EX POST EVALUATION OF THE COHESION FUND (INCLUDING FORMER ISPA) - WORK PACKAGE D: MANAGEMENT AND IMPLEMENTATION

(N°2011.CE.16.C.AT.004)

FINAL REPORT

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Preface

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Ex Post Evaluation of the Cohesion Fund (including former ISPA) (Work Package D: Management and Implementation)

(N°2011.CE.16.C.AT.004)

TABLE OF CONTENTS

1. INTRODUCTION ................................................................. 1
   1.1 Objectives of the Study ............................................. 1
   1.2 Methodology ............................................................ 2
   1.3 Country Groups ......................................................... 4
   1.4 Structure of the Report .............................................. 4

2. CONTEXT FOR THE DELIVERY OF ISPA / COHESION FUND ............. 7
   2.1 Strategic and Administrative Context ................................ 7
   2.2 Administrative Capacity for Managing Cohesion Policy .......... 9
   2.3 Funding Allocations and Absorption ................................ 10
   2.4 The Delivery System for ISPA/CF .................................. 13

3. COMPARATIVE ANALYSIS OF FINDINGS .................................. 17
   3.1 The Baseline Position ................................................ 17
   3.2 Fund Management and Governance .................................. 18
   3.3 Strategic Planning ..................................................... 23
   3.4 Project Design and Development .................................... 26
     3.4.1 Project Pipeline ................................................. 26
     3.4.2 Project Specification and Detailed Development ............ 27
     3.4.3 Cost-benefit analysis (CBA) and Environmental Impact Assessment (EIA) ........................................... 28
     3.4.4 Overall Assessment .............................................. 29
   3.5 The Decision-making Process ....................................... 29
   3.6 Procurement .............................................................. 30
   3.7 Project Management and Implementation ............................ 32
     3.7.1 Deviation from Physical Specification ......................... 33
     3.7.2 Deviation from Budget ............................................ 35
     3.7.3 Implementation Delays .......................................... 36

4. SYNTHESIS ................................................................. 39
   4.1 Baseline Position ..................................................... 39
   4.2 Strategies and Measures for Capacity Development ............... 39
   4.3 The Dynamic of Capacity Building .................................. 41
   4.4 Progress Towards Absorption of the Funds ......................... 42
   4.5 The Performance of the Delivery System ........................... 43
   4.6 Characteristics of the System ....................................... 46

5. CONCLUSIONS ............................................................... 49
   5.1 Context ................................................................. 49
   5.2 Progress with Absorption ............................................ 49
   5.3 Development of Management and Implementation Capacities .... 50
   5.4 Scope for Improving System Performance .......................... 51
     5.4.1 Measures Already Taken ......................................... 51
     5.4.2 Areas for Promotion of Improvement ............................ 52
     5.4.3 Leverage from Planned Reforms ................................ 54
LIST OF ABBREVIATIONS

AA  Audit Authority
CBA  Cost-Benefit Analysis
CF  Cohesion Fund
DG REGIO  Directorate General for Regional Policy
DG ELARG  Directorate General for Enlargement
EC  European Commission
EDIS  Extended Decentralisation Implementation System
EIA  Environmental Impact Assessment
EIB  European Investment Bank
ERDF  European Regional Development Fund
EU  European Union
EU2 countries  Bulgaria, Romania
EU4 countries  The Cohesion countries (Greece, Ireland, Portugal, Spain)
EU10 countries  Member States joining the EU in 2004
EU12 countries  Member States joining the EU in 2004 and 2007
FB  Final Beneficiary
GDP  Gross Domestic Product
GFCF  Gross Fixed Capital Formation
IB  Intermediate Body/ Implementing Body
IFI  International Financial Institutions
ISPA  Instrument for Structural Policies for Pre-Accession
JASPERS  Joint Assistance to Support Projects in European Regions - initiative developed by the European Commission, the EIB, the European Bank for Reconstruction and Development (EBRD) and the Kreditanstalt für Wiederaufbau (KfW) to provide technical support for project preparation in the case of large infrastructure schemes which receive finance from the Structural and Cohesion Funds.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>JESSICA</td>
<td>Joint European Support for Sustainable Investment in City Areas - initiative developed by the European Commission and the European Investment Bank, in collaboration with the Council of Europe Development Bank.</td>
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<td>MA</td>
<td>Managing Authority</td>
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<tr>
<td>NUTS</td>
<td>Nomenclature of Units for Territorial Statistics</td>
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<td>PA</td>
<td>Paying Authority</td>
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<tr>
<td>PHARE</td>
<td>One of the three pre-accession instruments financed by the European Union to assist the applicant countries of Central and Eastern Europe in their preparations for joining the European Union</td>
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<tr>
<td>PIDDAC</td>
<td>Portuguese Programme for Central Administration Investment and Development</td>
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<tr>
<td>PRAG</td>
<td>Practical Guide to Contract Procedures for EU external actions</td>
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<td>SEF</td>
<td>Czech State Environmental Fund</td>
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<td>SOP</td>
<td>Sectoral Operational Programme</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>TEN-T</td>
<td>Trans-European Transport Networks</td>
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THE MANAGEMENT AND IMPLEMENTATION OF COHESION FUND 
(INCLUDING FORMER ISPA) IN 2000-2006

EXECUTIVE SUMMARY

1. INTRODUCTION

This study is an ex post evaluation of the management and implementation of the Cohesion Fund (including former ISPA) in 2000-06. The study had the overarching objective of assessing the building-up of management capacity to deliver ISPA and Cohesion Fund projects in the 14 countries benefiting most from the Cohesion Fund and ISPA in the 2000-06 period.

2. CONTEXT FOR THE DELIVERY OF ISPA/ COHESION FUND

In 2000-06, both ISPA and CF were based on projects rather than programmes. Although funding allocations for 2000-06 were heavily committed, absorption has been slow with fewer final payments than expected, requiring the extension of project execution. While formal closure was still pending for a large number of projects at the time of the research (November 2011), around four-fifths of the projects had been physically completed.

The delivery system was similar for ISPA and the Cohesion Fund: projects had to be prioritised in line with national sectoral strategies. The approach to project development required environmental impact assessment (EIA) and cost-benefit analysis (CBA). The appraisal and approval process were both located in the Commission and, under ISPA, decision-making also involved a Management Committee comprising Member State representatives. While Member States had full responsibility for procurement of CF projects, European Delegations fulfilled an ex ante control function in the case of ISPA. Projects were then managed and implemented by Managing Authorities, Intermediate Bodies and Implementing Bodies. Variations in management across Member States were associated with different institutional systems, progress with administrative reform and institution-building, institutional stability and overall administrative capacity and culture.

3. PROGRESS WITH BUILDING CAPACITY: COMPARATIVE ANALYSIS

The country research carried out in the 14 case-study countries revealed the following findings on the building up of management capacity with respect to different components of the ISPA/CF delivery system.

In 2000, administrative capacity was relatively mature in the EU4 countries. The EU12 had lower levels of management capacity, although strategic planning capabilities were substantially developed in some cases, and most countries had some capability for designing and delivering infrastructure projects. Shortcomings were related to: knowledge and experience for managing projects in line with EU rules and its concept of sound and efficient management; and the capacity to handle the increased investment from ISPA and, subsequently, from the Cohesion Fund. Baseline capacity in the environment sector was generally less than in the transport sector in most countries.
Fund management structures had to be partly built up from scratch in the EU12, but are judged to have operated effectively in meeting the requirements of EU Regulations and domestic legal frameworks and have, in some cases, led to administrative spillovers. Administrative specialisation was sometimes used to develop expertise on specific sectoral or EU funding requirements. Three organisational factors influenced the build-up of management capacity: the stability of institutions; continuity in transition (i.e. between ISPA and CF and between programme periods); and the management of staff turnover.

Strategic planning was effective in most countries throughout the period of study, although there were examples of slower progress attributable to poor coordination of investment priorities, short-termism, politicisation, poor data quality or inexperience. Over time, priorities for transport and environment infrastructure generally became better justified and reflected in actual investment. Politicisation is perceived to have increased, but the objectivity and transparency of strategic planning have generally been positive.

Project design and development processes were fairly routine in the EU4. Progress in the EU12 was hampered by difficulties in constructing a project pipeline quickly with limited capacity. Dependency on external capacity, notably in the EU12, made it difficult to transfer experience to the 2007-13 period. In most cases, CBA and EIA were carried out to comply with EU requirements.

The standard of applications was good, and most projects presented for funding decision were well-developed. The speed of approval varied across Member States.

The field of procurement was dynamic and challenging for the EU12, especially the move from the standard procurement technology PRAG to national law after EU accession. In 2000, few Member States had an EU-compliant procurement process without significant weaknesses. This situation has not improved greatly over the period in many countries. Issues mainly relate to high levels of appeal, the transposition of EU Directives into national law, the quality of procurement processes and difficulties with cost estimation in a volatile economic environment. At the same time, the vast majority of contracts are completed to specification and with no major contractual disputes.

The final stage of project management and implementation was affected by weaknesses in earlier stages of the project cycle, especially project design/development and procurement. There were also institutional and environmental difficulties, such as public protest. Deviation from physical specification occurred frequently, but performance improved over time. There has been significant budgetary deviation linked to costing weaknesses, especially in the EU12, but limited improvement. Many projects were affected by delays, a problem which has persisted despite some progress in reducing lead times.

4. SYNTHESIS OF CAPACITY-BUILDING MEASURES

Member States took different approaches to developing management capacity. In Ireland, Portugal and Spain, 2000-06 was a largely routine period, with marginal requirements for capacity development. Greece, however, was still engaged in a process of capacity building closer to the pattern seen in EU12 countries, where significant investment was required to
scale up resources in response to the level of ISPA/CF resources and requirements. The evaluation did not find a distinctive set of strategies for capacity building. Rather, the focus of effort and resources appears to have been adaptive, with measures being taken in response to immediate issues and priorities to enable flexible and ad-hoc use.

In the EU12, where most examples of capacity-building measures were found, the early 2000s were characterised by the use of TA to support the staffing of central administrations and to draw on external expertise in project preparation (especially with CBA and EIA). From 2002, investment moved to support decentralisation (in the context of the EDIS process) and to expand the capacity of delivery systems. Subsequently, capacity building became more routine, and local providers gradually played a more important role in project development. Also, the focus moved towards greater support for beneficiaries in the implementation phase, particularly in the environment sector. From the mid-2000s, retaining capacity in the system became a pressing issue in some countries.

Capacity-building support is widely acknowledged as having made a vital contribution to the management and implementation of large-scale transport and environmental infrastructure investments in line with Commission requirements. This has to be seen in the context of a capacity-building process that was mainly driven by experience, through learning-by-doing. The bottlenecks in the delivery of ISPA/CF largely related to project development, procurement and delays in project implementation. Some positive examples can be identified in terms of novel approaches to management and implementation (Czech Republic, Hungary, Ireland, Lithuania, Portugal, Romania).

The 2007-13 period brought new challenges in some Member States (Bulgaria, Estonia, Romania, Slovakia, Slovenia), especially where capacity and institutional knowledge has not been transferred effectively. For others, the move to multi-annual programming of CF in 2007-13 represents a major advance over the model of individual project approval.

5. CONCLUSIONS

Capacity-building support has been long term and multi-layered. Technical Assistance approvals cover a broad spectrum, allowing an adaptive use of resources. The benefits of capacity-building support are diffuse and cumulative. The impact of experience on capacity is evident in a number of areas, including: administrative structures culture; tools and procedures; managerial, technical and financial skills; the decentralisation of responsibilities; and better coordination.

Important steps have already been taken to improve the performance of the CF delivery system, such as flexibility in the period for eligible expenditure and in the context of the 2007-13 Regulations. In the context of the post-2013 reform of Cohesion policy, there is an opportunity to review procedures for the Cohesion Fund in the light of the reduced risk that exists in the post-enlargement environment, and as a result of the experience accumulated since 2000.
GESTION ET MISE EN ŒUVRE DU FONDS DE COHÉSION (Y COMPRIS ISPA) EN 2000-2006

RÉSUMÉ

1. INTRODUCTION

Cette étude est une évaluation ex post de la gestion et de la mise en œuvre du Fonds de Cohésion (y compris l’ancien ISPA) en 2000-06. L’étude avait pour objectif primordial d’évaluer la constitution de capacité de gestion pour mener des projets ISPA et du Fonds de Cohésion (FC) dans les 14 pays bénéficiant le plus du Fonds de Cohésion et d’ISPA dans la période 2000-06.

2. CONTEXTE DE LA MISE EN ŒUVRE D’ISPA ET DU FONDS DE COHÉSION

En 2000-06, à la fois l’ISPA et le FC ont été basés sur des projets plutôt que des programmes. Bien que les crédits pour la période 2000-06 aient été fortement engagées, l’absorption a été lente avec moins de paiements finaux que prévu, ce qui a nécessité l’extension de l’exécution de projets. Alors que la clôture formelle était toujours en attente pour un grand nombre de projets au moment de la réalisation de l’étude (Novembre 2011), environ quatre cinquièmes des projets avaient été achevés.

Le système de mise en œuvre était similaire pour l’ISPA et le Fonds de Cohésion: les projets devaient être hiérarchisés en se référant à des stratégies sectorielles nationales. L’approche de développement de projet nécessitait une évaluation d’impact environnemental (EIE) et une analyse coût-bénéfice (ACB). Les processus d’instruction et de décision étaient tous les deux effectués au sein de la Commission, et pour l’ISPA, la prise de décision associait de plus un comité de gestion composé de représentants des États membres. Alors que les États membres étaient entièrement responsables des marchés publics pour les projets FC, des délégations européennes remplissaient une fonction de contrôle ex ante dans le cas de l’ISPA. Les projets étaient ensuite gérés et mis en œuvre par les autorités de gestion et les organismes intermédiaires. Les différences en ce qui concerne la gestion des fonds entre les États membres sont associées à des différents systèmes institutionnels, au progrès de réformes administratives et à la création d’institutions, la stabilité institutionnelle, ainsi que plus généralement à la capacité et la culture administrative.

3. LE PROGRES PAR RAPPORT A LA CONSTITUTION DE CAPACITE : ANALYSE COMPARATIVE

La recherche effectuée dans les 14 pays étudiés a révélé les conclusions suivantes concernant la constitution de capacité de gestion par rapport aux différentes composantes du système de mise en œuvre ISPA/ FC.

En 2000, la capacité administrative était relativement mure dans les pays UE4. Les UE12 avaient des niveaux de capacité de gestion inférieurs, bien que les capacités de planification stratégique aient été considérablement développées dans certains cas, et la
plupart des pays avait une certaine capacité pour concevoir et gérer les projets d'infrastructure. Des lacunes étaient notamment liées au savoir et l'expérience pour gérer des projets en conformité avec les règles de l'UE et son concept de la gestion saine et efficace, et à la capacité à gérer des fonds accrus de l'ISPA et, ultérieurement, du Fonds de Cohésion. La capacité de base dans le secteur de l'environnement était généralement moindre que dans le secteur du transport dans la plupart des pays.

