in the implementation of the SAPARD programme.

6.5 Implementation Mechanisms

6.5.1 Project generation

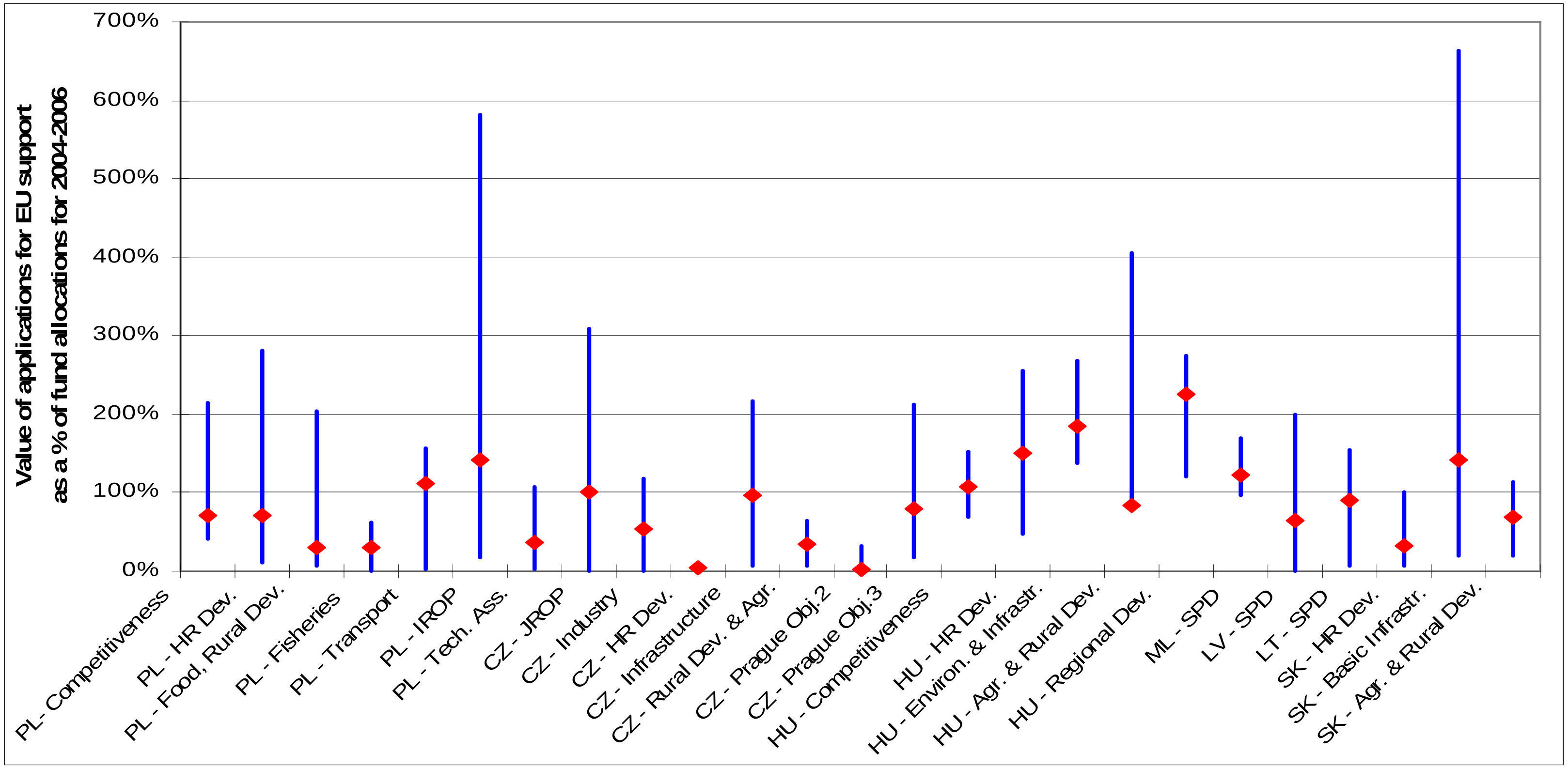
In the lead up to accession, major concerns were expressed about potentially poor project submission rates and poor project quality in the EU10. Key reasons for the anticipated lack of good quality projects were weak preparation, lack of experience, particularly in terms of project development, and instability in programme frameworks.[25] In an attempt to address the anticipated problems, national governments and the European Commission initiated a range of activities to support and generate projects, e.g. though projects aimed at building absorption capacity, specialist consultancy companies and awareness raising and marketing of the funding opportunities available

