



Effective and efficient delivery of European Structural and Investment Funds investments – Exploring alternative delivery mechanisms

Final report

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List of abbreviations

| | |
|---------------------|--|
| AA | Audit Authority |
| ADB | Asian Development Bank |
| ADM | Alternative Delivery Mechanism |
| BCF | Building Canada Fund |
| BG | Block grant |
| CA | Certifying Authority |
| CAP | Common Agricultural Policy |
| CC | Communities Component |
| CDBG | Community Development Block Grants |
| CDP | Consolidated Development Plan |
| CF | Cohesion Fund |
| CLLD | Community led local development strategies |
| CPR | Common Provisions Regulation |
| CSRs | Country Specific Recommendations |
| DG | Directorate General |
| DG AGRI | Directorate General Agriculture and Rural Development |
| DG DEVCO | Directorate General for International Cooperation and Development |
| DG EMPL | Directorate General Employment, Social Affairs and Inclusion |
| DG REGIO | Directorate General Regional and Urban Policy |
| DG RTD | Directorate General for Research and Innovation |
| DLI | Disbursement Linked Indicator |
| DM | Delivery Mechanism |
| EAFRD | European Agricultural Fund for Rural Development |
| EC | European Commission |
| EMFF | European Maritime and Fisheries Fund |
| EPRC | European Policies Research Centre |
| ERDF | European Regional Development Fund |
| ESF | European Social Fund |
| ESI Funds(s) | European Structural and Investments Fund(s) |
| EU | European Union |
| GWR | Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" |
| IB | Intermediate Body |
| IDB | Inter-American Development Bank |
| ITI | Integrated territorial investment |
| IVA | Independent Verification Agent |
| JAP(s) | Joint Action Plan(s) |
| MA(s) | Managing Authorities |
| MIC | Major Infrastructure Components |
| MS | Member State(s) |
| NASWD | National Agreement for Skills and Workforce Development |
| NIF | Neighbourhood Investment Facility |
| NORAD | Norwegian Agency for Development Cooperation |
| NSPP | National Specific Purpose Payments |
| OBA | Output Based Aid |
| PA | Paying Agency |
| PAgr | Partnership Agreement |
| PAD | Project Appraisal Document |
| PAP | Programme Action Plan |
| PbR | Payment-by-Results |
| PC | Performance Contract |
| PFI | Public Finance Institutions |
| PforR | Program for Results |
| R&I | Research & Innovation |
| RBL | Results Based Lending |
| SCO(s) | Simplified Cost Option(s) |
| SMEs | Small Medium Enterprise(s) |
| TO(s) | Thematic Objective(s) |
| ToR | Terms of Reference |
| WB | World Bank |

EXECUTIVE SUMMARY

Objective and scope of the study

The overall objective of this study was *to explore to what extent alternative delivery mechanisms could improve the implementation of the European Structural and Investment (ESI) Funds (or ESI Funds) and their contribution to the achievement of the EU policy objectives in the framework of a result-oriented EU budget.*

For the purposes of the study, a delivery mechanism is understood as the set of processes and procedures required to achieve the defined policy objectives and regulate tasks related to the implementation of the EU budget, and, where appropriate, the relationship between the body which is accountable for the implementation of the EU budget and the bodies to which implementation tasks have been delegated.

To achieve the overall objective, the study:

- A. **Identified and assessed the strengths and weaknesses of the current ESI Funds delivery system** that uses grants based on real costs as its main **delivery mechanism**. Other delivery mechanisms are also applied in ESI Funds, namely: grants based on simplified cost options (SCOs), Joint Action Plans (JAPs), Community-Led Local Development (CLLD), and Integrated Territorial Investments (ITIs).
- B. **Identified and assessed "alternative delivery mechanisms"**, which could address the current weaknesses of the ESI Funds, while building on their strengths.
- C. **Identified a number of transferable features of the alternative delivery mechanisms** which could be used under the ESI Funds delivery system, and assessed their impacts against the same criteria used to assess strengths and weaknesses of the ESI Funds' delivery system.

The choice of alternative delivery mechanisms assessed in the study was guided by their result-orientation and policy adequacy as well as their potential to address the weaknesses of the ESI Funds delivery system, while building on its strengths. They were divided into two groups:

- **The alternative delivery mechanisms with an international scope of support:** World Bank-Output Based Aid (WB-OBA); World Bank-Program for Results (WB-PfR); Asian Development Bank – Results based lending (ADB-RBL); Norwegian Agency for Development Cooperation – Payment by Results (NORAD-PbR); European Union-Delegated cooperation (DEVCO); European Union-Neighbourhood Investment Facility (NIF);
- **The alternative delivery mechanisms with a national scope of support:** Canada - Building Canada Fund (BCF); Germany - Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" (GRW); Australia - National Specific Purpose Payments/National Agreement for Skills and Workforce Development (NSPP-NASWD); United States - Block Grants (US BGs); Denmark - Performance Contracts (PCs).

All delivery mechanisms have been assessed against the following criteria: (i) accountability, (ii) legality and regularity of transactions, (iii) sound financial management, (iv) good governance and (v) simplification. All delivery mechanisms have been ranked for each assessment criterion according to the following qualitative judgment scale: (i) A – high; (ii) B – good; (iii) C – satisfactory; (iv) D – poor; (v) E – very poor.

Strengths and weaknesses of the ESI Funds delivery system with grants based on real costs

The ESI Funds delivery system is **very strong in terms of accountability** (score: A), in light of the clear allocation of tasks and the adequate requirements for reporting and dissemination of information.

The legality and regularity of transactions is another major strength of the ESI Funds delivery system (score: A) because it contains effective tools to ensure compliance with applicable legislation down to the level of individual projects and expenditure items. It also ensures fiduciary risk mitigation, segregation of duties, fraud detection, financial control, and, as far as fraud and irregularities are concerned, adequate risk monitoring and assessment.

The ESI Funds delivery system is **strong** in terms of **sound financial management** (score: B), thanks to (i) an explicit link with the relevant Country-specific recommendations at the level of programming and implementation, (ii) programming requirements that allow for an in-depth assessment of the soundness of the intervention logic which is reflected in the financial, output and result indicators, (iii) ex ante conditionalities which improved the investment framework for the EU support; (iv) a mid-term performance review in 2019 where the progress in achieving the programmes' objectives will guide the (re)allocation of the performance reserve, and (v) sanctions, in cases where the progress is highly unsatisfactory. However, most sanctions are primarily geared towards the financial absorption and regularity of expenditure, which makes these two aspects – and not effectiveness and efficiency of support – the primary concern of the programme authorities.

The high adaptability and the policy ownership associated with the shared management mode, paired with transparency and partnership requirements, make **ESI Funds strong in terms of good governance** (score: B). Nonetheless, potential drawbacks exist in terms of responsiveness, due to the time- and resource-consuming procedures required to amend the main programming documents.

The detailed rules for assuring the legality and regularity of transactions make the ESI Funds delivery system somewhat complex, posing administrative costs for programme authorities and burden for beneficiaries and leading to a **trade-off with simplification**. The ESI Funds delivery system is characterised by (i) a large number of detailed rules and their multiple sources (the Common Provisions Regulation, the delegated and implementing acts, the guidelines, the national rules), and (ii) a large number of institutions involved in its implementation, at all tiers of governance, and by an even bigger number of beneficiaries. When paired with a strong emphasis on regularity of every single expenditure item (as in the case where grants are based on real costs), these features lead to many interpretation issues. The need to mitigate the legal uncertainty often results in gold-plating and micromanagement. In addition, it proved difficult to simplify the existing rules and procedures over the last programming periods or to introduce new delivery mechanisms – like the SCOs and the JAP – into the current system. That is why the ESI Funds delivery system has a low score in terms of simplification (score: C/B).

Overall, it was concluded that the ESI Funds delivery system scores well in four out of five criteria. This means that any recommendations coming from the analysis of the alternative delivery mechanisms should not undermine the strengths of the ESI Funds delivery system. The key area that requires significant improvements is simplification (bearing in mind the trade-off with legality and regularity), while some improvements can also be sought for good governance (in terms of responsiveness) and sound financial management (possible ways of further strengthening the links between performance and reimbursement).

Comparative assessment of alternative delivery mechanisms and the ESI Funds delivery system

The ESI Funds delivery system was compared with some selected international and national alternative delivery systems, which have to be looked at as two distinct groups. The international delivery mechanisms have their own, specific framework that encompasses the whole policy cycle of an aid scheme and that is external to the national/regional governance and political system of the recipient. The national delivery mechanisms are an inherent part of the national governance and political system, so that many processes – e.g. related to legality and regularity or programming – are not defined specifically for the given delivery mechanism, but stem from a broader framework.

The aim of the comparison was to identify features of the alternative delivery mechanisms that could:

- Address the main **trade-off** identified in the ESI Funds delivery system and between legality/regularity and simplification;
- Be implemented in the ESI Funds delivery system, building on its strengths.

The selected alternative delivery mechanisms present a mixture of different reimbursement triggers. In the group of international delivery mechanisms, the World Bank Output Based Aid and Program for Results (PforR), the Asian Development Bank – Results based lending and the Norwegian Agency for Development Cooperation – Payment by Results use actions, outputs or results as triggers for reimbursement, while the European Union Delegated cooperation and Neighbourhood Investment Facility also use inputs, i.e. the real costs of the projects. In the group of national delivery mechanisms, inputs are used in all mechanisms with the exception of the Performance Contracts, whereas the US Block Grants can also use actions, outputs and results as payment triggers. When compared to the alternative delivery mechanisms analysed in this study, the **ESI Funds delivery system performs exceptionally well in terms of accountability and legality and regularity. In terms of sound financial management and good governance, the ESI Funds delivery system proved to be strong as well, while in terms of simplification it is lagging behind when compared to a number of assessed delivery mechanisms.**

In detail, while the “B” score was the most prevalent for each criterion, the following was observed:

- **Accountability** – this criterion received the highest scores, for both the national and international delivery mechanisms; no correlation was found with the type of payment trigger (real costs or activities/outputs/outcomes) or the type of delivery mechanisms (international or national).
- **Legality and regularity** –with respect to this dimension, the only delivery mechanism which received the highest score was based on real costs (BCF and the ESI Funds), but shortcomings were found in mechanisms based both on real costs (NSPP) and on actions/outputs/outcomes (ADB-RDL, PCs).
- **Sound financial management** – the vast majority of the analysed alternative delivery mechanisms received a good score – B. Only one national alternative delivery mechanism (GRW) achieved the highest possible score - A. Overall, sound financial management poses a challenge to national and international delivery mechanisms, based on both real costs and activities/outputs/outcomes.
- **Simplification and good governance** – the vast majority of the assessed alternative delivery mechanisms received good scores (B) for both criteria. Moreover, one of the delivery mechanisms based on actions, outputs or outcomes received the highest score in both dimensions (PCs). However, in the

case of PCs, as well as in that of NSPP, there is a trade-off between the low legality and regularity score and a high score for simplification.

Overall, some international and national **alternative delivery mechanisms which use actions/outputs/outcomes as reimbursement triggers** - e.g. the World Bank's OBA or Danish PC – **can achieve good or high scores in simplification, while maintaining a good score in sound financial management (the same score as the one attributed to the ESI Funds delivery system), to the detriment of legality and regularity, which may be compromised to a certain extent.** Therefore, there is no perfect delivery mechanism – all of the assessed mechanisms have some strengths, weaknesses and trade-offs.

Table 1 provides an overview of the scores for each assessment criterion for both the ESI Funds delivery system and the alternative delivery mechanisms.

Table 1 - Overview of the scores for the ESI Funds delivery system and the alternative delivery mechanisms

| Delivery Mechanism | Type of delivery mechanism | Reimbursement trigger | Assessment criterion | | | | |
|--------------------|----------------------------|--|----------------------|-----------------------|----------------------------|-----------------|----------------|
| | | | Accountability | Legality & regularity | Sound financial management | Good governance | Simplification |
| ESI Funds | international | real costs | A | A | B | B | C/B |
| WB OBA | international | actions, outputs or outcomes | A | B | B | C | B |
| WB PforR | international | actions, outputs or outcomes | B | B | B | B | B |
| ADB-RBL | international | actions, outputs or outcomes | B | C | C | B | B |
| NORAD-PbR | international | actions, outputs or outcomes | A | B | C | B | B |
| DEVCO | international | real costs or actions, outputs or outcomes | B | B | B | B | B |
| NIF | international | real costs | B | B | B | B | B |
| BCF | national | real costs | A | A | B | B | B |
| GRW | national | real costs | A | B | A | B | B |
| NSPP | national | real costs | B | C | C | C | A |
| US BGs | national | real costs or actions, outputs or outcomes | A | B | B | A | C |
| PCs | national | actions, outputs or outcomes | C | C | B | A | A |

Score: A – high; B – good; C – satisfactory; D – poor; E – very poor

Assessment of the identified policy options and transferrable features

The alternative delivery mechanisms present some features that can be transferable into the ESI Funds delivery system in order to alleviate the negative effect of its main trade-off between legality & regularity and simplification. Such features could also help improve current weaknesses, while maintaining and building on its strengths. The features have been structured into five options, which are not mutually exclusive and which are presented below.

Option 1. Expanding the use of payment triggers which are not based on real costs but on completed actions/outputs/outcomes (ADB-RBL, WB-PforR, OBA, NORAD-PbR).

Option 2. Improving responsiveness of the ESI Funds programmes (ADB-RBL).

Option 3. Strengthening the links between the administrative capacity building and investment programmes (PC, NORAD-PbR, and WB-PforR).

Option 4. Simplifying the institutional architecture, rules, processes, and tools, through:

4.1 Simple institutional architecture (WB-OBA), reducing the number of authorities assigned in the delivery system architecture.

4.2 Use of the recipient country’s management system (ADB-RBL, WB-PforR).

4.3. Comprehensive and integrated risk management tools.

4.4 Simplified, standardised procedures, easy to use implementation and reporting tools (international and national DMs).

4.5 A flexible framework of eligible expenditure (US BG).

Option 5. Extending the use of proportional solutions

Table 2 summarises the assessment of potential impacts of the policy options (and associated transferable features) on the current ESI Funds delivery system.

Table 2 – Assessment of potential impacts on the ESI Funds delivery system

| | Accountability | Legality and Regularity | Sound Financial Management | Good Governance | Simplification |
|--|----------------|-------------------------|----------------------------|-----------------|----------------|
| Baseline: ESI Funds delivery system | | | | | |
| Overall score | A | A | B | B | C/B |
| Potential impact of the policy option | | | | | |
| PO 1. Expanding the use of payments triggered by completed actions/outputs/outcomes | - | - | + | + | + |
| PO 2. Improving responsiveness of the ESI Funds programmes | n.a | n.a | +/- | ++ | + |
| PO 3. Strengthening the links between the administrative capacity building and investment programmes | n.a | + | + | + | n.a |
| PO 4. Simplifying the institutional | | | | | |

| | Accountability | Legality and Regularity | Sound Financial Management | Good Governance | Simplification |
|---|----------------|-------------------------|----------------------------|-----------------|----------------|
| architecture, rules, processes, and tools | | | | | |
| 4.1 Simple institutional architecture (WB-OBA), reducing the number of authorities assigned in the delivery system architecture | + | + | n.a. | n.a. | ++ |
| 4.2 Use of the recipient country own management system (ADB-RBL, WB-PforR). | + | - | n.a. | ++ | + |
| 4.3. Comprehensive and integrated risk management tools. | n.a. | + | + | n.a. | + |
| 4.4 Simplified, standardised procedure, easy to use implementation and reporting tools (international and national DMs). | + | n.a. | n.a. | n.a. | ++ |
| 4.5 A flexible framework of eligible expenditure (US BG). | n.a. | + | n.a. | n.a. | ++ |
| PO 5. Extending the use of proportional solutions | n.a. | n.a. | n.a. | n.a. | n.a. |

Rating: (++) - significant positive impact; (+) - slight positive impact; (n.a) - no significant impact; (-) - slight negative impact; (--) - significant negative impact

Overall, the impacts of the policy options on the ESI Funds delivery system are mostly – but not entirely – positive, in particular with regards to:

- **Simplification** – achieved thanks to the simplification of the overarching structure and architecture of ESI Funds, through the reduction of the number of authorities involved, and the streamlining of the management system. Moreover, the ability to leverage the existing national/regional system of the recipient country can also bring about simplification, as it circumvents the need to set up a dedicated system for programmes under the purview of ESI Funds. Also, simplified reporting requirements and a flexible framework for eligibility rules (especially options 4.1, 4.4 and 4.5) allow for a more comprehensive control of performance and implementation. Potentially, introducing payments based on actions, outputs or outcomes (option 1) and improving the responsiveness of the ESIF programmes (option 2) can also bring about simplification-related benefits. None of the options above carry negative effects.
- **Good governance** – by improving the responsiveness of ESIF programmes (option 2), but also through options 1, 3 and 4.2. None of the options mentioned carry negative effects.
- **Sound financial management** – thanks to an increased use of actions/outputs/outcomes-based payments between the European Commission and the Member States and (option 1), a more effective capacity-building support (option 3) and more comprehensive and integrated risk management (option 4.3). Note that higher responsiveness (option 2) has both positive and negative implications.

- **Accountability** – by means of options 4.1, 4.2 and 4.4. However, expanding the use of reimbursement linked to actions, outputs and outcomes may involve some weaknesses and risks linked to the higher fungibility of EU, national and regional resources, which may weaken accountability of the national and regional programme authorities for the projects co-financed by the EU Funds.
- **Legality and regularity** – the proposed options may have a mixed impact. Some benefits may be expected from strengthening the link between the administrative capacity building and investments (option 3), as well as from options 4.1, 4.3 and 4.5. However, expanding the use of payments based on actions, outputs and outcomes (option 1) or using the recipient's own public administration system (option 4.2) may make it more difficult to maintain the current high assurance and control of legality and regularity of the underlying transactions, due to higher risk of fungibility of EU, national and regional resources.

The fact that the alternative delivery mechanisms are mostly a budget support or transfer mechanism (either at the international level or between the tiers of governance of the same country, as is the case with national delivery mechanisms), does not mean that elements of the payments based on actions/outputs/outcomes are not transferable to the shared management of the ESI Funds. However, the introduction of such types of payments would require **a redefinition of relations within the shared management** between the European Commission and the Member States/regions. It would involve **a redefinition of what the EU rules should actually regulate** – the transaction process of every single project (as it is in the case of the payments based on real costs) or the actions/outputs/outcomes of the projects (either at a level of an individual project or at a higher level, i.e. a group of projects).

The issue is multidimensional, because past evaluations have provided ample evidence that one of the key benefits of cohesion policy is a governance spill-over of the EU rules, standards, principles, procedures into national and regional public administrations, leading to an improvement of the relevant public policies. The above-mentioned change would mean that EU institutions (i.e. the European Commission and the European Court of Auditors) would be much less involved in ensuring the sustainability of these improvements in governance, and that the Member States and the regions themselves would have to take up that responsibility. In short, **the EU level would have to adopt a more hands-off approach as regards the transaction processes, and focus primarily on their results.**

Therefore, the redefinition process should be gradual, i.e. that new types of relations between the European Commission and the Member States/regions have to be introduced into the already existing system, which is primarily based on the reimbursement of real costs. In practice, this means that **two distinct delivery mechanisms would have to co-exist** in the next programming period. It should be noted that a similar attempt was already undertaken in cohesion policy, i.e. by creating in the current 2014-2020 programming period a new instrument, the JAP. However, at the moment of finishing this study – Spring 2018 – no JAPs were established.. That is why it is key to provide **clear EU rules that explicitly define the differences between the two delivery mechanisms, especially as regards legality and regularity** (e.g. audit trail). This should provide both legal certainty and strong simplification incentives, so that the new delivery mechanism is actually tested and used.

Conclusions

The comparative assessment confirms that the ESI Funds delivery system does not need a reset or rebuilding in the next programming period, but rather an adjustment and fine-tuning, in order to address its limited weaknesses and build on the numerous

strengths. To this end, some features currently used in alternative international and national mechanisms could be transferred into the context of ESI Funds, with possible positive impacts on the delivery system for the next programming period.

However, in order to fully exploit the expected potential benefits, the policy options and associated features need to be adapted to the specificities of the ESI Funds context, as well as to its current delivery system. Indeed, there are no ideal and easily applicable solutions, as their practical implementation may lead to possible risks and uncertainties. These features should not just add new requirements and procedures on top of those currently in place in the ESI Funds, but rather integrate or replace them. Furthermore, the proposed options and features present their own trade-offs, just as the current ESI Funds delivery system does. The preferred balance between the possible trade-offs will also need to be carefully assessed, as simple “win-win” scenarios without trade-offs are not likely to occur.