Les structures de gestions des fonds ont dû être en partie construites à partir de zéro dans les pays UE12, mais sont jugées avoir fonctionné de manière efficace pour répondre aux exigences des réglementations européennes et les cadres juridiques nationaux et ont, dans certains cas, eu des effets d'entraînement sur les systèmes administratifs nationaux. La spécialisation administrative a parfois été utilisée pour développer de l'expertise par rapport à des exigences sectorielles spécifiques ou de financement européen. Trois facteurs organisationnels ont influencé l'accumulation de capacités de gestion: la stabilité des institutions, la continuité dans la transition (c'est à dire entre l'ISPA et le FC et entre les périodes de programmation), et la gestion du renouvellement des personnels.

La planification stratégique était efficace dans la plupart des pays pendant la période étudiée, mais il y avait des exemples de progrès plus lent attribuable à de la mauvaise coordination des priorités d'investissement, la « myopie stratégique », la politisation, la mauvaise qualité des données ou l'inexpérience. Au fil du temps, les priorités pour l'infrastructure du transport et environnementale sont devenues globalement mieux justifiées et reflétées dans les investissements effectivement entrepris. La politisation est perçue comme ayant augmenté, mais l’objectivité et la transparence de la planification stratégique ont généralement pris un développement positif.

Les processus de conception et de développement de projet étaient assez routiniers dans les pays UE4. Le progrès dans les pays UE12 était entravé par des difficultés concernant la construction rapide d'un pipeline de projets dans une situation de capacités limitées. La dépendance de capacités externes, notamment dans les UE12, a rendu difficile le transfert d'expérience à la période 2007-13. Dans la plupart des cas, l’ACB et l'EIE étaient effectuées pour se conformer aux exigences européennes.

La qualité moyenne des dossiers était bonne, et la plupart des projets présentés pour décision de financement étaient bien développés. Le temps de décision variait selon les États membres.

Le domaine des marchés publics était changeant et présentait des défis pour les UE12, notamment le passage de l’approche standardisée de PRAG à la législation nationale après l’adhésion à l’UE. En 2000, peu d'États membres disposaient de processus de marchés publics en conformité avec les exigences européennes et sans faiblesses importantes. Cette situation ne s’est pas vraiment améliorée au cours de la période dans de nombreux pays. Les difficultés concernent principalement des nombreux recours, la transposition des directives communautaires en droit national, la qualité des processus de passation des marchés et des difficultés par rapport à l’estimation des coûts dans un environnement économique instable. En même temps, la grande majorité des contrats ont achevé leurs tâches sans conflits contractuels majeurs.
La dernière étape de la gestion et la mise en œuvre de projet était affectée par les faiblesses présentes dans les étapes précédentes du cycle de projet, en particulier la conception/le développement des projets et les marchés publics. Il y avait également des difficultés institutionnelles et contextuelles, telles que l’opposition publique. Des écarts étaient fréquents par rapport aux spécifications techniques, mais la performance s’est améliorée au fil du temps. Les écarts budgétaires liés à des faiblesses dans les calculs des coûts étaient considérables, en particulier dans les pays UE12, sans amélioration marquée. De nombreux projets étaient affectés par des retards, un problème persistant en dépit d’un progrès certain dans la réduction des délais de démarrage.

4. SYNTHESE DES MESURES DE RENFORCEMENT DES CAPACITES

Les États membres ont adopté des approches différentes pour développer les capacités de gestion. Pour l’Irlande, le Portugal et l’Espagne, 2000-06 était une période largement routinière, avec des exigences marginales quant au développement de ces capacités. La Grèce, cependant, était encore engagée dans un processus de renforcement des capacités plus proche des tendances observées dans les pays UE12, où d’importants investissements étaient nécessaires pour développer des ressources afin de gérer le niveau important des fonds ISPA/FC et les exigences liées. L’évaluation n’a pas identifié un ensemble distinctif de stratégies pour le renforcement des capacités. Au contraire, l’essentiel des efforts et des ressources semble avoir été déployé de manière adaptative, avec des mesures prises en réponse à des problèmes et des priorités immédiats pour permettre une utilisation souple et ad-hoc.

Dans l’UE12, où l’on trouve la plupart des exemples de mesures pour le renforcement des capacités, le début des années 2000 a été caractérisé par l’utilisation de l’assistance technique pour soutenir la dotation en personnel des administrations centrales et pour s’appuyer sur l’expertise externe pour la préparation des projets (en particulier concernant l’ACB et l’EIE). Depuis 2002, les investissements se sont déplacés vers le soutien de la décentralisation (dans le cadre du processus EDIS) et pour accroître la capacité des systèmes de mise en œuvre. Par la suite, le renforcement des capacités est devenu plus routinier, et les prestataires locaux ont progressivement joué un rôle plus important dans le développement des projets. En outre, l’accent était mis davantage sur un plus grand soutien au profit des bénéficiaires dans la phase de mise en œuvre, en particulier dans le secteur de l’environnement. A partir du milieu des années 2000, la rétention de capacité dans le système est devenue une question pressante dans certains pays.

Le soutien au renforcement des capacités est largement reconnu comme ayant apporté une contribution essentielle à la gestion et la mise en œuvre des investissements d’infrastructures de transport et environnementales à grande échelle en conformité avec les exigences de la Commission. Ceci doit être considéré dans un contexte dans lequel le renforcement des capacités était principalement conditionné par l’expérience, à travers l’apprentissage par la pratique. Les blocages dans l’utilisation de l’ISPA/FC était en grande partie liées au stade de développement des projets, aux marchés publics et aux retards dans la mise en œuvre de projet. Quelques exemples positifs peuvent être identifiés, présentant des approches novatrices à la gestion et la mise en œuvre (Hongrie, Irlande, Lituanie, Portugal, République Tchèque, Roumanie).
La période 2007-13 a présenté de nouveaux défis pour certains États membres (Bulgarie, Estonie, Roumanie, Slovaquie, Slovénie), en particulier là où les capacités et le savoir institutionnel n’ont pas été transférés de manière efficace. Pour d’autres, le passage à la programmation pluriannuelle du FC en 2007-13 représente une avancée majeure par rapport à l’approbation de projets individuels.

5. CONCLUSIONS

Le soutien au renforcement des capacités est long terme et multi-niveaux. Les projets d’assistance technique couvrent un large spectre, ce qui permet une utilisation adaptative des ressources. Les avantages du soutien au renforcement de capacités sont diffus et cumulatifs. L’impact de l’expérience en terme de capacité est évidente dans un certain nombre de domaines, y compris: la culture et les structures administratives ; les outils et les procédures ; les compétences managériales, techniques et financières ; la décentralisation des responsabilités ; et une meilleure coordination.

VERWALTUNG UND UMSETZUNG DES KOHÄSIONSFONDS (EINSCHLIESSLICH ISPA) IN DER PERIODE 2000-2006

ZUSAMMENFASSUNG

1. EINFÜHRUNG


2. HINTERGRUND FÜR DEN EINSATZ DES ISPA/ KOHÄSIONSFONDS


3. FORTSCHRITT BEI DER KAPAZITÄTSBILDUNG: VERGLEICHENDE ANALYSE

Aus den Länderrecherchen, die in den 14 Fallstudien-Ländern durchgeführt wurden, wurden folgende Erkenntnisse zum Aufbau von Managementkapazitäten hinsichtlich der verschiedenen Bestandteile des ISPA/ KF-Umsetzungssystems gezogen.

Im Jahr 2000 waren Verwaltungskapazitäten in den EU4-Ländern relativ weit ausgebaut. Die EU12 hatten geringere Managementkapazitäten, obwohl die strategische Planungsfähigkeit in einigen Fällen erheblich entwickelt war, und die meisten Länder auch im Bereich der Entwicklung und Umsetzung von Infrastrukturprojekten einige Erfahrung vorwiesen. Mängel
bezogen sich auf Wissen und Erfahrung mit der Verwaltung von Projekten in Übereinstimmung mit EU-Vorschriften und dem Konzept einwandfreien und effizienten Managements, sowie die Fähigkeit, die erhöhten ISPA und anschließend Kohäsionsfondsmittel handzuhaben. In den meisten Ländern war die Ausgangskapazität im Bereich Umweltinfrastruktur im Allgemeinen geringer als im Verkehrssektor.


**Strategische Planungsaktivitäten** im Untersuchungszeitraum waren in den meisten Ländern effektiv, obwohl es auch Beispiele für schleppende Entwicklung gab, welche auf mangelnde Koordination von Investitionsprioritäten, kurzfristiges Denken, Politisierung, schlechte Datenqualität oder Unerfahrenheit zurückzuführen waren. Mit der Zeit wurden Prioritäten besser begründet und spiegelten sich zunehmend in getätigten Investitionen wider. Obwohl eine steigende Politisierung wahrgenommen wird, haben sich die Objektivität und Transparenz von strategischen Planungsaktivitäten allgemein verbessert.


Das **Beschaffungswesen** war häufigen Veränderungen unterworfen und stellte für die EU12 eine Herausforderung dar, vor allem der Wechsel von der Standardbeschaffungsmethode PRAG zu nationalem Recht in Folge des EU-Beitritts. Im Jahr 2000 entsprachen die Beschaffungsmethoden in den wenigsten Ländern EU Anforderungen und wiesen signifikante Mängel auf. Die Situation hat sich seither in vielen Ländern nicht wesentlich verbessert. Probleme bestehen hauptsächlich in Bezug auf die Häufigkeit von Berufungsverfahren, die Umsetzung von EU Direktiven in nationales Recht, die Qualität der Beschaffungsmethoden und Schwierigkeiten mit Kostenschätzungen in einem unbeständigen Wirtschaftsklima. Zugleich wurde die große Mehrzahl von Verträgen der Spezifikation nach und ohne größere vertragliche Anfechtungen ausgeführt.

4. MASSNAHMEN ZUR KAPAZITÄTSBILDUNG - ZUSAMMENFASSUNG


Die Förderperiode 2007-13 brachte für einige Mitgliedstaaten neue Herausforderungen mit sich (Bulgarien, Estland, Rumänien, Slowakei, Slowenien), vor allem in Fällen, in denen

5. SCHLUSSFOLGERUNGEN


THE MANAGEMENT AND IMPLEMENTATION OF COHESION FUND (INCLUDING FORMER ISPA) IN 2000-2006

1. INTRODUCTION

This is the Final Report for the Ex post Evaluation of the Cohesion Fund (including former ISPA) - Work Package D: Management and Implementation - submitted by the European Policies Research Centre (University of Strathclyde) and Fraser Associates. The report draws together the findings from the various research tasks to produce an overall assessment and to generate conclusions in relation to the research global and specific objectives and the implications for future Cohesion policy.

The following sections provide an overview of the objectives of the study, followed by the methodology of the project and the structure of the Report.

1.1 Objectives of the Study

As part of a wider set of work packages evaluating the Cohesion Fund, the role of this study has been to establish whether the country-level management and implementation systems for the Cohesion Fund are well-established and functioning efficiently, for the purposes of achieving the goals of EU Cohesion policy.

The Terms of Reference set out a single global objective:

*to assess the building-up of management capacity to deliver ISPA and Cohesion Fund projects in the 14 countries benefiting most from the Cohesion Fund and ISPA in the 2000-06 Programming Period.*

This global objective was articulated further in a set of specific objectives:

- to assess the current level of capacity for the management and implementation of Cohesion Fund activity in the subject Member States;
- to assess the distance travelled in terms of capacity development since 2000;
- to examine the relative effectiveness of different approaches for mitigating the capacity gap over the short and longer terms;
- to evaluate the value-added of EU Technical Assistance support in the capacity development process;
- to identify lessons and transferable good practice; and
- to consider the implications of the findings for future Cohesion Policy and administrative reform.

An important point regarding the time period of the study is that it examined management and implementation systems which were *still* operational in most Member States at the
time of the research. Many of the projects approved during the 2000-06 period were still being implemented in 2011/12.

1.2 Methodology

The research adopted a highly structured methodological approach to allow comparative analysis of the management and implementation of the Cohesion Fund (CF) in 14 case-study countries i.e. all ISPA/CF recipient countries apart from Croatia, Cyprus and Malta.¹ The research was led by a Core Research Team, which carried out a review of secondary sources, developed the framework for the empirical research and coordinated a team of National Experts with specialist expertise in each of the case-study countries.

The process was characterised by detailed central preparation of research materials and extensive interaction between the Core Team and National Experts, enabling continuous contact and feedback flows throughout the study. The different steps of the research were as follows.

1. **Documentary review**, involving the review of evaluation research and key documents, as well as ten selected Technical Assistance projects.

2. **Design of the research approach and instruments**: Development of questionnaires for stakeholder interviews based on documentary review, covering the different aspects of the ISPA/CF delivery system, the format and scope of the workshops at Country-level, and a template for the Country Reports.

3. **Initial briefing and country-level preparation** to enable the National Experts to deepen their familiarisation with the background documentation and to progress with the identification of stakeholders, establishing a programme of interview appointments and identifying the timing and a suitable venue for the workshops.

4. **Pilot research and reporting** in Lithuania, selected on the basis of its experience of both ISPA and Cohesion Fund and the intermediate complexity of its implementation system, to facilitate effective testing of the research materials, to inform the main research programme and to set an appropriate standard for the other Country Reports.

5. **Finalisation of materials (template, workshop guidance) and final briefing** based on the experience of the pilot and two rounds of comments from DG Regio, notably to make more explicit the ‘dynamic process of learning’ and qualitative evaluation of the most significant causes of delay.

6. **Country-level research**, involving the review of country materials and the identification of stakeholders involved in the key components of the ISPA/CF

delivery system (see Section 2.4). Stakeholders were interviewed using structured questionnaires specific to each of the components. A follow-up workshop was carried out in each country to share emerging findings, to test responses and to explore hypotheses. Workshop participants (officials and stakeholders who had previously been interviewed) were asked to consider, on a system-wide basis, how the different components in the ISPA / CF delivery system interacted, where the most significant bottlenecks occurred and what steps might be taken at national level, or by the Commission, in order to improve system efficiency. National Experts were expected to make well-founded judgements, notably on their country’s development pathway since 2000.

7. **Consultations with Commission officials and Work Package B/C consultants** were undertaken by the Core Research Team, exploring the main bottlenecks and solutions adopted as well as developments and variation across Member States, and to obtain insights into the process involved in project appraisal and approval.

