Good Practice for Implementing Structural Funds Programmes and Projects

By Robin Smail*

EIPA assists Member States, and other economic actors, with their capacity to manage and use the Structural Funds. This article looks at some of the challenges faced during the programming and implementation cycle, and some of the good practice responses which have been developed. With the renewed Lisbon Agenda, and the new Community Strategic Guidelines on cohesion, the strategic context for programming in 2007-2013 has been modified. Through the earmarking process, funds are now targeted at specific areas of spending. Nevertheless, a sound method for generating strategies and priorities still had to be used for the new programmes. Nearly all of the 450 new Operational Programmes have now been approved. A major challenge for Member States is to coordinate their economic development actions and generate synergies between different policies and programmes. Managing authorities must help to stimulate ideas for good projects, and appropriate project partnerships, using publicity and information campaigns. New, higher ceilings for Community co-financing rates should ease the pressure to find project finance. Project assessment criteria ought to include reference to the "market failure" being addressed. Ex ante economic appraisals should be increasingly facilitated by the use of benchmarks.

Monitoring data must be improved for sound programme management. Managing authorities should conduct regular on-site visits of projects, as well as receiving quantified data in progress reports. The eligibility of expenditure rules have been greatly simplified, but some complicated issues remain. The Commission will rely increasingly on Member States to provide a sound audit trail and audit evidence.

EIPA designs and delivers a range of seminars which aim to assist officers of national and regional administrations with their management of the Structural Funds and the Cohesion Fund. The seminars are also aimed at partner organisations, such as state agencies, local authorities, employer organisations, environmental groups, and other non-governmental organisations, in order to help them to improve their performance in the implementation of programmes and projects. In addition, EIPA contributes to capacity-building in some Structural Funds administrations by providing technical assistance through the framework of consultancy contracts.

Through this work, and through the feedback received from both seminar participants and contract clients, EIPA has been able to build up a picture of key challenges for implementation, and a range of good practice activities from across the EU. Within the context of the requirements of the new programming period, 2007-2013, some of this good practice is presented in this article.

The programming and implementation cycle

It is convenient to present the challenges and good practice responses in the same approximate chronological order as the programming and implementation cycle. The cycle includes: the strategic programming context and a method for determining programme priorities, institutional and planning structures, the role of publicity and information, stimulating project ideas, project conception and development (including project rationale and appraisal), project selection and implementation, project and programme management and execution, financial management and control and, finally, audit and evaluation. Different Member States and different Operational Programmes have very different challenges, covering all the stages of the cycle. However, not all the good practice activities relating to the entire cycle are presented here. Those which are selected and discussed below follow the approximate order of the cycle.
The Lisbon Agenda and the strategic context for programmes

The starting point of the programming process is the programme strategic context and the method for determining programme priorities. It is the choice of specific priority axes in Operational Programmes that ultimately determines what the project possibilities will be inside each Member State.

The choice of programmes themselves is made within the context of the new National Strategic Reference Framework (NSRF) for each Member State. This framework provides the strategic link between the National Reform Programme of each Member State (the programme for implementing the renewed Lisbon Agenda) and the implementation of EU cohesion policy inside the Member State. The NSRF lists the programmes which have been chosen to stimulate competitiveness and create new jobs.2

To some extent, the new Community Strategic Guidelines on cohesion (CSG) provide a “corset” for determining both the broad priorities and the principal fields of cohesion expenditure. These Guidelines embrace the Lisbon and Gothenburg agendas, and thus encourage priority themes such as the promotion of the knowledge society and lifelong learning, research and technological development (RTD) and innovation, the development of environmental technologies, growing SMEs (small and medium-sized enterprises), and improving access to employment and opportunity.3

Targeting the Funds

In addition, the new individual Fund regulations outline new areas for spending. The Cohesion Fund, for example, allows expenditure on renewable energy sources and energy-saving projects (such as the “greening of businesses”). The European Social Fund (ESF) has a new emphasis on capacity-building within all public administrations, so that public servants are better equipped to deal with the modernisation of systems and develop specific skills such as evaluation techniques, public procurement procedures, etc. For the European Regional Development Fund (ERDF), there is a new emphasis on Lisbon-type themes. These include actions to boost the levels of RTD, innovation and the use of information technology, as well as measures to encourage more entrepreneurs and improve business access to finance.4