RESUME

Objectif et périmètre de l'étude

L'objectif général de cette étude est *d'explorer dans quelle mesure des mécanismes alternatifs de mise en œuvre pourraient améliorer la mise en œuvre des Fonds Structurels et d'Investissement Européens (Fonds ESI) et leur contribution à la réalisation des objectifs politiques de l'UE dans le cadre d'un budget de l'UE axé sur les résultats.*

Aux fins de l'étude, un mécanisme de mise en œuvre est considéré comme l'ensemble des processus et procédures requis pour atteindre les objectifs politiques définis et réglementer les tâches liées à la mise en œuvre du budget de l'UE et, le cas échéant, la relation entre le responsable de la mise en œuvre du budget de l'UE et les organismes auxquels les tâches de mise en œuvre ont été déléguées.

Pour atteindre l'objectif général, l'étude a :

- A. **Identifié et évalué les forces et les faiblesses du système actuel de mise en œuvre des Fonds ESI** qui utilise les subventions basées sur les coûts réels comme principal **mécanisme de mise en œuvre**. D'autres mécanismes de mise en œuvre sont également appliqués dans les Fonds ESI, à savoir: subventions basées sur les options de coûts simplifiés (SCO), Plan d'Action Commun (JAP), Développement Local Mené par les Acteurs Locaux (CLLD), et Investissement Territorial Intégré (ITI).
- B. **Identifié et évalué des «mécanismes alternatifs de mise en œuvre»**, qui pourraient remédier aux faiblesses actuelles des Fonds ESI tout en s'appuyant sur leurs points forts.
- C. **Identifié un certain nombre de caractéristiques transférables des mécanismes alternatifs de mise en œuvre** qui pourraient être utilisés dans le cadre du système de mise en œuvre des Fonds ESI et évalué leurs impacts par rapport aux mêmes critères utilisés pour mesurer les forces et les faiblesses du système de mise en œuvre des Fonds ESI.

Le choix des mécanismes alternatifs de mise en œuvre évalués dans l'étude a été guidé par leur alignement aux résultats, par la cohérence avec les politiques, ainsi que par leur capacité à remédier aux faiblesses du système de mise en œuvre des Fonds ESI, tout s'appuyant sur leurs points forts. Ils ont été divisés en deux groupes:

- **Les mécanismes alternatifs de mise en œuvre avec une portée internationale de soutien:** Banque Mondiale - *Output Based Aid* (WB-OBA); Banque Mondiale - *Program for Results* (WB-PfR); Banque Asiatique de Développement - *Results based lending* (ADB-RBL); Agence Norvégienne pour le Développement International - *Payment by Results* (NORAD-PbR); Union Européenne- *Coopération Déléguée* (DEVCO); Union Européenne - *Facilité d'Investissement du Voisinage* (NIF);
- **Les mécanismes alternatifs de mise en œuvre avec une portée nationale de soutien:** Canada - *Building Canada Fund* (BCF); Allemagne - *Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur"* (GRW); Australie - *National Specific Purpose Payments/National Agreement for Skills and Workforce Development* (NSPP-NASWD); États-Unis d'Amérique - *Block Grants* (US BGs); Danemark - *Contrats de Performance* (PCs).

Tous les mécanismes de mise en œuvre ont été évalués en fonction des critères suivants: (i) responsabilité, (ii) légalité et régularité des opérations, (iii) bonne gestion financière, (iv) bonne gouvernance et (v) simplification. Tous les mécanismes de mise en œuvre ont été classés en fonction de chaque critère d'évaluation selon l'échelle de jugement qualitative suivante: (i) A - élevé; (ii) B - bon; (iii) C - satisfaisant; (iv) D - insuffisant; (v) E - très insuffisant.

Forces et faiblesses du système de mise en œuvre des Fonds ESI avec des subventions basées sur les coûts réels

Le système de mise en œuvre des Fonds ESI est **très fort en termes de responsabilité** (score: A), vu la répartition claire des tâches et aux conditions adéquates de compte rendu et de diffusion de l'information.

La légalité et la régularité des transactions constituent une autre force principale du système de mise en œuvre des Fonds ESI (score: A) car il contient des outils performants pour assurer le respect de la législation applicable jusqu'au niveau des projets individuels et des postes de dépense. Il assure aussi l'atténuation du risque fiduciaire, la séparation des tâches, la détection des fraudes, le contrôle financier et une surveillance et évaluation adéquates des risques en matière de fraude et d'irrégularités.

Le système de mise en œuvre des Fonds ESI est **solide** en termes de **bonne gestion financière** (score: B), grâce à (i) un lien explicite avec les recommandations spécifiques par pays au niveau de la programmation et de la mise en œuvre, (ii) les exigences de programmation qui permettent une évaluation approfondie de la solidité de la logique d'intervention qui se reflète dans les indicateurs financiers de réalisation et de résultat, (iii) des conditions ex ante qui ont amélioré le cadre des investissements pour le soutien de l'UE; (iv) un examen des performances de mi-parcours en 2019 où les progrès dans la réalisation des objectifs des programmes guideront la (ré) allocation de la réserve de performance et (v) des sanctions, lorsque le progrès est très insatisfaisant. Cependant, la plupart des sanctions sont principalement axées sur l'absorption financière et la régularité des dépenses, ce qui fait de ces deux aspects - et non de l'efficacité et de l'efficacité du soutien - la principale préoccupation des autorités du programme.

La forte adaptabilité et le sens d'appropriation de la politique propre au mode de gestion partagée, alliés à la transparence et aux conditions de partenariat, rendent les **Fonds ESI forts en termes de bonne gouvernance** (score: B). Pourtant, il y a des désavantages potentiels en termes de réactivité, en raison des procédures qui nécessitent beaucoup de temps et de ressources pour modifier les principaux documents de programmation.

Les règles détaillées pour assurer la légalité et la régularité des transactions rendent le système de mise en œuvre des Fonds ESI quelque peu complexe. Elles posent des coûts administratifs pour les autorités du programme et une charge pour les bénéficiaires et conduisent à un **compromis avec la simplification**. Le système de mise en œuvre des Fonds ESI se caractérise par (i) un grand nombre de règles détaillées et leurs multiples sources (le Règlement de Dispositions Commune (Common Provisions Regulation), les actes délégués et actes d'exécution, les lignes directrices, les règles nationales) et (ii) un grand nombre d'institutions impliquées dans sa mise en œuvre à tous les niveaux de gouvernance et par un encore plus grand nombre de bénéficiaires. Lorsqu'elles sont associées à une forte insistance sur la régularité de chaque poste de dépense (comme dans le cas des subventions basées sur les coûts réels), ces caractéristiques conduisent à de nombreux problèmes d'interprétation. La nécessité d'atténuer l'incertitude juridique se traduit souvent en gold-plating et microgestion. En outre, il s'est avéré difficile de simplifier les règles et procédures existantes au cours des dernières périodes de programmation ou d'introduire de nouveaux mécanismes de mise en œuvre - comme les SCO et le JAP - dans le système actuel. C'est pourquoi le système de mise en œuvre des Fonds ESI a un score faible en termes de simplification (score: C / B).

Dans l'ensemble, il a été conclu que le système de mise en œuvre des Fonds ESI obtient de bons résultats dans quatre des cinq critères. Cela signifie que les recommandations issues de l'analyse des mécanismes alternatifs de mise en œuvre ne

devrait pas compromettre les points forts du système de mise en œuvre des Fonds ESI. Le domaine essentiel qui nécessite des améliorations significatives est la simplification (en gardant à l'esprit le compromis de légalité et régularité), tandis que certaines améliorations peuvent être recherchées pour une bonne gouvernance (en termes de réactivité) et une bonne gestion financière (possibilité de renforcer les liens entre performance et remboursement).

Évaluation comparative des mécanismes alternatifs de mise en œuvre et du système de mise en œuvre des Fonds ESI

Le système de mise en œuvre des Fonds ESI a été comparé à certains systèmes alternatifs internationaux et nationaux, qui doivent être considérés comme deux groupes séparés. Les mécanismes de mise en œuvre internationaux ont leur propre cadre spécifique qui englobe tout le cycle politique d'un régime d'aide et qui est externe à la gouvernance nationale/régionale et au système politique du bénéficiaire. Les mécanismes nationaux de mise en œuvre font partie intégrante de la gouvernance et du système politique national, autant que de nombreux processus - par ex. liés à la légalité et à la régularité ou à la programmation - ne sont pas définis spécifiquement pour un mécanisme de mise en œuvre précis, mais dérivent d'un cadre plus large.

Le but de la comparaison est d'identifier les caractéristiques des mécanismes de mise en œuvre alternatifs qui pourraient:

- Traiter le principal **compromis** identifié dans le système de mise en œuvre des Fonds ESI et entre légalité/régularité et simplification;
- Être mis en pratique dans le système de mise en œuvre des Fonds ESI, en s'appuyant sur ses points forts.

Les mécanismes de mise en œuvre alternatifs sélectionnés présentent un mélange de différents déclencheurs de remboursement. Parmi les mécanismes de mise en œuvre internationaux, la Banque Mondiale - *Output Based Aid* et *Program for Results*, la Banque Asiatique de Développement - *Results based lending* et l'Agence Norvégienne pour le Développement International - *Payment by Results* utilisent des actions, des réalisations ou des résultats comme déclencheurs de remboursement, tandis que l'Union Européenne-Coopération Délégée (DEVCO) et la Facilité d'Investissement du Voisinage utilisent aussi les moyens, par ex. les coûts réels des projets. Parmi les mécanismes de mise en œuvre nationaux, les remboursements sont déclenchés en fonction des moyens mis en œuvre pour tous les mécanismes à l'exception des Contrats de Performance, alors que les US *Block Grants* peuvent aussi s'appuyer sur des actions, réalisations et résultats pour déclencher des paiements. Comparé aux mécanismes de mise en œuvre alternatifs analysés dans cette étude, le système de mise en œuvre des **Fonds ESI fonctionne exceptionnellement bien en termes de responsabilité, de légalité et de régularité. Pour ce qui est de la bonne gestion financière et de la bonne gouvernance, le système de mise en œuvre des Fonds ESI s'est également révélé solide, tandis qu'en termes de simplification, il est en retard par rapport à plusieurs mécanismes de mise en œuvre évalués.**

Dans le détail, alors que le score B était le plus répandu pour chaque critère, on a observé ce qui suit:

- **Responsabilité** – ce critère a obtenu les scores les plus élevés pour ce qui concerne les mécanismes de mise en œuvre nationaux et internationaux. Aucune corrélation n'a été trouvée avec le type de déclencheur de paiement (coûts réels ou activités/réalisations/résultats) ou le type de mécanisme de mise en œuvre (international ou national).
- **Légalité et régularité** – S'agissant de ce critère, le seul mécanisme de mise en œuvre ayant reçu la note la plus élevée est celui basé sur les coûts réels (BCF), alors que les mécanismes de mise en œuvre basés sur d'une part les

coûts réels (NSPP) et d'autre part les activités/réalisations/résultats (ADB-RDL, PCs) présentent des limites.

- **Bonne gestion financière** - la grande majorité des mécanismes de mise en œuvre alternatifs analysés ont obtenu un bon score - B. Un seul mécanisme national de mise en œuvre alternative (GRW) a obtenu le score le plus élevé possible - A. Dans l'ensemble, la bonne gestion financière pose un défi aux mécanismes de mise en œuvre nationaux et internationaux, basés sur les coûts réels et les activités/réalisations/résultats.
- **Simplification et bonne gouvernance** – la majeure partie des mécanismes de mise en œuvre alternatifs ont reçu des bonnes notes sur les deux critères. En outre, l'un des mécanismes de mise en œuvre basés sur les actions, les réalisations ou les résultats a reçu la note la plus élevée sur les deux dimensions (PCs). Toutefois, dans le cas des PCs, aussi bien que du NSPP, il y a un compromis entre le faible score de légalité et de régularité et le score élevé sur la simplification.

Dans l'ensemble, **certains mécanismes de mise en œuvre alternatifs** internationaux et nationaux **qui utilisent des actions/réalisations/résultats comme déclencheurs de remboursement** - par ex. WB-OBA ou danois PC - **peuvent obtenir des résultats bons ou même élevés en matière de simplification, tout en conservant un bon score en matière de bonne gestion financière (le même score qui a été attribué au système de mise en œuvre des Fonds ESI), au détriment de la légalité et de la régularité, qui peuvent être compromis dans une certaine mesure.** Par conséquent, il n'y a pas de mécanisme de mise en œuvre parfait - tous les mécanismes de mise en œuvre évalués ont des forces, des faiblesses et des compromis.

Le Tableau 1 donne un aperçu des scores obtenus par le système de mise en œuvre des Fonds ESI et les mécanismes de mise en œuvre alternatifs pour chaque critère d'évaluation.

Tableau 1 – Aperçu des scores du système de mise en œuvre des Fonds ESI et des mécanismes de mise en œuvre alternatifs

| Mécanisme de mise en œuvre | Type de mécanisme de mise en œuvre | Déclencheur de remboursement | Critère d'évaluation | | | | |
|----------------------------|------------------------------------|-----------------------------------|----------------------|------------------------|--------------------------|-------------------|----------------|
| | | | Responsabilité | Légalité et régularité | Bonne gestion financière | Bonne gouvernance | Simplification |
| Fonds ESI | international | coûts réels | A | A | B | B | C/B |
| WB OBA | international | activités, réalisations résultats | A | B | B | C | B |
| WB PforR | international | activités, réalisations résultats | B | B | B | B | B |
| ADB-RBL | international | activités, réalisations résultats | B | C | C | B | B |
| NORAD-PbR | international | activités, réalisations | A | B | C | B | B |

| Mécanisme de mise en œuvre | Type de mécanisme de mise en œuvre | Déclencheur de remboursement | Critère d'évaluation | | | | |
|----------------------------|------------------------------------|---|----------------------|------------------------|--------------------------|-------------------|----------------|
| | | | Responsabilité | Légalité et régularité | Bonne gestion financière | Bonne gouvernance | Simplification |
| | | résultats | | | | | |
| DEVCO | international | coûts réels ou activités, réalisations ou résultats | B | B | B | B | B |
| NIF | international | coûts réels | B | B | B | B | B |
| BCF | national | coûts réels | A | A | B | B | B |
| GRW | national | coûts réels | A | B | A | B | B |
| NSPP | national | coûts réels | B | C | C | C | A |
| US BGs | national | coûts réels ou activités, réalisations ou résultats | A | B | B | A | C |
| PCs | national | activités, réalisations ou résultats | C | C | B | A | A |

Score: A - élevé; B - bon; C - satisfaisant; D - insuffisant; E - très insuffisant.

Évaluation des options politiques identifiées et des caractéristiques transférables

Les mécanismes alternatifs de mise en œuvre présentent certaines caractéristiques qui peuvent être transférées dans le système de mise en œuvre des Fonds ESI afin d'atténuer l'effet négatif de son principal compromis entre légalité, régularité et simplification. Ces caractéristiques peuvent aussi améliorer les faiblesses actuelles, tout en conservant et en renforçant ses points forts. Les caractéristiques ont été structurées en cinq options, qui ne sont pas mutuellement exclusives et qui sont présentées ci-dessous.

- Option 1. Élargir l'utilisation des déclencheurs de paiement qui ne sont pas basés sur les coûts réels mais sur les activités/réalisations/résultats (ADB-RBL, WB-PforR, OBA, NORAD-PbR).**
- Option 2. Amélioration de la capacité de réponse des programmes des Fonds ESI (ADB-RBL).**
- Option 3. Renforcer les liens entre le développement des compétences administratives et les programmes d'investissement (PC, NORAD-PbR et WB-PforR).**
- Option 4. Simplifier l'architecture institutionnelle, les règles, les processus et les outils à travers :**

4.1 Architecture institutionnelle simple (WB-OBA), réduisant le nombre d'autorités assignées dans l'architecture du système de mise en œuvre.

4.2 Utilisation d'un système de gestion propre au pays bénéficiaire (ADB-RBL, WB-PforR).

4.3. Outils de gestion des risques complets et intégrés.

4.4 Procédure simplifiée et standardisée, outils de mise en œuvre et de reporting faciles à utiliser (mécanismes internationaux et nationaux).

4.5 Un cadre flexible de dépenses éligibles (US BG).

Option 5. Extension de l'utilisation des solutions proportionnelles

Le Tableau 2 résume l'évaluation des impacts potentiels des options de politique (et des caractéristiques transférables associées) sur le système de mise en œuvre actuel des Fonds ESI.

Tableau 2 – Évaluation des impacts potentiels sur le système de mise en œuvre des Fonds ESI

| | Responsabilité | Légalité et Régularité | Bonne gestion financière | Bonne gouvernance | Simplification |
|--|----------------|------------------------|--------------------------|-------------------|----------------|
| Point de comparaison: Système de mise en œuvre des Fonds ESI | | | | | |
| Score global | A | A | B | B | C/B |
| Impact potentiel de l'option de politique | | | | | |
| OP 1. Élargir l'utilisation des déclencheurs de paiement qui ne sont pas basés sur les coûts réels mais sur les activités/réalisations/résultats | - | - | + | + | + |
| OP 2. Amélioration de la capacité de réponse des programmes des Fonds ESI | ND | ND | +/- | ++ | + |
| OP 3. Renforcer les liens entre le développement des compétences administratives et les programmes d'investissement | ND | + | + | + | ND |
| OP 4. Simplifier l'architecture institutionnelle, les règles, les processus et les outils | | | | | |
| 4.1 Architecture institutionnelle simple (WB-OBA), réduisant le nombre d'autorités assignées dans l'architecture du système de mise en œuvre | + | + | ND | ND | ++ |
| 4.2 Utilisation d'un système de gestion propre au pays bénéficiaire (ADB-RBL, WB-PforR) | + | - | ND | ++ | + |

| | Responsabilité | Légalité et Régularité | Bonne gestion financière | Bonne gouvernance | Simplification |
|---|----------------|------------------------|--------------------------|-------------------|----------------|
| 4.3. Outils de gestion des risques complets et intégrés | ND | + | + | ND | + |
| 4.4 Procédure simplifiée et standardisée, outils de mise en œuvre et de rapportage faciles à utiliser | + | ND | ND | ND | ++ |
| 4.5 Un cadre flexible de dépenses éligibles (US BG). | ND | + | ND | ND | ++ |
| OP 5. Extension de l'utilisation des solutions proportionnelles | ND | ND | ND | ND | ND |

Classement: (++) - impact positif significatif; (+) - léger impact positif (ND) - pas d'impact significatif; (-) - léger impact négatif; (-) - impact négatif significatif

Dans l'ensemble, les impacts des options de politique sur les mécanismes de mise en œuvre des Fonds ESI sont majoritairement – mais pas entièrement- positifs, en particulier pour ce qui concerne les points suivants:

- **Simplification** - réalisé grâce à la simplification de la structure globale et de l'architecture des Fonds ESI, à travers la réduction du nombre d'autorités impliquées et la rationalisation du système de gestion. En outre, la capacité de s'appuyer sur le système national/régional existant du pays bénéficiaire peut également entraîner une simplification, car cela élude la nécessité de mettre en place un système dédié uniquement aux programmes rentrants dans le cadre des Fonds ESI. Aussi, des exigences de rapportage simplifiées et un cadre flexible pour les règles d'éligibilité (en particulier les options 4.1, 4.4 et 4.5) permettent un contrôle plus complet des performances et de la mise en œuvre. Potentiellement, l'introduction de paiements basés sur les activités, les réalisations ou les résultats (option 1) et l'amélioration de la capacité de réponse des programmes des Fonds ESI (option 2) peuvent également apporter des avantages en matière de simplification. Aucune des options ci-dessus ne comporte d'effets négatifs.
- **Bonne gouvernance** - en améliorant la capacité de réponse des programmes des Fonds ESI (option 2), mais aussi à travers les options 1, 3 et 4.2. Aucune des options mentionnées a des effets négatifs.
- **Bonne gestion financière** - grâce à une utilisation accrue des paiements liés aux activités, réalisations et résultats entre la Commission Européenne et le Etas Membres et (option 1), un soutien plus efficace pour le développement des compétences (option 3) et une gestion des risques plus complète et intégrée (option 4.3). Il faut noter qu'une réactivité plus élevée (option 2) a des implications positives et négatives.
- **Responsabilité** – à travers les options 4.1, 4.2 et 4.4. Toutefois, l'extension du recours aux remboursements liés aux activités, réalisations et résultats peut comporter certaines faiblesses et risques liés au niveau élevé de changeabilité des ressources de l'UE, nationales et régionales, ce qui peut affaiblir la responsabilité des autorités nationales et régionales de programme pour les projets cofinancés par les Fonds de l'UE.
- **Légalité et régularité** - les options proposées peuvent avoir un impact mitigé. Certains avantages peuvent être attendus du renforcement du lien entre le développement des compétences administratives et les investissements (option 3), ainsi que des options 4.1, 4.3 et 4.5. Cependant, étendre l'utilisation des

paiements basés sur les activités, réalisations et résultats (option 1) ou utiliser le système d'administration publique propre au destinataire (option 4.2) peut rendre plus difficile de conserver un niveau élevé d'assurance et contrôle de la légalité et de la régularité des transactions sous-jacentes en raison du risque accru de fongibilité des ressources de l'UE, nationales et régionales.

