The European Regional Development Fund (ERDF) in the German State of Thüringen (Objective 1 Region): Major Findings of the Interim Evaluation for the Period from 1994 to 1996

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by

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Dresden, February 1998
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1. Introduction

In summer 1996 an interim evaluation programme was launched in the five new German States (NBL) and Berlin (eastern part) with respect to the realization of the EU Community Support Framework during the period 1994 through 1996. As a matter of fact in each state individual evaluations were carried out for the three Structural Funds (ERDF, ESF, EAGGF) on the basis of which a summary report was prepared for each state. Finally, the results were combined to an overall evaluation of the European Objective 1 Regions in Germany, i.e. of all NBL.

The authors of this paper were responsible for the ERDF\(^1\) and summary report on the state of Thüringen as well as for the overall German Objective 1 evaluation\(^2\). In the following major findings on the ERDF in Thüringen including some references with respect to the overall report are summed up.

2. Economic development and ERDF Operational Programme

In 1996 1,0 million persons in gainful employment in Thüringen generated a real gross domestic product (GDP) of DM 43,9 billion at 1991 prices. The GDP per person in gainful employment, at DM 43,900,\(--\), was just below the average of all „new“ Bundesländer (NBL) and amounted to only 44,5 % of the value for the „old“ Bundesländer (ABL). In comparison with the European Union average, the value of the GDP per inhabitant in Thüringen in 1993 was 52 %. Of the 205 regions (NUTS level 2) of the European Union, only 8 had a lower GDP per head\(^3\). On the basis of the trend in the Thüringen economy up to 1996 and the forecasts for GDP in the European Union, the Thüringen GDP per inhabitant in 1996 would have been 62,7 \(^4\) of the EU average. The growth performance of Thüringen in comparison with the other NBL and selected European (Objective 1) countries since 1991 is shown in table 1.

\(^1\) Jürgen Riedel, Frank Schar, Der Europäische Fonds für Regionale Entwicklung (EFRE) in Thüringen, ifo dresden studien Nr. 13, Dresden 1998.
\(^2\) Jürgen Riedel, Frank Schar, Die Europäischen Strukturfonds in den neuen Bundesländern, ifo dresden studien Nr. 12, Dresden 1997.
Table 1
Real changes of gross domestic product (GDP) in the new German States (NBL) and other European (Objective 1) Countries from 1991 to 1998

<table>
<thead>
<tr>
<th></th>
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<tbody>
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<td>Mecklenburg-Vorpommern</td>
<td>-</td>
<td>5,3</td>
<td>4,6</td>
<td>11,7</td>
<td>5,0</td>
<td>1,3</td>
<td>-</td>
<td>-</td>
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<tr>
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<td>7,1</td>
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<td>10,1</td>
<td>4,6</td>
<td>3,1</td>
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<td>0,1</td>
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<td>-</td>
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<tr>
<td>Sachsen</td>
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<td>5,7</td>
<td>9,2</td>
<td>11,4</td>
<td>7,1</td>
<td>2,5</td>
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<td>-</td>
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<tr>
<td>Thüringen</td>
<td>-</td>
<td>13,9</td>
<td>9,4</td>
<td>11,5</td>
<td>4,6</td>
<td>2,9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Berlin (Ost)</td>
<td>-</td>
<td>9,3</td>
<td>9,2</td>
<td>4,9</td>
<td>5,2</td>
<td>0,7</td>
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<td>-</td>
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<td>9,9</td>
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<td>1,6</td>
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<td>2,8</td>
</tr>
<tr>
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<td>1,5</td>
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<td>2,4</td>
<td>2,5</td>
<td>2,5</td>
<td>2,8</td>
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<tr>
<td>Ireland</td>
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<td>4,6</td>
<td>3,7</td>
<td>7,3</td>
<td>10,7</td>
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<td>5,8</td>
<td>5,2</td>
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<td>2,3</td>
<td>2,5</td>
<td>2,8</td>
<td>3,2</td>
</tr>
<tr>
<td>Spain</td>
<td>2,3</td>
<td>0,7</td>
<td>-1,2</td>
<td>2,1</td>
<td>2,8</td>
<td>2,1</td>
<td>2,7</td>
<td>3,2</td>
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</table>


Further essential characteristics of the economic trend in Thuringia can be summarised as follows:

− Economic growth, like productivity growth, has slowed considerably since 1994 from 9,6 % to 4,6 % (1995) and 2,9 % (1996), while the number of persons in gainful employment had risen again from 1993 to 1995 - albeit only slightly; since then the labour market problems have again worsened.

− In spite of a major shift in employment from the agricultural and industrial sectors to private services, the proportion of gross value added in Thüringen accounted for by the (privat) tertiary sector remained largely constant (22 %), while the contributions of the manufacturing sector and the construction industry increased between 1991 and 1996 from 15 % to 21 % and from 14 % to 16 %, respectively.
Even after the industrial contraction process, Thüringen continues to benefit from a relatively broad production spectrum in this sector, based on a number of key sectors and regional centres.

After a sharp rise up to 1992, investment activity then stabilised on a somewhat lower level (1994); the main investors were enterprises with 20 to 50 employees.

The boom in new business creation has subsided, particularly in the commercial and service sector. The focus of the investment activity is shifting increasingly from start-up investments to expansion and rationalisation investments.