The research carried out at the level of the 14 selected Member States (i.e. Step 6) has been at the heart of this study. Drawing on interview and workshop findings as well as centrally-provided data, National Experts produced Country Reports submitted separately to DG Regio, and which will be annexed to the Final Report. These were quality controlled by the Core Research Team, involving the provision of comments for clarification as appropriate.

The questionnaires were designed to facilitate meta-analysis through the development of coded responses on a wide range of qualitative issues and the development of positioning criteria, which the National Experts were required to use to form judgements. The use of pre-coded categories enabled the Core Research Team to compile a database covering all 14 countries and to undertake efficient and effective cross-country comparison. Coded data were extracted from the questionnaires for entry in an SPSS database. This was used as a resource for the Core Team to conduct statistical analysis (frequency distributions, cross-tabulations) during the preparation of the synthesis presented in this report.

It should be noted that the synthesis report has been informed by three main sources of data:

- read-across of the country reports which has produced mainly comparative, qualitative data;
- analysis of National Expert assessments used to assess the distance travelled between 2000-2011 as regards the individual components; and
- analysis of the underlying questionnaires which has produced frequency distributions based on qualitative issues.²

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² In the course of the country-level research, interviews were carried out with 200 national officials in the 14 case-study countries. Percentages for the bar charts and table in Section 3 are drawn from this base of respondents.
In addition, the synthesis report draws upon interviews with Commission officials, interviews with the Work Package B/C consultants, dialogue with Country Experts and desk-based research.

Some important caveats should be noted at the outset. The research was carried out within a compressed timeframe between September and December 2011, with most of the country research being carried out in the November-December period. The research relied heavily on interviews for qualitative assessments of the management and implementation of ISPA/CF over a period dating back over a decade to 2000. Inevitably, some difficulties were encountered in identifying and locating key officials who had been responsible for specific administrative functions, and with obtaining documentation. In some instances, officials were unwilling to be interviewed; others were hesitant about being critical. Nevertheless, the cooperation obtained has provided a substantive picture of developments since the mid-1990s in most countries. The range of interviews undertaken in each country and importantly - the use of workshops to test and validate findings have helped to overcome the above constraints.

1.3 Country Groups

The countries covered by this evaluation fall into the following groupings:

- EU4: Greece, Ireland, Portugal, Spain (CF recipients in 2000-06);
- eight of the EU10: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia (ISPA recipients in 2000-04 and CF recipients in 2004-06); and
- EU2: Bulgaria and Romania (ISPA recipients in 2000-06).

In line with common usage, the report refers to EU10 regarding the countries of the 2004 accession (although Cyprus and Malta are not covered) and to EU12 with respect to all Central and Eastern European Member States covered by this report.

1.4 Structure of the Report

The structure of the Draft Final Report is as follows.

- Section 2 reviews the context for the delivery of ISPA and the Cohesion Fund, summarising the position regarding financial allocations, absorption and progress with project implementation, and describing the delivery system.
- Section 3 is the core section of the report, providing a comparative analysis of the findings from the Country Reports on the management and implementation of ISPA/CF across the 14 case-study countries. It begins by outlining the baseline

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3 Following a mid-term review for eligibility in 2003, Ireland ceased to be eligible for the Fund although on-going CF projects are still to be closed.

4 From May 2004, as they became Member States, outstanding annual commitments were effectively transferred from ISPA to the Cohesion Fund.
position and then explores, in turn, Fund management and governance and four specific administrative functions - strategic planning, project design and development (project pipeline, cost-benefit analysis, environmental impact assessment, and the decision process), procurement and project management and implementation.

- Section 4 presents a synthetic assessment of progress with management capacity, bottlenecks in the ISPA/CF delivery system and strategies for capacity development.

- Finally, Section 5 presents a number of conclusions and issues for the Member States and the Commission.
2. CONTEXT FOR THE DELIVERY OF ISPA / COHESION FUND

The context for assessing the management and implementation of ISPA/CF is complex. Countries differ in terms of their administrative capacity, especially at the start of the period, the scale and importance of ISPA/CF allocations, the progress with absorption, the governance arrangements and delivery systems and the way in which capacity-building support was used. This section provides a brief overview of each of these issues.

2.1 Strategic and Administrative Context

The Cohesion Fund was established as a response to Article 130 of the EC Treaty committing the Community to pursue economic and social cohesion. It was intended to enable the eligible Member States to make progress in developing Trans-European Transport Networks (TEN-T) and in making the investments needed to meet EU environmental Directives while remaining within the convergence criteria of Economic and Monetary Union. Reflecting this aim, the intervention rate was 80–85 percent of public or equivalent expenditure, with the exception of preliminary studies and technical support measures which could be financed at 100 percent.

The first period for Cohesion Fund ran from 1993-99 during which time the EU4 group of countries, Greece, Ireland, Portugal and Spain were eligible.

The amending legislation for the Cohesion Fund for 2000-06 reflected:

- the imminent creation of the Euro and the importance attached to the Stability and Growth Pact concerning the avoidance of excessive deficits;
- the experience of Cohesion Fund 1993-99 and, in particular, the challenge of absorption which had been revealed; and
- Agenda 2000, its emphasis on a strategic approach, with enhanced requirements in relation to the environment, the polluter pays principle, etc.

During the 1990s, DG ELARG provided support to the applicant countries in their progress towards fulfilling the *acquis communautaire*. This support mainly focused on different aspects of institution building; where DG ELARG supported projects in the field of regional development, it did so using a direct delivery model. This approach reflected active debate at the time concerning the depth of cooperation that was possible before applicant countries achieved substantive harmonisation with EU legal, financial and political norms.

As the enlargement agenda gained impetus in the late 1990s, a need to accelerate support for transition was recognised. DG REGIO aspired to work with the applicant countries in a way that would help them prepare for Structural and Cohesion Fund support. Against this background, ISPA was conceived as a relatively simple measure, focused on the two sectors supported by the Cohesion Fund with the expectation that supported projects would transfer to Cohesion Fund following accession. However, instead of operating with the

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direct development model that had characterised DG Enlarge support in the 1990s, ISPA employed decentralised management with ex-ante control. This innovation was intended to facilitate learning by doing as opposed to learning by example.

The content of the ISPA Regulations\(^6\) was very similar to the amended Cohesion Fund Regulation for 2000-06. The scope of investment was essentially similar, focused upon:

- priority environmental measures identified in a national programme for the improvement of the environment, informed by the *acquis* (environment); and
- priority transport measures identified in a national programme for transport infrastructure networks, informed by Community Guidelines for the development of TEN-T, the Transport Infrastructure Needs Assessment.

The basic intervention rate, at 75 percent, of public or equivalent expenditure was less than for Cohesion Fund, but could be increased to 85 percent (i.e. in line with the Cohesion Fund maximum) where such a rate was deemed necessary to achieve ISPA Objectives and 100 percent for preliminary studies and technical support measures.

In 2000-06, both ISPA and CF were project-based rather than programming based. The minimum project size under ISPA was smaller at €5 million compared with €10 million for Cohesion Fund. However, in 2000-06, ISPA and CF could support:

- projects;
- stages of projects that were technically and financially independent; and
- groups of projects linked to a visible strategy which form a coherent whole.

The latter would become significant in some countries where the environmental sector was highly disaggregated and where partnerships and packages of projects were developed in order to meet the minimum financial scale threshold.

Both ISPA and CF operated through an applications process. Minimum requirements for project development were set, including demonstration of: consistency with identified national priorities, economic viability through use of CBA, likely impact on the environment and mitigation measures taken through use of EIA and a variety of operational details. Once received by the Commission, applications were appraised for conformity with stated criteria, related to economic and environmental characteristics covered above, but also covering such issues as: management arrangements, consistency with Community policies on environment and TEN-T; and consideration of alternative forms of financing.

There was one notable difference in the approval process. While decisions on CF rested with the Commission, applications for ISPA were placed before a Management Committee

comprising Member States representatives to receive an opinion. The Commission would adopt projects approved by the Management Committee.

In addition to establishing how ISPA and CF could be invested, the Regulations set out the management requirements. Beyond a requirement to establish a Managing Authority and a Monitoring Committee, the Regulations were not prescriptive concerning structures. However, the Regulations did establish principles including the separation of management and control and the financial control which conventionally have become reflected in structural solutions - the designation of Managing Authority, Paying and Audit Authority, the scope for Intermediary and Implementing Bodies, etc. As a result, there was - in large measure - a template for management and implementation.

2.2 Administrative Capacity for Managing Cohesion Policy

It is important at the outset to recognise the differences between the 14 case-study countries in terms of administrative capacity, both overall and specifically for Cohesion policy. By 2000, the baseline for this study, the EU4 had been members of the EU for at least 15 years and been implementing Cohesion policy since 1989. The ten Central and Eastern European countries, which joined the EU in 2004 and 2007, had experienced a difficult period of political, economic and social transformation, with reforms that were only partially complete in some cases. At the time of the 2004 enlargement, for example, the state of public administration and quality of the civil service in the EU8 was criticised *inter alia* for the lack of common standards, highly politicised administration, low salaries, inclination to corruption and low public satisfaction with services.7

Previous research found that most had weaknesses in some of the administrative structures and systems required for Cohesion policy, mainly related to the requirements for: a NUTS-based territorial organisation; a legislative framework for implementation; an institutional framework and administrative capacity for task allocation and coordination; programming capacity for development planning; and financial and budgetary management to comply with specified control and audit requirements.8 The management and implementation of ISPA support was their first experience with Cohesion Fund rules and regulations, for which management capacity had to be built up at the same time as progressing the development and implementation of infrastructure projects. In addition, accession in 2004 (except for Bulgaria and Romania) and the shift from ISPA to Cohesion Fund made further adaptation necessary.

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2.3 Funding Allocations and Absorption

The Cohesion Fund and ISPA allocated some €33 billion and €59 million respectively to 1,139 projects in the 17 eligible Member States during 2000-06.\(^9\) Analysis of financial data as part of Work Package A for this evaluation reveals wide variation in the financial significance of the funds in the recipient economies.\(^10\) Allocations in absolute terms varied considerably:

- more than half of the funding was allocated to the EU4;
- in terms of surface area, population and GDP, Spain and Poland received the highest Cohesion Fund allocations and, for ISPA, Poland and Romania benefited most; and
- the combined allocations of the two Funds as a share of governmental Gross Fixed Capital Formation (GFCF) during 2000-06 ranged from two percent (Ireland) to 31 percent (Latvia).

Beneficiary countries were given an indicative allocation of ISPA and CF resources for planning purposes expressed as a range. The mid-point of the range is shown in Table 2.1. Comparing commitments with the mid-point indicative allocation suggests that the allocation was well committed. Commitment in aggregate exceeded the aggregate of allocation mid-points. Only Ireland and Greece record commitment less than their allocation mid-point.

This reflects positively on management and implementation insofar as it confirms that sufficient projects by value to potentially absorb the indicative allocation were generated and met the criteria for approval, although this took longer than planned. Only in Greece and Ireland does commitment fall short of the mid-point of the indicative allocation.

However, absorption has been slow with fewer final payments than initially expected. Execution had to be extended for a large number of projects (initially, the final eligibility date was end 2010, but this extended to end 2011 for projects first approved by Commission decision after January 2004 as part of the Economic Recovery Plan).\(^11\) In November 2011, payments stood at 84 percent overall with a range of 71 percent (Bulgaria) to 89.2 percent (Czech Republic). The picture provided by these data is distorted by retentions pending project closure.

Some further insight into performance is available from analysis of the out-turn or effective intervention rate. The ISPA and Cohesion Fund Regulations provided a high maximum

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\(^9\) According to the tender specifications for this evaluation.


intervention rate in recognition of the limited resources available to beneficiary countries with the intention of facilitating the necessary investment without placing domestic finances under undue strain. Following from this policy objective, it may be assumed that, at the point of award, the agreed intervention rate would normally have been at, or close to, the maximum provided for under the Regulations.

It has generally been the responsibility of the Member States to fund overruns in agreed costs. The Commission position has been that most risks of cost overrun should be foreseeable with good planning and/or may be mitigated using a market solution such as fixed-price contracting.

Table 2.1: Indicative allocations, commitments and payments (€million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Indicative ISPA/ CF allocation¹</th>
<th>Commitments</th>
<th>Payments²</th>
<th>Payments ratio (%)</th>
<th>Effective Intervention Rate (%)²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>856.5</td>
<td>879.9</td>
<td>627.4</td>
<td>71.3</td>
<td>59.0</td>
</tr>
<tr>
<td>Czech Rep</td>
<td>1,117.5</td>
<td>1,230.2</td>
<td>1,097.7</td>
<td>89.2</td>
<td>67.2</td>
</tr>
<tr>
<td>Estonia</td>
<td>390.5</td>
<td>431.7</td>
<td>384.2</td>
<td>89.0</td>
<td>81.6</td>
</tr>
<tr>
<td>Greece</td>
<td>3,061</td>
<td>2,834.6</td>
<td>2,245.3</td>
<td>79.2</td>
<td>67.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>1,347.5</td>
<td>1,482.9</td>
<td>1,118.7</td>
<td>75.4</td>
<td>64.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>720</td>
<td>606.9</td>
<td>528.5</td>
<td>87.1</td>
<td>69.9</td>
</tr>
<tr>
<td>Latvia</td>
<td>648</td>
<td>714.8</td>
<td>609</td>
<td>85.2</td>
<td>75.3</td>
</tr>
<tr>
<td>Lithuania</td>
<td>751.5</td>
<td>825.9</td>
<td>693.6</td>
<td>84.0</td>
<td>71.6</td>
</tr>
<tr>
<td>Poland</td>
<td>5,127</td>
<td>5,706.9</td>
<td>4,766.6</td>
<td>83.5</td>
<td>73.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>3,061</td>
<td>3,216.6</td>
<td>2,687.5</td>
<td>83.6</td>
<td>73.4</td>
</tr>
<tr>
<td>Romania</td>
<td>1,985</td>
<td>2,043.9</td>
<td>1,664.5</td>
<td>81.4</td>
<td>73.7</td>
</tr>
<tr>
<td>Slovakia</td>
<td>697</td>
<td>774.2</td>
<td>661.4</td>
<td>85.4</td>
<td>63.4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>231</td>
<td>260.1</td>
<td>219</td>
<td>84.2</td>
<td>59.9</td>
</tr>
<tr>
<td>Spain</td>
<td>11,208</td>
<td>11,915.5</td>
<td>10,363.9</td>
<td>87.0</td>
<td>80.9</td>
</tr>
<tr>
<td>Total</td>
<td>31,201.5</td>
<td>32,924.1</td>
<td>27,667.3</td>
<td>84.0</td>
<td>73.9</td>
</tr>
</tbody>
</table>

Notes: ¹ Mid-point of a range. ² Cut-off date 03.11.2011. ³ I.e. Cohesion Fund eligible cost as a share of total eligible cost.