Le fait que les mécanismes alternatifs de mise en œuvre soient essentiellement du soutien budgétaire ou des mécanismes de transfert (au niveau international ou entre les niveaux de gouvernance d'un même pays, comme c'est le cas pour les mécanismes de mise en œuvre nationaux) ne signifie pas que les éléments de paiement liés aux activités/réalisations/résultats ne sont pas transférables à la gestion partagée des Fonds ESI. Cependant, l'introduction de ce type de paiement nécessitera **une redéfinition des relations dans la gestion partagée** entre la Commission européenne et les États Membres ou régions de l'UE. Cela impliquerait **une redéfinition du périmètre des règles de l'UE** : le processus de transaction au niveau des projets (comme c'est le cas pour les paiements basés sur les coûts réels) ou les activités/réalisations/résultats des projets.

La question est multidimensionnelle, car les évaluations précédentes ont amplement démontré que l'un des principaux avantages de la politique de cohésion est la diffusion des règles, normes, principes et procédures de l'UE dans l'administration publique nationale et régionale, et ainsi l'amélioration des politiques publiques pertinentes. Le changement décrit ci-dessus signifierait que les institutions de l'UE (par ex. la Commission européenne et la Cour des Comptes Européenne) seraient beaucoup moins impliquées dans la durabilité de ces améliorations de gouvernance et que les États Membres et les régions devraient eux-mêmes assumer cette responsabilité. En bref, **l'UE devrait alors adopter une approche plus neutre en ce qui concerne les processus de transaction, et se concentrer principalement sur leurs résultats.**

Par conséquent, le processus de redéfinition devrait être progressif, c'est-à-dire que de nouveaux types de relations entre la Commission européenne et les États Membres/régions doivent être introduits dans le système déjà existant basé principalement sur le remboursement des coûts réels. En pratique, cela signifie que **deux mécanismes de mise en œuvre distincts doivent pouvoir coexister** au cours de la prochaine période de programmation. Il est important de souligner qu'une tentative similaire a déjà eu lieu dans le cadre de la politique de cohésion avec la création - dans la période de programmation actuelle 2014-2020 - d'un nouvel instrument, le JAP. Cependant, au moment de la conclusion de cette étude - Printemps 2018 - aucun JAP n'a été établi. C'est pourquoi il est essentiel de définir des **règles européennes claires qui définissent explicitement les différences entre les deux mécanismes de mise en œuvre, notamment en ce qui concerne la légalité et la régularité** (par exemple piste d'audit). Cela devrait offrir à la fois une sécurité juridique et de fortes incitations à la simplification, de sorte que le nouveau mécanisme de mise en œuvre soit effectivement essayé et utilisé.

Conclusions

L'évaluation comparative confirme que le système de mise en œuvre des Fonds ESI ne nécessite pas de réinitialisation ou de reconstruction au cours de la prochaine période de programmation, mais plutôt un ajustement et une mise au point, afin de dépasser ses faiblesses et de s'appuyer sur ses nombreux points forts. À cette fin, certaines caractéristiques actuellement utilisées dans les mécanismes alternatifs internationaux et nationaux pourraient être transférées dans le contexte des Fonds ESI, ce qui pourrait avoir des effets positifs sur le système de mise en œuvre dans la prochaine période de programmation.

Toutefois, afin d'exploiter pleinement les avantages potentiels attendus, les options politiques et les caractéristiques associées doivent être adaptées aux spécificités du

contexte des Fonds ESI ainsi qu'à son système de mise en œuvre actuel. En effet, il n'y a pas de solutions idéales et facilement applicables car leur mise en œuvre pratique entraînera inévitablement des risques et des incertitudes. Ces caractéristiques ne devraient pas simplement s'ajouter aux exigences et procédures qui déjà existent pour les Fonds ESI, mais plutôt les intégrer ou les remplacer.

Les options et fonctionnalités proposées présentent leurs propres compromis, comme c'est le cas pour le système actuel de mise en œuvre des Fonds ESI. L'équilibre préféré entre les compromis possibles devra également être attentivement évalué, car de simple scénarios de type "gagnant-gagnant" sans aucun compromis ne sont pas susceptibles de se produire.

1 INTRODUCTION

1.1 Objective of the study

The overall objective of this study was *to explore to what extent alternative delivery mechanisms could improve the implementation of the European Structural and Investment (ESI) Funds (or ESI Funds) and their contribution to the achievement of the EU policy objectives in the framework of a result-oriented EU budget.*

For the purposes of the study, a delivery mechanism is understood as the set of processes and procedures required to achieve the defined policy objectives and regulate tasks relating to the implementation of the EU budget, and, where appropriate, the relationship between the body which is accountable for the implementation of the EU budget and the bodies to which implementation tasks have been delegated.

To achieve the overall objective, the study:

- A. Identified and assessed the **strengths and weaknesses of the current ESI Funds delivery system** and its **delivery mechanisms** (hereafter "DM").
- B. **Identified and assessed "alternative delivery mechanisms"** (hereafter also ADMs), that could address the weaknesses identified for the ESI Funds, while building on their strengths. The study looked at their relevance to the ESI Funds in terms of thematic fields of intervention, level of funding, and administrative capacity;
- C. **Identified a number of transferable features of the ADMs** which could be used under the ESI Funds delivery system;
- D. **Analysed the potential impacts of ADM features transferable to the ESI Funds**, against the same criteria used to assess strengths and weaknesses of the ESI Funds. It also analysed how these features could be applied in the ESI Funds context. Specifically, it assessed to what extent the use of selected ADMs features under the ESI Funds could both increase the result orientation of the investments and decrease the administrative burden for beneficiaries, and administrative costs for Member States (MS), and the European Commission (EC).

1.1 Scope of the study

The study focused on grants based on real costs, which is the most used DM in the ESI Funds. In addition, it also covered other DMs applied in ESI Funds, i.e.: grants based on simplified cost options (SCOs), Joint Action Plans (JAPs), Community-Led Local Development (CLLD), and Integrated Territorial Investments (ITIs).

Alternative DMs assessed in the study include:

- **ADM of international scope:** World Bank-Output Based Aid (WB-OBA); World Bank-Program for Results (WB-PfR); Asian Development Bank – Results based lending (ADB-RBL); Norwegian Agency for Development Cooperation – Payment by Results (NORAD-PbR); European Union-Delegated cooperation (DEVCO); European Union-Neighbourhood Investment Facility (NIF);
- **ADM of national scope:** Canada - Building Canada Fund (BCF); Germany - Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" (GRW); Australia - National Specific Purpose Payments/National Agreement for Skills and Workforce Development (NSPP-NASWD); United States - Block Grants (US BGs); Denmark - Performance Contracts (PCs).

1.2 Methodological approach

The study relied on: (i) **desk research** on existing documentation and **literature review** (see Annex 1.7); (ii) **interviews** with ESI Funds national authorities

(Managing Authorities, Audit Authorities, Paying Agencies, National Coordinating Bodies) and representatives from the Commission services (see Annex 1.8); (iii) **case studies** on ADMs, including both desk research and consultation with relevant stakeholders (i.e. donors, managing and implementing bodies, and beneficiaries/recipients, see Annex 1.8).

The key characteristics of the ESI Funds delivery system and the ADMs were analysed using a mapping grid (Annex 1.1). Next, they were analysed against the assessment criteria (Annex 1.2 for the assessment grid). The assessment was based on five criteria: (i) **accountability**, covering the allocation of responsibilities and liabilities, reporting requirements, and dissemination of results; (ii) **legality and regularity of transactions**, addressing compliance with legislation, fiduciary risks, segregation of duties and fraud detection, financial control, and risk monitoring; (iii) **sound financial management**, covering efficiency, effectiveness, and economy of the mechanism; (iv) **good governance**, covering transparency, policy ownership, responsiveness, and flexibility; (v) **simplification**, addressing the administrative costs and burden.

Each assessment criterion includes several sub-criteria, as presented in Table 3.

Table 3 – Assessment criteria and sub-criteria

| Assessment criterion | Sub-criterion |
|---|--|
| Accountability | A1. Definition and allocation of responsibilities and liabilities; A2. Reporting requirements; A3. Dissemination of results. |
| Legality and regularity of transactions | B1. Compliance with applicable legislation; B2. Fiduciary Risks; B3. Segregation of duties and fraud detection; B4. Financial control; performance audit; B5. Risk monitoring. |
| Sound financial management | C1. Efficiency; C2. Effectiveness; C3. Economy. |
| Good governance | D1. Transparency; D2. Policy ownership; D3. Responsiveness; D4. Flexibility. |
| Simplification | E1. Administrative costs for the donor /Managing body/intermediate body; E2. Administrative burden for the recipient/beneficiary. |

This stage aimed at identifying the main strengths and weaknesses of the ESI Funds delivery system and DMs (see sections from 2.1 to 2.5) and of the ADMs (see sections from 3.1 to 3.2) against the selected assessment criteria, as well as examining their main trade-offs (see sections 2.6 and 3.3). The assessment looked also at to which extent the use of the DMs can be differentiated, including for instance thematic fields of intervention, administrative capacity and level of funding (see sections 2.7 and 3.4).

The ESI Funds delivery system through grants based on real costs have been taken as the baseline against which the non-real cost ESI Funds DMs and the ADMs have been assessed, highlighting specific strengths and weaknesses of the latter as compared to the former.

DM have been ranked for each assessment criterion according to the following qualitative judgment scale: (i) **A – high** (i.e. the DM presents strengths for all the relevant sub-criteria, and no major weaknesses emerged); (ii) **B – good** (i.e. the DM presents strengths for most of the relevant sub-criteria); (iii) **C – satisfactory** (i.e. the DM presents a balance between strengths and weaknesses for the relevant sub-criteria); (iv) **D – poor** (i.e. the DM presents weaknesses for most of the relevant sub-criteria); (v) **E – very poor** (i.e. the DM presents weaknesses for all the relevant sub-criteria, and no major strengths).

The final stage aimed at identifying the features of the ADMs which can be transferred to the ESI Funds delivery system to address its weaknesses while building on its strengths (see chapter 5).

The potential effects of introducing new mechanisms into the ESI Funds were then analysed in terms of: (i) their strengths and weaknesses against the five assessment criteria described above; (ii) their potential impact on the current score given to the ESI Funds delivery system and grants based on real costs, and on the current trade-offs; (iii) possibilities and risks associated with their practical translation into the ESI Funds context.

1.3 ESI Funds Policy context

The **European Structural and Investment Funds** represent almost 42% of the EU budget for the 2014-2020 programming period (454 bln EUR) and are the EU's main investment policy tool. For the 2014-2020 programming the main provisions ruling ESI Funds are set out in a unique Regulation – the Common Provisions Regulation (CPR),¹ while further regulations set out specific rules for each Fund.²

ESI Funds pursue 11 thematic objectives (TOs),³ covering a very wide range of policy fields and sectors, and include the following Funds:

- *European Regional and Development Fund (ERDF)* - contributes to all 11 TOs, it devotes the majority of its resources to Research and Innovation R&I), SMEs, low carbon economy, transport and energy infrastructure.
- *European Social Fund (ESF)* - focuses on employment, education, social inclusion and institutional capacity.
- *Cohesion Fund (CF)* – available only for MS whose gross national income per inhabitant is less than 90% of the EU average and focused on transport and energy network infrastructure, environmental protection and low carbon economy.
- *European Agricultural Fund for Rural Development (EAFRD)* – supporting competitiveness of agriculture, sustainable management of natural resources and climate action, and balanced territorial development of rural areas.
- *European Maritime and Fisheries Fund (EMFF)* – helps fishermen in the transition to sustainable fishing, supports coastal communities in diversifying their economies and finances projects that create new jobs and improve quality of life along European coasts makes it easier for applicants to access financing.

The EU budget – the Multiannual Financial Framework (MFF) - is the long-term spending framework for the European Union (EU). It is an expression of political priorities as much as a budgetary planning tool. It represents the framework for the implementation of the ESI Funds (relevant headings and policy areas are "Economic, Social and Territorial Cohesion" and "Sustainable Growth- Natural Resources").

¹ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

² Regulation (EU) No 1301/2013 – ERDF; Regulation (EU) No 1300/2013 - Cohesion Fund; Regulation (EU) No 1304/2013 – ESF; Regulation (EU) No 1305/2013 – EAFRD; Regulation (EU) No 508/2014 – EMFF.

³ Details about each Thematic Objective and ESI Funds supporting it are provided in Annex 1.4.

Europe 2020 is the EU's growth strategy. Within this strategy the European Commission identifies three key drivers for growth to be implemented through concrete actions at both the EU and the national level: smart growth (fostering knowledge, innovation, education and digital society), sustainable growth (making our production more resource efficient while boosting our competitiveness), and inclusive growth (raising participation in the labour market, the acquisition of skills and the fight against poverty). Progress towards these objectives is measured against five EU-level targets, which Member States are asked to translate into national targets.⁴

ESI Funds contribute to reaching the above mentioned objectives through investments targeted to meet TOs covering different thematic fields of interventions.⁵ MS are requested to programme their overall national strategies to use ESI Funds in line with the EU 2020 strategy.

The **European Semester** was introduced in 2010 and aims at coordinating economic policies throughout the year and addressing the economic challenges the EU is facing. For this purpose, the Commission undertakes a detailed analysis of Member States' investments, structural reforms and fiscal consolidation. Based on this analysis, the Commission drafts reports with **Country Specific Recommendations (CSR)** that MS should follow up in 12-18 months. The recommendations sent by the European Commission cover all areas of macroeconomic and social relevance and take stock of the country's budgetary situation.

CSRs are related to ESI Funds in two ways: (i) they define/influence the overall context in which ESI Funds are implemented, by contributing for instance to improving legislation in thematic fields in which ESI Funds invest; (ii) they have to be taken into account while programming ESI Funds (art. 15 and 16 CPR). During the programming period the Commission may request MS to adapt the ESI Funds programming documents to new challenges pointed out in CSRs.⁶

In the case of ESI Funds, the **delivery system** is based on the **shared management mode** and the principle of **subsidiarity**, which ensures that decisions are taken as closely as possible to the citizen (art. 5 of the Treaty on European Union). While the EC has the ultimate responsibility for implementing the EU budget, both the EC and the MS share the responsibility for pursuing the achievement of EU strategies and objectives through the interventions financed under the respective Funds. Shared management implies a **multi-level governance** of ESI Funds, with tasks and responsibilities allocated between the EC and the MS as well as within the MS, according to the provisions of both the Financial Regulation (providing basic rules for the use of the accounts), the CPR and the Fund-specific regulations, as well as the ESI Funds secondary legislation (Delegated and Implementing Acts).⁷ The **EC** is responsible for initiating the legislative proposals concerning these regulations. The proposals are then negotiated and adopted by the European Parliament and the Council, which ultimately decide on their content.

During the **programming phase**, **MS** are responsible for proposing a draft of the national, overarching programming document which sets out the strategy of using the

⁴ These five EU-level targets are: a) Employment: 75% of the population aged 20-64 should be employed; b) R&D: 3% of the EU's GDP should be invested in R&D; c) Climate change/energy: the "20/20/20" climate/energy targets should be met; d) Education: the share of early school leavers should be under 10% and at least 40% of the younger generation should have a degree or diploma; e) Poverty/social exclusion: 20 million less people should be at risk of poverty.

⁵ Details on the relation between the EU2020 targets and ESI Funds TOs are provided in Annex 1.5.

⁶ The CPR states that: "The Commission may request a Member State to review and propose amendments to its Partnership Agreement and, where this is necessary, to support the implementation of relevant Council Recommendations or to maximise the growth and competitiveness impact of the ESI Funds in Member States receiving financial assistance".

⁷ A detailed description of the allocation of tasks and responsibilities is presented in Annex 1.6.

support from the ESI Funds – the Partnership Agreement (PAgr) – followed by programmes, which contain detailed plans of implementing the EU support. The PAgr has to contain: a socio-economic diagnosis, ex ante evaluation, choice of the thematic objectives and distribution of the ESI Funds between them, the financial plan for the ESI Funds, list of programmes, coordination means between the ESI Funds as well as with other EU and national resources, ex ante conditionalities (see below), assessment of administrative capacity needs of the bodies involved in the management and control system and the approach to horizontal principles (e.g. equality, partnership and sustainable development). The programmes contain: strategy for programmes' contribution to the Europe 2020 (including the relevant CSRs for ERDF, ESF and CF), division into priorities of the financial allocation for the programme, together with the corresponding national co-financing, financial, output and result indicators with targets for end-2023 (and performance framework with milestones for end-2018) as well as implementation arrangement which should ensure effective and efficient use of the EU support (e.g. guiding principles for selecting projects, type of beneficiaries, etc.).

The Partnership Agreement and the underlying programmes are negotiated with the EC which finally adopts them - as well as their subsequent amendments. Once these documents are adopted, the EC cannot amend them on its own, as the right to initiate the amendment procedure lies with the MS. The macroeconomic conditionality is the only exception, where the Commission may ask the Member State to adapt its programmes to the relevant Country-Specific Recommendations, but even in this case the Commission cannot amend the PAgr or programmes on its own and can only put pressure on the MS (up to suspension of payments) to submit the amendment request. During the preparation of the PAgr/programmes, MS are also requested to assess the fulfilment of the relevant general and thematic **ex ante conditionalities**. These ensure that the necessary strategic, legal and capacity prerequisites for the effective and efficient use of EU support are ensured at the beginning of the programming period, i.e. the Member States had to fulfil them by the end of 2016, otherwise the EC may suspend the relevant payments.

The MS are also responsible for designating the bodies that will act as programme authorities responsible for management and control of the programmes. To this end, MS have to perform a **review of** the compliance of the designated bodies with the criteria defined in the Annex XIII CPR. The **managing authority** (MA) is responsible for the management of the programme, the selection of the operations, and financial management and control. The **certifying authority** (CA) certifies the completeness, accuracy and veracity of the accounts and that verifies that expenditure entered in the accounts system complies with the applicable law. The **audit authority** (AA), which must maintain a functional independence from the MA and the CA, carries out audits on systems, operations and on the accounts certified by the CA (for the ERDF, CF, ESF and EMFF). In the case of EAFRD programmes, the **Paying Agency** (PA) manages and controls expenditure. MAs and CAs can also delegate certain tasks to an **Intermediate Body** (IB), while still maintaining the ultimate responsibility over them.⁸

Given the shared management mode and multi-level governance, the **partnership principle** plays a central role in the ESI Funds management system, in particular with the adoption of the European Code of Conduct on partnership.⁹ This principle ensures the involvement of all relevant partners in the preparation, implementation, monitoring and evaluation of PAgr/programmes in a consistent manner. In this light, MS/MAs have to set up a **Monitoring Committee** (MC) for each programme. It is composed of representatives of the relevant MS' authorities and socio-economic

⁸ Article 123(6) of the CPR and Article 66(2) of Regulation (EU) No 1306/2013.

⁹ Commission Delegated Regulation (EU) No. 240/2014.

partners who may have voting rights. However, the Commission is not the member of the MC but takes part in them in an advisory capacity. The MC (i) reviews the implementation of the programme and progress towards its objectives; (ii) examines and approves the methodology and criteria used for the selection of operations, the annual and final implementation report, the evaluation plan, the communication strategy and any proposal of the MA to amend the programme; (iii) examines any issues affecting the performance of the programme (e.g. follow-up to evaluation findings, implementation of the communication strategy). See Annex 7.6 for a more detailed list of tasks of these authorities.

The delivery system foresees regular **monitoring of progress** in implementation of programmes when it comes to:

- **Financial progress**¹⁰ - which allows for ensuring that the resources are used in a timely manner. In the 2014-2020 programming period the "**automatic decommitment rule**" means that the amounts that are not spent by the third financial year following the year of budget commitment (Art. 136 CPR), are lost definitively by the Member State.
- Progress in achieving **common and programme-specific indicators** - they are monitored and reported in the Annual Implementation Report (AIR). The **performance framework** is a sub-set of these indicators with identified milestones for end-2018 and targets for end-2023 for each priority of the programme. The progress towards and achievement of the milestones will be reviewed in 2019 with a view to allocate the "performance reserve" which amounts to ca. 6% of the MS envelope (art. 20-23 CPR).