The new “earmarking” process means that Member States are also constrained to spend a minimum proportion of funds in “Lisbon” fields: 60% in the Convergence regions (the least developed regions), and 75% in the Competitiveness and Employment regions (regions still undergoing re-structuring of economic activity). Although the earmarking rule is not obligatory for EU12 countries (Member States that joined the EU in 2004 or after), most have followed the recommendation. The earmarking process did create some difficulties for Member States which had to alter their spending patterns, but the problems were overcome relatively easily. This is because the target proportions apply to the totality of each type of Objective in a Member State. So that where, for example, ERDF Lisbonspending can fall below 75%, ESF spending can be well above 75% and thereby ensure that the overall necessary proportion is reached.

Determining priorities for Operational Programmes

The new General Regulation nevertheless stresses the importance of a sound method for generating NSRF and programme strategies and priorities (notwithstanding the guidelines and rules). In essence, the steps in the method are:

i) to conduct a situation analysis (i.e. describe the situation now);
ii) to identify objectives (where we want to get to);
iii) to generate a strategy and elaborate this into specific priorities and activities (how we plan to reach the objectives), and;
iv) to provide measurement of progress and success (show that programmes are working).

Above all, this method should ensure that programmes and projects address the most important needs and problems, and aim to take advantage of genuine opportunities.

The situation analysis: understanding needs and opportunities

The NSRF required first that the situation analysis had to describe disparities, weaknesses and the potential for the Member State. For Operational Programmes, an analysis of strengths and weaknesses in the sector or eligible region is required. Although these analyses are generally quite well done for the new programmes, and they are easier to read than in past programming periods, there are sometimes holes in the analyses and there is often insufficient reference to EU-wide data at the Member State and regional level (NUTS 2 level).5 As a consequence, it is not always easy to see the main disparities and chal-
Challenges. Nor are the resulting analyses of strengths, weaknesses, opportunities and threats (SWOT analyses) always obvious summaries of the most pressing problems and the most obvious opportunities. In some cases, therefore, the rationale for some strategies and priorities is not clear.

Another problem for the situation analyses in some Operational Programme proposals is the lack of lessons learnt from previous structural interventions. It seems that monitoring data on physical outputs for the pre-accession programmes – PHARE, ISPA and SAPARD – are well below the standards now expected of the Structural Funds. This means that the results and the operational value of some interventions have not been fully understood and the policy lessons have not been taken.

Measuring progress and success

An ongoing difficulty for many programmes is that their priority axes are not always expressed with clear, measurable objectives, which can then assist to setting of targets – a requirement of the regulations. For some programmes presented during 2007, the Commission insisted that indicators for measuring progress and success had to be further developed, both at the level of priority axes and at the level of the global programme objectives.

This is a critical process for the efficient monitoring of programmes and solid reporting in relation to both the annual programme implementation reports and the strategic-level National Reform Programme implementation reports that Member States must prepare. Member States and the Commission may find it easy to measure the ongoing levels of expenditure on Lisbon (earmarked) categories and other fields, but the real challenge will be to measure the effects of operational expenditures – in terms of outputs and results. (Measuring impacts is much more complex and can only be done after a time-lag).

Member States are not required to follow the Commission aide-mémoire developed for DG Regional Policy and DG Employment desk officers. But this document has been a useful guidance tool for promoting precision and transparency in the preparation of strategies and priorities, and for helping in the setting of targets and the measurement of results. Methodological papers are attached as annexes to the aide-mémoire, and one of these is dedicated to developing indicator-sets for programmes. Complementary tools for developing appropriate indicators can be used; for example, the Logical Framework Analysis tool (the “logframe”), to be found under the Project Cycle Management (PCM) guide on the DG EuropeAid website.  

Institutions, good planning and procedures

A major challenge for all Member States is to coordinate their economic development actions and, if possible, to generate synergies between policies and programmes. It requires highly effective coordination between ministries, between ministries and regions, and amongst the various agencies of state – agencies which are frequently employed as intermediary bodies in the Structural Funds implementation system.