Accordingly, where the out-turn intervention rate is less than the maximum provided for, the difference is likely to reflect a combination of cost under-estimation during project design, the tendered price coming in higher than the planned cost, unexpected costs or weak cost control during implementation and any financial penalty applied.¹²

¹² Information on the composition of additional costs borne by the Member States has not been available to the present study.
This hypothesis clearly holds in the cases of Spain and Estonia. With effective intervention rates of 80.9 percent and 81.6 percent respectively, this outcome can only have resulted from the combination of a high average intervention rate and good control of costs.

There is a cluster of countries with an effective intervention rate between 70 and 79 percent (Latvia, Lithuania, Poland, Portugal, Romania) and this appears to be consistent with a high average intervention rate at the point of agreement, accompanied with some difficulty in cost control and construction price inflation, as highlighted in the country-level research.

However, there is a further group of countries where the effective intervention rate is significantly less than 70 percent (Bulgaria, Czech Republic, Greece, Hungary, Slovakia and Slovenia). Assuming that these countries also had a relatively high average intervention rate at the point of agreement, this suggests that they had notably less success in managing costs.

Investment in the transport sector appears to be particularly associated with a low effective intervention rate. In the most extreme case (Bulgaria), the out-turn domestic share of eligible costs for transport projects is greater than that financed by the Cohesion Fund.

<table>
<thead>
<tr>
<th></th>
<th>Transport</th>
<th></th>
<th>Environment</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of</td>
<td>Physically</td>
<td>Formally</td>
<td>No. of</td>
</tr>
<tr>
<td></td>
<td>projects</td>
<td>completed¹</td>
<td>closed</td>
<td>projects</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>Czech Rep</td>
<td>15</td>
<td>15</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>Estonia</td>
<td>14</td>
<td>13</td>
<td>11</td>
<td>21</td>
</tr>
<tr>
<td>Greece</td>
<td>22</td>
<td>21</td>
<td>13</td>
<td>77</td>
</tr>
<tr>
<td>Hungary</td>
<td>14</td>
<td>14</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td>Ireland</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Latvia</td>
<td>18</td>
<td>18</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>Lithuania</td>
<td>17</td>
<td>17</td>
<td>9</td>
<td>27</td>
</tr>
<tr>
<td>Poland</td>
<td>35</td>
<td>29</td>
<td>7</td>
<td>90</td>
</tr>
<tr>
<td>Portugal</td>
<td>34</td>
<td>30</td>
<td>21</td>
<td>66</td>
</tr>
<tr>
<td>Romania</td>
<td>12</td>
<td>8</td>
<td>0</td>
<td>36</td>
</tr>
<tr>
<td>Slovakia</td>
<td>8</td>
<td>8</td>
<td>5</td>
<td>30</td>
</tr>
<tr>
<td>Slovenia</td>
<td>8</td>
<td>7</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Spain</td>
<td>79</td>
<td>79</td>
<td>64</td>
<td>301</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>286</strong></td>
<td><strong>265</strong></td>
<td><strong>163</strong></td>
<td><strong>785</strong></td>
</tr>
</tbody>
</table>

¹ This refers to projects, for which payments are at around 80 percent or more of commitments. Source: DG REGIO, Information on Cohesion Fund financial execution, cut-off date 03.11.2011.
At the end of 2010, two thirds of the projects were still on-going, i.e. not formally closed. In Table 2.2, an estimate is made of the number of projects that are physically complete based on having reached the 80 percent payment level. This suggests that in the region of 92 percent of transport and 85 percent of environmental projects are physically complete, although the corresponding proportions formally closed are only 57 percent and 31 percent respectively.

2.4 The Delivery System for ISPA/CF

The governance arrangements for ISPA/CF over the period from 2000 to the present are country-specific and evolved with the transition from ISPA to the Cohesion Fund and, for the Cohesion Fund, over programme periods (e.g. from 2004-06 to 2007-13). Among the commonalities, it was ministries of finance which exercised the Managing Authority (MA) and Paying Authority functions for ISPA and in some cases also for the Cohesion Fund, but over time MA functions were taken on by ministries of transport and ministries of environment.

Also, in many countries, governance of the environmental sector was organised along different lines to the transport sector. A specific government department for the environment was not universal; in the case of Spain, for example, a Ministry for Environment was only formed in 1996. Also, environment policies were (and are) often more decentralised and sometimes more fragmented than transport policies, and decision-making regularly involved the sub-national level of public administration, where investments were actually implemented (most notably in Spain, but also in other countries, e.g. Czech Republic, Greece, Lithuania, Slovenia).

Looking at the management and implementation of ISPA/CF in more detail, the delivery system can be conceptualised as comprising five components corresponding to the main stages of the project life cycle, overlaid by governance and management arrangements. At each stage, different kinds of capacity are needed to operate successfully (see Figure 2.1).

The delivery system was essentially similar for ISPA and the Cohesion Fund; the main differences concerned the size of the projects (minimum amount of €10 million for Cohesion Fund compared to €5 million for ISPA) and the involvement of the Management Committee in the decision process for ISPA, but not for Cohesion Fund.

For both Funds, projects had to be prioritised in line with national strategies for transport and environmental infrastructure investment. For ISPA, there was a requirement to develop specific ISPA strategies; for the Cohesion Fund, projects have to be consistent with a general environmental or transport strategy.
environmental impact assessments (EIA) and cost-benefit analysis (CBA) for all project applications.\textsuperscript{15}

\textbf{Figure 2.1: The CF / ISPA Delivery System and Related Capacity Needs}

![Diagram of the CF / ISPA Delivery System and Related Capacity Needs]

\textbf{Source: EPRC / Fraser Associates.}

The appraisal and approval processes for the Cohesion Fund and ISPA were both carried out in the Commission and, under ISPA, decision-making also involved the Management Committee. The Management Committee composed of Member State representatives met 3-4 times a year to scrutinise all projects prior to their adoption by the Commission. The EIB and EBRD were often involved in their role as co-funders. Issues with certain proposals were mostly resolved based on constructive contributions by the concerned Member States. The Committee imposed a certain degree of discipline; Commission Services were incentivised to ensure that projects met minimum standards prior to laying them before the Committee. Nevertheless, differing views were encountered among DG REGIO interviewees on the level of project development routinely achieved before approval was granted. Some took the view that the Commission never compromised; others were pragmatic and recognised a need to balance project development effort with an imperative to commit the funding.

While Member States had full responsibility for procurement and management of Cohesion Fund projects, the situation was different with ISPA, where the European Delegations had an ex-ante control role and endorsed project procurement. The Regulations envisaged that responsibility would progressively transfer to the Candidate Countries as they developed.

\textsuperscript{15} The Commission has provided guidance on CBA, which was updated throughout the programming periods. The most recent update was published in 2008: European Commission (2008) \textit{Guide to Cost-Benefit Analysis of investment projects: Structural Funds, Cohesion Fund and Instrument for Pre-Accession}, Directorate General Regional Policy, Brussels.
the necessary capacity. The EDIS (Extended Decentralisation Implementation System) instrument supported this process of transition. During the ISPA period, the Delegations played an important advisory role, although there were variations in this across countries.

Following approval, projects were procured, and then managed and implemented by Managing Authorities, Intermediate Bodies and Implementing Bodies; they were monitored in Monitoring Committees and audited and controlled by EU and domestic institutions. Unsurprisingly, there are variations across Member States in management and implementation approaches - for example, in terms of the division of responsibilities between actors and the degree of integration with Structural Funds programmes or with domestic policies - reflecting differing institutional systems and traditions, progress with administrative reforms and institution-building, institutional stability and overall administrative capacity and culture.

The delivery of the Cohesion Fund underwent significant changes at the start of the 2007-13 period, when management and implementation systems for Cohesion Fund projects and Structural Funds programmes were effectively merged, accompanied by a greater transfer of responsibilities to Managing Authorities in terms of project selection and Final Beneficiaries regarding project implementation.
3. COMPARATIVE ANALYSIS OF FINDINGS

As noted in the Introduction to this report, the methodology for this evaluation involved research and the production of national reports for each of the 14 case-study countries. This section brings together the findings from the country research on the building-up of management capacity with respect to different components of the ISPA/CF delivery system.

3.1 The Baseline Position

At the start of the 2000-06 period, the administrative capacity to manage the Cohesion Fund in the EU4 countries was relatively mature, reflecting their long-standing membership of the EU (Ireland 1973, Greece 1981, Spain and Portugal 1986) and their accumulated experience in managing EU Cohesion policy, especially the Cohesion Fund in 1993-99. In the case of both Spain and Ireland, capacity was fully mature; in Ireland, for example, capacity had been enhanced in the early 1990s via the creation of transport and environment sub-sectoral agencies and the build-up of specialist expertise. In the case of Portugal and Greece, strategic planning capacity was fully developed, but less so in relation to the design, selection and delivery of projects. In Greece, important capacity-building investments were undertaken in the second half of the 1990s, notably by creating support agencies in the transport sector. In addition, TA was used to carry out feasibility studies for projects during this period.

The situation in the Central and Eastern European countries in 2000 was very different and a function of both their size and their position on the accession pathway.

- The capacity for fund management and governance was mainly developed in the central ministries in charge of managing foreign aid, but also within dedicated implementing bodies for transport and environment.

- Strategic planning capabilities were substantially developed in the Czech Republic, Hungary, Latvia, Lithuania, Slovakia and Slovenia but only partially developed in Bulgaria, Estonia, Poland and Romania.

- Most countries had some capability for designing and delivering infrastructure projects from the 1990s (e.g. Estonia, Latvia, Lithuania), but commensurate with the resources that had been available to them from national and international sources at that time. In a number of cases, an effective project pipeline was in place (e.g. Slovenia), but projects were often not sufficiently mature (e.g. Romania). There are also examples of very limited project development activity and the absence of an effective pipeline of funding-ready projects (e.g. Slovakia).

- Some countries had only relatively recently established formal national laws on public procurement, and these had yet to be fully harmonised with EU law (of the time).

- Project management capacity ranged from extensive experience in project management and implementation (Czech Republic), to a certain level of experience
albeit not in line with EU requirements for ISPA/CF (Bulgaria, Slovakia) to very limited experience with large-scale projects (Estonia, Romania).

Shortcomings at the start of the 2000-06 period mainly related to:

- knowledge and experience with systems and processes specific to the management of projects in line with EU rules and its concept of sound and efficient management; and

- the volume of capacity to handle the increased level of investment that was expected to come from ISPA and, subsequently, from the Cohesion Fund.

Baseline capacity in the environment sector was generally less than in the transport sector in most countries (including Ireland and Greece), notably in the fields of project development and implementation. In the case of the Central and Eastern European countries, one reason was the overall lack of funding for environmental investment (e.g. Slovenia), linked to a greater focus of PHARE and IFI-funded investment on the transport sector (e.g. Lithuania). In addition, capacity and financial resources were generally weaker at the level of sub-national authorities, which were often partners involved in environment projects (e.g. Hungary, Portugal).

3.2 Fund Management and Governance

The approaches to managing ISPA and the Cohesion Fund in 2000-06 were broadly similar. However, in the EU12, some aspects of structure had to be built up from scratch (although certain structures had already been set up for PHARE management); the processes were completely new. The start of the 2000-06 period also brought some modifications for the EU4, although within frameworks that continued largely unchanged. In Greece, for example, a dedicated service was set up within the central administration in charge of overall coordination of CF management and implementation.

Across the EU12, the introduction of ISPA was followed by decentralisation supported by the EDIS process. This involved establishing new administrative units and procedures as well as related capacity-building (to a certain extent, similar capacity needs could also be found in Greece at the start of the 2000-06 period). Following the 2004 accession, ISPA activities transferred to the Cohesion Fund. In tandem, the functions of the EU Delegations were transferred to domestic authorities along with the wider responsibilities of EU Membership. Further, a significant increase in available funding meant that absorption pressure on central authorities rose; also, Cohesion Fund projects were larger and more complex and had to comply with new requirements.

The following sub-sections provide an overview of the main developments in capacity in fund management over the 2000-11 period, and consider the utility of administrative specialisation at the level of sub-sectors in managing and implementing ISPA and the Cohesion Fund.
3.2.1 Main Capacity Developments in Fund Management and Governance

The structures for the management and governance of ISPA/CF are judged to have operated effectively, for the most part, in meeting the requirements of EU Regulations and domestic legal frameworks, as well as compatibility with the administrative structures for domestic policy. They have also led to positive spillovers. This is most evident in the case of Ireland, where the Cohesion Fund served as a model for improving the management of large infrastructure investments. Similar benefits can also be identified in Lithuania and Slovenia, for example, where PRAG influenced the development of national procurement law.

As noted above, however, absorption (as defined by payments-to-date) has been slow, particularly in Bulgaria and Greece. In general, absorption has been faster in transport than in the environment sector, although there are exceptions to this, in Romania for example. The Country Reports also note continuing management/governance constraints at the end of the 2000-06 period (e.g. Bulgaria, Estonia).

Over time, there were improvements in management and implementation capacities, and the largely successful transition from ISPA to Cohesion Fund reflected the increasing maturity of institutional structures. Progressive improvements in capacity were noted, with experiences of ISPA/CF management in the 2000-06 period leading to improvements to administration in 2007-13 period. Examples from the country research include the following:

- improved coordination between organisations involved in CF management (as highlighted in Bulgaria, Poland, Portugal);
- better targeting of CF-related activities at the level of the central administration and the Monitoring Committee (as highlighted in Bulgaria);
- the emergence of a ‘new generation’ of public servants conversant with modern techniques of fund management and implementation (as highlighted in the Czech Republic); and
- decentralisation of fund management to sectoral ministries at the start of the 2007-13 period (again, highlighted in the Czech Republic).

Three organisational factors were found to have influenced the build-up of management capacity: institutional stability; administrative continuity between periods; and staff capacity.

First, the stability of the institutions was important. While institutional arrangements were generally stable in many countries, political changes and associated reorganisations of ministries and ministerial responsibilities were disruptive in some cases. In the Czech Republic and Slovakia, the administrative knowledge base was adversely affected when fund management was transferred to new ministries (Czech Republic: 2002, Slovakia: 2003), requiring new capacity to be developed; and in Hungary, government changes led to
periodic reorganisation of management systems and staff turnover - especially in leadership - causing implementation delays.

A second factor was continuity in transition - between ISPA and CF management, or between programme periods. In most countries, this was managed effectively (e.g. Bulgaria, Czech Republic, Portugal, Slovenia), but in some cases, restructuring of management in the transition from the 2000-06 to 2007-13 period was associated with a loss of experience. Expertise and know-how was, for example, lost in Slovakia when the CF intermediate bodies in 2000-06 became MAs in 2007-13, and Romania, where only a small number of ISPA staff were transferred to the new organisational structure for managing the Cohesion Fund.