Risk management is incorporated in the ESI Funds DM with special attention to fiduciary risks that can lead to fraud and irregularities. To this end, the EC assures itself that the management and control system complies with the relevant EU rules and that it functions effectively.¹¹ The Commission may also interrupt the payment deadline, suspend payments or impose financial corrections, as well as implements the decommitment rule. As a second level of control at the EU level, the European Court of Auditors is entitled to check and verify the regularity and efficiency of the process.

Reporting is another key feature of the ESI Funds delivery system, with reporting chains going from MS and programme authorities towards the Commission defined in the CPR and in the secondary legislation, which details the format, frequency and content of the AIRs.¹² The EC may make observations addressed to the MAs on the AIRs concerning issues which significantly affect the implementation of a programme. When this occurs, the MA has to provide all necessary information regarding such observations and inform the Commission of any corrective measures taken (art. 50(8) CPR).

¹⁰ For each Programme the financial data have to be reported to the Commission three times per year.

¹¹ By analysing available information and reports provided by MS, on-the-spot checks and audits as well as by participating in the monitoring committee in advisory capacity. The EC may require a MS to take the actions necessary to ensure effective functioning of their management and control systems or the correctness of expenditure in accordance.

¹² AIRs that are submitted in 2016, 2018, 2020-2023, contain basic information on financial progress, all other indicators, evaluations, implementation of major projects as well as any other important issues and actions. In 2017 and 2019 AIRs have to be submitted with additional elements such progress towards programme objectives, including the results, follow-up to the recommendations which were identified in evaluations, effects of the information and communication measures. The MS have to also submit a progress report covering the whole Partnership Agreement (review of the national development needs State, assessment of contribution to Europe 2020, assessment of coordination of ESI Funds with other EU and national policies and instruments, actions taken to improve administrative capacity of the bodies involved and to decrease the administrative burden for beneficiaries).

1.4 The key features of the ESI Funds delivery mechanisms

The level of details of the EU rules governing the ESI Funds DMs varies significantly. The EU eligibility rules for ERDF, ESF and CF are less prescriptive than for the EAFRD and the EMFF. In addition, the Member States adopt their own national eligibility rules.

Irrespective of the type of DM, the contribution of the supported investments to outputs and results is established through: (i) the programming process, during which overall goals, specific objectives, output and result indicators are defined, together with an intervention logic, (ii) project selection criteria, and (iii) methods as well as monitoring and reporting procedures; and (iv) the grant agreement signed between the beneficiary and the MA which specifies the terms of the support and the products or services to be delivered.

The grants based on real costs are the most common DM. In addition, the EU support can also take the form of the simplified cost options (SCOs) – flat rate, lump sums or unit costs. A new instrument – the JAP – provides the basis for the EU to reimburse the MS on the basis of achievements in terms of outputs or results. In order to support territorial, bottom-up development, two DMs were introduced: the CLLD and the ITI.

Grants based on real costs

Grants based on real costs represent the main DM to channel ESI Funds and provide support to beneficiaries. The reimbursement mechanism covers eligible costs which are actually incurred and paid, together with, where applicable, contributions in kind, and taking into account depreciation (art. 67(1) CPR). Therefore, **payments of EU support are linked to inputs**: eligible expenditure on inputs has to be properly documented and proven by means of receipts, invoices or accounting documents of equivalent probative value.

This DM has a very **wide scope**: it can be applied to any intervention level and can cover all types of costs, as well as direct and indirect costs, and operations, with the only exception of small operations under the ESF (i.e. below €50,000 of public support paid to the beneficiary), as only SCOs may be used for the latter operations.

The **policy coverage is wide**. According to the corresponding legal basis, grants based on real costs are not limited in their explicit thematic coverage, being applicable to any thematic field of intervention, all relevant TOs, and all types of beneficiaries (subject to state aid rules).

Tasks and responsibilities are those described above for the ESI Funds delivery system (see section 1.3), with MAs and AAs verifying the documentation supporting expenditure (i.e. receipts, invoices or accounting documents of equivalent probative value and which justify the eligible costs actually incurred by the beneficiary). The **risk assessment** of each type of beneficiary/project should determine the range and type of supporting documentation to be requested from beneficiaries for administrative verifications. **Performance is verified** during on-the-spot checks carried out by the MA/AA, with regard to physical progress of the product/service and in compliance with the terms and conditions of the grant agreement and with the output and result indicators.

Grants based on Simplified Cost Options

Simplified Cost Options represent an alternative instrument for the disbursement of grants and repayable assistance.¹³ From an operational standpoint, instead of using costs actually incurred and paid and linking expenditure to individual supporting

¹³ Articles 67 and 68 CPR; Article 14(2) – (4) of Regulation (EU) No 1304/2013; and Article 19 of Regulation (EU) No 1299/2013.

documents (e.g. invoices), the reimbursement is based on a predefined method established in relation to types of costs, outputs or results. This particular feature of SCOs aims to diminish the administrative costs and burden linked to financial management of the supported operation for the beneficiary and the MA respectively.

In the 2014-2020 programming period, the following options¹⁴ were available:

1. Payment on the basis of **standard scales of unit costs**, i.e. the grant agreement defines the cost of one unit of a service or a good that will be delivered by the beneficiary and the reimbursement is calculated by multiplying the agreed unit cost by the corresponding number of goods/services which were actually delivered by the beneficiary. Therefore, the only supporting documents are those which required to prove that the goods/services were delivered, not the underlying invoices or receipts;
2. Payment based on a **lump sum** if the public contribution is below €100,000. In this case, the grant agreement determines a sum which will be paid to the beneficiary once a given task/activity is delivered, together with the modalities according to which such delivery will be accounted for in the supporting documents;
3. Payment on the basis of a **flat rate** financing, determined by the application of a percentage to one or more defined categories of real costs.

This DM is characterised by a variety of **payment modalities**, as payments can be linked to **inputs** (for the “flat rate” option), **actions** (in the case of all options), **outputs** (in the case of “unit costs” and “lump sums”), and **results** (in the case of “unit costs”).

Framework preconditions are linked to implementation, as SCOs can be used if they have been set before operations are implemented, using a pre-defined, fair, equitable and verifiable method based on statistical data or other objective information or other costs usually applied (art. 67(5) CPR).

Their **scope is quite wide**. SCOs can be used at all intervention levels, but not for all types of cost/expenditure, due to (i) some restrictions in the case of public procurement,¹⁵ (ii) the exclusion of the use of lump sum for operations exceeding €100,000 of public contribution (art. 67(1) CPR)), and (iii) the limited availability and reliability of data to set-up the SCO method.¹⁶ SCOs are mandatory for small ESF operations, with the exception of state aid schemes.

As a result of the restrictions in case of public procurement that implicitly limit investments in infrastructure, and of EC guidance based on which SCOs are not recommended for some of the EAFRD measures (e.g. setting up producer groups and organisations),¹⁷ SCOs’ **policy coverage is considered quite wide**.

Finally, SCOs are associated with specific **tasks and responsibilities** that are not envisaged in the case of grants based on real costs. In the *programming* of the operations, MAs, in close cooperation with AAs, have to set the standards and define an equitable, fair and verifiable method for the calculation of eligible costs before operations can be implemented. Moreover, especially in the case of lump sum and standard scales of unit costs, there are specific tasks related to *implementation and*

¹⁴ Further changes were included in the mid-term revision proposal of the CPR (European Commission COM(2016) 605 final).

¹⁵ Where an operation is implemented exclusively through public procurement, SCOs cannot be used (Article 67(4) CPR).

¹⁶ European Commission (2014), *The implementation of simplified cost options with the European Social Fund in Italy. A case study on the 2007-2013 experience*.

¹⁷ See Annex 3 of EGESI Funds_14-0017.

control, namely (i) MAs need to verify the supporting documents to justify the quantities and quality of goods/services or actions (instead of the costs) declared by beneficiaries; (ii) AAs need to verify the calculation method mentioned above and its correct application, and, where flat-rates are applied, the basis of eligible costs considered for their calculation, as a replacement of controls based on the supporting financial documents and real costs. On the contrary, beneficiaries have fewer tasks compared to real costs, as they do not need to justify the real costs of expenses incurred during the project. However, they need to store the relevant documents for a given SCO in order to secure a proper audit trail (e.g. in the case of lump sums or unit costs, supporting documents to justify the quantities declared by the beneficiary). **Performance verification** is the main focus of the controls carried out by the MA, while there are no specific features regarding the **risk management** and assessment of SCOs.

Joint Action Plans

JAPs have been introduced in the ESI Funds for 2014-2020 to manage a part of a programme (i.e. a number of interventions with similar objectives) as a single operation and as a way to give MS the option of experimenting with result-based payments. JAPs are managed in relation to the outputs and results to be achieved, instead of inputs and their real costs, and, based on art. 104 CPR, can combine resources from one or more priority axes of one or more programmes, and from one or more Funds (i.e. ESF, the Youth Employment Initiative and ERDF).

Payments are linked to the achievement of agreed milestones and targets set for **outputs and results**. They are based on two types of SCO: lump sums or unit costs (art. 106(9) and 109 CPR).

Framework preconditions relate to *implementation*, as the beneficiary must be a public body and must prove its competence in the JAP policy area, as well as in terms of administrative and financial management, including public procurement and the management of EU funds. Furthermore the JAP intervention logic, with its milestones and targets, must be agreed with the EC, together with the calculation method for the SCOs to be used.

The **scope** of JAPs is **quite wide**, given (i) the minimum threshold for the amount of support allocated to a JAP (i.e. 10 mln EUR or 20% of the public support of the programme(s), whichever is lower, or, for a pilot JAP, 5 mln EUR per programme); (ii) the obligation to agree with the Commission the milestones and targets together with the calculation method for the SCOs, which may limit the use of JAPs to operations for which all the necessary data are available and reliable (similarly as in the case of grants based on SCOs).

The **policy coverage** of the DM **is also quite wide**, as a number of conditions apply: JAPs cannot be used for investments in infrastructure (art. 104(1) CPR), JAP beneficiaries cannot be private bodies, and programme authorities may further limit the application of JAPs to specific thematic fields of intervention or sectors.

The use JAPs is associated with the following specific **tasks and responsibilities**:

- **the EC** appraises the JAP (including the calculation method) and its amendments;
- **MA** prepares the JAP in line with the template;
- **AA** verifies the correct application of the calculation method (art. 109 CPR);
- The JAP steering committee oversees the implementation of the JAP, discuss any possible amendments, and reports back to MAs on progress.
- Beneficiaries undertake the same tasks as in the case of SCOs.

Performance verification and control on the achievement of milestones and targets are the main focus of the controls carried out by the MA, while there are no specific features regarding **risk management** and assessment of JAPs.

Community-led local development

CLLD is an instrument requiring the involvement of partners at the local level (such as representatives from civil society and local economic actors) in designing and implementing local integrated strategies. It is based on a bottom-up approach, in contrast to the more traditional “top-down” economic development policy. CLLD is a mandatory part of the programmes funded by the EAFRD and a possible option under the ERDF, the ESF, and the EMFF (art. 32(1) CPR). CLLD operations are designed and implemented by Local Action Groups (LAGs), composed of representatives of public and private socio-economic interests (art. 32(2) CPR). LAGs have to elaborate a Local Development Strategy (LDS), which can be supported by several EU Funds (multi-funded CLLD).

No specific payment modalities are associated with CLLD, as payment modalities depend on whether CLLD are implemented through grants based on real costs or SCOs (which are recommended by the Commission).¹⁸

Preconditions relate to *intervention and implementing preconditions* that need to be met to apply CLLD. Concerning the former, the integrated approach to territorial development supported by the ESI Funds must be defined in the Partnership Agreement, also describing the specific approach to CLLD (art. 15(2)(a) CPR). In addition, LAGs have to prepare a LDS which should define: the area and the population under its purview; its objectives, including measurable targets for outputs and results which have to be consistent with the relevant programme(s); description of the local community’s involvement in the development of the strategy; an action plan for translating the strategy into investments; a description of management and monitoring arrangement, demonstrating the relevant capacities of the LAG, and the financial plan.

The CLLD **scope is quite defined** in terms of level of intervention, since it can refer only to pre-defined sub-regional areas (art. 32(2) CPR), having an indirect impact on the types of projects supported, as no specific provisions relate to the types of expenditure mechanisms. The funding of an operation that is delivered through the CLLD mechanism can be combined with different ESI Funds and/or programmes (i.e. with the exception of the CF ex art. 32(1) CPR).

The **policy coverage is quite wide**. Even though CLLD is formally planned under a dedicated investment priority under TO9 “Promoting social inclusion, combating poverty and any discrimination”, it actually supports an integrated multi-sectoral approach and can cover different thematic fields of intervention. However, the coverage in terms of beneficiaries and target population is limited by the fact that CLLD is focused on a sub-regional area, with a relatively small population, which makes it a very local instrument.

The use of CLLD especially impacts MAs’ **tasks and responsibilities**, as some of these are shared with LAGs (art. 34 CPR) that are responsible for: (i) selecting projects at local level consistently with the LDS; (ii) monitoring the implementation of the LDS and the operations supported, including the definition of the arrangements for CLLD monitoring and evaluation (art. 35 CPR); (iii) carrying out specific evaluation actions. There are no other specific features vis-à-vis **performance verification** and **risk management**.

¹⁸ European Commission (2014), *Guidance on Community-Led Local Development for Local Actors*.

Integrated Territorial Investments

ITIs are a newly established DM, introduced for the 2014-2020 programming period as a tool to implement territorial strategies in an integrated way. ITIs are not a specific operation; rather, they allow MS authorities to implement programmes in a cross-cutting, integrated way, combining funding from different priority axes. They support a place-based development strategy aimed at both core economic and social objectives. There are several common features between ITIs and CLLD.

As in the case of CLLD, **no specific payment modalities** are defined for ITIs, as payment modalities depend on whether ITIs are implemented through grants based on real costs or SCOs.

Preconditions relate to *intervention* and *implementation*, since, similarly to the case of CLLD, ITIs need to be included in the part of the Partnership Agreement dedicated to the integrated approach to territorial development. In addition, MAs have to identify the approach behind the use of ITIs, also in terms of type of areas, definition of the funding streams (i.e. priority axes or programmes) and participation in the development of an integrated strategy. However, differently from CLLD, the EU rules do not define the content of these strategies. It is important to note that an ITI can only be established if it is supported by resources from a least two different priority axes or programmes.

Their **scope is wide**. As CLLD, ITIs are intended as a “territorial” DM focused on a specific territory, but unlike CLLD, there are no limitations related to the intervention level (i.e. sub-regional areas). Even though they are mainly targeted to urban areas (“urban ITIs”), they can also cover other territorial areas (such as rural areas or several regions). Moreover, ITIs can combine all five ESI Funds and/or programmes and can use grants, re-payable assistance, and financial instruments.

ITIs’ **policy coverage** is **horizontal**, with no restrictions in terms of thematic fields of intervention, or sectors and TOs (consistently with their objective of pursuing an integrated multi-sectoral approach). The content of ITIs depends on the content of the relevant priority axes and programmes.

ITIs require the definition of specific **tasks and responsibilities** for MAs related to: (i) the *programming* of the operations, as MAs need to identify the approach behind the use of ITIs; (ii) where appropriate, the *implementation* of operations, since some of MAs tasks relating to the ITI management may be delegated in the case of the designation of one or more IBs (such as local and urban authorities, regional development bodies, or non-governmental organisations); (iii) the *monitoring* of strategies and operations, since MAs have to ensure that the programme monitoring system provides for the identification of operations and outputs of a priority contributing to an ITI (art. 36(4) CPR). There are no other features specific to ITIs concerning **performance verification** and **risk management**.

2 THE ASSESSMENT OF THE STRENGTHS AND WEAKNESSES OF THE 2014-2020 ESI FUNDS DELIVERY SYSTEM

This section presents an overall assessment of the ESI Funds delivery system based on real costs, together with a comparative analysis with the other ESI Funds DMs (SCOs, JAPs, CLLDs and ITIs), where:

“+/-” signifies that the DM presents strengths/weaknesses in comparison with the ESI Funds delivery system;

“+ +/ - -” signifies that the DM presents significant strengths/weaknesses in comparison with the ESI Funds delivery system.

2.1 Accountability

Overall score: A

The ESI Funds delivery system is **very strong** in terms of accountability.

First of all, the system presents a **clear and explicit definition and allocation of responsibilities** and functions between the EC and the MS, through the relevant provisions of ESI Funds primary and secondary legislation, as well as the EC guidelines on designation.¹⁹ The soundness of the definition and allocation of responsibilities is further ensured through system audits assessing the compliance of the designated bodies with the designation criteria.²⁰ Responsibilities and liabilities of beneficiaries are also defined, both before they receive support (through guidelines/manuals and terms of reference in calls for proposals) and as part of the start of the support activity (through contracts/agreements between MAs/IBs and beneficiaries).

Secondly, **reporting requirements** are strong and clearly defined in the CPR and in the secondary legislation (see section 1.3). As regards the content of the AIRs, the type of information provided on programme inputs, outputs and results was considered adequate in the previous programming period,²¹ and stakeholders interviewed confirm such adequacy also for the current period. Furthermore, the reporting system informs decision-making and is the basis for the establishment of corrective actions at programme level as the Commission may make observations on the AIRs, and MAs have to address such observations (see section 1.3). In addition, the MA’s reaction to these observations is taken into account during the performance review in 2019. The AIRs are adopted not by the MA (which prepares them) but by the MC, which ensures that the relevant socio-economic partners and other relevant institutions (including the Commission) discuss its content and implications for the programme implementation.

Finally, as for **dissemination of results**, there are clear publicity rules that MAs and beneficiaries have to comply with. MAs are also required to define a communication strategy based on these rules. At the EU level, actions are also taken to disseminate the results of the programmes.²²

Box 1 - Specific strengths and weaknesses of other ESI Funds DMs

Grants based on SCOs: *No change in comparison with grants based on real costs.*

JAPs: *No change in comparison with grants based on real costs.*

¹⁹ ESI Funds_14-0013-final.

²⁰ The criteria are set out in Annex XIII of the CPR, and further detailed in EGESI Funds_14-0013-final.

²¹ European Commission (2016), *Ex post evaluation of Cohesion Policy programmes 2007-2013*, WP 12, Delivery System, Final Report.

²² For instance, evaluation reports are published, and for the current programming period, a website with data to present the distribution of finances and achievements of the five ESI Funds is established (<https://cohesiondata.ec.europa.eu/>)

CLLD

Definition and allocation of responsibilities and liabilities are not always clear and explicit for all the actors involved at different levels (MAs, LAGs, beneficiaries) due to the role of the LAG in the selection of operations.

Relative score: -

ITIs

In the case of ITIs in sustainable urban development, the urban authorities have to become an IB, responsible for tasks relating at least to the selection of operations.

Relative score: no change/ no change for urban ITI

2.2 Legality and Regularity of transactions

Overall score: A

The ESI Funds delivery system has many features supporting legality and regularity of transactions, and is **very strong** in this regard.

First, it sets out the obligation and corresponding requirements for management and control systems to ensure that only eligible expenditure which complies with the **applicable EU** is reimbursed by the ESI Funds. To this end, MS and MAs have to adopt measures to guarantee the proper set-up and functioning of management and control systems ensuring the legal and regular use of the Funds. These systems are verified by both national and EU authorities (AAs, EC, and ECA). More generally, an audit strategy to ensure the compliance with the ESI Funds Regulations and other EU and national legislation (e.g. state aid and public procurement) has to be defined and annually updated by AAs, and in accordance with this strategy both MCS and operations are audited. In addition, the Commission also has the power (respecting the principle of proportionality stated in the CPR) to carry out on-the-spot audits, while the ECA conducts controls and assessment on an on-going basis as well.

Second, as regards **financial execution and control**, a reporting structure and frequency defined by the CPR for reporting at programme level to the Commission allows for monitoring of expenditure three times per year (art. 112 CPR). For reporting by beneficiaries on specific operations, reporting structures and frequencies are defined by the MAs and should allow for proper financial management of funds, while the range and type of supporting documentation to be requested from beneficiaries for controls should be based on a risk assessment of each type of beneficiary.²³ In the regulations and programmes, detailed guidance is provided regarding the type of actions and type of expenditure that can be financed, and separate accounting systems are required, also at beneficiary level, in order to trace all transactions relating to an ESI Funds operation and thus mitigate possible fiduciary risks (see below). Moreover, in the 2014-2020 programming period the possibility for the Commission to impose net financial corrections (i.e. cancel a part of the Member State's financial envelope) was extended in order to mobilise the Member States in ensuring the legality and regularity of the expenditure. The performance of the operations is verified by the MAs on the basis of the reports submitted from the beneficiaries and possibly field visits, as well as during the on-the-spot checks on delivered actions and outputs carried out by the AAs and the EC.