Unemployment continues to be the dominant problem, even if the employment deficit reduced between 1994 and 1995 (see tables 2 and 3). In addition to the traditionally precarious situation in northern Thüringen, there is the problem of increasing numbers of long-term unemployment and recently of unemployed young people in urban areas.
Table 2

Number of persons gainfully occupied in Objective 1 regions:
Changes from 1991 to 1998 in %

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
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<td>-1,9</td>
<td>-0,4</td>
<td>0,5</td>
<td>0,1</td>
<td>0,6</td>
<td>0,9</td>
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<tr>
<td>Germany (total)</td>
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<td>-1,8</td>
<td>-1,7</td>
<td>-0,7</td>
<td>-0,3</td>
<td>-1,1</td>
<td>-1,0</td>
<td>0,3</td>
</tr>
<tr>
<td>of which NBL</td>
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<td>-12,8</td>
<td>-2,8</td>
<td>1,7</td>
<td>1,1</td>
<td>-1,5</td>
<td>-2,1</td>
<td>-0,2</td>
</tr>
<tr>
<td>Greece</td>
<td>-1,8</td>
<td>1,4</td>
<td>2,2</td>
<td>1,9</td>
<td>0,9</td>
<td>1,2</td>
<td>1,3</td>
<td>1,3</td>
</tr>
<tr>
<td>Ireland</td>
<td>0,0</td>
<td>0,4</td>
<td>0,6</td>
<td>3,1</td>
<td>4,4</td>
<td>3,4</td>
<td>2,5</td>
<td>1,7</td>
</tr>
<tr>
<td>Portugal</td>
<td>2,8</td>
<td>-1,8</td>
<td>-1,9</td>
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<td>-0,6</td>
<td>0,5</td>
<td>0,6</td>
<td>0,7</td>
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<tr>
<td>Spain</td>
<td>1,0</td>
<td>-1,5</td>
<td>-3,7</td>
<td>-0,6</td>
<td>1,7</td>
<td>1,3</td>
<td>1,6</td>
<td>2,0</td>
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</tbody>
</table>


Table 3

Evolution of unemployment rates from 1991 to 1995 in the
NBL and other European Objective 1 countries

<table>
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<tr>
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<td>17,4</td>
<td>18,2</td>
<td>17,2</td>
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<td>14,8</td>
<td>15,3</td>
<td>14,2</td>
<td>47,9</td>
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<tr>
<td>Sachsen-Anhalt</td>
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<td>17,2</td>
<td>17,5</td>
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<td>Sachsen</td>
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<td>13,8</td>
<td>56,8</td>
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<tr>
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<td>15,7</td>
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<td>51,0</td>
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<td>Berlin</td>
<td>7,7</td>
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<td>11,0</td>
<td>11,6</td>
<td>50,6</td>
</tr>
<tr>
<td>Total of Germany</td>
<td>5,3</td>
<td>6,4</td>
<td>7,6</td>
<td>8,7</td>
<td>8,2</td>
<td>54,7</td>
</tr>
<tr>
<td>EUR</td>
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<td>8,9</td>
<td>10,5</td>
<td>11,2</td>
<td>10,7</td>
<td>35,4</td>
</tr>
<tr>
<td>Greece</td>
<td>6,9</td>
<td>7,8</td>
<td>8,6</td>
<td>8,9</td>
<td>9,1</td>
<td>31,9</td>
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<tr>
<td>Ireland</td>
<td>14,6</td>
<td>15,3</td>
<td>15,7</td>
<td>14,7</td>
<td>14,3</td>
<td>-2,1</td>
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<tr>
<td>Portugal</td>
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<td>3,8</td>
<td>5,3</td>
<td>6,7</td>
<td>7,1</td>
<td>97,2</td>
</tr>
<tr>
<td>Spain</td>
<td>16,0</td>
<td>17,8</td>
<td>22,3</td>
<td>24,4</td>
<td>22,7</td>
<td>41,9</td>
</tr>
</tbody>
</table>

Source: Eurostat, Bundesanstalt für Arbeit, calculations of the ifo Institute.

The evaluation of the ERDF Operational Programme (OP) for Thüringen concludes that the design of the objectives and strategies of the ERDF makes them well suited to making an important contribution to the overcoming of economic
development bottlenecks in Thüringen. Among the seven priority areas\(^1\), the focus of financial support is on productive investments, particularly for small and medium-sized enterprises (SME’s); around three-quarters of the ERDF funds earmarked for the period from 1995 to 1999 (indicative planning) were originally reserved for such enterprises. Even in comparison with the other NBL, a relatively great importance was attached in Thüringen to assistance for productive investments by SME’s (priority area 2). Below-average budget targets were found in particular for assistance for supplementary infrastructure and in the areas of services for SME’s, research, technological development and innovation, as well as human resources.

However, it was not possible to maintain these priorities in the area of productive investments when economic growth halved in 1995/96 and in the following year again and enterprises scaled back their applications for productive investments. With the modification of the indicative financial plan in 1996, the proportion of the planned ERDF funds accounted for by productive investments was reduced from three-quarters to less than half. At the same time a considerably higher priority was assigned to infrastructure assistance in the budget targets.

### 3. Control and organisation of the programme implementation, information system

In assessing the implementation structures for the ERDF interventions it must be borne in mind that considerable problems had to be overcome in the restructuring of the public administration. Moreover, an extraordinarily high volume of assistance had to be administered in the wake of reunification. This resulted in a number of bottlenecks which the administration endeavoured to eliminate successively between 1994 and 1996.

For example, in the case of financial support to private business investment the organisation was largely concentrated (from advice of investors on available funds to examination of the proof of the targeted utilisation of the funds) in the hands of a

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1 The seven priority areas are as follows: Productive investment and supplementary infrastructure (1), small and medium enterprises (2), research, technological development and innovation (3), ecological environment (4), human resources, further professional training, employment promotion (5), agriculture, rural development, fishery (6), technical assistance (7).
state-owned reconstruction and development bank, the Thüringer Aufbaubank (TAB). The recipients of the assistance funds thus had a single contact in all phases of the assistance process and the Ministry of Economic Affairs and Infrastructure (TMWI) was to a large extent relieved of routine administrative tasks. In addition, various bottlenecks in the assistance process could be eliminated (e.g. the possibility of granting assistance funds subject to subsequent confirmation by the recipient’s bank of financing to completion).

In the area of infrastructure assistance a special working party was set up in the TMWI in 1996 to accelerate the processing of applications. Here too the routine tasks, from the drafting of the application to examination of the proof of the targeted utilisation of the funds, were increasingly concentrated and placed in the hands of a downstream institution, the Administration Office of the Land (Landesverwaltungsamt - LVA). The efficiency of implementation in the area of the ERDF intervention is also benefitting from the high concentration - in comparison with the ESF - of political responsibilities within a single ministry (TMWI).