Third, managing staff turnover could be important in retaining capacity and maintaining performance. For the most part, the impact of staff turnover in central administrations was either limited (as highlighted in Estonia, Ireland, Romania (except transport) and Spain) or had only moderate effects on management performance (as in Bulgaria, Czech Republic and Slovenia). The maintenance of performance was helped in cases where key and senior staff in central authorities retained their positions (Czech Republic, Ireland, Lithuania). Slovakia is an exception, where staff turnover in the transport sector in particular had negative impacts on performance.

Unsurprisingly, most of the examples of capacity-building measures to improve fund management and governance were found among the EU12, but there are also examples of activities carried out in the EU4. In most of the EU12, the main capacity building activities were carried out in 2000-02 and again around the time of accession. Priority was given to expanding and training the human resources of the central administrative services, with TA playing an important role in many countries. TA was also used to increase the remuneration of staff involved in administering EU funding (highlighted in Bulgaria, Romania (until 2008), and Slovakia). Investment in capacity-building sometimes only had short-term benefits: in Portugal, for example, staff trained in the central coordination body were subsequently transferred to other parts of the public administration, which led to a recurrent lack of staff in the field of CF coordination. As already noted, capacity and institutional knowledge was not always effectively transferred between 2000-06 and 2007-13 administration, requiring duplication of effort.

Capacity-building measures were also used to improve the functioning of the Monitoring Committees, which fulfilled an important (and generally novel) function as discussion fora and problem-solving institutions.

For the most part, the Monitoring Committees were broadly based, involving stakeholders from all levels in the ISPA/CF delivery system together with the Commission and EIB (in Ireland it was confined to central institutions with others brought in as needed). The breadth of membership was seen as a strength, and the Committees represented a key conduit for accessing and disseminating the Commission’s know-how. While TA was commonly used to organise and co-ordinate activities of the Committees, there were fewer examples of capacity building for the Committee. Training was provided in Hungary; in
Poland there was a considerable investment in capacity building which was seen to have professionalised the Committee’s operation.

There was some variation on the extent to which the focus of Monitoring Committees was strategic (overall absorption levels, general obstacles) or on specific projects. Considerable value appears to have derived from the Committee taking a hands-on problem-solving role (for example, Bulgaria, Czech Republic, Hungary, Latvia, Portugal, Romania, Slovakia and Spain). By contrast, in Greece the Committee was perceived as having become relatively passive after project monitoring had become more formalised; in Slovenia, having been pro-active in the ISPA phase, it was seen as becoming less effective as its focus became more strategic in 2007-13.

It is important to stress that, while individual TA projects were valuable, much of the progress with capacity development was based on learning-by-doing, the accumulation of experience with administrative processes, and adopting different or more flexible ways of working to overcome problems in project implementation, whether internally within particular organisations or in cooperation with other authorities or levels. This learning process, and the associated build-up of capacity, was incremental and proceeded at different rates. However, it was evident in stronger fund management and better coordination and interaction among the different actors involved in project implementation (e.g. in Bulgaria, Czech Republic, Hungary). At best, there was a constant and dynamic process of development of institutional capacity with a beneficial influence on the capacity of other stakeholder institutions (Poland).

Perceptions of the role of Twinning in capacity building was inconsistent, with its effectiveness judged to be limited in some cases (e.g. Czech Republic), while it was regarded as very successful in others (e.g. Slovenia). The EDIS accreditation process provided a structured framework for capacity development and played an important role in a number of cases, as it contributed to optimising structures and procedures at the level of central authorities as well as within bodies with delegated responsibilities (highlighted in Bulgaria, Czech Republic, Hungary, Lithuania and Romania).

Finally, while the main focus of capacity development for fund management was among the EU12, there were also a few, limited examples in the EU4. For instance, in Portugal capacity-building measures were used to align the CF ‘project’ concept with the domestic accountability concept, and in Spain, TA was used to carry out controls.

### 3.2.2 Administrative Specialisation

The concept of specialised administrative bodies does not derive from the ISPA or Cohesion Fund Regulations. Nevertheless, administrative specialisation characterised their management and implementation throughout the past decade. The distinctive requirements of managing EU funds, the need to create and sustain non-mainstream skills and expertise for these purposes and the need to align these resources with the activity being supported, (i.e. the development and delivery of transport and environmental projects), led to an increased use of specialist bodies or units by beneficiary countries.
In 2000, most countries operationalised investment in the transport sector by using government agencies with responsibility for specific modes of transport. Road, rail, port and airport authorities were involved in different parts of the ISPA/CF delivery system, notably project development and implementation (e.g. Czech Republic, Slovakia). In Greece, where they were constituted as development companies, they were regarded as being more dynamic than the public sector and judged to have better performance in realising transport projects. These bodies were a focus for the development and management of ISPA/CF-funded activity and the consequent accumulation of specialised skills.

With respect to the environment sector, in some countries the size of some environmental authorities, such as water authorities in Ireland or Slovakia, meant that they had a scale of capacity and specialisation comparable to transport sector agencies. In the Czech Republic, the State Environmental Fund (SEF) was a key implementing agency for environmental policy already from 1992, and its level of expertise was such that the management of environmental CF investment was delegated to the SEF in 2004; it has played an important part in the delivery of Cohesion Fund, displaying strong leadership and a proactive approach characterised by progressive thinking.

However, in many other countries, both the water and waste sectors were organisationally highly fragmented. In these circumstances, where an ISPA/CF investment could be a once-in-a-generation event, there was a major challenge for beneficiaries in accessing and retaining the specialist skills required on a sustainable basis. Consequently, there was a strong focus of capacity development on the Implementing Agencies and Intermediate Bodies in the environmental sector to enable these organisations to provide better support to beneficiaries and coordinate investment. Hungary and Lithuania provide good examples.

An alternative approach to distributing capacity was the use of project implementation units at beneficiary level (usually part-funded by TA), bringing together actors with expertise in a variety of areas, as in Bulgaria (notably 2007-13) and Romania.

In the Czech Republic, some beneficiaries (mainly large cities, such as Plzeň) established specialised administrative bodies as a mechanism for handling anticipated future EU funding possibilities. Hungary created the National Infrastructural Development Company for the 2007-13 period as a single beneficiary for the transport sector, notwithstanding the existence of government agencies based on transport modes. Lastly, in Ireland, an important organisational innovation for building capacity (although not fully driven by Cohesion Fund) was the creation of the National Roads Authority in 1993 with a dedicated EU Funds unit, and the development for the 2000-06 period of the Rail Procurement Agency and the Regional Design Offices for roads as centres for specialist project planning, design, procurement and management expertise within the public sector. These developments may be seen as more radical expressions of the tendency towards administrative specialisation that has long been present in the management and implementation of ISPA/CF. However, the present study has not found conclusive evidence of their advantages or disadvantages over other approaches.
3.3 Strategic Planning

Most countries already had strategic plans for investment in 2000. By 2011, all of them had strategic plans for transport and environment infrastructure, which were in line with EU requirements, plans which had significant influence in directing investment (see Figure 3.1). Slower progress with strategic planning was attributable to poor coordination of investment priorities, short-termism, politicisation, poor data quality or inexperience.

Figure 3.1: Status of Strategic Planning - Position and Distance Travelled 2000-2011

Prior to 2000, the main weight of responsibility for national strategic planning lay with national politicians and national public administrations in all countries, with more limited participation by regional/local politicians, and very limited participation by social partners. The overarching frameworks used subsequently for developing ISPA/CF projects were highly centralised.

The strategic oversight of ISPA/CF projects at the national level was linked closely to national Environment and Transport development plans in all 14 countries. The formal role of national strategies in directing investment was significant throughout the 2000-06 period, but it is noteworthy that investment priorities were subject to change over time in a large number of countries (including most prominently Bulgaria, Hungary, Portugal and Romania). Portugal, for example, re-appraised its approach to investment through the Programme for Central Administration Investment and Development (PIDDAC) and effected the amalgamation of funding streams - such changes understandably have contributed to changed priorities. Similarly, in the Czech Republic, the absence of an overall investment strategy based on the introduction of EU legislation (especially Directive No. 91/271/EEC) caused uncertainty about investment priorities.

The interview research indicated that the identification and prioritisation of specific projects and locations in these strategies was adequately justified on the basis of analysis and evidence. However, the availability and quality of data was stated as a partial or significant impediment by a large minority of interviewees (approximately 35 percent across all countries). In addition, this limitation was more common in Bulgaria and Romania, as shown in Figure 3.2.
In nine of the 14 countries, strategic planning for ISPA/CF was effective throughout the period of study, but in five cases progress was limited by several country-specific factors.

- **Czech Republic**: the strategies initially produced were too wide and insufficiently coordinated with EU and domestic priorities. Progress in overcoming these problems was made notably through learning-by-doing and the gradual accumulation of experience.

- **Greece**: investment priorities were reactive, responding to the threat of fines for non-compliance, and long-term planning for environmental investment was only developed as part of a new national and regional policy framework in 2006.

- **Hungary**: although capacity existed for strategic planning, politicisation resulted in delays in producing the ISPA national Plans and instability in priorities. The situation was only resolved with the production of a Unified Transport Development Strategy in 2008 after the Commission had rejected the Transport Concept as a basis for CF in 2007-13.

- **Poland**: the sectoral strategies in place in 2000 were outdated and unsuitable for EU accession with the result that poor quality of data impaired investment decisions. The situation has since improved with project priorities being established on the basis of evidence. The creation of the Ministry of Regional Development was an important step in enhancing coordination and strategic planning.

- **Romania**: there was limited prior experience of evidence-based strategic planning, and the plans produced for ISPA were subject to revision. Although progress overall has been limited, the experience contributed to improved planning for 2007-13, especially with respect to integrating beneficiary needs into Cohesion Fund strategies (i.e. taking planning beyond purely absorption-oriented considerations).
In addition, pressure to absorb funding conditioned approaches taken to planning in some cases (Greece, Portugal).

The assessment presented in Figure 3.3 is that in 12 out of the 14 countries, by 2011, priorities for transport and environmental infrastructure had generally become stable, well justified, and were reflected in the vast majority of actual investment. Four countries (Greece, Ireland, Poland and Romania) are assessed as having made progress towards this standard in 2000-11. Portugal and Slovakia are assessed as not currently meeting this standard on a consistent basis, and indeed, in the case of Slovakia, it is considered that the position in the environmental sector has deteriorated since 2000.

Figure 3.3: Quality and Influence of Strategic Planning - Position and Distance Travelled 2000-2011

The evolving character of strategic planning is summarised in Figure 3.4. Across the 14 countries, the levels of politicisation in 2011 is perceived as medium-high and to have increased slightly since 2000, reflecting the active interest of politicians in investments of the type and scale supported by ISPA / CF. Politicisation was not highlighted as problematic in most countries, but was highlighted as an issue in Hungary and Greece.

Figure 3.4: Changes in strategic planning character between 2000 and 2011

Objectivity is currently perceived as high and transparency to be medium-high and both have followed a positive trend since 2000. The level of inclusivity is perceived as medium in 2011 and to be improved from 2000. The use of external expertise in the development of strategy development is currently limited and has remained as such since 2000.

### 3.4 Project Design and Development

Given the scale of resources under management and the limited period for commitment and delivery, the facility of beneficiaries to translate strategic plans into a rolling programme of viable projects is fundamental to successful implementation of ISPA / CF. This section reviews progress with developing a project pipeline and how capacity for project design and development was accessed.

#### 3.4.1 Project Pipeline

Figure 3.5 shows the progress between 2000 and 2011 in terms of the adequacy of project pipeline development. Six countries (three EU4 and three EU10) had adequately developed project pipelines at the start of the 2000-06 period; all retained this state of preparation in 2011. Despite its experience from previous periods, Greece was distinctive as an EU4 country having a low state of preparedness, which was inferior to many of the EU12.

![Figure 3.5: Readiness of Project Pipeline - Position and Distance Travelled 2000-2011](image)

Several of the EU12 countries were starting from a low base but made progress in the intervening period. Four countries (Greece, Lithuania, Romania and Slovakia) continue to be beset by a project pipeline that is less than fully adequate to absorb the available resources. More generally, there have been difficulties associated with having to assemble a pipeline of projects quickly and with limited capacity:

- in some cases, pipeline projects had been prepared on the basis of PHARE rules and had to be substantially reworked to meet the requirements of ISPA; others had become out-of-date notably as a result of construction price inflation; and
- a dependency upon external capacity for technical studies and insufficient capacity and experience to manage these and/or assess their quality.

The decentralisation of project preparation responsibilities played a key role in the countries demonstrating strong improvement in pipeline development, such as Estonia and Latvia. In Estonia, this came about through the enhanced role of IBs in the project development process, which along with the greater involvement of beneficiaries (in the Environment sector) has served to increase efficiency and a sense of ownership. In Latvia, the transfer of responsibilities for project submission from central ministries to beneficiaries was fully completed by the start of the 2007-13 period.

3.4.2 Project Specification and Detailed Development

The setting of objectives and specifications for ISPA/CF projects tended to be dominated by national and regional/local government supported by external expertise. Transport and environmental sectoral interests had a limited role.

Figure 3.6: Characteristics of the consultants used in project design (2000-06)

A minority of beneficiaries carried out detailed design in-house. External expertise was widely used in relation to project option appraisal, project design and technical appraisal, demand assessment and tariff-setting in all beneficiary countries. Dependency on external expertise in conducting CBA and EIA was prominent during the 2000-06 period and was a particular challenge for the EU12 due to the absence of an effective local market.

The MAs/IBs in Greece, Ireland, Spain and Portugal had a stronger tendency to use domestic consultants for project design, perhaps unsurprisingly given their longer association with Cohesion Fund processes. Romania and Bulgaria had the strongest tendency to use external consultants using foreign staff (see Figure 3.6). This meant that no effective transfer of experience could take place in this field when moving from ISPA to Cohesion Fund in 2006.
3.4.3 *Cost-benefit analysis (CBA) and Environmental Impact Assessment (EIA)*

Along with other supporting documentation, CBA and EIA were formal requirements of the application process for ISPA and Cohesion Fund projects in the 2000-06 period. In 2000, both were relatively novel even in the EU4 countries; in the EU12 they were very new. Against a background of limited experience, the wider potential of these tools in strategy formulation and in informing project design has yet to be realised.\(^{16}\)

Interviews with national actors involved in the delivery of ISPA/CF in 2000-06 reveal a range of motivations for conducting CBA and EIA. 82 percent of responses identified them as being carried out because of EU application requirements; only 18 percent indicated that CBA and EIA were used to prioritise projects from the national strategies for transport and environmental infrastructure (e.g. Poland, Portugal) (see Table 3.1).