Finally, the system pays special attention to **fiduciary risks** as MAs, based on risk assessment and monitoring, have to put in place and regularly review effective and proportionate anti-fraud measures, for which the EC provides guidance.²⁴ Such measures have been introduced in the 2014-20 programming period together with

²³ EGESI Funds_14-0010-final.

²⁴ EGESI Funds_14-0021-00. Specific attention is provided in the annexes to the assessment of fraud and irregularities risks related to the use of grants based on real costs.

other provisions to further strengthen legality and regularity. They include: (i) the request to MAs to draw up a management declaration on the functioning of the systems, and legality and regularity of transactions; (ii) the request to both CAs and AAs to issue their opinion on accounts (for example in terms of their completeness, accuracy, and veracity); (iii) the need to fulfil the ex ante conditionalities, which also ensure the presence of national regulatory frameworks compliant with EU legislation in the key areas of the ESI Funds interventions.

Overall, the analysis of the different elements of the control system seems to confirm evidence from the 2007-2013 programming period: their design is adequate to ensure legality and regularity of expenditure,²⁵ especially when grants based on real costs are used, as also stakeholders interviewed confirmed.

However, the same rules that enhance **legality and regularity can lead to some weaknesses of the system** in terms of simplification (see section 2.6).

Box 2 - Specific strengths and weaknesses of other ESI Funds DMs

Grants based on SCOs

Since SCOs weaken the link between the expenditure and the reimbursement from the EU budget, some concerns may arise from the fact that SCOs will make it more difficult – if not impossible – to fully assess individual expenditure items. This entails disadvantages in terms of fiduciary risks and fraud detection, in particular in the case of flat rates, where the reimbursement is input-based, but without any link to the actual expenditure. In the case of lump sums and unit costs, there has to be traceable, verifiable proof that a given service or goods was actually delivered.

However, these concerns may be exaggerated, as confirmed by the European Court of Auditors which has recently stated that by "making it easier to justify the expenditure, SCOs not only reduce bureaucracy, but they also reduce the risk of committing errors. This has been amply demonstrated by the fact that the European Court of Auditors (ECA) has, for three consecutive years, found no quantifiable errors when examining transactions under SCOs in its ESF sample. This has led the court to state in its conclusion that SCOs are less error prone than real costs".²⁶

Beneficiaries and MAs face legal uncertainties as the SCOs' calculation method may be challenged at any point in implementation by a national or EU auditor, this leading to a systemic irregularity and subsequent financial corrections across the whole population of the operations affected.²⁷ As regards lump sums and standard scales of unit costs, the approval procedure of the calculation method through delegated acts under ESF Regulation (art. 14) can help to address the issue, avoiding additional scrutiny from the AA, once the calculation method has been shared with and approved by the EC. However, such procedure is still complex and time-consuming.

Unit costs and lump sums envisage the detailed verification of actual outputs and results, facilitating the assessment of performance. It should also be underlined that both the selection of the projects as well as, the achieved products/services have to be in line with the EU rules and principles.

Relative score: + especially for lump sums and unit costs

JAPs

Due to the obligatory appraisal of JAPs by the EC, many issues linked to the calculation method which are causing legal uncertainty for MS as regards SCOs, can be minimised or eliminated entirely.

When it comes to financial control and performance audit, the JAP's assessment leads to similar conclusions as to those for lump sums and unit costs, i.e. they are stronger in terms of performance, as they place outputs and results at the forefront. For JAPs this is further amplified by the fact that the whole JAP is managed on the basis of SCOs and including results is obligatory (which is not the case for grants based on SCOs).

In terms of fiduciary risks and fraud detection, JAPs face similar disadvantages to lump sums and unit costs.

Relative score: +

²⁵ European Commission (2016), Ex post evaluation of Cohesion Policy programmes 2007-2013, WP 12, Delivery System, Final Report.

²⁶ The ECA report: "Simplified cost options in the European Social Fund. Promoting simplification and result-orientation", p. 7.

²⁷ Even though the EC strongly recommends that the MA and AA work closely together on the definition of the calculation method, the AA's acceptance of the method before the implementation of operations is not required by the CPR. Furthermore, it should be underlined that acceptance of the methodology by the MS' AA does not prevent the EU auditors from challenging it.

CLLD

Creating another institutional layer (i.e. LAG), with actors who may lack the necessary skills and capacities, may translate into more irregularities and errors than in the standard grants based on real costs. This risk is amplified by the reported lack of sufficient clarity in the segregation of responsibilities.

Relative score: -

ITIs

In the case of ITIs in sustainable urban development, the requirements regarding IB are the same as for the normal system.

Relative score: no change/ no change for urban ITI

2.3 Sound Financial Management

Overall Score: B

The ESI Funds system is **strong** as regards Sound Financial Management in terms of efficiency, effectiveness, and economy. However, there is a margin for improvement.

As regards **efficiency**, many EU rules encourage the efficient use of ESI Funds support,²⁸ while monitoring and evaluation arrangements should allow the EC and MAs to assess to which extent the costs involved are justified, given the results/changes which have been achieved in the past. However, the relation between costs/investments and output/results is not systematically addressed in the monitoring and reporting arrangements and the system's key sanctioning mechanism (the "automatic decommitment rule") is focused on the timely use of financial resources.

Effectiveness is encouraged - and has been further reinforced in the current programming period - by specific measures placing emphasis on objectives' achievement and result-orientation.

First, programmes have to be drafted on the basis of -prepared intervention logic. The provisions related to the intervention logic require:

- a. clear objectives, linked with the Europe 2020 strategy and the relevant CSRs. Two thirds of the CSRs in 2014 were relevant to ESI Funds investment (namely to the ERDF, CF and the ESF) and they have been integrated in the programme priorities of the MS, covering reforms in research and innovation, energy and transport, health care, labour market participation, education, social inclusion and reform of the public administration;²⁹
- b. a clear link between the programme indicators and the types of projects to be supported, further strengthened by the obligation to establish performance framework consisting of milestones and targets in terms of financial, output and (where appropriate) result indicators;
- c. strengthening of the EU common indicators to measure progress and results;
- d. the obligation to present in the programme guiding principles to inform the selection of operations.

Second, ex ante conditionalities support a strong and reliable framework for investments such as (i) ex ante conditionalities related to public procurement legislative rules, or (ii) those aiming at providing a sound strategic basis for EU

²⁸ Such as: (i) the additionality principle (which aims at securing the EU added value of the funds by preventing mere substitution of the national resources, (ii) the provisions on revenue-generating projects, ensuring that such projects are not over-subsidised, and (iii) the need to conduct a thorough cost-benefit analysis for every major project (i.e. projects receiving ERDF and CF support of over 50 mln EUR - or over 75 mln EUR in the case of transport projects).

²⁹ Source: European Commission (2016), *European Structural and Investment Funds 2014-2020 - Summary Report of the programme annual implementation reports covering implementation in 2014-2015*.

support, e.g. smart specialisation strategies or project pipelines for transport infrastructure).³⁰ The main strength of this mechanism is that if MS fails to satisfy ex ante conditionalities, the Commission may suspend interim payments to the relevant programmes.

Third, the performance framework represents another incentive for effectiveness, awarding additional funding (the performance reserve) to the programmes that achieved the milestones fixed for the end of 2018. Another assessment of performance will take place at the programme's closure when serious failures to achieve the targets set for end-2023 may lead to net financial corrections, i.e. a recovery of some EU resources by the EC from the MS. It should be noted that most investments supported by the ESI Funds are multiannual and their results are not realised at the end of 2018, this making outputs a more reliable basis for the assessment of progress (as long as the intervention logic for the whole programming period is sound) in the performance review. Performance framework has the purpose of linking budgetary decisions to the actual performance of the policy.³¹ Full impact of this new instrument may only be judged at the closure of the 2014-2020 programmes.

Fourth, criteria for project selection should encourage the selection of operations that are expected to contribute to policy objectives and programme's results. However, the limitations of the EC's role – as a donor – in this process may make it difficult to ensure that the selected projects' have a high EU added value. Not being directly involved in the adoption of the selection criteria of the operations or their selection, the EC cannot prevent (with the exception of major projects)³² co-financing of projects of questionable quality, unless the incurred expenditure is not eligible or irregularities are detected.³³ Stakeholders interviewed underlined that project selection may not only be driven by strategic orientation and effectiveness, but also by absorption capacity and risk aversion (i.e. selecting projects and actions that have a low risk for irregularities and substantial uptake of financial resources in order to avoid automatic decommitment), as it was also the case in the previous programming period.³⁴

Fifth, the arrangements foreseen for the monitoring and evaluation phase can also contribute to enhancing effectiveness. Progress in the achievement of common and programme-specific indicators and quantified target values has to be monitored and reported in the AIR, while ongoing and ex post evaluations have to assess the effectiveness of the programmes. In addition, the obligation to review progress by the monitoring committee – which adopts the AIRs – creates an opportunity for a wider debate on performance and implementation issues (this aspect is further explored in the context of *Good governance*).

Economy was also strengthened in the current programming period by introducing an ex ante conditionality for public procurement, in order to ensure that the best "value-for-money" projects are selected.

³⁰ As illustrative evidence, Estonia developed and improved the Public Health Development Plan 2009–2020 (ex ante conditionality 9.3 for the health sector), containing a framework to enhance the access to health care systems. In Romania, the national strategy for reducing early school leaving (conditionality 10.1) was adopted with the objective of increasing school attendance and reducing early school leaving, through a robust monitoring mechanism. (Source: "ESI Funds Annual Summary Report 2016" COM(2016) 812 final).

³¹ OECD (2009), "Governing Regional Development Policy: The Use of Performance Indicators".

³² 'Major Projects' are large-scale infrastructure projects in transport, environment and other sectors (such as culture, education, energy or ICT), receiving more than 50 mln EUR in support through the ERDF and/or CF, and therefore being subject to an assessment and a specific decision by the European Commission (Source: DG REGIO website).

³³ As mentioned in section 2.4, the EC does participate in the MC, but with no voting right. Therefore, it can only advice on the selection criteria.

³⁴ European Commission (2016), Ex post evaluation of Cohesion Policy programmes 2007-2013, WP 12, Delivery System, Final Report.

Box 3 - Specific strengths and weaknesses of other ESI Funds DMs

Grants based on SCOs

In comparison to grants based on real costs, standard scales of unit costs and lump sums place greater emphasis on the justification of costs and delivered effects (in terms of actions, outputs and results) at the level of operations.

Flat rates do not present specific advantages: reimbursement is not linked to output or results and they may not be a good proxy of the actual costs incurred.

Relative score: no change for flat rates / + for lump sums and unit costs

JAPs

JAP requirements in terms of definition and monitoring of milestones and outputs/results indicators have the potential of performing better than grants based on real costs or SCOs (both flat rates and lump sums and unit costs): reimbursement for the whole operation (which may consist of many projects) is linked not only to outputs but also to results, which are the JAP's obligatory element.

Relative score: +

CLLD

The possibility to combine different Funds in one DM implementing a local development strategy has the potential to produce a better outcome and to be more effective in finding sustainable solutions to local issues, thanks to the involvement of local stakeholders under the supervision of the MA.

Relative score: +

ITIs

The DM is very similar to CLLD, as both aim at implementing an integrated local strategy that may produce better outcomes than several actions disaggregated. However, there are no regulatory requirements in terms of the definition of the strategy.

Relative score: no change

2.4 Good governance

Overall score: B

The ESI Funds system is **strong** but with some areas for improvement in terms of responsiveness and flexibility.

Transparency is pursued by the current systems through different arrangements:

- publicity and communication requirements, such as: (i) public availability and reporting of programme financial and implementation information, through AIRs (art. 111 CPR); (ii) maintenance of a list of operations by operational programme and by Fund, to be publicly accessible through websites (art. 115(2) CPR); (iii) publication of budgets and establishment of the website <https://cohesiondata.ec.europa.eu/>, where data on progress are readily available;
- ex ante conditionality on the effective application of Union public procurement law, ensuring transparent contract award procedures;³⁵
- involvement of socio-economic stakeholders through a strengthened partnership principle (i.e. adoption of the Code of Conduct) and the setup of a monitoring committee, which adopts both selection criteria and AIRs.

Also **ownership** is deemed to be very good, due to the fact that programmes are formulated and implemented at national, regional or local level: the possibility to take into account the relevant policies and objectives, specific multi-level governance system in a given MS, division of responsibilities, and national co-financing - all support ownership at MS level. Policy ownership has been confirmed by the ex post evaluations of 2000-2006 and 2007-2013 programming periods that pointed to the positive influence of Cohesion Policy on modernising institutions which are responsible

³⁵ Annex XI of CPR.

for development policies at all levels.³⁶ For example, in Poland and Italy a spill-over effect was identified, where good practices regarding strategic programming, monitoring and evaluation which stem from the ESI Fund public administration were picked up by the non-Funds parts of the public administration. Also the partnership principle fosters policy ownership, as relevant stakeholders are involved in both programming, also through the ex ante evaluation process, and implementation through the Monitoring Committee. However, to which extent partners are involved and indeed feel policy ownership may depend on the programme and the phase of the programme cycle.³⁷ The introduction of the European Code of Conduct on partnership is expected to lead to a more consistent approach in applying the partnership principle across MS and programmes.

As for **flexibility**, the ESI Funds delivery system cover and is adaptable to a wide range of sectors, thematic fields of intervention and types of beneficiaries. Paired with the shared management method, the ESI Funds offer many opportunities to design a tailor-made policy mix for a given MS, region, local community or target group. In addition, selection criteria can be adjusted to the local conditions and the needs of the target groups.³⁸ Finally, as the EC may request MS/MAs to adapt the PAgres and the programmes in order to better address new challenges pointed out in the new relevant CSRs, the system proves to be flexible also in this regard.

Whereas the features of the system allow for flexibility, they do not seem to fully support its **responsiveness**. The delivery system allows MS to introduce duly justified revisions to the PAgres and programmes (art. 16, 30 CPR), such as reallocating financial resources to thematic fields or operations that can better contribute to the performance of the programme (for instance, in terms of financial implementation, achievement of results and impacts, relevance to the local needs of intervention), as it was also the case in the previous programming period.³⁹ However, these revisions require approval by the Commission, which can take several months.⁴⁰ Bearing in mind the length and wide content of the programming documents, this process can be very work- and time-intensive, especially if both the PAgres and the programme(s) need to be revised or when there is a major disagreement between the EC and the MS/MA.

Box 4 - Specific strengths and weaknesses of other ESI Funds DMs

Grants based on SCOs

Compared to grants based on real cost, the responsiveness and flexibility of SCOs are weaker. Both establishing the calculation method and adapting/amending it is a lengthy and complex process that may hamper and delay implementation.

Another major drawback is the limit in using SCOs in case of public procurement procedures, which could cut out a significant number of operations, especially under ERDF and in the case of large infrastructure projects.

Relative score: -

JAPs

³⁶ Source: European Commission, *Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the ERDF, ESF and the Cohesion Fund (WP12)*, p. 154).

³⁷ In the case of the 2007-2013 Rural Development Plans, the involvement of stakeholders in the design process was deemed sufficient in most of the cases, with positive effects in terms of ownership. Yet, the size and heterogeneity of the composition of the monitoring committee lead to a relatively low ownership during the implementation of Rural Development Plans (source: European Commission (2015), *Synthesis of ex ante evaluations of rural development programmes 2014-2020*).

³⁸ European Commission (2016), *Ex post evaluation of Cohesion Policy programmes 2007-2013, WP 12, Delivery System, Final Report*.

³⁹ European Commission (2016), *Ex post evaluation of Cohesion Policy programmes 2007-2013, WP 12, Delivery System, Final Report*.

⁴⁰ Articles 16 and 30 of CPR. Specifically, the EC has to approve requests for amendment of a Programme as soon as possible and anyway no later than three months after their submission by the MS provided that all observations made by the Commission have been adequately taken into account.

In terms of responsiveness, the obligation of having the JAP approved by the Commission, may imply long, technical negotiations between the MS and the EC and consequently result in significant delays in launching JAPs. Likewise, the process for amending the JAP may be lengthy, especially if changes to the calculation method for SCOs are proposed, as the request would have to be assessed first by the JAP steering committee and then submitted to the EC for adoption.

In terms of flexibility, JAPs may not be applicable in sectors which require multiannual investments in order to achieve outputs, while the results may need even more time to become detectable or where the projects are highly versatile. Furthermore, JAPs cannot be used for investments in infrastructure.

On a positive note, the decentralised management of a JAP results should result in increasing the ownership of JAP by its beneficiary.

Relative score: -

CLLD

The obligatory bottom-up approach and the direct involvement of local stakeholders in the design of strategies and selection of the projects contributes to policy ownership. CLLD is also flexible in responding to local diversity and complexity, as it can be extended to different funds and cover different sectors and challenges.

However, in terms of responsiveness, setting up LAGs, developing the CLLD strategies, selecting them, implementing and adapting the strategy (if necessary) is a lengthy and complex process.

Relative score: +

ITIs

The DM is very similar to CLLD, as both present a high level of ownership, due to the possibility of combining different funds and pursuing different objectives defined at territorial level.

However, the bottom-up approach is not a necessary element of every single ITI, with the involvement of local actors (i.e. urban authorities) mandatory only in the case of ITI for sustainable urban development

Relative score: no change/ + for urban ITI

2.5 Simplification

Overall score: C/B

The ESI Funds system is just **satisfactory** in terms of administrative costs and burden. However, the simplifications introduced by the Omnibus regulation should improve its score to a **good** one.

The ESI Funds delivery system supports **simplification** from the EC perspective. Indeed, programmes and projects could not be effectively and efficiently managed in such a detailed manner directly by the EC, given the EU budget allocated to ESI Funds and the sheer number of programmes, projects and beneficiaries.

However, although the basic mechanics of the system are well-known and many national and regional institutions have gathered the necessary skills and created managerial tools to apply it on the ground, the whole set of ESI Funds principles, rules and procedures is still deemed to bring high administrative burden on the MS authorities and beneficiaries of the Funds. Indeed, a lot of administrative burden is related to: (i) a high number of requirements in primary and secondary EU legislation and guidance, as well as national and even regional rules and guidance; (ii) a great number of actors involved at the EU, national, regional and local level, covering the programme authorities, other public bodies, beneficiaries and other stakeholders. Furthermore, as in the case of the previous programming period,⁴¹ additional administrative burden may stem from the “gold plating” practice in some MS.⁴²

⁴¹ European Commission (2016), Ex post evaluation of Cohesion Policy programmes 2007-2013, WP 12, Delivery System, Final Report.

⁴² “Gold plating” is the practice of national bodies going beyond what is required in EU legislation when transposing or implementing it at MS level. Examples of gold plating include the setting of higher standards than those minimum requirements set by the EU and increased information obligations such as higher frequency of reporting or request of information that has already been provided. See European Commission (2017), Use of new provision on simplification during the early implementation phase of ESIF for an in-depth analysis of gold plating.

The administrative costs and burden can be perceived as quite significant for both beneficiaries and MAs/CAs/AAs in the case of grants based on real costs. Specifically, the control system is deemed quite complicated and burdensome, because of provisions related to the collection and retention of documents and proof of expenditure, and to the calculation of reimbursable costs, especially in the case of staff costs (for instance related to reimburse overheads and bonuses). In some cases, the administrative burden is seen as a disincentive to beneficiaries' participation, and the need for a simpler system is underlined and confirmed by stakeholders, even at the cost of some risks.

In order to further address the need for simplification, the current delivery system contains elements (either newly introduced or confirmed from the previous programming period) aiming at further reducing the workload and simplifying the procedures in implementing the ESI Funds, including: (i) the provisions of common principles for cohesion policy, the rural development policy and the maritime and fisheries policy in terms of strategic planning, eligibility and durability, which are complemented with fund specific rules; (ii) the introduction of the eCohesion principle (art. 122 CPR), ensuring that all exchanges of information between beneficiaries and a MA, a CA, an AA, and IBs can be carried out by means of electronic data exchange systems; (iii) the definition of audit procedures that take into account the proportional control of programmes (art. 148 CPR) and the principle of proportionality in audit and control procedures, with a single-audit principle between the work of the MS AA and EC audit (art. 75, 128 CPR); (iv) the reduction in administrative burden related to reporting requirements, as lighter and more automated annual reporting would decrease the burden of producing the annual report (art. 25 and 50 CPR).