The NSRF should make it clear which type of programme will deal with which type of activity (for example, splitting rural development actions between regional Structural Funds programmes and the programme funded by the European Agricultural Fund for Rural Development (EAFRD)) and the central coordinating ministry should have the powers to make the division of responsibilities effective.
For individual projects, there are clear rules on publicity.

Stimulating project ideas

As Member States prepared for the new programming period, a number of them conducted a type of project scan, whereby they asked public authorities and other stakeholders what co-funded projects they are planning to develop and submit for selection. These indicative exercises revealed that there was the potential to spend substantially more than the budgets available for 2007-2013.

While such exercises do indicate that the new Member States should not have a problem with their absorption capacity, it also shows that there is always the danger that many proposed projects are “off-the-shelf” projects – rather than projects which are consistent with the new priorities and the Lisbon themes. Managing Authorities must, therefore, assess what they can do to help stimulate new project ideas and to nurture and develop these ideas into projects which add value. For example, some countries have developed Project Advisory Groups, providing a forum for all stakeholders to be working together, examining needs, sharing ideas and discussing best responses and project proposals. Such groups can be set up at the level of priority, or for each action line (or “measure”, in the terminology of the 2000-2006 period).

In any case, the projects which are selected should be chosen for their contribution to programme objectives and on the basis of a rigorous testing procedure. Below we consider the importance of developing and testing project proposals using ex ante project appraisal criteria.

Appropriate partnerships

For new European Social Fund programmes, the Commission expects to see the development of more inclusive and solid social partnerships. Such are the problems faced in some deprived communities, that only this approach can achieve some of the objectives being set for programmes and priority axes. Gender mainstreaming and the mainstreaming of activities developed under the old ESF Article 6 innovative actions, and under the Community Initiative EQUAL, will also pose a great challenge for the new generation of programmes. For example, have Member States identified innovative and successful methods for re-integrating disadvantaged groups, which can be rolled-out more widely inside a new Operational Programme?

Naturally, the Commission wishes Member States to exchange their experiences in this area and is encouraging programmes to incorporate this knowledge-exchange activity.

Finding the finance

There are new, higher ceilings for Community co-financing rates for 2007-2013. For the poorest Member States and regions, the maximum contribution from Community Funds has risen from 75% (or 80%) to 85% of eligible expenditure. This increase is designed to help national, regional and
local administrations in the EU12 countries (and Greece, Portugal and Spain) to find the necessary match funding and advance their programmes and projects more rapidly. Although the new ceilings are set by programme, many authorities still set maximum co-financing rates by priority axis, or even by project type.

The Commission is once again encouraging more extensive leverage of private finance, and is reserving the right to examine indicative lists of major projects (which programmes contain) with a view to proposing the use of European Investment Bank loans and public-private partnership (PPP) initiatives.

For major projects which generate revenues – from charges levied on the ultimate users of the infrastructure or facility – the European Commission has produced new detailed rules for calculating the level of the grant subsidy. This requires comprehensive financial analyses – using discounted cash-flow calculations – which will reveal how the public sector subsidy is minimised and the return to the private sector made at the normal market level.12

Project rationale, project development and appraisal

When the recent reforms of cohesion policy were being discussed, the Third Cohesion Report13 emphasised the need for cohesion policy to ensure that “Community intervention can be expected to bring about a leverage effect and significant added value”. This makes sense when the European Community has limited resources to spend on regional economic development. But, in order to do this, a culture of integrating essential evaluation disciplines needs to be developed across administrations and project partners. Besides integrating the Lisbon and Gothenburg agendas, rigorous evaluation steps should be built into the generation and development of project ideas. Best practice dictates that project applicants (and/or expert supporting teams) should conduct ex ante appraisals for all projects, and thus check to see that their projects are formulated in the best way.

Similarly, grant application forms and project assessment criteria should include a number of items which test whether the project applicant has taken the necessary steps to develop a good project proposal.

First, the project rationale has to be described, with reference to what problem or need is being addressed. For many infrastructure projects, the rationale is relatively straightforward, given that national networks have to be developed and completed as a basic requirement for balanced economic development in the country. However, for a host of other project types, the rationale is less clear. The key test for public sector intervention should be: “what is the market failure”2? Or, in other words, why is the private sector not addressing and resolving the problem in the market place by itself?