Despite early concerns, problems with low application rates have generally failed to materialise, according to many authorities (e.g. in Latvia, Czech Republic, Estonia, **Hungary** the Slovak Republic, Lithuania and Slovenia). Project applications have come in from a wide range of applicants, with municipalities taking a particularly active role in many countries (e.g. Czech Republic and Estonia). For some Structural Fund programmes, demand is already higher than the amount available. For example, all EAGGF funding in Latvia has been committed for the 2004-2006 period. In **Hungary**, all the Structural Fund programmes, except the Agriculture and Rural Development OP, which was delayed due to the parallel implementation of SAPARD, received applications for an amount of funding higher than the total funds available for the whole programming period, see Figure 4.

However, high application rates are not universal. Rates differ from country to country. In some countries demand for funding has been particularly high. Some programmes have

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

Figure 4: Value of applications for assistance for selected measures as a percentage of allocations for 2004-2006[26]



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

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

attracted higher application rates than others. Some priorities and measures have suffered from weak application rates and poor quality applications, see Figure 4. Finally, the number and quality of applications differs considerably between regions.

6.5.2 Project appraisal and selection

Large number of project applications, such as those recorded in the newer Member States, place considerable pressure on nascent administrative structures. Consequently, the processes of refining and reinforcing project appraisal systems are likely to be on-going processes. Key challenges include harmonising EU and national project appraisal systems; increasing transparency and efficiency of project selection systems (refinement of project selection criteria, simplification and rationalisation, recognition of strategically important and innovative projects); **addressing bottlenecks.** For instance, in some new Member States, competition for funding, combined with the traditionally weak public administration and lack of trust in public authorities, has led project selection decisions to be questioned, which has negative knock-on effects on project implementation rates.

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

- Concerns have been raised about the potential for so-called deadweight displacement.
- Quality varies across areas of intervention. Low-quality applications have contributed to high rejection rates under some measures and placed additional pressures on project appraisal and selection systems.
- Projects are activity, rather than objective, driven and do not address basic issues of need and demand.[27]
- Difficulty in transforming good quality ideas into good quality project submissions. For example, the opportunity to develop more sophisticated approaches to enterprise support is constrained by administrative weaknesses.
- Weak participation. In some cases lack of knowledge of the EU funding system is still a major obstacle to the full participation of all potential partners, particularly social partners.
- Lack of applicant resources. A major obstacle to regional involvement can be the perceived lack of financial resources for co-financing.

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

6.5.3 Project implementation

The operational effectiveness of project implementation structures in the new Member States is still somewhat uncertain, as many are newly established and were not previously involved in pre-accession aid projects. However, a number of issues are beginning to emerge. First, implementation structures can easily become overly complex. Second, implementing bodies are increasingly expected to take on a proactive role in promoting economic and social development.[28] However, it is not uncommon for implementing agencies to uphold very 'traditional' or 'compartmentalised' approaches, by limiting themselves to purely administrative activities or well-established areas of activity. Third, the capacity of implementing agencies to fulfil even their more 'administrative' functions is affected by both the quality of the projects they are working with and the experience of final and end beneficiaries. For example, the speedy payment of claims can be negatively affected by the quality of claims.

6.5.4 Monitoring and evaluation

Although there has been substantial investment in monitoring in the new Member States, programming authorities face a range of challenges, notably: delays in establishing effective monitoring systems problems with IT; inadequate of human resources; indicators with insufficiently clear definition and focus; poor coordination and data-gathering systems; and difficulties in dealing with the differing requirements if ERDF, ESF and EAGGF.

In most of the EU10 countries, policy evaluation is a relatively recent phenomenon. Many countries have now established specially-designated evaluation units and adopted extensive programmes of evaluation activity, in order to learn as much as possible from the current of programmes and to prepare for the next round of programming, e.g. in the Czech Republic. At the same time, programme evaluation is an area of potential weakness, mainly due to the limited experience and lack of qualified evaluators.

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