The European Commission published a study estimating the reductions generated by 21 selected simplification measures.⁴³ In comparison to the previous programming period, such measures are expected to reduce the administrative costs for the programme authorities to 23 bln EUR, i.e. to 4% of the ESI Funds' budget. In addition, the administrative burden for the recipients is expected to be reduced to 11-12 bln EUR, equivalent to 2% of the ESI Funds' budget. Interestingly, according to the above-mentioned study, the five previously cited simplification measures are most promising for the reduction of both administrative costs and burden: (i) SCOs; (ii) e-cohesion; (iii) simpler rules for revenue-generating projects, (iv) proportionate on-the-spot checks, and (v) the harmonisation of rules.

It is worth to highlight that a wider use of SCOs and the introduction of JAP were also supposed to engender simplification for both the beneficiaries and the authorities. However, such DMs are not widely used, and their take-up has been especially low in the ERDF and Cohesion Fund programmes (the above-mentioned study estimated that in total only 2% of these programmes is covered by the SCOs). The obligatory use of SCOs for small projects in the ESF has provided a much needed push at least in this area (estimated at 36% of the ESF programmes' budget) and that gives some hopes that if this obligation is also expanded to cover other funds, this may gain some ground.⁴⁴ However, the JAPs have still not been implemented in practice.

During the preparation of this study, the Council and the European Parliament reached an agreement on the Omnibus Regulation that will introduce a number of important changes in the Financial Regulation as well as in the basic legal acts for specific Union instruments, including for the ESI Funds. The amendments to the CPR proposed by the Commission were based on the recommendations of the High Level Group of

⁴³ European Commission (2017), Use of new provisions on simplification during the early implementation phase of ESIF.

⁴⁴ *Ibidem*.

Independent Experts on Monitoring Simplification for Beneficiaries of the ESI Funds⁴⁵ as well as on the first experiences with the programming and implementation of the 2014-2020 programmes. The agreed version of the Omnibus Regulation includes the following improvements:

- the single audit thresholds were doubled;
- A number of changes that will promote the use of SCOs:
 - possibility to use SCOs for the whole operation was introduced also for operations parts of which are subject to public procurement;
 - deletion of the upper limit for lump sums;
 - obligatory use of SCOs for small ERDF and ESF operations (but subject to transition period);
 - simplified ways to establish SCOs (draft budgets, expert judgment).
- New option of payments based on conditions (to be set out in a new, dedicated delegated act);
- Speeding up and simplifying the re-programming process by introducing an annual cleaning-up of the Partnership Agreement to reflect the changes in the programmes;
- Clarification and new possibilities as regards eligibility based on location (Article 70 CPR), which used to generate a lot of implementation questions from the Member States;
- For the major projects, a deadline was established for the independent quality review and a possibility was introduced to declare expenditure once the IQR starts.

Of course the final simplification effect of these changes depends on how much of the options is actually taken up by Member States in their day-to-day management of programmes, but since they targeted many weaknesses identified above, there are fair chances that they may significantly improve the situation, hence the score for the ESI Funds may improve throughout the course of 2014-2020.

Box 5 - Specific strengths and weaknesses of other ESI Funds DMs

Grants based on SCOs

The design, structure and requirements of SCOs produce a high simplification in the process (in terms of time, effort and paperwork) for MAs, AAs, and beneficiaries. In particular, the DM reduces the workload during the payment phase, and eases the process in terms of requirements for beneficiaries and controls from the authorities. At the same time, the workload associated with setting up the calculation method and the interpretation issues can be significant during the programming phase.

Relative score: +

JAPs

A JAP allows for less administrative burden/control during the implementation phase, as in the case of SCOs based on lump sums and unit costs. In addition, since the whole operation is based on SCOs only, there is no need for using structures and procedures typical for grants based on real costs, while this might be the case when a beneficiary uses both SCOs and real costs.

However, the workload associated with setting up the JAPs can be a weakness during the programming phase, but the acceptance of JAP by COM may provide greater legal certainty for the calculation method compared to SCOs.

Relative score: +

CLLD

The mechanism is deemed more burdensome and difficult to implement than grants based on real costs, because of: (i) the demarcation of Funds, territories, organisational responsibilities, which is complex in

⁴⁵ http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/high-level-group-simplification/

terms of management and coordination; (ii) the amount of paperwork required by some administrative bodies at national or local level (e.g. by LAGs) and the procedures of checks and approvals at different levels; (iii) the lack of experience at local level, especially in the case of areas that have not already experienced CLLD approach in the previous programming period.

Relative score: -

ITIs

There are no differences with IBs under real costs.

Relative score: No change

2.6 Trade-off between legality/regularity and simplification

The assessment of the ESI Funds delivery system and grants based on real costs has identified a trade-off **between legality/regularity and simplification**. Over the programming periods the EU rules and guidelines have become more detailed, but it seems that in many areas this did not improve the legal certainty for MS authorities and beneficiaries. If the main concern of programme authorities is the regularity of expenditure (as it is defined at the moment) and swift financial absorption, the programme authorities acquire a tendency of generating a growing number of additional controls, checks and rules. This may lead to an increased administrative burden on both the beneficiaries and the programme authorities.

Box 6 - Specific trade-offs of other ESI Funds DMs

Grants based on SCO

Within simplification: the significant reduction of administrative burden in the payment process and in the control and audit is counterbalanced by a stronger effort for MAs in the programming phase for designing and testing the calculation method, cooperating with AAs, and implementing a new control system.

Between legality/regularity and simplification: when the method used for the SCOs is approved, the error rate is minimised and controlling procedures are easier for authorities. However, if the method is rejected/challenged after the start of the operations, major financial corrections could be a result. In addition, traceability of every euro to every invoice is significantly limited (if not made impossible) and therefore fraud detection may be more difficult.

Between simplification and good governance: once the calculation method is established, it may be difficult to revise and adjust in order to respond to the changing environment.

JAPs

Within simplification: just as it is the case for SCOs, the significant reduction of administrative burden in the payment process is counterbalanced by a stronger effort for MAs in the programming phase.

Between simplification and legality and regularity: JAPs generate less administrative burden/control during the implementation phase (as in the case of SCOs). This might have counter effects in terms of legality and fraud detection, resulting in lighter control and lack of a direct link between reimbursement and actual expenditure.

Between sound financial management and simplification and good governance: the structure of JAPs give them strength in terms of effectiveness and efficiency, potentially increasing result-orientation. However, such positive aspects come at the expense of an increased complexity, potentially discouraging MAs and potential beneficiaries from using it (the novelty of the DM in comparison with grants based on real costs is probably also an important factor). In addition, JAPs add an additional layer of negotiation with the EC, which makes them less responsive. As in the case of SCOs, once the calculation method is established, it may be difficult to revise and adjust it in order to respond to the changing environment.

CLLD

Between good governance and accountability: the bottom-up approach and the involvement of actors at different levels, among the main strengths in terms of good governance, may have a negative impact in terms of accountability, producing an unclear definition and allocation of responsibilities;

Between good governance and simplification: the bottom-up approach and the involvement of local actors, while strengthening good governance and building on the unique local knowledge of the challenges and circumstances, increases complexity and administrative burden, and requires extra administrative capacity.

ITIs

Between good governance and accountability: the same as for the CLLD. In addition, the obligatory setting up of an IB and delegation of given tasks to the urban authorities may present a challenge for good governance, as these actors might not have and the necessary expertise to manage and implement the urban ITI.

Between good governance, and simplification: the same as for the CLLD.

2.7 Current use of the different DMs in the areas supported by ESI Funds

The EU legislation contains only few explicit limitations in terms of scope and policy coverage for grants based on real costs, allowing a wide differentiation in their use for pursuing and addressing a wide range of objectives and policy fields.⁴⁶

Grants based on real costs are used for many types of projects and beneficiaries, especially when financial returns are not realistic or rather limited, or when they are difficult to reconcile with the overall objective of supporting economic, social and territorial cohesion, especially in underdeveloped areas or when support is directed towards disadvantaged groups.⁴⁷ Still, other DMs can be as adequate as grants, or even more adequate than them, with regard to other specific thematic fields of intervention, as discussed in the rest of the section.

Investment in human capital

Grants based on real costs/SCOs appear to be the most used when implementing interventions related to service delivery in education, vocational training and labour markets. Specifically, the use of lump sums and standard scales of unit costs can be particularly suitable since: (i) actions, outputs and results of these interventions are easy to define and monitor; (ii) reliable data on the past actual costs should be available and should facilitate the definition of the calculation method. Following the same reasoning, also JAPs could be used in this thematic area.

If investments in human capital are included in multi-thematic and multi-sectoral strategies, also ITIs and CLLD are suitable, provided that the interventions refer to a designated territory.

Productive investment

Given the wide range of interventions under this thematic field, some distinctions are needed. In the case of business support, both grants (real costs/SCOs) are used. Since the overall outcomes of business support interventions are usually strongly affected by synergies with other policies and strategies, CLLD, ITIs and JAPs are also particularly suitable, combining types of intervention and financial resources coming from different funds and/or programmes. As regards research, development and innovation (RDI), grants based on real costs can be a better option for innovation projects, considering the higher risks involved in the investments and in the achievement of expected outputs and results, but the JAP-type of intervention could also be explored.

Infrastructure and sustainable development

Overall, grants based on real costs are the most used DM for large-scale infrastructure projects. Given the significant concentration of some types of infrastructure in urban areas (e.g. airports, public transport hubs, health infrastructure), ITIs also appear as a suitable DM, provided that grants based on real costs are used within the ITI.

On the contrary, the following DMs may not be adequate: (i) JAPs, since they cannot be used for investments in infrastructure; (ii) SCOs, since they cannot be used for operations which are mostly procured, while a systematic use of public procurement is necessary for the selection of private operators for the construction and management

⁴⁶ See also: Molle, W. (2015), *Cohesion and Growth. The Theory and Practice of the European Policy Making*, Routledge.

⁴⁷ European Parliament (2016), *Research for REGI Committee – Financial instruments in the 2014-2020 programming period: first experiences of Member States*.

of infrastructure. However, this limitation may be reduced as a result of the Omnibus Regulation.⁴⁸

Endogenous development

CLLD and ITIs are the most suitable DMs for interventions in this thematic field, since they are specifically designed for developing and implementing place-based local strategies. CLLD is usually applied in rural areas are involved – thanks to the obligatory EU earmarking for the EAFRD programmes as well as the long tradition of LEADER. Despite the possibility to use the CLLD for ERDF and ESF, this is still a rare situation. However, ITIs are quite popular in the urban areas.

Capacity building

Grants based on real costs appear to be a suitable DM also for projects aiming to build/reinforce the administrative capacity of the authorities involved in the management and control of the programmes, especially if public procurement is used to select private operators supporting them. When capacity building is pursued through training courses or similar actions (such as the exchange of best practices) and public procurement is not used, SCOs can also be a suitable DM. JAPs may also be usable in this field, given the focus on the expected results in terms of capacity building.

⁴⁸ The Omnibus Regulation is the legal proposal presented by the EC that contains changes to the basic EU Financial Regulation and the main EU funding regulations (CPR included), as part of the MFF mid-term revision.

3 THE STRENGTHS AND WEAKNESSES OF THE ALTERNATIVE DELIVERY MECHANISMS IN COMPARISON WITH THE ESI FUNDS

A sample of alternative delivery mechanisms (DMs) has been selected to be mapped and assessed against the ESI Funds delivery system, in order to identify features to be explored in the ESI Funds context.⁴⁹ The selected ADMs have been grouped considering in which domain they are primarily used, as follows:

- **DMs with an international dimension**, focusing on aid delivery in the framework of development cooperation. They include the following DMs used by both international institutions and bilateral donors: WB-OBA; WB-PfR; ADB-RBL; NORAD-PbR; DEVCO; NIF;
- **DMs with a national dimension**, focusing on performance-oriented models and intergovernmental grants.⁵⁰ They include the following DMs used by both European and non-European countries: BCF; GRW; NSPP-NASWD; US BG; PC.

3.1 Key features of the alternative delivery mechanisms

3.1.1 Delivery mechanisms with an international scope of support

The ESI Funds delivery system was compared with selected delivery mechanisms, where financial support is granted by an international donor (or a bilateral one in the case of NORAD-PbR) to a recipient country with the aim of addressing specific development challenges. Due to their international nature, such delivery systems have rules, standards and processes designed to ensure the donor on the aid's effectiveness and efficiency independently from the development challenges, quality of governance and administrative capacity of the recipient countries. As such, they (i) are external to and independent from the public administration of the recipient countries, and (ii) cover the whole policy cycle of a given aid programme.

Output Based Aid – World Bank

Overview

Output Based Aid is a mechanism used by the WB to increase access to basic services (such as infrastructure, healthcare, and education) for the poor in developing countries. It is based on delegating the delivery of such services to a third party (service provider) that receives a subsidy upon delivery. OBA explicitly addresses a funding gap between the cost of service delivery and the user ability and willingness to pay fees for the service.

The mechanism foresees implementation **preconditions**, as the amount of the subsidy has to be defined in terms of unit prices⁵¹ before implementation, as well as a series of other preconditions identified in the preparatory phase of the programme through pre-assessments of risks.⁵² Payments (i.e. subsidies provided by the WB) are based on **outputs** (services) delivered.

⁴⁹ Case studies have been carried out for mapping and assessing the selected ADMs.

⁵⁰ Intergovernmental grants are used in many countries to finance sub-national spending and implement national policies. OECD (2006), *Intergovernmental Transfers and Decentralized Public Spending*, Working paper n.3.

⁵¹ The service provider receives the payment agreed for the specified outputs, regardless of the actual cost incurred.

⁵² Pre-assessments may cover the project soundness, financial management, monitoring and evaluation provisions, implementation and institutional arrangements.

The mechanism has **quite a wide scope**, since it allocates funding directly to specific projects or groups of projects, not targeting a whole programme. It also shows quite a **wide policy coverage**: mainly used for interventions related to access to infrastructure services and human capital, it can be applied in a wide range of sectors where explicit/implicit user fees are used, including energy, water, waste management, telecommunication, and health.

The management is **recipient-driven**, with the WB responsible for identifying, assessing and designing OBA operations through a global partnership programme named Global Partnership on Output-Based-Aid (GPOBA), and the beneficiaries, who can be either public or private actors, responsible for implementation. Project selection is based on an assessment of the suitability of support. For each project, the beneficiary has to comply with financial reporting requirements. Financial and performance **control** is performed by an independent agent, the Independent Verification Agent (IVA), endorsed by the donor. Disbursement of funds is conditioned upon **verification of results** by the IVA. **Risk assessment** is performed as part of the pre-assessments carried out by the donor.

Relevant features per assessment criteria and sub-criteria

Accountability

Clear allocation of responsibilities and liabilities is ensured by conditions duly signed in official documents, prior to implementation (**sub-criterion A.1**).

OBA foresees (a) reporting frequency adjusted to the type of intervention, usually quarterly; (b) standardised reporting -avoiding excessive burden for the beneficiaries; (c) clarity of requirements; (d) comprehensive and exhaustive reports, including analyses of efficiency and effectiveness underpinned by relevant monitoring data. A specific feature is the focus of reporting on specific aspects, such as environmental issues, using tailored tools, assessment reports and environmental management plans (**sub-criterion A.2**).

The mechanism foresees the publication of information such as the list of borrowers and subsidies received by each of them; moreover, project documentation is publicly available, with both the donor and the beneficiary responsible for communication and dissemination (**sub-criterion A.3**).

Legality and regularity

As a whole, legality and regularity are ensured through relevant analyses in all phases, including the use of pre-assessments in the programming phase (**sub-criterion B.1**).

Segregation of duties is part of the management and control system of the entrusted partners, which are subject to an ex-ante assessment by the donor (**sub-criterion B.3**).

However, as far as the legality and regularity of the underlying transactions is concerned, OBA is characterised by the donor not being directly involved in their control. Consistently with its output-based approach, the DM includes specific features for performance measurement and outputs verification, which are carried out by the IVAs (**sub-criterion B.4**).

The DM foresees a comprehensive framework to identify, assess and monitor risks, including fiduciary risks. Risks are identified and assessed at the project planning phase, and updated during implementation (**sub-criteria B.2** and **B.5**).

Sound financial management

Although prior to the conclusion of the contract with the service provider there is a thorough analysis of its financial management capacity, the criteria for evaluating financial management performance are not very clear (**sub-criterion C.1**). Service

providers are encouraged to present the most efficient solutions, with the procurement process –based on competitive bidding – usually resulting in efficiency gains and selection of the cheapest solution (**sub-criteria C.1** and **C.3**).

Since payments are based on outputs, OBA is characterised by a strong result-orientation, using result frameworks, and with the potential to incentivise effectiveness through the use of DLIs, with measurable and verifiable indicators representing the most important achievements expected. The framework is setup before implementation and includes: (a) result and output definitions; (b) payment triggers; (c) provisions for financial sustainability; (d) funding sources; (e) role of the private sector; (f) provisions for monitoring and evaluation.

It should be noted that this delivery mechanism allocates funding to a single project or a group of projects, hence it could be difficult to implement programmes with a wide scope or timespan, and/or pursuing long-term socio-economic objectives in an integrated manner (**sub-criterion C.2**).

Good governance

The main project documents are published on the WB website, but information on budget and expenditures, IVA reports, and contracts is not accessible (**sub-criterion D.1**).

Ownership is strengthened by the fact that national authorities (beneficiaries) are well engaged and deeply involved in the implementation. In addition, the relation of performance indicators with a broader strategic framework (relevant for national authorities) can further support their policy ownership (**sub-criterion D.2**).

OBA also provides for the possibility of a periodical revision of the most important features, but the preparatory phase reduces the level of responsiveness of the DM, as it requires long negotiations and time to set up the management system (**sub-criterion D.3**). Also in terms of flexibility, the mechanism is limited to thematic areas where explicit or implicit user's fees are applied and expected outputs/results can be measured (**sub-criterion D.4**).

Simplification

OBA is characterised by a simple institutional structure, with one national authority responsible for implementation. However, the costs for the donor to set up the management system are high, with procurement (aligned with WB standards) and verification procedures that may be lengthy and costly for both the donor and the agency responsible for implementation (**sub-criterion E.1**).

Clear requirements, standardised templates, easy-to-use tools for reporting and procedures, as well as strong focus on output verification, mitigate the burden for recipients/services providers, which is further reduced by the shift from the verification of single financial transactions to verification of results (**sub-criterion E.2**).

Program for Results – World Bank

Program for Results is a WB financing instrument to support programmes. It is provided in the form of a loan, credit or grant. Payments are triggered by the achievement of Disbursement Linked Indicators (DLIs), confirmed by a specific verification protocol. The main requirement is the PforR operation to be anchored to a recipient government programme.

Payments are mainly based on **outcomes/results**, and **preconditions** refer to intervention and implementation and address all factors that are critical for the effective implementation of the programme. Similarly to ESI Funds, they may relate to the adoption of strategic documents, improvement of the procedures and capacity building actions. Implementation preconditions also include technical, fiduciary, environmental and social systems risk assessments undertaken by the donor in the

preparatory phase. The fiduciary system assessment covers procurement systems. The ex ante risk assessment is key to approving a PforR operation.

The PforR **scope is wide**, being anchored to a government programme (support is not given to single projects). It potentially addresses all different administrative levels, supporting programmes that may be (i) new or already under implementation; (ii) national, subnational, multisectoral, sectoral, or sub-sectoral in scope; (iii) part of broader, longer-term, or geographically larger programs; and/or (iv) carried out by governmental and/or non-governmental parties.

The DM **policy coverage is wide**, with no restriction on policy coverage, type of investments or economic sector of the supported programmes. PforR has been used for investments in human capital, infrastructure, sustainable development and capacity building in a large number of sectors, such as social, urban and rural sector, health, nutrition and population, education, energy, water, and governance. Some of the operations target more than one sector.

The **management** of the DM is **shared**. The WB is responsible for identifying, designing and assessing the operations, while recipient governments such as a national or sub-national government (or a semi-government institution) are responsible for implementation. A “results framework” specifies the programme development objectives and the relevant DLIs. Monitoring of the programme progress and performance is carried out by the WB through regular supervision, summarised in Implementation Status Reports. The WB **control** focuses on outputs and outcomes/results associated to DLIs. Such indicators are defined for each operation. Moreover, each operation is subject to an integrated ex ante **risk assessment**. DLIs trigger disbursements, becoming key elements in **performance verification**.

Relevant features per assessment criteria and sub-criteria

Accountability

WB-PforR is characterised by a clear allocation and formalisation of responsibilities, with specific tools (such as handbooks) to strengthen responsibilities and liabilities (**sub-criterion A.1**). In addition, there are also flexible reporting mechanisms focused on the achievement of results.⁵³ However, the reporting on the programme action/component level is based on the existing system of the recipient country, which may create the risk of inconsistencies and differences in the information collected (**sub-criterion A.2**). Provisions and requirements for dissemination of results are clearly included in legal documents (**sub-criterion A.3**).