The above changes in the organisation structures simplify the implementation of the programme and thus the commitment of the available assistance funds. The correct priorities were therefore set in the adjustments made to the implementation structures in the first half of the programme period, although questions remain with regard to the transfer of state-ministry responsibilities to downstream institutions and the implications on political control of the assistance process, resulting therefrom.

The implementation structures must be assessed, however, not only against the objective of a higher commitment of funds, but also with reference to their contribution to the effectiveness and efficiency of the support programme. In our opinion this contribution could be increased:

In the first half of the programme period from 1994 to 1996, the ERDF funds deployed in Thüringen were largely used to reinforce the German Joint Programme for the Improvement in the Regional Economic Infrastructure, Gemeinschaftsaufgabe „Verbesserung der regionalen Wirtschaftsstruktur“ (GA/GRW). The ERDF measures were therefore implemented in accordance with the provisions of the annual GRW framework plans.
The criteria for decisions on the awarding of funds were simplified and made more transparent during the term of the programme\(^1\). Financial support to private business investment was governed by a set of rules (in accordance with the positive list of the GRW), i.e. there was usually no check made of individual cases of the “export sale criterion”, which is the crucial selection criterion in the GRW for financial subsidies to productive investments.

Decisions on assistance and development preferences were taken as a rule according to project criteria for individual economic units without considering „regional trade-offs“. For example, assistance for industrial estates was given on the basis of the relevant project application and the interests of the district submitting the application. This process complies with the principle of local authority planning competence in the Federal Republic of Germany. Moreover, this procedure also guarantees a relatively high degree of flexibility in the assistance process. On the other hand, the fact that the criteria are based on considerations drawn from cost-benefit-calculations with respect to individual projects entails the risk that insufficient account might be taken of positive and negative external effects in the remainder of the region and sector in which the assistance is given.

The Information system for the implementation of the programme still shows some weaknesses\(^2\). The data on productive investments input into the computer system only permits a snapshot with reference to the indicators stated in the Operational Programme (OP). A great deal of information which is available in the files and would be useful for efficient monitoring is not input (such as equity ratio of the enterprises being supported, total subsidy ratio etc.). In the area of infrastructure, the data input into the computer system lags behind the indicators stated in the Opera-

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\(^2\) Up until now, the data for the approved projects has been input into an Excel spreadsheet. The TMWI is currently working on the introduction of an assistance funds information system (FMI) based on SQL language. The data will be input via input masks. At the same time an automatic plausibility check of the input data is planned, to ensure that errors in the database are largely avoided in future.
tional Programme (OP). For example, there is a lack of information on the expected occupancy of the subsidised industrial estates, on the type of tourist installations and training capacities being assisted. In the area of infrastructure too a great deal of information which is available in the files is not input into the computer system.

Because of the lack of a computer connection with the Thüringer Aufbaubank (TAB), the Ministry (TMWI) has no immediate insight into the current situation of approved projects (such as information of accumulated payments by project). The same applies to the results of the checks made on the proof of targeted utilisation of funds, where a processing backlog exists.

4. Programme implementation and rules of other EU Community policies

The checks carried out to ensure that the ERDF interventions comply with the other EU Community policies produced the following results: the rules on information and publicity were to a large extent fulfilled. With regard to the competition rules included in the Common Support Strategy (Gemeinschaftliches Förderkonzept - GFK), on the one hand problems arose concerning the statistical allocation of the projects to sectors, and on the other hand some inconsistencies emerged in this area with respect to sectors and size of enterprise. Whether planned reporting obligations or other specific provisions in these projects were imposed and complied with cannot be stated with certainty in this context. Similar problems arose in major projects with regard to existing reporting obligations.

The evidence of compliance with environmental laws and policies of the EU Community showed that the formal legal provisions form part of the various checks made in the course of a project’s planning process and it is therefore possible to assume that compliance with them is guaranteed. Moreover, as a result of the changes to the GRW with the 24th framework plan, new allowances to environmentally relevant forms of assistance were made. Some of these have already been applied in Thüringen, although no further information is available on some of these environmentally relevant (partial) measures. With the assistance provided for waste water installations which fulfil EU standards, a contribution was made to the improvement of the environmental situation. A third of the cases involved the inclusion of derelict sites in assistance for the development of industrial estates.
thereby meeting the objective of the OP. In the case of infrastructure projects in the field of tourism and industrial estates, however, it appears both possible and desirable to direct the support strategy beyond the formal legal provisions towards the attainment of environmentally sound objectives. The positive environmental effects of private investment projects are expected above all in the modernisation of machinery and other technical equipment. In the field of private investment the environment objective was covered by subsidising above all recycling business investments.

Equality of opportunities for men and women has not hitherto been a specific objective of the ERDF in the Thüringen OP. However, the proportion of jobs for women in all promised jobs does indicate to some extent whether and to what extent it has been taken into account or supported. The results indicate that the distribution of jobs to men and women corresponds to the existing structure and therefore that the assistance has not hitherto triggered any change in favour of employment opportunities for women.

5. Implementation of the ERDF supported programme

In the period from 1994 to 1996 a total of 1,023 projects were supported in the Free State of Thuringia by the ERDF, 861 projects in the area of productive investments, 127 infrastructure projects, 6 projects to promote services for SMEs and 29 projects for technical assistance (table 4). 46% of the productive investments related to expansion, 40% to start-ups and 14% to rationalisation and relocation. In the area of infrastructure assistance 56 industrial estates, 28 tourist facilities, 27 waste water installations, 13 professional training establishments, 2 road construction projects and 1 technology centre received subsidies.