Economists state that market failure exists when resources are not being allocated “optimally” – as a result of imperfect information flows, uncertainty, monopoly power (or the communist bloc legacy of a lack of a market), externalities, and the immobility of factors (human resources, land assets). These imperfections lead to further distortions in the market: there are barriers to entry into markets, abnormally high costs of operations, ignorance and unquantified risk, and price distortions. The result can be misinformed decisions on the part of economic actors, misdirected resources, unemployed resources, and even chronic economic depression. The aim of the public intervention (for most projects) is to rectify the market failure – so that the private sector becomes active and public funds can be withdrawn as soon as possible.

The other essential project development steps and appraisal criteria are:

- Project applicants should examine all the key options and report the conclusions in the application form. The question of technical feasibility should be included at this stage.
- A well-developed financial analysis is required, particularly for larger projects, those involving a revenue return to the project, or those with private sector involvement. This will describe the anticipated cash-flow situation, examine the rates of return and calculate the grant required.
- The results of an economic appraisal should be outlined, with best estimates of all economic benefits and costs, or estimates of jobs or value-added created.
- Environmental appraisals will be provided, either at the most basic level, or a full environmental impact assessment will be required.
- The impact of the project in terms of “horizontal criteria”, such as the promotion of equal opportunities, or innovative or sustainable models of development, has to be taken into consideration.
- Finally, detailed arrangements for monitoring and impact assessment will be described, with clear indicators of how progress and success will be measured.

The economic appraisal

The resources dedicated to the project economic appraisal task should be proportional to the project funds involved. It is not feasible to conduct a full cost-benefit analysis for every project (although this is required for major projects). As a substitute, many projects should – in addition to estimating outputs and results – try to measure the expected net economic impacts in terms of average cost per job, or average cost per €1 million gross value-added. The results of the appraisal can then be compared against pre-determined benchmarks, standards, or norms. This is a method widely used, for example, in civil engineering, where projects might be assessed against the average cost per km of motorway, or cost per m³ of capacity in an urban waste-water treatment plant.

Benchmarks for economic development are developed by using the results of ex post impact assessment studies. With a sufficient number of ex post impact results, averages or standards for different types of economic development projects (SME development, business property space, research and development, etc.) can be calculated. For
example, the norm average cost per (net) job figure for SME development in an underdeveloped region may be €5,000, while for assisting exporting companies it may be €12,000, and for business property development, €30,000. This type of data should be provided by central Ministries or economic development agencies to Structural Funds implementing agencies and project developers.

Not only is this information critical for assessing the expected impact of projects, but it allows managing authorities to set targets for priorities and programmes. If an action line or measure for SME development has a budget of €50 million, and authorities are using an average cost per job benchmark of €5,000, the target will be 10,000 new jobs. Such targets can be aggregated at the priority and programme level.

Management, Monitoring, Reporting

Good programme management requires that managing authorities and their intermediary bodies are familiar with all projects, conduct regular on-site project visits, and are in receipt of regular reports and updates on the physical progress of the project, as well as of the financial data. Authorities must be particularly aware of potentially difficult or risky projects, and follow them closely.

The role of the project Grant Letter and Execution Contract is very important in this sense, as these are the documents in which all the conditions of project acceptance and the grant are laid-out, outlining the detailed project budget-plan and timetable, describing progress and impact indicators, specifying file-keeping and reporting duties, publicity rules, compliance with EU legislation, and any other specific requirements placed upon the project.

The Annual Implementation Report, which is required by the European Commission for every programme, can only give a quantified summary of progress and results if sound quantitative data is being gathered at the project level. If this is done successfully, outputs and results can be aggregated to provide monitoring information for each priority axis, and for the Operational Programme – in terms of a range of indicators, and not just in terms of financial spend.

Good monitoring data is also very valuable for the successful completion of ex post impact assessments. The lessons learnt from a series of ex post assessments should inform the direction of policy and specific new policy initiatives, as well as providing the data needed to calculate the benchmarks for ex ante project appraisal and the target-setting for programmes (as discussed above).