Legality and regularity

Similarly to OBA, WB-PforR includes a series of pre-assessments, carried out by the donor in the programming phase to ensure the legality and regularity of the implementation (**sub-criterion B.1**). Moreover, the DM is characterised by a strong and comprehensive framework for the identification, assessment and monitoring of both technical, fiduciary and environmental/social risks. Each of the assessments identifies potential risks and risk management actions to inform decision-making on the scope and content of programmes (**sub-criteria B.2 and B.5**). Segregation of duties is part of the internal control system (**sub-criterion B.3**).

⁵³ Features related to reporting include (a) flexibility in the frequency of reporting, depending on the type of project and risk assessment; (b) specific tailored tools allowing for an effective monitoring and reporting, such as a solid results framework, an indicator system, programme action plans and risk monitoring plans; (c) reporting requirements stated in legal agreements; (d) integration of reporting procedures into the existing (national or local) government reporting system, thus avoiding the creation of new reporting lines and procedures; (e) reporting procedures linked to the needs of the actors that are going to use the information reported (e.g. for disbursement).

WB-PforR envisages specific features on performance verification, with the possibility for the donor to carry out its own verifications and on-the-spot controls, as well as continuous monitoring and supervision of the implementation, a specific DLI matrix and a verification protocol. However, similarly to OBA, the DM is characterised by a limited involvement of the donor in the control of legality of the underlying transactions (**sub-criterion B.4**).

Sound financial management

The costing methodology used for preparing the expenditure frameworks for the supported WB-PforR programmes is not sufficiently detailed, with possible drawbacks vis-à-vis efficiency (**sub-criterion C.1**).

WB-PforR is characterised by the link of payments to results, together with the use of DLIs and results frameworks to measure the achievement of objectives, all elements that have the potential to increase effectiveness.⁵⁴ In addition, each DLI has a verification protocol, which specifies the definition of the indicator, the measurement unit, verification procedures and the authority responsible for verification. DLIs have to be specific, measurable, and verifiable indicators related to and/or derived from the programme development objectives and the results framework. Even though not all the objectives and associated indicators in the programme results framework are selected as DLIs, the evaluation undertaken by the independent Evaluation Group (IEG) reported that DLIs are often—but not always—well integrated with the results frameworks.⁵⁵ Some DLIs have a final achievement date, and others are achievable during the programme period; some DLIs are scalable (may achieve several values – e.g. km of rehabilitated roads), and others (such as a specific action) are either achieved or not. The average PforR operation has 8.1 DLIs, ranging from 12 (for 4 programme) to 3 (for 1 programme). In 37% of the cases, the DLIs are verified by independent government agencies (e.g. court of auditors) and in 63% by independent third parties (independent auditors, private firms or consultants).⁵⁶ However, their potential may be hindered by *i*) the absence of tools to apply financial penalties for underperformance, *ii*) the fact that long-term objectives are not properly monitored, and *iii*) the fact that DLIs sometimes appear to have been designed to ensure disbursements and are not very demanding (**sub-criterion C.2**).⁵⁷

Finally, no specific features are present in order to safeguard the economy of operations for the donor (**sub-criterion C.3**).

Good governance

The mechanism foresees a series of instruments to increase awareness and transparency, such as the publication of all ex-ante assessments and programme documents, and the verification of results by external agents (**sub-criterion D.1**). The programme implementation, control and monitoring are all responsibilities of the beneficiary country/borrower, this contributing to fostering policy ownership (**sub-criterion D.2**).

The time for setting up the programme depends on the specific context and its complexity. Even if it is possible to adjust approved programmes (e.g. modification of

⁵⁴ The IEG evaluation reported that 45% of the WB financing was committed to intermediate results/outcomes, 21% to outputs, 22% to actions/activities, and 11% to processes (World Bank Group (2016), *Program-for-Results, an Early-Stage Assessment of the Process and Effects of a New Lending Instrument*.)

⁵⁵ *Ibidem*.

⁵⁶ *Ibidem*.

⁵⁷ World Bank Group (2016), *Program-for-Results, an Early-Stage Assessment of the Process and Effects of a New Lending Instrument*. Available at: <https://ieg.worldbankgroup.org/Data/Evaluation/files/program-for-results-full.pdf> p. 1.

objectives, results, DLIs), limited administrative capacity of the recipient countries may limit the level of responsiveness of the DM (**sub-criterion D.3**).

WB-PforR policy guidance and operational procedures support flexibility, stating only basic principles and including few uniform rules, thus allowing to tailor the DM to specific needs and sectors (**sub-criterion D.4**).

Simplification

The DM implies high administrative costs for the donor in the preparatory and programming phases, due to the risk assessment process, the identification and selection of DLIs, and the elaboration of DLIs' verification protocol. However, simplification is still supported by the use of the management system of recipient countries (rather than setting-up a new one), the use of simple tools for reporting, and standardised procedures for programme implementation (**sub-criterion E.1**).

The mechanism does not create any significant costs for the final recipients of funds, also thanks to the shift from verification of financial transactions to the control of results, which represents a significant form of simplification for the donor and the recipient country as well (**sub-criteria E.1 and E.2**).

Results-based lending – Asian Development Bank

Results-based lending is a DM used by the ADB, built upon the WB-PforR and Inter-American Development Bank (IDB) Performance Driven Loans. It supports government programmes in the provision of goods and services, acting as an "investment lending" or "policy-based lending" and based on a clear policy framework. The rationale of the DM is that the provision of public services cannot improve through policy actions or investments only, but requires a combination of the two.

Payments are mainly linked to **outputs** and **outcomes/results**, but include expenditure verification. The DM requires that some general and implementation **preconditions**⁵⁸ are fulfilled in order to have programmes approved and support granted. Implementation preconditions include the assessment of specific risks and elements in the preparatory phase, on programme, result, financing, fiduciary, safeguard and operating environment.

The mechanism can support beneficiaries/recipients at national, subnational, and local administrative level, with **a wide scope**, since it supports a government programme that can be sector (or multi-sector) specific, or cross-sector. RBL **policy coverage is quite wide**: it can be used to support several different thematic fields of intervention (infrastructure, human capital, capacity building), designed to adapt to local circumstances in a very wide range of sectors (such as, energy, health, agriculture, water security), but the same restrictions of WB-PforR regarding the procurement of high-value contracts apply.

RBL **management** is **shared** between the ADB, which identifies, designs and assesses the operations, and the recipient government, which can be either a national government, a sub-national government or a semi-government organisation. **Financial control** is mainly carried out by the recipient government that verifies each transaction, while the ADB verifies part of the DLIs, outputs and outcomes/results, as well as expenditure through specific reports. Both ex ante risk assessments and ex-post results assessments are foreseen, based on agreed protocols. **Verification of performance** can be carried out by public, private, semiautonomous, or civil society entities.

⁵⁸ Specifically, pre-assessments are carried out to understand if the following elements are satisfied: (i) is the programme sound? (ii) is the expenditure and financing framework supporting the programme sound? (iii) is the result framework appropriate? (iv) are other institutional and systems aspects (M&E, risk management, environmental and social systems) effective?

Relevant features per assessment criteria and sub-criteria

Accountability

ADB-RBL's Handbooks and policy papers contain information supporting the clear allocation of tasks and responsibilities, defined in a contract and a Program Implementation Document (summarising all main actions, procedures and DLIs) prepared jointly by the donor and the recipient country (**sub-criterion A.1**).

ADB-RBL presents flexible reporting procedures, with requirements (and frequency) adapted to specific implementation needs, and to the fiduciary risk (**sub-criterion A.2**).

As for dissemination, the low involvement of the donor in implementation leaves dissemination under the responsibility of the beneficiaries, without specific guidelines and requirements (**sub-criterion A.3**).

Legality and regularity

Similarly to other international DMs, ADB-RBL is characterised by the presence of pre-assessments carried out by the donor, to ensure the existence of proper conditions for the legal and correct implementation of the programme. However, there is no prescribed framework to control expenditure, which is based on a country-by-country approach and lacks common standard procedures, with controls not focusing on single transactions, but limited to a higher level (**sub-criterion B.1**). Segregation of duties is well developed, being a standard part of the legal framework supporting all ADB operations (**sub-criterion B.3**).

ADB-RBL is using verification protocols - as instruments designed and agreed before implementation - for controlling DLI achievements by external providers. There is a limited (and indirect) involvement of the donor in the control of legality and regularity of underlying transactions (**sub-criterion B.4**).

The DM provides for a comprehensive risk assessment framework, covering a wide range of risks, including fiduciary risks (**sub-criteria B.2 and B.5**).⁵⁹ However, depth of the assessment of fiduciary risks is not always sufficient and makes the DM more suitable for beneficiaries that already received support in the past (**sub-criterion B.2**).

Sound financial management

ADB-RBL foresees efficiency analysis as part of the pre-assessments, but no additional efficiency checks are performed during the implementation of operations (**sub-criterion C.1**).

The DM is characterised by the (i) use of outputs and results/outcomes as payment triggers (DLIs), (ii) the definition of results frameworks and (iii) other key tools (such as a verification protocol for each DLI). These features aim at measuring and stimulating the achievement of objectives, outputs and outcomes, as well as monitoring performance. However, the DM presents the possibility of neglecting some actions not covered by DLIs, the absence of tools to apply financial penalties for underperformance in action implementation, and not enough ambitious targets (**sub-criterion C.2**).

Finally, no specific features are present in order to safeguard the economy of operations for the donor (**sub-criterion C.3**).

⁵⁹ These include Programme risks; Results risks; Financing risks; Fiduciary risks; Safeguard risks; and Operating environment risks.

Good governance

The mechanism is characterised by the absence of transparency requirements for the beneficiaries/recipients (**sub-criterion D.1**). Policy ownership is strengthened by the fact that support is based on beneficiary/recipients' (sector) strategy and support programme (**sub-criterion D.2**).

Under ADB-RBL, only major restructuring of programmes needs to be approved by the donor, strongly improving the responsiveness of the DM during its implementation (**sub-criterion D.3**). Examples of major restructuring are changes to the objective of the programme and the financing allocation, while minor adjustments are represented by changes in the DLIs or procedures (e.g. reporting or monitoring). The latter can be made throughout project implementation, and can be processed within one month at administrative level. In addition, one of the main principles of ADB-RBL is that support is based on beneficiary/recipients' (sector) strategy and support programme, which strengthens policy ownership.

In terms of flexibility, the mechanism can adapt to local circumstances and can be used in principle for any sector (**sub-criterion D.4**).

Simplification

Similarly to WB-PforR, the DM is characterised by the use of the pre-existing management system of recipient countries, ensuring a reduction of the burden and costs related to the creation of a new one. Nonetheless, the mechanism is characterised by high costs of preparatory activities for the donor (including pre-assessments, selection of DLIs, elaboration of verification protocols) (**sub-criterion E.1**).

The shift from financial transactions verification to results verification is associated to a significant reduction of costs and burden for both parties compared to other schemes (**sub-criteria E.1 and E.2**).

Payment by Results – Norwegian Agency for Development Cooperation

Payment by Results mechanisms cover all NORAD financed schemes in which (i) payment is based on achieved results, and (ii) the relationship between payment and results is predefined. They are usually classified into two main groups depending on the recipient: results-based aid (when the recipient is a country/government) and results-based financing (when the recipient is an organisation – a lower-level administrative unit, service provider, and/or user/individual).

Payment modalities vary, depending on the specific project, with a three-phase approach. In the first phase, payments are made based on actions/outputs related to policy development and capacity building measures. In the second phase, national action plans are implemented, which may involve further capacity building, and results-based demonstration actions, and accordingly, part of the payments are for outputs, and part for outcomes. In the third phase, results-based actions can be fully measured, reported, and verified, and payments are only linked to outcomes. Both framework intervention and implementation **preconditions** exist. They relate to safeguards that include procedures and approaches for enhancing positive and reducing negative effects of actions on people and the environment.⁶⁰ Implementation preconditions are related to pre-assessments carried out by the donor, for instance to assess the capacity of the recipients in charge of the implementation.

⁶⁰ Such as, for instance, consistency with objectives of national forest programmes and relevant international conventions; respect for the knowledge and rights of indigenous peoples and members of local communities; conservation of natural forests and biological diversity and enhancement of other social and environmental benefits.

The mechanism targets both the national and the sub-national level, and has a **wide scope**, supporting country-specific strategies and action plans rather than projects or groups of projects. The mechanism appears to be **quite wide in terms of policy coverage**, being used in several thematic fields of intervention (Infrastructure, human capital, sustainable development, and capacity building.), although mostly in the sectors of health and environment.

Management modalities and structures may vary across recipient partners and projects; in the case of the Norway International Climate and Forest Initiative, the management is recipient-driven. Financial management is entrusted to the intermediary bodies (trustee and partner entities); outcomes/results with incentive structure are verified by a third party. The DM does not create any financial risks for the donor, since payments are made after **verification of performance**, considering the delivery of agreed results. Financial control and audit are carried out by the donor and recipients' external auditors. No **ex ante risk assessment** is carried out on the financial management procedures of international organisations when these are recipient partner entities.⁶¹ Reporting on performance indicators is responsibility of national authorities, whose reports are verified and assessed by independent bodies.

Relevant features per assessment criteria and sub-criteria

Accountability

NORAD-PbR is characterised by a clear allocation of responsibilities at all levels through specific agreements (**sub-criterion A.1**). It foresees reporting requirements putting emphasis on the achievement of targeted outputs and results/outcomes, since the donor is mostly interested in the achievement of the agreed outputs and results (which are linked to payments). In addition, the reporting requirements are clear at all levels, covering annual reports presented to steering committees, and progress/final reports of partner entities (**sub-criterion A.2**). Specific and high-standard communication requirements make all relevant information publicly available (**sub-criterion A.3**).

Legality and regularity

Pre-assessments are carried out by the donor to pursue legality and regularity of transactions, ensuring reliable control systems at the trustee and partner entities level. Such reliability is enhanced through dedicated capacity building measures, ex ante assessments, and/or the selection of adequate partners (**sub-criterion B.1**). Fiduciary risks management and segregation of duties are included in the internal control system of the partner entities, and carried out according to their standards (**sub-criteria B.2** and **B.3**).

Even though the lack of direct control at the donor level may represent a weakness, the underlying expenditure is controlled by the trustees/partners during the implementation of operation. At the same time, the large number of trustees/partners involved may pose challenges vis-à-vis the coherence and uniformity of financial control mechanisms. Performance audit is carried out in the form of verification of government reports against sets of pre-defined indicators, with verifying bodies (trustee and partner entities; internal or external control bodies) required to follow the relevant audit standards defined by the donor (**sub-criterion B.4**).

In terms of risk management, trustee and partner entities are allowed to follow their own risk management standard and policies (**sub-criterion B.5**).

⁶¹ In case other organisations are to be engaged as partner entities, their systems, policies and standards, will have to be assessed prior entrustment.

Sound financial management

The mechanism put in place by the entrusted entity does not impose specific requirements to partner entities for project selection, possibly resulting in projects that are not feasible or financially sound (**sub-criterion C.1**), with no specific requirements for safeguarding the economy of operations for the donor (**sub-criterion C.3**).

Similarly to other international DMs, NORAD-PbR is characterised by the link between payments and outputs and results/outcomes, and use of well-defined indicators (e.g. DLIs) together with results frameworks to measure and monitor performance. The DM includes clear objectives, high-level outcomes and conditioning disbursements from the donor, as well as the use of real-time evaluations for improving execution. However, projects funded are not requested to achieve results strongly linked to the high-level outcomes related to the donor payments. There is also little evidence that results-based payments have a significant effect on results, with no sound theory of change behind the mechanism (**sub-criterion C.2**).⁶²

Good governance

NORAD-PbR is characterised by a high level of transparency (with minimum requirements set for consultation between actors involved in the verification reports, publicity of all information on the project and its results, and independent verification of the compliance with communication requirements) (**sub-criterion D.1**), with clearly defined and effective institutional arrangements helping fostering policy ownership (**sub-criterion D.2**). However, there may be a low responsiveness caused by limited capacity in the partner countries (**sub-criterion D.3**). In terms of flexibility, the mechanism could be applied to any sector and type of investment in which there is a shared, measurable outcome (**sub-criterion D.4**).

Simplification

The DM is characterised by low administrative burden for the donor due to the development of a system of independent measurement, reporting and verification of results, to which donor payments are related. In addition, the donor is not burdened with the management of the DM, which is entrusted to a third party. However, there is a significant initial investment to develop the mechanism and create reliable systems (**sub-criterion E.1**).

While the costs for the donor are relatively low after the first phases of implementation (including capacity building), the potential benefits may be hindered by costs and burden falling on recipients due to heavy measurements, reporting and verification requirements. In addition, the use of very high-level indicators, and the fact that payments are linked to outcomes which occur over a longer period of time, can create additional financial burden on the recipient country (**sub-criterion E.2**).

Delegated cooperation – DEVCO

Delegated cooperation envisages grants entrusted by the EC to accredited government bodies from either MS or other third countries.

Payments are linked to **inputs, outputs and results/outcomes**, and no specific **preconditions** are envisaged for the set-up and implementation of the mechanism, apart from those related to the assessment of specific elements. Such assessments are defined pillar assessments, and they are carried out by professional auditors and in accordance with the terms of reference established by the EC.

⁶² The Theory of Change explains the process of change by outlining causal linkages in an initiative, i.e. its shorter-term, intermediate, and longer-term outcomes.

The mechanism has a **wide scope**, since it may cover the implementation of an entire programme or part of it. It also has a **wide policy coverage**, as it can be used to support a wide range of thematic fields of intervention, such as infrastructure, human capital, sustainable development, and capacity building. Also technical assistance, procurement procedures and implementation of financial instruments can be supported. It can cover many sectors, including environmental protection, water treatment, waste, health, sanitation and hygiene, food security, as well as government and civil society and agriculture.

The management is mainly recipient-driven: management and implementation are entrusted to accredited government bodies in MS or other third countries, that are also primary responsible for **financial control**, even if the donor participates in monitoring actions and outputs achieved. **Performance verification** is carried out by the contracting authority (the EC) by reviewing progress and final reports, other monitoring reports and on-the-spot visits. An ex ante assessment (“pillar assessment”) of the entrusted entities is made by professional auditors, also as **risk assessment** of their financial management capacity.

Relevant features per assessment criteria and sub-criteria

Accountability

The DM presents a clear definition of ex ante responsibilities and liabilities (**sub-criterion A.1**) and clear reporting requirements (**sub-criterion A.2**). However, it is characterised by a limited accessibility to programme and project information, and is therefore not able to ensure effective dissemination (**sub-criterion A.3**).

Legality and regularity

The DM is characterised by the presence of pre-assessments to ensure compliance with applicable legislation, carried out by professional auditors (**sub-criterion B.1**). Segregation of duties and fraud detection are internal to the organisations entrusted of the implementation (as for the expenditure control system) (**sub-criterion B.3**), that are also responsible for the annual financial control (**sub-criterion B.4**). Risk monitoring arrangements are not defined in the regulatory provisions, but depend on the specific agreement with the entrusted entity (**sub-criterion B.5**), as it is for fiduciary risks (**sub-criterion B.2**).

Sound financial management

Leverage of funds is facilitated by encouraging multi-donor actions/Delegated Agreements involving joint co-financing from various donors, but efficiency aspects are not clearly addressed, and no specific provisions are made for ex ante/ex-post evaluation to assess efficiency (**sub-criterion C.1**).

DEVCO presents a more limited result-orientation than other international DMs, since direct links of payments to achievements is not complete, and there are no other specific provisions stimulating effectiveness. Nonetheless, effectiveness is enhanced by the fact that some elements are addressed already in the programming phase, with objectives and performance indicators clearly defined and measurable (**sub-criterion C.2**).

Procurement is done according to the rules applicable for the organisations entrusted with a Delegated Agreement, and they usually provide for the selection of the best value for money services, ensuring economy of the mechanism (**sub-criterion C.3**).

Good governance

While DEVCO has specific provisions for communication, transparency is rather tackled on a case-by-case basis by entrusted agencies, without a uniform approach (**sub-criterion D.1**).

Ownership of the partner country is ensured through the same concept of the DM that is based on entrusting implementation to accredited government bodies, with pre-assessments, identification of relevant needs (in cooperation with recipients) and the design of interventions contributing to increasing ownership (**sub-criterion D.2**).

While the length of the planning process may vary, responsiveness is usually ensured, thanks also to the possibility for regular updates based on the annual reports (**sub-criterion D.3**). The flexible nature of the DM allows it to potentially cover any types of intervention (**sub-criterion D.4**).