By the end of 1996 approximately four-fifths (DM 4.7 billion) of the planned total volume of expenditure eligible for assistance for the period from 1994 to 1996 was mobilised by the approvals granted. The commitment of the available ERDF funds reached 88%. Thus, even according to the 1996 amended indicative financial plan, the financial objectives have not been fully achieved.

If one considers the total volume of costs approved during the three-year period from 1994 to 1996 productive investments (77% of the budget target), in particular
in the priority areas of human resources (22%) rural areas (34%) and technology (78%), lagged behind the budget targets. The ERDF funds made available were 89% committed in the case of productive investments. With regard to services for small and medium-sized enterprises, the total costs supported amounted to only 40% of the budget target. The approvals granted resulted in the commitment of 60% of the available ERDF funds. It was in the area of infrastructure that the highest percentage of planned total expenditure was implemented (99%) by the approved projects, although only 91% of the ERDF funds were committed.

Table 4

<table>
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<tr>
<th>Subject</th>
<th>Private productive investment</th>
<th>Infrastructure investment</th>
<th>Services for SMEs</th>
<th>Technical assistance</th>
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<td>- original plan</td>
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<td>0.48</td>
<td>0.07</td>
<td>0.01</td>
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<td>- revised plan</td>
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<td>0.01</td>
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<td>of which ERDF-contribution</td>
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<td>0.03</td>
<td>0.01</td>
<td>0.95</td>
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<td>Allocation of funds in %</td>
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<td>- Total</td>
<td>77.2</td>
<td>99.2</td>
<td>39.6</td>
<td>50.8</td>
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<td>- ERDF</td>
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<td>1.4</td>
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<td>0.5</td>
<td>4.6</td>
</tr>
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</table>

Source: TMWI; estimation of the ifo institute.

In the case of technological establishments, supplementary infrastructure and environment infrastructure, the approved total expenditure remained 54% to 70% below budget, while in the areas of vocational training and rural areas it was well over 100%.
The analysis of the execution of the programme makes it clear in the first place that in the period from 1994 to 1996 the bottlenecks resulted not from the level of the volume of assistance made available, but rather from the insufficient readiness to invest among local authorities and in particular the private sector. Without a clear improvement in the general economic climate, the planned total expenditure will probably not be achieved even in the second half of the programme. In the second place it is clear that the switch of investment subsidies from the private sector to infrastructure brought about with the change to the indicative financial plan in 1996, with a view to achieving a higher commitment of funds, represents a step in the right direction. In the third place the budget targets for the individual priority areas only correspond in a limited way to the project volumes approved. The changes to the budget targets which had become necessary in the first half of the programme period entailed considerable administrative expense and impaired the deployment of funds.

A further aspect of the execution of the programme is the proportion of approved funds paid out. The payment ratio at the end of 1996 for the funds approved in the period from 1994 to 1996 was 57%. This percentage is rather open to any interpretation because it depends on various factors with reverse effects. The evaluation did not deal with this matter much further.

6. Private productive investments - effectiveness and efficiency of the support interventions at the microeconomic level

In the period from 1994 to 1996 the ERDF supported an investment volume expected to total DM 3.8 billion in the area of productive investments. According to investment plans of enterprises which made support requests this was set to create 13,249 new jobs (including 937 training places) and to contribute to the safeguarding of 28,595 jobs in the assisted enterprises. Approximately 30% of the new jobs are to be occupied by women. The gross employment effect of the financial support for productive investments is therefore a total of 41,844 jobs. Business start-ups (start-up investment) accounted for over one-fifth of the total figure and more than two-thirds of the new jobs created. The expansion investments contributed just on a third of the new jobs created and two-thirds of those safeguarded. A third of the jobs safeguarded related to rationalisation and relocation investments. 93% of the job effects were concentrated on the priority areas 1 and 2.
On average, a job was subsidised with DM 40,000 from the ERDF and the GRW. The capital intensity was DM 163,000. The subsidy ratio (investments subsidies in relation to the investment volume eligible for assistance) was 25.9%\footnote{In order to compare data among the NBL the definition of „job“ with respect to securing existing working places had to be adjusted. Based on this, the subsidy per working place was 8 % and the investment per working place 15 % less than the NBL-average. Jürgen Riedel, F. Scharr (1997), op. cit. pp. 158-159.}. If one also takes into account the other forms of investment assistance prevailing in the NBL (special depreciation allowances, investment bonuses etc.), the average subsidy ratio rises to over 30%. The subsidy ratios rose markedly from 1994 to 1996. This was accompanied by a clear reduction in the leverage effect of the ERDF assistance from 8.8 (1994) to 4.7 (1996).

This analysis of averages obscures the fact that in some cases the investment subsidies per job, the capital intensity and the subsidy ratio have fluctuated widely depending on the priority areas and types of investments. For example, for each new job more than twice as much was invested in the expansion investments as in the start-up investments. In the rural areas the volume of subsidy per job was almost twice as high as the average of all objectives. The subsidy value was above average in particular in the SME (priority area 2) and rural areas (6).

The efficiency of the financial support for private investments is closely associated with the terms capture effects and opportunity costs. If in the first place one ignores the capture effects, the question arises as to whether the costs of the assistance were reasonable in the light of the results - in particular the creation of jobs. Taking into account the investment subsidies and other investment assistance measures, in 1994 approximately DM 50,000 was provided per job. As a consequence of the changes to the conditions governing the assistance this amount rose to over DM 68,000 per job in 1996. It is true that this figure is well above the costs of an unemployed person in the NBL, which currently stand at around DM 33,000 per year (1996), but once the created job has lasted longer than 2 years the government investment assistance will already have been efficient. If the capture effects amount to a third of the assistance (the survey results gave no clear indication here), a job would have to last an average of 3 years in order to guarantee the efficiency of the assistance. However, this simple estimation of efficiency ignores...
many aspects whose inclusion would shift the efficiency comparison further in favour of investment subsidies (build-up of a modern capital stock, input and multiplier effects of the investment assistance etc.).