### Table 3.1: Stated motivations for conducting EIA/CBA (2000-06)

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Percentage</th>
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<tr>
<td>CBA and EIA have been completed to meet the EU application requirements</td>
<td>82%</td>
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<td>CBA has been used to determine the funding gap</td>
<td>44%</td>
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<td>CBA and EIA have been used to compare project options</td>
<td>51%</td>
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<tr>
<td>CBA has been used to test the value for money represented by projects</td>
<td>51%</td>
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<tr>
<td>CBA and EIA have been used to set design specification / standards</td>
<td>29%</td>
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<tr>
<td>CBA and EIA have been used to prioritise projects from the national strategies for transport and environmental infrastructure</td>
<td>18%</td>
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</table>

*Source: ISPA/CF Country Studies.*

In most countries, cost-benefit analysis was carried out by external consultants, sometimes with poor results. Difficulties with demand assessment and tariff-setting (i.e. CBA) were highlighted by national actors as obstacles to project implementation. In four countries, CBA was carried out internally in whole or in part. Bulgaria is distinctive in that capacity for CBA was built through an ISPA TA project. In Ireland, Spain and Lithuania, transport agencies have capacity to manipulate models even if the initial work is carried out by external consultants; the same applies to some of the larger municipalities in Spain in relation to environmental projects. In Slovakia, capacity to manage CBA is improving. It is in among this group of countries for which progress has been made towards the use of CBA in project design, including option appraisal, whereas elsewhere its status remains as an end-of-pipe exercise linked to the application for funding.

Similarly, with the exception of Bulgaria, EIA are principally carried out by external consultants, either consulting engineers or specialised environmental consultants. Issues have been arising from the EIA process, including instances of public opposition, which required project redesign and/or incorporation of mitigation measures (e.g. Greece, Portugal).

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Hungary, Lithuania, Spain). The identification and assessment of project environmental impacts/scope for mitigation was highlighted as contributing to delay in bringing projects to a state of funding-readiness.

3.4.4 Overall Assessment

In Ireland, Spain and (with a few more caveats) Portugal, project design and development during 2000-06 became fairly routine (Portugal notably benefited from a management system at the level of inter-municipalities, which greatly helped with the development of environment projects). Greece is distinctive among the EU4 with a complex set of capacity and institutional obstacles that are more characteristic of the situation found in the EU12 countries. There is some variation across the EU12, but the pattern of issues highlighted typically includes:

- lack of experience of EU funding and ISPA in particular, compounded by problems concerning the availability and consistency of guidance;
- obstacles in the national administrative system - a lack of responsiveness in the planning and permissions system as well as issues with the effectiveness and efficiency of law on appropriations;
- delays associated with the need to revise/update project documentation that had become obsolete due to long lead times;
- the cost associated with preliminaries which meant that project promoters were reluctant to proceed with land assembly etc. prior to approval; and
- low levels of experience and support at municipal level (Czech Republic, Slovenia), augmented in some cases by a lack of interest, motivation and readiness to bear risks in relation to environmental projects, which were sometimes seen as imposing costs without delivering visible benefits, and noted both by the Commission and the country research (Hungary, Greece, Lithuania).

3.5 The Decision-making Process

As described in Section 2.4, both ISPA and CF involved application-based procedures. Completed applications were submitted to the Commission for appraisal in relation to completeness, demonstration of consistency with agreed strategic objectives and evidence of project viability in terms of prospective socio-economic and environmental benefits. In the case of CF, the decision rested with the Commission; under ISPA, projects were adopted following endorsement by a Management Committee made up of representatives of the Member States.

Following receipt of applications, the Commission would provide feedback and requests for clarification where appropriate. In general, these requests are perceived to have been clearly stated and reasonable.
In all countries, either none or only a few projects were rejected. However, experience varied in terms of the speed of approval. Some of the EU10 (for example, Lithuania, Slovenia, Slovakia) report similar experience to the best of the EU4 in terms of speed of approval, which was typically in the region of six months for transport and slightly longer for environment projects. However, others report longer periods as a matter of routine and exceptional cases (Bulgaria, Estonia, Hungary, Poland), where approval took two years or more.

Figure 3.7: Standard of Applications - Position and Distance Travelled 2000-2011

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<tr>
<td>The vast majority of projects that are presented for funding decision are well developed with no significant issues outstanding.</td>
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Source: ISPA/CF Country Studies

Key: General — — Environment — — — — Transport — — — — — — — — — — — —

Figure 3.7 shows the assessed progress between 2000 and 2011 in terms of the standard of applications presented. In nine countries (three EU4 and six EU12), the vast majority of projects that were being presented for funding decision by 2011 were well-developed with no significant issues outstanding. Some seven countries reported an improvement in the standard of applications over the period of study. However, in five countries there is scope for further progress:

- in relation to environmental projects (Greece, Slovakia, Slovenia, the latter being distinctive in its deteriorated performance since 2000); and
- for all types of projects (Latvia, Romania).

### 3.6 Procurement

During the late 1990s, the EU12 were working towards harmonising their national public procurement law with EU legislation. As applicant countries, they were provided with PRAG as a standard technology for procurement, which approximated European standards. When the EU10 became Member States in 2004, national law harmonised with EU law was intended to prevail. However, 2004 saw the introduction of a new Directive on public procurement that involved a significant change in culture and practice even in the EU15 countries, including the EU4, which were already beneficiaries of Cohesion Fund. The field
of procurement in 2000-06 was therefore a very dynamic one and particularly challenging for the EU12 in the context of the process of capacity building that was under way.

Figure 3.8 shows the progress towards the establishment of a compliant and effective procurement system for ISPA / CF in the 14 countries under study. In 2000, only Ireland and Portugal had a procurement process intended to be consistent with EU procurement rules established and operating without significant challenge on the basis of compliance, and perceived to have no significant weaknesses. Among the other EU4 countries, the procurement process in Greece was experiencing a significant level of challenge and that in Spain had some weaknesses.

Although PRAG was intended to provide the EU12 countries with an off-the-shelf compliant system, difficulties arose because PRAG guidance was delayed and subject to change. The experience needed to operate procurement successfully (for example, in drafting effective specifications; in differentiating tenders) was not always present initially, and this is reflected in the evolution charted in Figure 3.8.

**Figure 3.8: Consistency of Procurement Process - Position and Distance Travelled 2000-2011**

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<td>Procurement processes are not standardised and inconsistent, with EU procurement rules.</td>
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<td>A procurement process intended to be consistent with EU procurement rules has been established but is subject to significant challenge on the basis of its compliance with EU procurement rules.</td>
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<td>A procurement process intended to be consistent with EU procurement rules has been established and operates without significant challenge on the basis of compliance, but is perceived to retain weaknesses in terms of independence, and/or transparency, and/or quality of decision-making.</td>
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In 2011, only six (three EU4) of the 14 case-study countries had a procurement system for CF that was fully compliant and effective. It is notable that Portugal, Romania and Slovenia are considered to have deteriorated in 2011 relative to 2000. Issues identified in the research are as follows.

- ISPA operated as external aid, and although it was possible for tenderers to appeal under PRAG, appeals occurred relatively infrequently. Following the transition to national procurement law, several countries (notably Hungary, Latvia, Romania and
Slovenia) experienced high levels of appeal, which delayed the conclusion of contracts by up to a year, as has Greece.

- A number of countries (Czech Republic, Greece, Slovakia and Spain) have issues concerning the transposition of the EU Public Procurement Directives into national law, including continuing disputes on interpretation.

- Other countries (Hungary, Romania, Poland) show dissatisfaction with the outcomes achieved from procurement processes designed to ensure compliance and defensibility, in particular, the inability to reflect judgement and quality.

In addition, external economic factors interacted with the procurement system in some cases. Following the increase in structural support, the EU12 experienced a particularly rapid increase in construction costs (construction price inflation was also significant within the EU15 between 2000-08). As a result, there were instances where tenders came in over the forecast and approved cost, resulting in delay, while additional match-funding had to be secured or in some cases (e.g. Poland) a re-tendering exercise was carried out.

In contrast to the findings on the operation of the procurement process, Figure 3.9 summarises its outcomes. In 2011, in all but one country (Romania), the vast majority of CF project contracts were completed to specification with no major contractual dispute. Moreover, most countries sustained this position throughout the period of study. In both Greece and Portugal there has been an improvement in outcomes.

**Figure 3.9: Contracting Regularity - Position and Distance Travelled 2000-2011**

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<td>Project Management and Implementation</td>
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3.7 Project Management and Implementation

Once projects have been procured, their delivery is subject to contract. However, the consistency between the contract and what is delivered, when and what cost may still be subject to uncertainty depending upon: the specification of the contract; effective management of the contract; contractor performance; the client’s ability to deliver the necessary conditions for the contract to be completed as planned; and external factors.
While weaknesses in project management (Bulgaria, Poland, Portugal) and contractor performance (Greece, Latvia and Romania) were noted as contributing factors, most of the issues do not relate to implementation directly, but to:

- weaknesses arising from the project design and development stage such as changes to specification and over-optimistic planning;
- the length or outcome of the procurement stage resulting in delay or increases in cost;
- lack of responsiveness in the planning and regulatory environment and/or legal factors particularly relating to land assembly;
- economic factors, particularly construction cost inflation which could result in the failure of contractors or their reluctance to progress contracts;
- challenges to project proposals through public protest; and
- environmental factors such as unexpected geophysical conditions and/or archaeological discovery.

### 3.7.1 Deviation from Physical Specification

In the context of ISPA/CF projects, deviation from physical specification may be related not only to delivery of the infrastructure, but also its planned utilisation, upon which the forecast benefits depend.

Figure 3.10 shows that in 2000, there were only two countries, Czech Republic and Ireland (i.e. one EU4 and one EU12) where the vast majority of projects were not subject to significant deviation from physical specification. This also applied to the transport sector in Slovenia.

**Figure 3.10: Performance Against Planned Physical Specification - Position and Distance Travelled 2000-2011**

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<td>The vast majority of projects are not subject to significant deviation from physical specification.</td>
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Significant deviations from physical specification at the start of the 2000-06 period can be associated in particular with weak planning (including CBA) and changes to the project
specification. Given these causes, performance over time has improved, and in 2011 eight countries (four EU4 and four EU12) had the lowest level of significant physical deviation while this also applied to the transport sector in Bulgaria and Slovenia.

Figure 3.11: Causes of Deviation from Physical Specification

The following main causes can be identified for deviation from physical specification (see Figure 3.11).

- Across all countries, the most commonly cited cause for significant deviations from physical specification was weakness in project specification. This was also true for the EU12. However, when observed as a separate group the EU4 countries experienced changes in project specification as the most common causal factor.

- EU4 countries were, however, characterised by a much higher incidence of project specification changes than EU12 countries, and a slightly higher incidence of environmental obstacles.

- A range of unanticipated obstacles (which do not fit within the categories of ‘environmental’ or ‘political/legislative’) were also cited, comprising the second most common reason overall. These included, for example, reductions in effectiveness caused by the awaited completion of other CF co-financed transport projects (Greece) and civil protest (Hungary).

- Weak project management/monitoring, poor contractor performance and changes in project implementation (i.e. delivery) were less common causes of deviation from physical specification across the EU4 and EU12.

Some countries (Lithuania, Romania, Slovakia and Slovenia) are still experiencing a similar level of significant physical deviation in 2011 as in 2000, while Latvia is distinctive in having a higher assessed level of significant physical deviation. In several cases (Lithuania, Poland, Romania), the rail sector was concerned by greater deviation than the road sector linked to different levels of capacity among beneficiaries.
3.7.2 Deviation from Budget

In 2000, there is only one country, Czech Republic, where the vast majority of projects are not subject to significant deviation from budget (see Figure 3.13).

Significant deviation from budget was associated with internal factors (such as weak design and weak project management) but to a large extent it was associated with external factors such as delay in procurement arising from appeals, construction price inflation and unexpected developments.

Figure 3.12: Causes of deviation from budget

As illustrated by Figure 3.12, the following observations can be made regarding deviation from budget.

- Weaknesses in initial costing were the most common cause of deviation from budget across all countries.

- The EU4 and EU12 country groups display some significant differences. Weaknesses in initial costing were a much more common reason for budget deviations in the EU12, as were cost inflation and unanticipated obstacles (non-environmental). The latter included, for example, delays in obtaining refunds (Poland) and market uncertainties (Slovenia).

- In the EU4, changes in project specification/technical aspects and unanticipated obstacles (non-environmental) and increased costs resulting from delay were the most common causes.

The fact that deviation in budget might be less susceptible to control than physical deviation is reflected in the evolution seen in Figure 3.13, where by 2011, six countries (three EU4 and three EU12) are assessed as having the lowest level of significant deviation from budget. Three countries, Estonia, Latvia and Slovakia (all EU12) have experienced a relatively high proportion of projects with significant deviation from budget.
3.7.3 Implementation Delays

In 2000, there was only one country, Czech Republic (EU12), where the vast majority of projects are not subject to significant delay between contracting and completion (see Figure 3.15). Indeed, in relation to 2000, in nine of the 14 countries studied (three EU4 and six EU12) a significant number of projects were subject to major delay.

Delay is associated with all types of internal shortcoming or external obstacles (see Figure 3.14).

- Across all countries, unanticipated political/legislative obstacles were most commonly cited as causes of significant delays. Procurement problems/issues and unanticipated obstacles (not classified under ‘political/legislative’ or ‘environmental’) were also common problems. However, as with causes of budget deviation, there were some significant differences between country groups.
The EU12 group experienced procurement problems/issues to a greater degree than the EU4 group, based on respondents’ most commonly cited explanations. Similarly, lack of capacity among contractors was more pronounced.

Whilst the EU12 also experienced unanticipated political/legislative obstacles to a significant degree - which contributed to significant delays - this was far less commonly cited than in the EU4 group. These included lack of flexible land acquisition procedures (Bulgaria), challenges in conciliating local political interests (Hungary) and the capacity of beneficiaries to present good quality technical documentation (Slovakia).

In contrast, the EU4 did not experience weak project management/monitoring or procurement problems/issues as causes of delay to a comparable degree. Unanticipated political/legislative obstacles were by the single most commonly cited cause.

Given the complexity of ISPA/CF projects and the cumulative nature of delay, it is unsurprising that delay has been found to be less susceptible to control than other dimensions of projects.

Figure 3.15 shows that progress has been made in reducing delay, but that in most countries studied, some projects continue to be subject to significant delay.

Figure 3.15: Performance Against Planned Schedule - Position and Distance Travelled 2000-2011
4. SYNTHESIS

This section presents a synthetic narrative based on the analysis of progress in Section 2 and the country research which is selectively reported in Section 3. It begins by reviewing the baseline position before considering strategies and measures for capacity development, the dynamic of capacity building, progress towards absorption of the funds, the performance of the delivery system and reflections on the characteristics of the administrative system.

4.1 Baseline Position

In 2000, there were big differences in administrative capacity for managing ISPA/ Cohesion Fund across the 14 countries.