Financial management

Financial management rules have been simplified for the 2007-2013 period. ERDF and ESF can no longer finance the same programme, although up to 10% of expenditures in any programme can fund actions normally associated with the other Fund – as long as the spending is essential to the operation in question.

Eligibility of expenditure rules caused many difficulties and disputes in the past. For the new period, the rules have been greatly simplified, so that national rules now apply. Notably, however, the Commission does expect Member States to continue to apply the same basic rules that are now established in practice. For example, the rules for including “in-kind” contributions within project budgets, or how staff costs and overheads attributed to Structural Funds projects must be related to recorded time-sheets. The only specific EU rules which survive in the regulations are that recoverable VAT is not eligible, nor is interest on debt, while the value of land purchases remains at a limit of 10% of eligible project expenditure.

The areas which continue to be more problematic are the questions of eligibility of expenditures on Venture Capital Funds, and expenditure on projects which generate revenues. Guidance exists for the Venture Capital Funds, while, as noted above, a specific method has been introduced for the revenue generating projects – introducing a concept of eligible expenditure, as opposed to eligible costs. However, one issue which has not yet been fully resolved is the treatment of costs and revenues for projects financed within a PPP structure. This is because the “reference period” (the economic life of an asset) for discounted cashflow calculations is normally well beyond the programming and project financing period.

Financial control and audit

The new regulations now require that an Audit Authority is established for every Operational Programme, separate from the Certifying Authority (which replaces the Paying Authority). Although these authorities are sometimes located within the same ministry, the separation of functions remains the essential principle. The Commission has also introduced the single audit concept for the new programming period. This means that the Commission will rely more on the work of audits conducted by the Member State and reduce its own audit activity on the ground.

More responsibility therefore lies with each Member State to preserve the audit trail and conduct the necessary checks and controls. The Managing Authority must make “site visits” to projects; the Audit Authority must make “control checks” on projects (based upon a specific sampling procedure); the Certifying Authority may make “follow-up checks” on particular projects where necessary. The management and control systems for each programme must now be checked and certified by both the Audit Authority of the Member State as well as the European Commission, before any claim for an interim payment can be made against certified expenditures in a programme.

Authorities must be particularly aware of potentially difficult or risky projects.
Starting operations for the 2007-2013 programming period

Nearly all of the 455 new Operational Programmes across the EU have now been approved and some projects are well under way. A huge number of implementation challenges exist when public authorities across the EU are spending over €30 billion a year on a wide range of economic development projects. But as this article has shown, many of the challenges are being met – through learning lessons from past experiences and through finding innovative solutions to old and new problems. Being more rigorous in monitoring and evaluation procedures is, for example, just one such response. Good practice activities continue to be developed, and are increasingly to be found in exchange of experience initiatives. In this way, implementation should become more efficient, and projects and programmes should be able to deliver value for money for the European taxpayer.

NOTES

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1 This cycle can also be called “the project pipeline”. A project pipeline model was developed by Robin Smail, together with Remco Hoogendijk and Gerard van Gaalen, Oost N. V., Arnhem, East Netherlands Development Agency.
5 NUTS is the classification of territorial statistical units. NUTS2 is usually (not always) the “regional” level, for example, the level of the Autonomous Community in Spain, or the region in Italy. Data available at the NUTS2 level includes population structure, GDP, employment structure, employment rate, unemployment breakdown, educational attainment, expenditure on RTD, regional innovation performance, accessibility, and connectivity.
6 PHARE is the Programme of Community Aid to countries of Central and Eastern Europe (based upon “Poland and Hungary Assistance for Restructuring their Economies”) ISPA is the Instrument for Structural Policies for Pre-accession SAPARD is the Structural Instrument for Pre-accession Rural Development. The reference for the PCM guide can be found at: http://ec.europa.eu/europeaid/multimedia/publications/publications/manuals-tools/t101_en.htm
7 Article 27(4)(g) and (5)(b), General Regulation, 1083/2006.
13 Article 67(2)(a), General Regulation, 1083/2006.
14 Article 34, General Regulation, 1083/2006.
15 Article 56, General Regulation, 1083/2006.
16 See Title VI, General Regulation, 1083/2006.

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