7. Infrastructure investments - effectiveness and efficiency of the support interventions at the microeconomic level

The leverage effect of the ERDF assistance in the infrastructure projects, at an average value of 1.4, was clearly lower than in the private productive investments because of the conditions governing the assistance. This leverage effect fluctuated among the priority areas and the types of measure supported from 1.1 for infrastructure measures in rural areas (predominantly tourist infrastructure and smaller industrial estates) to 2.1 for measures relating to waste water infrastructure. The leverage effect - and hence the national cofinancing contribution - fell sharply between 1994 (2.4) and 1996 (0.7)\(^1\).

Assistance for industrial estates was provided primarily in priority area 1 (supplementary infrastructures), but also in 6 (rural development). The assistance is set to create a total of 882 ha of business sites. The projects are of relatively major importance for the commercial land policy of the Land: over a third of all subsidised sites were cofinanced as part of the Operational Programme of the ERDF. The positive point should be stressed here that the TMWI has increasingly supported the reuse of derelict sites, as approximately a third of the sites assisted by the ERDF related to derelict sites. If one assumes a density of 20 permanent jobs per hectare\(^2\), the projects created the conditions for the establishment of 15,000 jobs.

In view of the supply of commercial land at regional level, the need for new industrial estates cannot be recreated without limit. However, an empirical analysis of selected cases modifies this assessment. Overall, the local authorities have operated a demand-led commercial land policy. The interim evaluation of the cases assisted in 1994 showed that hitherto approximately two-thirds of the areas have

\(^{1}\) It was assumed that cost-benefit considerations have been made at the pre-investment planning stage. The evaluation neither reexamined such appraisal case by case nor applied a systematic assessment.

\(^{2}\) This “density” corresponds to indications in the respective feasibility studies and were confirmed by experiences with industrial estates according to interviews.
been occupied or sold. In the majority of the supported estates the development costs were between DM 30 and 40 per square metre and were thus in line with the usual values in the Federal Republic of Germany. Investigations based on two case studies showed that the foreseeable regional economic benefit justifies the cost.

The 28 projects subsidised in the area of tourist infrastructure related mainly to smaller projects of local significance. The larger projects included installations such as health spas. In view of the still underdeveloped tourist infrastructure in Thüringen, the assisted projects no doubt made a useful contribution to enhancing the attractiveness of Thüringen for tourists. If one assumes a close connection between tourist infrastructure and the development of tourist business it appears sensible, particularly viewed against the background of falling hotel occupancy, to assign a greater importance to the tourist infrastructure in comparison to the private business investments in this sector.

The concentration of the environment-related infrastructure projects on waste water installations can be justified by the high level of pent-up demand which existed here in Thüringen - as in the other NBL. To the extent that the connection fees for trade and industry fall as a result of the assistance given to waste water installations, such measures have a direct stimulant effect on private enterprises. This was in accordance with the GRW guidelines a central criterion. An important aspect of the effectiveness of the assistance is also the level of waste water charges. No statements can be made in this regard with reference to the installations subsidised, although the statistical data for Thüringen indicates that the charge structure was relatively favourable in comparison with the other NBL. If one considers the sites of the supported projects, it is possible to assume that they have also contributed to the clear improvement in the water quality of the rivers Ilm, Unstrut and Gera, even if these effects cannot be isolated from other factors.

In the area of vocational training, the ERDF assistance has supported the establishment and improvement of approximately 1,400 shop-floor places and 850 theoretical places in 13 cross-industry training sites. If one also considers some 940 training places which were approved in connection with supported productive investment projects, the ERDF has made a significant contribution to the improvement of the vocational training and advanced training possibilities in Thüringen.
each case an external expert carried out an examination of demand calculation, programme planning, expected utilisation and the plans for space and equipment. A comparison of the investment costs arising per training place with the average costs for the Federal Republic of Germany is only of limited value, as the assisted projects often only related to sections of the training institutions. On the basis of the available data, however, there were no indications that the costs were excessively high.

8. Coordination of support policies measures on regional level

As has already been mentioned, the decisions on assistance have been based predominantly on single project criteria. Regional surveys carried out in two districts in Thüringen showed that the absence of more extensive structural-political control at regional level was associated with the emergence in the regions of models of assistance in line with the economic history of the regions and site-selection decisions taken by enterprises (e.g. clustering of the assistance around industrial cores). In the cases examined, these models of assistance were no doubt mostly associated with positive external effects. It also became clear, however, that - possibly because of land-use conflicts between the types of assisted projects - the effectiveness and efficiency of the assistance in terms of regional policy may be reduced. In the regional surveys it was possible to highlight concrete examples of synergies between assistance measures financed by the ERDF, the ESF and the EAGGF. These assistance synergies arose rather by chance. In some cases they were supported by co-ordination processes at local level.

9. Mesoeconomic effects of the ERDF assistance and overall employment impacts

An objective of the Operational Programme of the ERDF is the recreation of the traditionally heterogeneous economic structure based on small and medium-sized enterprises. If one considers the size structure of industries in Thüringen as a whole, after the considerable contraction processes which affected once-large enterprises, by the middle of the 90s this was characterised by a greater emphasis on small and medium-sized enterprises than is the case in West Germany, with the larger enterprises being of relatively low importance.
The investment volume supported with ERDF funds was concentrated predominantly (92%) on enterprises with fewer than 250 employees, with 36% of investments relating to start-ups, 23% to enterprises with fewer than 50 employees and 34% to enterprises with between 50 and 249 employees. The ERDF assistance made a significant contribution to employment in the individual categories of enterprise: the contribution made by the ERDF in the area of medium-sized industrial enterprises (50 to 249 jobs) to the creation of new jobs amounted to 8%, while the contribution made to the safeguarding of jobs was as high as 66% of total employment in Thuringia in this sector. The proportion of jobs created and safeguarded was lower in the case of smaller enterprises (approximately 6% and 20%), but was also significant.