The EU4 countries had experience of operating Cohesion Fund 1993-99 and, during the 1990s, had embarked on significant institution building and innovation. By the baseline year of 2000, Ireland, Spain and Portugal had a relatively mature delivery system for the Cohesion Fund, Greece somewhat less so.

However, the Central and Eastern European countries which joined the EU in 2004 and 2007 were still undergoing a difficult period of political, economic and social transformation, with administrative reforms that were only partially complete (in terms of alignment with EU legal and cultural norms), and all had weaknesses in some of the administrative structures and systems required for Cohesion policy.

The EU12 countries had received support with institution building in the 1990s and in that period there had been modest domestic infrastructure investment and maintenance programmes supplemented with a small number of larger investments supported by international financial institutions. While by the baseline year of 2000, all EU12 countries had a base level of capacity for managing infrastructure investment, they lacked knowledge and experience of developing and delivering projects in line with the specificities of ISPA and the Commission’s administrative expectations. Such capacity as existed was largely centralised, or in the case of the transport sector, concentrated in sub-sectoral agencies. Some countries with large water and waste utilities had similar capacity in the environment sector. However, those countries where environmental responsibilities were highly dispersed were in a weaker position.

4.2 Strategies and Measures for Capacity Development

In Ireland, Portugal and Spain, 2000-06 was a largely routine period of Cohesion Fund management. Capacity continued to be developed at the margin, for example, through innovation in central management, the adoption of more sophisticated planning and project financing approaches and in response to EU-wide public-procurement reform. In the case of Portugal, a very low profile was noted in relation to capacity building. Greece, however, was still engaged in a process of capacity building and is distinctive among the EU4 in having used a wider range of capacity-building measures in 2000-06, closer to the pattern seen in EU12 countries.
In the EU12 countries, a significant investment was required to scale up resources to manage the larger resources that would come from ISPA/CF and to accommodate their specific technical, financial, legal and administrative requirements.

The country research did not find a distinctive set of strategies for capacity building across the beneficiary countries. Rather, the focus of effort and distribution of resources tended to reflect the specific requirements that flow from the Regulations in terms of structures and processes. This resulted in a rather generic set of capacity-building measures:

- development of central management capacity - investment in increasing the numbers of staff, training and in systems in the Managing Authority and Intermediary Bodies;
- use of Technical Assistance to support project development; and
- use of Technical Assistance to support distributed capacity in procurement and project management, notably through the EDIS process.

However, there were variations on these themes depending upon the pattern of pre-existing capacity and how it had evolved. Thus, for example, in Lithuania, TA was used to support project development in the environment sector, but not in transport where capacity already existed.

While the different country reports suggest that the approach to capacity building may have been more structured in some countries than others, across the EU12 (and the EU10 in particular, where the period of learning was compressed by the accession timetable) it mainly appears to have been adaptive, with measures being taken in response to immediate issues and priorities. This is consistent with the findings from the analysis of a sample of TA projects - these tended to be used across a broad spectrum of capacity building to enable flexible and ad-hoc use rather than being concentrated on specific identified issues.

It is notable that, in the transport sector, most countries had already established specialist organisations with responsibility for different modes and which could become a locus of expertise in project design and delivery. The emphasis on investing in the TEN-T network also meant that ISPA/CF resources for transport would be focused through national rather than regional or local organisations. However, progress towards compliance with EU environmental standards as well as the institutional specificities of the environment sector required more distributed projects and implementation capacity than in the transport sector. Across the EU12 countries, this is reflected in consistent reporting that the environment sector was a greater focus for capacity building and/or actions to compensate for the unavailability of capacity.

Some countries, e.g. Slovakia, compensated for a lack of local capacity by concentrating environmental investment in large projects and the water sector in 2000-06. This also limited the extent of decentralisation required to meet EDIS requirements but had implications for the need to develop capacity at local level in 2007-13. However, the research even in Ireland (albeit where CF represented a relatively small proportion of total infrastructure spending in 2000-06) highlights a concentrated approach.
4.3 The Dynamic of Capacity Building

The building-up of capacity in the management and implementation of ISPA/CF has been supported by national resources and Technical Assistance in various guises:

- PHARE projects from the 1990s onwards;
- Twinning Arrangements, both within and outside of ISPA/CF;
- the work of the EU Delegations;
- Technical Assistance allocations under ISPA/CF;
- Technical Assistance provided under the ‘Joint Assistance to Support Projects in European Regions’ (JASPERS) (as of 2006); and
- Technical Assistance provided by International Financial Institutions and other donors.

As noted above, capacity-building in Ireland, Spain and Portugal in 2000-06 was evolutionary; Ireland had no TA in 2000-03. Capacity building has continued in Greece, making similar use of TA support as in the EU12 which is described below.

In the EU12, the early 2000s were characterised by the use of TA to support development in the central management institutions, including recruitment, training and systems. Some countries also used TA to engage external expertise to support the development of the national ISPA strategies. Other institution-building was supported at this time, depending upon existing capacity and organisation. Several countries created Implementing Bodies, particularly for the environment sector. Elsewhere, specialist skills were recruited to strengthen existing competent bodies, notably transport sub-sectoral agencies. Initially, these organisations played an important role in supporting Final Beneficiaries.

From the early 2000s, TA was used widely to engage external expertise in project preparation, either from scratch where project pipelines were weaker, or revision where projects were on the stocks but had to be updated or revised to conform with the specificities of ISPA. Use of international consultants was widespread notably in relation to CBA and EIA for which there had been no effective local market prior to 2000.

From 2002 onwards, investment moved into a new phase to support decentralisation and, through this to expand the capacity of delivery systems. TA from both PHARE and ISPA was prominent in supporting the EDIS process. The elaboration of documentation and guidance was an important element in the process and helped to expand capacity to manage a specialised process with non-specialist and inexperienced staff. Although most of the EU10 countries did not achieve EDIS accreditation prior to accession in 2004, it represented a key stage in building up management and implementation capacity.
Following this dynamic period of institution building, capacity building became more routine. External expertise was still commonly bought in to undertake project development, but local providers gradually played a more important role.

As more projects were approved, the focus moved towards greater support for beneficiaries in the implementation phase, particularly in the environmental sector, where there was little specialised capacity on-the-ground and where ISPA/CF funded coordinated packages of projects in order to meet the minimum funding threshold. To meet this specific challenge, the use of TA-funded project implementation units became a feature of some large projects, but it was also used in some countries as a ‘capacity bank’ to support smaller projects.

From the mid-2000s, retaining capacity in the system became a pressing issue in some countries. TA was used to enhance the salaries of civil servants involved in the management of EU funds.

Capacity-building support is widely acknowledged as having made a vital contribution to the capacity for managing and implementing large-scale transport and environmental infrastructure investments in line with Commission requirements that exists today. However, this has to be seen in the context of a capacity-building process that was mainly driven by experience, through learning-by-doing. The creation of an effective market in professional and contracting services as a by-product of structural investment also played an important role.

However, some ISPA recipient countries found it challenging to make use of Technical Assistance support, which in itself had to be absorbed and was complex to implement. There were difficulties with channelling support to the sub-national level (e.g. municipalities), especially in countries with highly centralised government administration. In addition, it was not always possible to capitalise fully on the Technical Assistance support provided, notably with respect to staff training, as it was not always possible for recipient institutions to retain trained staff.

The investment in capacity building associated with ISPA/CF in 2000-06 and the experience gained was not always influential in preparation for CF 2007-13, as in several countries the institutions were different and there was limited transfer of personnel. However, there are examples of successful transfer of experience, e.g. with respect to environment projects in the Czech Republic and road transport projects in Lithuania.

### 4.4 Progress Towards Absorption of the Funds

The available data on financial progress suggest that a very high proportion of the available funding from ISPA and Cohesion Fund was committed; only Ireland (with a very short period of eligibility) and Greece committed to a level less than the mid-point in their indicative allocation. This is a positive finding in relation to capacity building and mitigation measures.
Data on absorption and out-turn intervention rates provide a less positive picture, however. The pace of absorption has been slow, although the available data suggest that a high level of absorption may eventually be achieved.

The effective intervention rate in several countries is surprisingly low given the rationale in the Regulations for a high intervention rate. Indeed, in Bulgaria, Hungary, Slovakia and Slovenia national sources will have provided between two and three times the proportion of funding envisaged under the Regulations. Several Country Reports, highlight impacts on national budgeting arising from the need to assemble additional match funding for Cohesion Fund projects (Hungary). For those operating within a financial framework composed of grants, credits and loans from IFIs and national co-financing, the project preparation process was heavy and slow (Bulgaria).

The costs borne by these Member States is of a scale that, inevitably, will have impacted upon their ability to absorb additional support, possibly including funding available in the 2007-13 period.

4.5 The Performance of the Delivery System

The country research examined each area of the ISPA/CF delivery system (see Figure 2.1) and considered where the most significant bottlenecks occur within the system.

Central Management and Governance was found to have operated largely as envisaged under the Regulations. Some isolated problems were highlighted: in the Czech Republic, changes were made to the Managing Authority due to political reasons in 2002; in Hungary, it was noted that changes to civil service personnel that accompanied change of Government (even if the party/coalition changed only marginally) produced significant delays.

Strategic planning issues were highlighted in a few instances. In Hungary it was noted that capacity for strategic planning existed in 2000, but that it was not applied effectively and even required intercession by the EC in negotiating the 2007-13 Programmes. In Portugal, despite a mature system, it was noted that achieving consensus, particularly on transport priorities was difficult.

Project development was highlighted as problematic in around half of the countries studied, and was also noted in consultations with DG REGIO. In Greece, (alone among the EU4) and the EU12 countries (particularly Lithuania, Poland, Romania, Slovakia and Slovenia), a range of factors was highlighted:

- a fundamental lack of a project pipeline in 2000 (particularly in Slovenia and Slovakia) resulting in projects being developed quickly and with insufficient attention to detail;

- an existing but outdated pipeline in 2000 in other countries, requiring significant work to bring pipeline projects into line with ISPA requirements; and
more general weaknesses in capacity for and/or the execution of project development; these weaknesses could become manifest at the project implementation stage and could result in delays and additional costs.

Appraisal and approval could contribute delay. Some EU12 countries (notably Latvia, Slovenia and Slovakia) reported average approval periods of around six months for transport and 6-9 months for environment projects. This was in line with the better performing EU4 countries, Ireland and Spain. Elsewhere, a need for clarification, improvements to quality and contentious projects experienced longer approval periods, exceptionally more than two years.

Once approval had been granted, procurement of projects could commence. Procurement was highlighted as a particular bottleneck in consultations with the Commission and at country-level particularly in EU12 countries (Bulgaria, Estonia, Hungary, Latvia, Poland, Romania, Slovakia), but also in Spain. Several issues were identified as being important.

- During the 2000-06 period, the procurement environment was fluid, particularly for the EU12. PRAG rules were substituted for national law which was in the process of harmonisation with the then existing EU law. For the EU10, the transfer to national law coincided with EU-wide reform in public procurement.
- The PRAG procurement process was noted as having been unwieldy and slow; the lack of stability in PRAG rules was also noted as a contributing factor in some instances.
- Since moving to national procurement law, several of the EU12 countries reported significant delays arising from a culture of appeal.
- Initially following the transition to Cohesion Fund, a lack of expertise and experience in operating procurement was noted, leading to delays in the launching of tenders following approval.
- The injection of structural support was a major factor in rapid construction price inflation in the EU12 countries since 2000; tendered prices could be higher than approved costs, requiring additional match-funding to be identified or project to be re-tendered and contributing to delay.

Problems arising from the complexity of procurement rules and the existence of dispute over interpretation of the Directives was acknowledged, both by the Commission and by officials in the Member States. The application of a two percent financial correction on the basis of five systemic failures was noted.

Once projects had been procured, their implementation was largely a matter of contracting. There were instances of poor contractor performance, including where price inflation eroded profit margins, but the country research indicates that the vast majority of contracts proceeded without significant dispute. Nevertheless, the implementation phase could be subject to delay for a variety of reasons, including:
• a reticence among the EU12 (especially in the early years) to bear preliminary costs, particularly of land assembly, before the application had been approved.

• unforeseen factors, including ground conditions, archaeological discovery and instances of public protest;

• embedded weaknesses in design became manifest and required resolution.

In spite of the difficulties highlighted above, both Commission Desk Officers and national officials had a positive perspective on what has been achieved using ISPA/CF support. In relation to Ireland, Spain and Portugal among the EU4, absorption was seen to have been impressive. In the EU12, the projects were considered to have made a material contribution and to have provided significant benefits to citizens. Both Commission and national officials acknowledged that in some countries there was a lack of political support at local level for environmental projects which were seen as imposing costs without producing benefits that were visible to local taxpayers.

In addition, some positive examples can be identified in terms of tactics that have worked well with regards to different components of the delivery system.

• **Staged project development** - in Lithuania, a more phased approach to project development and public procurement is carried out prior to finalising project applications to enhance financial planning; in Hungary, a two-step process was introduced for the 2007-13 period, where projects can proceed to apply for funding if they have been successful in preparing a well-designed project.

• **Financial engineering approaches** - in Ireland, Design Built and Design Built Operate (DBO) has been crucial in addressing costing issues, as it notably brings more overt costing of the inevitable risks and costs associated with major infrastructure.

• **Committing domestic funding to preliminaries** - in Hungary, significant budget allocations have been made available for the entire project development/design/preparation process from 2006, including preliminary costs, such as land assembly; in the Czech Republic, project costs have been pre-financed from the state budget since 2006, with the state budget operating as a kind of ‘financing bank’.

• **Original governance system** - in Portugal, municipality groups became both clients and partners in water and waste water sectors through the equipment’s amortisation during the project launch phase and increasing and linear tariff guarantees.

• **Specialised support for beneficiaries** - in Romania, capacities at the level of beneficiaries for the environment sector (notably water and waste water) have improved significantly since 2000, and the expertise was capitalised to a certain extent in the establishment of Project Implementing Units for CF projects. With the help of two Technical Assistance projects beneficiaries organised themselves as
Intercommunity Associations, which allowed them to distance themselves from political influence.

- **Enhanced use of CBA** - in the Czech Republic, unified models were developed for all applicants for the 2004-06 period, and these models became even more precise in 2007-13; in addition to checklists and procedural manuals, special treatment for high-risk projects was implemented; in Lithuania, planning, particularly in the road sector has become more sophisticated, including the use of CBA in option appraisal (other examples can be found in Ireland and Spain).