Overall, the effects of the ERDF assistance were concentrated on SMEs with fewer than 250 employees, and in terms of the relationship of job effects to the existing jobs, the sector with 50 and 249 employees received most assistance. This sector is still characterised by very varied development trends; in some cases the enterprises in this size category have already gone through a successful development process; in other cases the restructuring processes are still incomplete. The assistance can therefore entail considerable risks in such cases. The average equity capitalisation among the assisted enterprises was quite high, but fluctuated widely. The enterprises were already achieving a large part of their sales outside the NBL. In the area of small enterprises the intensities of assistance - measured in terms of employment shares - were somewhat lower. It is in this sector that the problems specific to SMEs were concentrated (relatively high proportion of enterprises with low equity capitalisation, deficient exploitation of transregional markets, lack of returns to scale).

Of the 861 cases of private investments, 80% related to 32 areas in the manufacturing sector and 10% each to hotel/restaurant and other services. 92% of the jobs related to the manufacturing sector. The major recipients of assistance were: metal production and processing, the glass industry, ceramics, the processing of earth and stone and hotel and catering. These absorbed 36% of the total volume of subsidies.
The capital invested in the creation or maintenance of a job was considerably lower among the assisted enterprises in the manufacturing sector (DM 248,000) than in the commercial and service sector. In addition, the subsidy ratio on the basis of the costs eligible for assistance in manufacturing enterprises was between 21% and 29% depending on the sector and thus substantially below the values for commerce and services (up to 38%). Closer examination is required to establish whether the subsidy ratios granted to certain sectors refer to a correspondingly high degree of structural political significance being attached to them. Because of the high capital intensity the job effects of the assistance were relatively modest here. The equity ratio fluctuated considerably among the sectors (11% in the publishing and printing industry and 50% in the manufacture of office machines and IT equipment and the manufacture of motor vehicles and vehicle parts).

According to a ifo survey at the end of 1996 the assisted companies in all sectors (including services) considered that their future trends in sales, employment, investment and equity ratio would be stable to slightly positive. To that extent, no subsequent economic slump could be expected at that time among the assisted enterprises in any sector. At the same time, the individual results indicate that the enterprises will above all consolidate in the next few years. 85% expect no change or only a slight increase of their staff. If one were to generalise on the basis of these results, a substantial easing of the job market will scarcely occur with the enterprises currently active in the market.

Overall, the ERDF assistance has made a significant contribution to the maintenance and revival of industrial potential. With its support, the renewal of the capital stock has been supported in a quarter of all the industry in the Land. At the end of 1996, the supported enterprises expected a stable to slightly positive trend in the next two years. The available information indicates that up to now the ERDF assistance has failed to meet the second sector objective of the OP, the development of high technology in the economy of Thüringen. Thus the intensity of assistance - measured in terms of the ratio of supported working paper to the number of employed in a sector and in terms of the investment subsidies per person employed in the sector - was relatively low in most sectors containing industries with state-of-the-art and advanced technology. Only in the area of automobile construction and the chemical industry was assistance provided on a relatively intensive basis. Only approximately 6% of the R&D establishments in the Land in the narrower sense
were supported financially (NACE 73). A high priority was given to the objective of developing Thüringen’s tourism potential with just on 10% of the investment subsidies, although the job market effects here were slight. Because of the high capital intensity of the investments, only around 1,000 additional jobs were created in the sector. The high investment subsidies per job appear problematic from the point of view of efficiency.

If one considers the regional distribution of the funds, it is to be expected that by implementing the ERDF Operational Programme a contribution has been made to the reduction of economic disparities between the planning regions in Thüringen. The equalisation objective formulated in the OP has thus been met. This assertion is justified in particular by the high support intensity - measured in terms of the investments triggered by the subsidy per inhabitant in the planning region - in the regions of southern and northern Thüringen and by the comparatively low support intensity in the economically strongest region of the Land (central Thüringen). With regard to the labour market effects of the assistance, the effects were less clear. The intensity of assistance in the structurally weakest region (northern Thüringen) was only in the middle of the range. It has clearly not yet been possible to generate enough productive investment in northern Thüringen to accelerate the alignment of the labour market situation with the Land average. Moreover, the assertion that the equalisation objective in the OP is being met at planning-region level does not rule out a concentration of assistance on the economically strongest sub-regions within these areas.

The ERDF assistance is intended to create replacement jobs for the textile and potash industry in northern Thüringen. This appears to have succeeded only to a very limited degree. For example, the number of new businesses moving to a large-scale industrial and commercial estate (assisted by the ERDF) fell well short of expectations. The second regional objective of the OP - the promotion of tourism to develop rural areas - must only have been partly achieved. In the central region, in accordance with the regional objective - the development of a broadly-based economic structure - it was possible to observe a relatively wide distribution of the supported productive investments across the sectors and a significant contribution to the strengthening of the small and medium-sized enterprises. Whether the assistance also brought about any particular revival in city tourism in the region is difficult to assess. With regard to the third partial objective - a more intensive
use of the regional scientific and training institutions - the ERDF assistance clearly did not provide any significant stimulus. In eastern Thüringen the assistance largely met the regional objectives of the OP (change in the industrial structure, expansion of the research and technology facilities, the training infrastructure and the environment area, overcoming the consequences of uranium and lignite mining). The region participated to an above-average degree in ERDF support, which appeared particularly suited to the achievement of these objectives. As a reflection of the natural resources potential of southern Thüringen, the region has participated most in private investment subsidies in tourism. Furthermore, as a result of a broad distribution of the approved ERDF measures across a number of industries and a concentration on small and medium-sized enterprises, the traditionally diverse economic structure has been supported. In summary, the objectives formulated in the OP for the individual regions could only be achieved in part.