It needs to be noted that the 2007-13 period has brought new challenges. In Romania, for example, the transition from ISPA to the Cohesion Fund led to enhanced technical and economical complexity of the process related to the preparation of the projects under SOP Transport and SOP Environment. Similarly, in the case of Bulgaria, fully prepared documentation had to be reworked following accession. It also proved to be challenging to be selective in a context of much larger funding amounts, with implications for project quality (in part due to the inexperience of beneficiaries) (Slovakia, Slovenia (environment)) and at the level of controls (Estonia). Some interviewees argued that application requirements had increased over time, with implications for the time needed for approval in 2007-13, and that the system concentrated on administrative aspects of implementation rather than on technical issues of investment projects (Slovakia).

In other cases, it was found that the newly introduced management of funds according to particular project cycle processes, and the joint implementation of the CF and ERDF sources in the 2007-13 period, facilitated overall implementation (Czech Republic). In Portugal, know-how and experience relevant to the management of major projects was reported to have been transferred successfully. According to interviewees in Spain, the multi-annual programming of the Cohesion Fund in 2007-13 represented a major advance compared with the model of individual project approval as it avoids implementation difficulties related to inflexibility in management procedures, in particular by separating the project assessment process from the approval process by the Commission, creating ‘watertight’ budgets. In addition, the planning system benefited from greater strategic integration and coordination with other interventions.

### 4.6 Characteristics of the System

Large-scale infrastructure investments are highly complex undertakings from a technical, legal, financial and administrative perspective, involving a very large amount of process. While good management and control systems may be expected to provide a high level of assurance, in such complex projects administrative consistency can only be expected to exist within reasonable margins.

The administrative procedures for ISPA/CF reflect a perceived high level of risk that existed in the pre-enlargement environment. Administrative structures and practice were designed on the basis of low trust, with negative consequences for constructive working relationships and the morale of staff. The relationship between the various arms of the Commission and the national administrators has been conditioned by sanctions being available only to one
side, notwithstanding the shared responsibility implicit in an applications-based system and one where the beneficiary countries have had a high reliance on timeous and accurate advice from the Commission.

The evaluation found that officials and stakeholders are supportive of a shift towards greater results-based management and away from administrative micro-compliance. This aspect of administrative culture was seen to detract from the positive achievement of ISPA/CF in 2000-06. Particular dissatisfaction was highlighted in relation to situations where: having followed advice in good faith or, having been unable to obtain consistent advice from the Commission or the EU Delegation, countries were subsequently penalised; and rules were applied retroactively with unfavourable results.

Reform of the administrative burden and costs associated with compliance of Cohesion Fund rules is considered an urgent issue by the case-study countries. Consistency in advice and elimination of duplication are seen as particular issues in making better use of Member States’ administrative capacity.
5. CONCLUSIONS

The purpose of this study has been to establish whether the country-level management and implementation systems for the Cohesion Fund are well-established and functioning efficiently, for the purposes of achieving the goals of EU Cohesion policy. The overall objective has been to assess the building-up of management capacity to deliver ISPA and Cohesion Fund projects in the 14 countries benefiting most from the Cohesion Fund and ISPA in the 2000-06 programming period. Specific sub-objectives were: (a) to assess the current level of capacity for the management and implementation of Cohesion Fund activity in the subject Member States; (b) to assess the distance travelled in terms of capacity development since 2000; (c) to examine the relative effectiveness of different approaches for mitigating the capacity gap over the short and longer terms; (d) to evaluate the value-added of EU Technical Assistance support in the capacity development process; (e) to identify lessons and transferable good practice; and to consider the implications of the findings for future Cohesion Policy and administrative reform.

This final section reflects on the main conclusions to emerge beginning with the context and then progress with absorption, the development of management and implementation capacities and the scope for improving system performance.

5.1 Context

Evaluation of the management and implementation of ISPA/CF needs to recognise the context and the massive challenge that it represented. First, this was demanding for the Commission in terms of facilitating the distribution of vast financial resources and the rapid physical development of countries that at the outset had limited administrative capacity, were only partially aligned with European legal and cultural norms and where, in some cases, concerns about political and financial propriety remained. Second, management and implementation were exacting tasks for the beneficiary countries, particularly those in the EU12, in securing consensus around an agenda driven by European priorities, in building institutions and training people, in assimilating a vast and interlocking legal and technical code. Against this background, the progress made is remarkable, if not unalloyed.

5.2 Progress with Absorption

A high proportion of the available resources under ISPA and CF 2000-06 was committed. Only Greece and Ireland (both EU4 countries) committed less than the mid-point of their indicative allocation. Given the scale of capacity building (or adaptation) required and the context of accession in the EU12 countries, the level of commitment achieved must be seen as a significant achievement.

The data on commitment and payments suggest that a very high level of absorption will ultimately be achieved. However, absorption has taken a long time, both in the EU4 and EU12. The findings of the Country Reports and consultations with the Commission suggest that this is a reflection of the extended development and implementation period that is intrinsic to large-scale investment projects as well as administrative issues.
Leaving aside debate concerning the extent to which price inflation might have been foreseen or costs better managed, it is clear that national financing has contributed a much higher proportion of eligible costs than was envisaged under the Regulation. Several countries, particularly those in the EU12, have a very low effective intervention rate which suggests problems with cost management in some countries. However, the extent to which weakness is historic is not clear from the available data.

This study has not evaluated progress under Cohesion Fund in the present period. However, the data on the pace of absorption of ISPA/CF 2000-06 and the scale of national funding required to facilitate its absorption suggests that stakeholders’ observations about potential displacement of capacity and match-funding from Cohesion Fund 2007-13 are plausible.

5.3 Development of Management and Implementation Capacities

The combination of ISPA/CF Regulations, the wider legislative framework, common guidance and experience-sharing has resulted in a largely uniform approach to implementation.

The research has shown that, over time, there were improvements in management and implementation capacities. The largely successful transition from ISPA to Cohesion Fund reflected the increasing maturity of institutional structures. Progressive improvements in capacity, with experiences of ISPA/CF management in the 2000-06 period, led in turn to improvements to administration in the 2007-13 period. The pace and substance of capacity varied across countries, key organisational factors being the stability of institutional arrangements, continuity of management between ISPA and CF and between programme periods, and the ability to manage staff turnover without the loss of know-how.

Capacity-building support has been long-term and multi-layered. Technical Assistance approvals cover a broad spectrum, allowing an adaptive use of the resources. The benefits of capacity-building support are diffuse and cumulative. As a result, improvements in management capacity and performance cannot be reliably attributed to individual projects or measures.

Experience through learning-by-doing is the main factor in explaining the building-up of management capacity. As shown in the findings of the Country Reports, the impact of experience on capacity is evident in:

- the design of administrative structures, with greater clarity in allocation of responsibilities and competencies;
- improvements to administrative procedures through simplification, greater efficiency, higher productivity;
- the emergence of a ‘new generation’ of public servants conversant with modern techniques of fund management and implementation;
- the introduction of new administrative tools (handbooks, checklists, manuals etc);
• the upgrading of managerial, technical and financial skills;

• a greater use of team-working e.g. between engineers, legal advisers, economists and financial experts;

• the decentralisation of responsibilities, and cascading of experience/learning to lower levels (IBs, FBs) and spreading of know-how to consultants and other external stakeholders;

• better coordination, cooperation and trust in the relations between institutions; and

• changes to administrative culture, with greater objectivity and more transparency.

At the level of specific administrative functions, the build-up of management capacity on the basis of experience is evident in:

• the preparation of better-quality (evidence-based, well-justified) strategies with more prioritisation and more realistic priorities and goals;

• the quality of project design, reflected in lower rejection rates, projects more in line with strategic objectives, optimal project sizing, better cost estimation;

• increased use of new contracting procedures;

• incorporation of new techniques of CBA and EIA; and

• engagement with local government and civil society, and the involvement of final beneficiaries in the process of planning, procurement, implementation, evaluation.

5.4 Scope for Improving System Performance

5.4.1 Measures Already Taken

Significant steps have already been taken to improve the performance of the Cohesion Fund delivery system.

Flexibility in the period for eligible expenditure and project closure has been essential for bringing the funding of ISPA/CF projects into line with their essential characteristics. Major transport and environmental investments are by their nature complex and long-term undertakings. The more that project proposals are mature, the greater the lead time in preparation. The experience of ISPA/CF 2000-06, when it became necessary to allow extensive modifications/extension of eligible spend, highlights a mismatch between the standard 7+2 years financial perspective and the life-cycle of many of the project types being funded by CF. This can only partially be overcome through: project phasing across multiple periods (not always economically efficient); and active management of project pipelines.

The Regulations for the 2007-13 period made significant adjustments, including:
• a shift to a programming as opposed to the project-based approach, which conferred some flexibility in financial management, but interviewees both in the Commission and the Member States saw both advantages and disadvantages in this change;

• a shift away from packages of projects, which posed coordination challenges in some cases, and where the pace of completion and closure was dictated by the slowest project element, but impacted on the partnership; and

• the introduction of JASPERS as a mechanism to help strengthen project development has been favourably received by Member States; however, ensuring the added value from the JASPERS model requires consistent quality in the appointment of consultants and for the Commission to act on the conclusions reached by the consultants.

5.4.2 Areas for Improvement

(i) Issues for the Member States

Notwithstanding the changes already made, and the growth in management and implementation, considerable scope remains to improve performance of the system. There remain several important institutional and legal constraints on efficient management, which are partly associated with the condition of the wider public administration.

• In several countries (e.g. Bulgaria, Greece, Hungary, Poland and Slovenia), the national legal and regulatory frameworks are insufficiently responsive. The granting and revision of planning and environmental permissions and the legal processes for land appropriation are particularly problematic.

• Especially in the EU12, central authorities have to take greater responsibility and ownership for funding decisions at the domestic level. Although the regulatory environment is complex, authorities should avoid the dilution of responsibilities among a multitude of actors.

• Project selection and decision-making are not fully objective and transparent in some countries. Politicisation of project decision-making (e.g. in the Czech Republic, Latvia, Portugal) remains a matter for concern. External political pressures on administrators have increased during the 2007-13 period, in part exacerbated by the decentralisation of implementation, with local decision-making being more susceptible to political influence.

• The involvement of partners and the engagement of civil society in determining priorities are weak. The latter is important for building public consensus on contentious investment projects.

• Capacity is still lacking at the level of beneficiary organisations in some countries, particularly in the environmental sector. In Poland, Romania and Slovakia, this partly reflects weak transfer of capacity, skills and experience from ISPA/CF in
2000-06 to the Cohesion Fund in 2007-13. However, in the environmental sector, particularly in countries where responsibility is highly dispersed, it is difficult to develop and to sustain specialised capacity in situations where Cohesion Fund projects may be a once-in-a-generation event. In these circumstances, other tactics are required, such as the provision of capacity on a flexible basis from a ‘capacity bank’.

- There is further scope to strengthen project development in almost all countries, especially with the use of CBA. In several Member States (e.g. Greece, Hungary, Lithuania, Slovenia and Portugal and Spain), there is a trend for enhanced use of CBA in strategy development and option appraisal. In 2000, the use of CBA was in its infancy in many of the ISPA beneficiary countries. Accordingly, its use in 2000-06 was primarily to meet the administrative requirements in demonstrating prospective economic viability of projects and, in some cases the funding gap. Value may be obtained from use of CBA to provide the project owner with a better understanding of the dynamics of their project and its sensitivity to key variables such as user prices, costs, delay and utilisation. The monitoring of key variables and sensitivities identified through CBA could become part of on-going project management, and enhanced use of CBA could be combined with a limited periodic programme of ex-post CBA and associated user networking.

- Strategic planning in general (Czech Republic, Hungary), for environmental investment (Greece) and at the project level (Lithuania, Poland, Romania) should be stronger in some countries. Coordination between projects, which also requires more communication between Implementing Bodies and Final Beneficiaries should be improved.

- The value added of specialised administrative bodies is inconclusive. Administrative specialisation has been characteristic of the management and implementation of ISPA/CF throughout the past decade, with slightly different approaches, including tactical measures to provide capacity on a flexible basis where it cannot be maintained sustainably. The emergence of dedicated resource centres, or single beneficiaries (e.g. the National Infrastructure Development Company for the transport sector in Hungary) are more radical expressions. These are an interesting development, but the present study has not found conclusive evidence of their advantages or disadvantages over other approaches.

The extent to which financial, physical and temporal deviation remain issues in the delivery of Cohesion Fund 2007-13 suggests that there is potential to strengthen the management of risk. Risk assessment could be used to focus greater development resource on sensitive projects. Use of financial engineering approaches along the lines of JESSICA could be applied to future transport and environmental investment. There are positive experiences in terms of risk management and value-for-money from the use of Design-Build-Operate and variants for infrastructure procurement.
(ii) **Issues for the Commission**

Persistent weaknesses in project development, often recognised ex-post, raise questions about the effectiveness of the project appraisal and approval mechanism. The existing focus of the criteria on strategic fit and economic viability could be augmented to include a deeper examination of operational issues and risks.

Management and implementation of ISPA/CF in 2000-06 were affected by delays in the publication and changes to guidance, instances of erroneous advice and lengthy decision process. These events are potentially detrimental to good working relationships. Effective remedial action could be informed by the Commission monitoring its own administrative performance against target response times on feedback, decisions and modifications, and against levels of complaint relating to guidance and advice.

The Commission faces a dilemma concerning the effect of control measures. The present system of controls is seen to emphasise penalties in relation to administrative shortcomings but to be relatively insensitive to positive achievement, including progress towards strategic objectives. While control decisions taken in isolation and at a micro level may appear reasonable, in aggregate they may be self-defeating if they deplete management capacity and the ability of the beneficiary countries to absorb additional support.

### 5.4.3 Future Reform of Cohesion Policy

In the context of the post-2013 reform of Cohesion policy, there is an opportunity to review procedures for the Cohesion Fund in the light of the reduced risk that exists in the post-enlargement environment, and as a result of the experience accumulated since 2000. The study indicates that a number of reforms proposed by the Commission are likely to be beneficial in addressing issues highlighted in during the research, notably:

- a reduction in the maximum level of support as a proportion of GDP which may be expected to move resourcing and capacity towards a more sustainable equilibrium;
- reinforcement of effective and efficient implementation including “an assessment of whether there is a need to reinforce the administrative capacity of the authorities and, where appropriate, beneficiaries and actions to be taken for this purpose” (Article 14(e)(i));
- strengthening the examination of human resources and management capacity as part of ex-ante evaluation;
- inclusion among the five investment priorities for the Cohesion Fund a priority for enhancing institutional capacity and an efficient public administration and public services related to the Cohesion Fund;
- an improved framework of performance indicators and enhanced evaluation of effectiveness during the programme period;
- simplification and streamlining of eligibility rules, including common rules on eligible expenditure, common principles for the management and control system, and measures to ensure that administrative costs are proportionate and that the administrative burden associated with the management of EU funds by beneficiaries is reduced; and

- greater use of innovative financial instruments. Take-up is to be facilitated with simplified access to ready-made models for funds, increased legal certainty and an extended scope for their usage.