Under the GWR, DM 13.1 billion of assistance was provided in Thüringen for business investments with a subsidy volume of DM 3.2 billion between 1994 and 1996. In the area of supplementary infrastructure, the supported investment volume was DM 2.2 billion and the investment subsidies granted totalled DM 1.2 billion. The investment volume intended to be achieved in the projects cofinanced by the ERDF amounted to 29.0% of the total investments assisted under the GRW in the case of the productive investments and 38.9% in the case of infrastructure investments. This shows that the ERDF assistance made a considerable contribution to the build-up of the capital stock in the areas of industry, services and infrastructure which are eligible for assistance under the GRW. The subsidies granted from the ERDF (purely ERDF funds) accounted for 14.5% of the total subsidies granted in the case of commercial projects and 28.9% in the case of infrastructure projects.

The direct gross employment effects - according to the approval statistics - amounted to just on 42,000 new and safeguarded jobs. If one takes into account various capture and displacement effects, the result is an estimated net employment effect in the assisted enterprises of over 23,000 jobs. With the inclusion of multiplier effects, over 29,000 jobs were directly and indirectly created or safeguarded. The proportion of assisted supplementary infrastructure was slightly higher in the measures cofinanced by the ERDF than in the measures assisted by the GRW in Thüringen as a whole. If one takes into account some minor permanent employment effects in the infrastructure installations themselves (e.g. training insti-
tutions) the programme led to an estimated overall employment effect of just on 30,000 jobs.

A significant contribution was therefore made by the ERDF assistance to the promotion of employment in Thüringen, although the interim assessment does indicate that the objective formulated in the OP, of creating or safeguarding 100,000 jobs as part of the Community support Strategy (GFK) for 1994 to 1999, will not be achieved.

10. Considerations for the further development of ERDF support policy

General considerations

In order to achieve the supreme objective of the European regional support policy (cohesion) and to reverse the slowdown in growth which has occurred since 1994, the further deployment of ERDF finance in Thüringen is necessary in the second half of the programme. Furthermore, on the basis of the current trends it can be assumed that even after this period considerable assistance will still be required, in order to bring the level of affluence up towards the European average. However, on the basis of the findings of the interim assessment, the absorption capacity of enterprises and local authorities must be increased and the readiness to invest must be enhanced, in order to maintain the level of assistance.

To what extent this programme objective can achieved and to what extent the recommendations which follow are able to produce the desired effects depends above all on the general economic setting, which is outside the scope of development policy. For commercial enterprises this means in the first place all external factors which have a direct and indirect effect on the costs and profitability of enterprises. These include:

- in the first place changes to rates of pay with their repercussions for unit labour costs, input prices for services provided by heavily monopolised sectors of the economy (energy, water) and changes to taxation

- in the second place the complexity and duration of administrative processes and the inadequate transparency, predictability and calculability of economic...
policy decision processes, which entail planning risks and indirectly additional costs.

For the local authorities the ability to absorb assistance funds could be increased if their investment budgets, from which the local authorities fund their contribution to the infrastructure projects, were allocated more effectively.

All measures to improve this general economic setting serve ultimately to increase the effectiveness and efficiency of the support funds deployed and are largely neutral from the point of a market-oriented system policy.

**Support strategies**

For the further development of the ERDF support strategy, the following proposals are put up for discussion:

- The increased assistance for infrastructure projects resulting from the indicative programme should be maintained. It is recommended, however, to introduce increased differentiation and weighting among the individual types of infrastructure. For example, on the one hand it might be held that water supply and waste water disposal installations, being a „basic need“, actually form part of the compulsory basic services provided by the public authorities and are therefore scarcely compatible with the principle of additionality. On the other hand it appears thoroughly logical to give thought to the interpretation of the term "near-economic" and its practical application as a subsidy criterion. For example, it is not entirely clear why the access road to a business park is eligible for subsidy, while, for example, the removal of a road or bridge bottleneck does not generally qualify for financial assistance by the ERDF, even though it slows down business traffic and indirectly also increases unit labour costs as a result of waiting time. An examination should also be carried out to establish whether the term tourist infrastructure, relating to the establishment of camp sites, leisure parks, adventure pools etc., which hitherto have been actively promoted, could now be substantially extended: in Thüringen considerable tourist potential lies in the culturally valuable although in some places decay-threatened fabric of buildings in the cities and villages as well as in the monuments (e.g. castles and palaces) and museums.
Following the creation at various sites in recent years of some smaller and some larger growth centres, in future years the assistance policy should above all provide an incentive for productive investments which reinforce the industrial (supply) relationships between the economic sectors, industries and individual enterprises.

In this connection the use of "endogenous" development potential should increasingly form part of the assistance: activities at the level of rural districts, such as purchasing and sales networks or the interlinking of agricultural, industrial/craft production and commerce as well as services in rural areas. Such assistance can be expected also to have positive effects on employment, the flexibilisation of working hours, a greater diversity of business start-ups, the reduction of social costs and on traffic flow and environmental factors.

With regard to the conditions governing the assistance, neither general regional/sector preferences should be introduced nor should the range of ERDF assistance instruments be reduced to a few basic instruments or areas. Rather, further targeting of specific development bottlenecks is recommended, without any expansion in the number of "assistance pots". Instead, project packages should be supported which can be expected to generate positive external effects at sector level (e.g. the inclusion of suppliers in productive investments) or at local/regional level. The assistance could begin to be made conditional, with preference being given e.g. to linked projects or those with particular synergy effects etc.

With regard to the consideration given in the interim evaluation to specific ideas for each sector on ways to increase the efficiency of the ERDF subsidies and to avoid capture effects, the approach presented in the report could be developed further in order to identify indicators for sectors in which the assistance is expected only to show slight effects. Finally, consideration should be given to whether the instrument of subsidies should be backed up more with loans/guarantees/participations in the form of "revolving funds", and to what extent such a system can also be anchored at local or regional level in the banking system.

**Priority: manufacturing sector (SME)**
Given the realisation that the growth in the service sector also depends on the existence of a flourishing industrial sector, it is recommended that a great deal of importance should continue to be attached to assistance for the manufacturing sector and to the broadening of the industrial structure including the export base. Here the objectives of the assistance should be continually adapted in line with the changing demand in the transformation process. This relates amongst other things to the services for SMEs which could increasingly be implemented as a support for enterprises with assisted investments. Depending on the final evaluation of the ERDF with regard to the subsidized commercial investments, consideration could be given to a form of conditionality of assistance in this connection. In the context of the support for industrial ventures, not only should start-ups be assisted, but consideration should also be given to whether or how disadvantages relating to plant size could be compensated for in the initial phase and returns to scale could be achieved as rapidly as possible e.g. by co-operation between enterprises (locally, regionally, nationally and internationally). Special back-up programmes for "infant" enterprises could be introduced, comprising further training, consultancy and investment assistance components. Finally, ideas for innovative pilot initiatives for important industries and target groups could be developed and put up for discussion. Studies will first be required to identify such industries. One such target group could be women entrepreneurs, for whom a special programme could be developed, for example in the context of services for SMEs.

With regard to the employment objective, the focus is on assistance for productive investments for smaller and medium-sized enterprises, particularly in technologically advanced industries. With the revision of the indicative financial plan and shift in financial resources from productive investments to infrastructure projects, the Thuringen state government has had to take account of the change in demand for assistance funds, in particular the declining readiness to invest among private enterprises. At the same time the direct employment effects of the Operational Programme expected in the short term were diminished.

There are no grounds, however, for accepting this slowdown in the readiness to invest during the current phase of the transformation process as a fact. In our opinion, the possibilities for developing the acceleration potential in investments are not exhausted. For example, the political commitment on the part of the Land to
establish and support regional initiatives could be extended. Synergies would be made possible by such links and should be capable of substantial reinforcement, opening up additional productive investment potential. On the other hand, such initiatives and harmonisation at regional level also offer a practical way of defusing conflicts.

In the regions of Thüringen there are positive starting points for this at local level. With the „regional development conceptions“ (REKs) already produced an expansion of the criteria for co-ordination at regional level can take place. To this end, appropriate implementation instruments should be strengthened and/or new ones introduced. The assistance policy of the Land should take account of this input in its decision-making and in its formulation of the conditions for assistance. The regions could promote and make compulsory the regional harmonisation processes or establish rules and instruments for their further implementation. The aim here should be to achieve a greater involvement of local actors, in particular the enterprises. A precondition for this is the development of projects which are of direct benefit to the enterprises and the inhabitants in the region. By linking the primary "demand-oriented" assistance policy at Land level with a strengthening of regional co-ordination, a way could be found to combine the existing advantages of flexibility in the assistance procedure at Land level with the achievement of greater synergies at local level.

**Implementations of the support policy**

The problems observed in the execution of the OP give rise to various ideas for change, which can only be hinted at here. In the first place, consideration should be given to whether/how the demand for funds should/can be increased by political instruments and measures; as far as possible without any extension of the conditions governing the assistance, in order to avoid capture effects and a drop in capital productivity. It is necessary to ask what role internal organisational improvements and more targeted regional/local mobilisation on the spot could play. In the second place, consideration should be given to the advantages and disadvantages of the current structure of the development objectives. In particular a check should be made of the consequences of the financial targeting of groupings (priority areas) which makes it possible for allocations to be exchanged among them. Furthermore, the question should be examined of whether a different mix of
planning/programme arrangements on the one hand and flexible options for action on the other hand would simplify the execution of the policy and thus improve the efficiency of the programme implementation. For example, how is it possible to avoid the financial guidelines in force which lead to different and repeated book transfers between the ERDF and GRW, without the risk of losing assistance funds? How can the target figures for the indicative financial plan be aligned more flexibly (less bureaucratically) with fluctuations in demand, without the consistency of the objectives of the programme being affected or running the risk of being eroded? It is recommended that these questions be discussed as broadly and intensively as possible and clarified rapidly in order that the desired solutions to the problems can be implemented in time for the current programme.

Relieving the Ministry (TMWI) of routine administrative tasks of development policy (the transfer of government functions to the Thüringer Aufbaubank and the Administration Office of the Land) on the one hand offers greater scope for the handling of planning, mobilising and co-ordinating functions, but on the other hand increases the cost of controlling the downstream institutions. The TMWI should actively develop and make greater use of these possibilities and the transfer of functions. This is true in particular for

- programme support and consultancy in the organisation of the ERDF priority areas, as for example in the elaboration of regional development conceptions (REKs) for the development of commercial land, for tourism or for the vocational training infrastructure;

- the broadening of the dialogue with the parties affected by assistance policy (industrial branches, bodies responsible for regional development etc.);

- the strengthening of co-ordination and consultation mechanisms between the individuell departments concerned within the TMWI and between the TMWI and other ministries.

An expansion of the present information system with greater use of IT is recommended. In principle, all data concerning the project applicants should be available in electronic form. On this basis the production of the operating reports, confirmation documents and decisions on grants could be largely automated. Moreover,
details of the status of the project and the outflow of funds should be incorporated into the database and constantly updated (including proof of employment of funds). The assistance funds information system (SMI), which is currently in the introductory phase in the TMWI and is based on SQL language, appears to be an appropriate and upgradable basis on which to satisfy the above requirements for the information system.

The further co-operation between the TMWI, the Thüringer Aufbaubank (TAB) and the Administration Office of the Land (LVA) should be based on a comprehensive duty on the part of the TAB and the LVA to provide information, guaranteeing that the TMWI has a constant overview of the targets and performance within the support programme implementation process. Amongst other things a takeover of the assistance funds information system by the TAB and the LVA should be examined. Failing this, agreements should be made on the exchange of data.

In future, greater account should be taken of the rules and objectives of other EU Community policies in the implementation of the ERDF-OP (competition rules and to some extent legal regulations in the area of environmental protection). The problems identified here should be eliminated by means of consultancy on the computer-assisted processing of applications. Targeted support for equality of opportunities for women and men through innovative projects and packages of measures (incorporating different funds and programmes) should be implemented in the second programme planning period, thus making better use of the associated development opportunities for Thüringen. The assistance strategy should also be implemented more fully in support of a sustained and environmentally sound development.
References