Simplification

Simplification for the donor (EC) results from the shift of the effort required from a regular follow-up of the implementation (usually carried out by the donor itself) to the use of ex ante assessments, performed by external auditors. In addition, a change in the nature of EC responsibility can be noted, with the shift from implementation tasks to actions rather focused on monitoring and control of the entrusted entities, reducing the administrative burden. Clarity of reporting and control requirements reduce the administrative burden also for the entrusted entities in the implementation (**sub-criterion E.1**). However, the frequency of reporting for the beneficiary leads to a significant and quite disproportionate burden, especially in the case of short contracts (12–18 months) (**sub-criterion E.2**).

Neighbourhood Investment Facility – European Union

Overview

The Neighbourhood Investment Facility is an EU financial support instrument whose primary aim is to support key investment infrastructure projects, by pooling grant resources from the EU budget and the EU MS and using them to leverage loans from European Financial Institutions (and contributions from partner countries).

Payments are mainly linked to **inputs**, and no specific **preconditions** are foreseen, expect those stemming from the pre-assessment carried out by the donor to understand the capacity of the organisations that are supposed to implement the funds.

The mechanism is to be implemented at national level, and with **quite a wide scope**, since funding is provided directly at project/group of projects level. The DM **policy coverage is quite wide**, focusing on a limited number of thematic fields of intervention (key investments in infrastructure and support to private projects) but in several sectors, including transport, energy, agriculture and environment.

NIF **management** is recipient-driven, with the EC delegating tasks to European Public Finance Institutions (PFIs), which are responsible for the implementation in the targeted countries⁶³ and for delivering the support to final beneficiaries. Institutions in charge of the **implementation** are pre-assessed by the donor that is managing the funds.⁶⁴ Primary **financial control** is performed by third parties on expenditure and outputs, with the donor being able to carry out random inspections. Common result and output indicators are foreseen for the monitoring and **verification** of the project **performance**. Both performance and **risks** are managed through ex ante assessments of the organisations to which tasks are delegated, and their measures and monitoring actions per intervention are reflected in the framework agreement.

⁶³ In the specific case study in Armenia, the PFI is the National Mortgage Company.

⁶⁴ The assessment aims at guaranteeing a level of protection equivalent of the one achieved if the donor (i.e. the EU) would manage the funds directly. The organisation passes the ex ante assessment only if a low level of risk is expected.

Relevant features per assessment criteria and sub-criteria

Accountability

A clear definition of responsibilities in the framework agreement exists, especially vis-à-vis Partner Financial Institutions and beneficiaries (**sub-criterion A.1**). Inconsistencies and lack of clarity in reporting were found at the level of the Partner Financial Institutions (**sub-criterion A.2**).⁶⁵ Regular publications and a communication and visibility plan for each project are among the actions that contribute to ensuring a good level of communication and access to information, with an improvement in comparison to the previous programming period (**sub-criterion A.3**).

Legality and regularity

The DM is characterised by the presence of pre-assessments to ensure compliance with applicable legislation, to verify the reliability of the management system of the organisations entrusted with the implementation of the funds (**sub-criterion B.1**). Fiduciary risks are not clearly defined at the start of the implementation (**sub-criterion B.2**). The presence of different levels of control and verification of performance defined in the framework agreement ensures the segregation of duties and fraud detection (**sub-criterion B.3**).

During the implementation of operations, legality and regularity of transactions are controlled by the PFIs. However, such control is subject to the PFI's own procedures and policies, limiting the possibility of a uniform approach across intermediaries (**sub-criterion B.4**).

Risk management is limited to the ex ante assessment of the system of the implementation agency and IB, while risk monitoring depends on the risk management system of the implementation agencies (**sub-criterion B.5**).

Sound financial management

NIF is implemented through an efficient government system, also including a built-in mechanism to leverage loans, with financial contributions from other bodies (**sub-criterion C.1**). The DM also includes the use of a specific and complex feature, such as performance bonuses for beneficiaries, which are attached to micro-loans and energy efficiency,⁶⁶ and that can be an incentive for effectiveness. At the same time, the selection process does not sufficiently take into account the EU priorities in all sectors (**sub-criterion C.2**).⁶⁷ Economy is fostered by the fact that one of the selection criteria defined in the framework agreement is the level of expenditure of the project (**sub-criterion C.3**).

Good governance

In terms of transparency, key information is easily accessible through annual reports, but detailed information at project level is neither always directly available, nor always sufficient (**sub-criterion D.1**).⁶⁸ Responsiveness is good overall, even if some elements can be improved, such as: focus on objectives, relation of priorities to regional contexts (i.e. interconnectivity), attention to sectoral and policy reforms

⁶⁵ This was confirmed by the mid-term evaluation 2007-2013, which presented a recommendation to harmonise reporting, adapting it to NIF requirements and supporting a results-based framework.

⁶⁶ NIF gives beneficiaries the opportunity to get a bonus of a given percentage of the amount invested, if they use a share of the project budget for a specific type of investment (e.g. energy efficient renovation) and/or they achieve a given target/result (e.g. % of energy saving).

⁶⁷ European Court of Auditors (2014), *Special Report; the effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies*.

⁶⁸ This may be the case, for instance, of the minutes of the Boards and the decisions about projects, as well as reports of projects that are not published or available to the public.

(including definition of priorities), harmonisation of strategies with other cooperation instruments (**sub-criterion D.3**). Both flexibility, with the DM covering several sectors and types of beneficiaries (**sub-criterion D.4**), and policy ownership, especially at country and partners level, are quite high (**sub-criterion D.2**).

Simplification

NIF is characterised by a shift in the donor's responsibilities, with entrustment of the management function to third bodies, which contributes to decreasing the administrative costs for the donor during the implementation of the programme (**sub-criterion E.1**). As for the PFIs and final recipients, the administrative burden during implementation varies depending on the specific arrangements between these two parties across NIF operations (**sub-criteria E.1 and E.2**).

3.1.2 Delivery mechanisms with a national scope of support

The ESI Funds delivery system was also compared with selected national delivery systems that are the inherent part of the public administration system of a given country – even if it is a federal one. This means that they operate within the same broader budgetary framework and policy cycle (programming, monitoring, reporting, evaluation, control and audit) as all other public policies of that country. This is the major difference with the international DMs – being part of a wider system, the national DMs rely on many general rules, standards and processes applicable to all policies, instead of creating their own. The relations between the donor and recipient that are part of the same governance and political system are also different than in a situation when the donor comes from the outside.

Building Canada Fund – Canada

Overview

The Building Canada Fund is a national funding programme designed to increase investment in public infrastructures. It can be classified as a *matching grant* (shared funding between federal and local levels, complementing each other). The BCF includes a series of programmes designed to contribute to the achievement of set objectives, and is made up of two components, the Major Infrastructure Components (MIC) and the Communities Component (CC).

Generally, payments are based on **inputs**, but an indirect link to results exists, since the DM foresees the verification of the achievement of a set of objectives at project level. **General framework intervention and implementation preconditions** may be set,⁶⁹ especially considering the pre-assessments carried out by the donor to evaluate the capacity of beneficiaries, as well as other risks for the implementation.

The **scope is defined**, since funding is directly provided at the level of single projects. **Policy coverage is quite wide**, as the DM supports various thematic fields of intervention, including primarily infrastructure, sustainable development and institutional capacity/capacity building, in almost all sectors (including transport, environment health and education).

The **management** of the mechanism differs between the two components of the mechanism, with all types of management (donor-driven, shared and, residually,

⁶⁹ In the Canadian case study, first, an approval of the relevant strategic documents (e.g. Building Canada Plan) is needed at federal level. Second, a specific document (i.e. Infrastructure Framework Agreement) is drafted and signed, specifying the commitment to use resources to implement and support national priorities. Such appropriation of funding is to be approved by the Parliament, while provinces which are going to use the funding must ensure that allocation of funding will respect what approved. Finally, general terms and conditions are to be approved before defining eligibility criteria and priorities for funding, which need to be consistent with the Province Infrastructure Plans and the provisions of Building Canada Plan.

recipient-driven) possible. In the case of BCF-MIC, the management and delivery are centralised (direct management), while for BCF-CC the management is shared. In both cases, however, a contribution is transferred to the beneficiary/final recipient, who is responsible for the project to be completed. Particularly in the case of BCF-CC, a direct involvement of the local level (provinces) is foreseen in the implementation of the mechanism. Project oversight and **financial control** and monitoring (on expenditure and actions) are done by the donor at central (federal) level for the MIC, while for the CC, *ad-hoc* committees in each province are the main responsible actors. Control is foreseen on a set of limited and simple indicators (mainly output-oriented), which are set at central level, together with an early analysis of progress of the projects. Such indicators are key elements for the monitoring and **verification of performance**, which also covers monitoring actions and milestones at project level throughout the whole project cycle. **Risk management** is embedded into pre-assessments, with preconditions used by the donor in the planning and implementation process.

Relevant features per assessment criteria and sub-criteria

Accountability

BCF has a clear definition of responsibilities and liabilities, with policies, handbooks and guidelines to support the understanding of responsibilities and their application (**sub-criterion A.1**). Reporting requirements are very clearly defined, with specific tools and information management systems used to produce reports and enhance complementarities and synergies between the different programmes (**sub-criterion A.2**). Communication actions are continuous and use all available channels (**sub-criterion A.3**).

Legality and regularity

BCF has adequate mechanisms for expenditure compliance and control systems (**sub-criterion B.1**), including fraud detection, defined and imposed through the relevant legislation at national level (**sub-criterion B.3**). It presents a comprehensive framework to identify, assess and monitor risks, making risk assessment a fully-integrated part of the programme planning, the management process and the decision-making process (**sub-criterion B.5**).⁷⁰ Fiduciary risks are monitored within the existing framework for risk identification and monitoring, and with specific guidelines (**sub-criterion B.2**). In terms of financial control, performance audits are an integral part of the management and reporting process, with an overall framework covering all aspects of it (**sub-criterion B.4**).

Sound financial management

The DM is characterised by several features fostering efficiency, including the specific priority of reduction of costs and operating efficiencies in implementation, and the use of risk policy for timely identification of all potential risks that could delay or impede smooth programme implementation (**sub-criterion C.1**). It also includes the use of integrated frameworks for performance analysis and follow-up, as well as a strong focus on effectiveness (e.g. strong strategic set up with a clear definition of objectives at national and Local and Community level, set of performance indicators, with continuous monitoring and improvement of programmes) (**sub-criterion C.2**). Nevertheless, no specific features for fostering the economy of operations are foreseen (**sub-criterion C.3**).

⁷⁰ The framework for risk identification and monitoring is defined at national level through dedicated policies and guidelines, allowing for a unitary approach and offering adequate support at all levels. Specifically, risk management principles and practices are used at all key decision points, staff is provided with guidance and instructions related to project risk identification and assessment, and risk management is used consistently to add value throughout the programme development and project cycle.

Good governance

Transparency of the DM is ensured by the fact that information is available and accessible for a large target audience and is disseminated through different channels (**sub-criterion D.1**). In terms of policy ownership, programmes are backed by national strategies and there is a strong commitment of the Canadian Government to achieve the set objectives, with extensive consultation before approval and encouraging partnerships (**sub-criterion D.2**). BCF allows for a timely adjustment of procedures and processes to improve implementation, but actual modifications of the terms and conditions of the programme are still bureaucratic (**sub-criterion D.3**). Flexibility of the DM allows for funding of interventions at all levels, as well as for different sub-sectors. It is however a mechanism specifically tailored for infrastructure and sustainable development (**sub-criterion D.4**).

Simplification

The DM is characterised by a flexible allocation of human resources, upon needs, which contributes to reducing administrative costs and burden, together with detailed learning plans to improve HR competences and skills, the use of institutional systems and tools, simple standardised reporting and electronic management information systems. However, an increase in the administrative costs and burden (both for the donor and the final recipient) could be generated by the system of payments to projects beneficiaries/final recipients that is based on real costs/inputs, and requires full control on expenditures (**sub-criteria E.1 and E.2**).

Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" (GRW) – Germany

Overview

Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" is the central instrument of the national regional policy in Germany and is a common tool for the German federation and the Laender (states) to promote balanced regional development. The DM is defined at Federal level, while support focuses at Land level. Rules are set and coordinated jointly by the Federation and the Laender, and implementation is under the responsibility of the latter. GRW can be classified as a *matching grant* (shared funding between federal and local levels). Specifically, it is mandatory (legally based) and earmarked (for supporting productive investments in selected regions).

Payments are based on **inputs** only, with reimbursements provided on the basis of requests for payments from the beneficiaries. The DM envisages **preconditions**: general preconditions require compliance with the EC and German legislation and guidelines.⁷¹ Other implementation preconditions are related to the pre-assessment of specific risks that can hamper the implementation, including the capacity of the beneficiary to successfully use the grant and achieve the results.

The **scope** of the DM **is particularly defined**, since funding is directly provided to projects that contribute to the balanced regional development. The mechanism also shows **quite a defined policy coverage**, since it only supports productive investments and endogenous business development (such as economic infrastructure and support to SMEs) in industrial sectors.

GRW **management** is **recipient-driven** since implementation is under the responsibility of the individual states and a Coordination Framework⁷² (including a

⁷¹ Including the so-called "Incentive map" based on macro-economic indicators of federal states and their regions.

⁷² The GRW sets the framework for national regional policy. Within the "Coordination framework" of the GRW, the federal government and all federal states jointly define the conditions on funding areas (incentive

coordination committee) is established. Eligibility for funding includes specific conditions, in order to ensure that overall GRW objectives are respected, and that the spending of resources is efficient. State authorities are responsible to check whether the final recipients (beneficiaries) have fulfilled the eligibility criteria and all obligations that are related to the awarding of grants. **Control** on expenditure, outputs and outcomes/results is under the responsibility of the states, while the donor verifies compliance with aid provisions as stated in the coordination framework. Monitoring and **verification of performance** is undertaken within the five-year monitoring period following the completion of the project. Moreover, at the level of the donor checks are carried out to verify whether beneficiaries meet eligibility criteria and all obligations that are related to the grant, as well as accounting records. **Risk management** is foreseen to understand whether the beneficiary is unable (including applicants co-funding) to achieve such results.

Relevant features per assessment criteria and sub-criteria

Accountability

The definition of responsibilities and liabilities is clear and stated in both legislation (GRW act, German Constitution) and the Coordination Framework⁷³ prior to the start of operations (**sub-criterion A.1**). Rational reporting (with no excessive requirements) provides all needed quantitative information for all levels of the system (**sub-criterion A.2**), and information is accessible without restrictions (**sub-criterion A.3**).

Legality and regularity

The presence of a framework to identify, assess and monitor risks contributes to ensuring the legality and regularity of transactions, with a pre-defined structure of budget compatible with accounting systems (**sub-criterion B.1**). Risk management procedures have a series of features to address fiduciary risks (including verification of the correct use of funds and risk pre-assessments) (**sub-criterion B.2**), and ensure segregation of duties (**sub-criterion B.3**). At the same time, risks are mostly assessed in the selection phase, while the error rate is not analysed during the implementation of the operations (**sub-criterion B.5**).

The DM also presents (a) a focus of control on both the legality and regularity of transactions and performance; (b) a control executed on all payments, after the project completion at both state (Land) and federal level; (c) a financial control executed by IBs, and by auditors at both state and federal level; (d) project performance/results verified also after five years after the completion of the project, extending the period of verifications beyond the end of the project (**sub-criterion B.4**).

Sound financial management

The DM presents a series of features aimed at enhancing efficiency, such as efficiency analyses included in ex-post evaluations, and the use of such evaluation results to improve the overall scheme (**sub-criterion C.1**). The DM is characterised by tools and procedures for pursuing effectiveness and achievement of objectives, such as integrated frameworks for performance analysis and follow-up, a mechanism for penalising under-performance (a pay back procedure of part of the grant amount is initialised if objectives achieved do not meet the targets), and the provision about the performance verification during a mandatory sustainability period. In addition, costs (with some top limits/cost ceiling, such as maximum costs per one permanent job)

map identifies structurally weak regions that are eligible for granting within federal states) as well as the maximum funding levels.

⁷³ The GRW ensures the transnational implementation of European law, in particular the provisions on aid.

and the expected results of the project (such as jobs created and investments generated) are taken into account in the selection process, contributing to enhancing the focus on effectiveness (**sub-criterion C.2**). Costs are key also in the project selection, enhancing the focus on economy (**sub-criterion C.3**).

Good governance

GRW ensures transparency through the publication of the lists of grant beneficiaries and information on projects displayed for ten years, freely accessible and regularly updated (**sub-criterion D.1**). The GRW is regularly adapted to new requirements and needs of the regions, fostering responsiveness and flexibility (**sub-criteria D.3 and D.4**). However, flexibility is somehow limited by the restricted policy coverage, which is focused on productive investments. Policy ownership is fostered by the fact that the priorities of intervention for eligible regions are defined at state – not federal – level (**sub-criterion D.2**).

Simplification

Simplification for both the donor and the final recipient stems from the fact that controls are carried out only after project completion, with the monitoring and evaluation system resulting to be effective and not burdensome for the donor. However, payments based on real costs may increase the burden on beneficiaries as well as proofs for achievement of the jobs created/maintained. (**sub-criteria E.1 and E.2**). In addition, the mechanism is also characterised by a large number of institutions and human resources involved at all levels (federal, state and regional), implying high administrative costs to the donor for the overall coordination of the DM (**sub-criterion E.1**).

National Specific Purpose Payments – Australia

Overview

National Specific Purpose Payments is used by the Australian Commonwealth to support the Territories/States through specific National Agreements.⁷⁴ The purpose of the Agreements is to clarify responsibilities for service delivery in areas of joint Commonwealth and state funding, improve accountability and focus on outcomes. They establish the policy objectives in the key service sectors, defining objectives, outcomes, outputs and performance indicators for each sector. Funding agreements are separate from the National Agreements.

The mechanism links **payments** to a payment plan, with disbursements based on **inputs**, and not contingent on achieving outcomes/results defined in the National Agreements. Funds are to be spent in the specific sector for which they are provided, but no other framework or implementation **preconditions** are foreseen.

The scope is **quite wide**, with funding allocated to Territories/States based on the National Agreements rather than on projects/groups of projects. On the contrary, **policy coverage is quite defined**, since the mechanism mainly focuses on investments in human capital in social sectors (such as labour market, social protection, education).

The mechanism is **managed** through a shared system that involves the Commonwealth and Australian States/Territories: the former is in charge of funding and provides for assistance, the latter determine resource allocation and are responsible for implementation. Monitoring is performed annually by the donor at central level (by the Council of Australian Governments, COAG) focusing on the progress of the mechanism, while **control** and monitoring of expenditure are under

⁷⁴ National agreements are agreed between the Commonwealth and Territories/State governments An example is the *National Agreement for Skills and Workforce Development* (NASWD).

the responsibility of the beneficiaries (States/Territories). Reporting is based on performance indicators, which are the basis to monitor and **verify performance** at federal level, assessing them against benchmarks previously identified. National agreements neither include specific financial or other input controls (providing for flexibility in how services are delivered to achieve outcomes), nor specific requirements in terms of **risk management**. The funding adequacy is reviewed by the donor (federal level).

Relevant features per assessment criteria and sub-criteria

Accountability

NSPP-NASWD features well-defined, clear roles and responsibilities at all levels, stated in official documents (**sub-criterion A.1**). The mechanism includes simple, standardised and transparent reporting, focused on the achievement of benchmarks and indicators for all jurisdictions, and on timely provision of publicly available performance information, which, however, does not include financial information (**sub-criterion A.2**). Dissemination of performance against a set of agreed benchmarks and indicators is ensured by annual reports (**sub-criterion A.3**).

Legality and regularity

A very detailed system for the control of funds is provided (**sub-criterion B.1**), with clear segregation of responsibilities and duties at the Federal Government level (**sub-criterion B.3**).

Specific financial controls on expenditure are not foreseen due to the specific nature of the DM that only requests that the funding is spent in the sector for which it is provided, this representing a potential weakness in the financial management and verification process. Performance audit is under the responsibility of each State/Territory (**sub-criterion B.4**).

Fiduciary risks are not part of the preconditions or performance conditions (**sub-criterion B.2**) and the DM does neither foresee regular review of risks, nor clear provisions for risk management (**sub-criterion B.5**). This is due to the specific feature of the DM with funding provided through a mechanism different from the National Agreement, and not linked to the achievement of the objectives agreed.

Sound financial management

Over time, the DM rationalised and decreased the number of payments made from the Federal Government to the States/Territories, with possible gains in terms of efficiency (**sub-criterion C.1**).

The mechanism is also characterised by the separation of policy outcomes and objectives from funding arrangements, which is intended to provide stronger incentives to the States/Territories for the implementation of general strategies and priorities. In addition, the DM provides for long-term targets (up to 2020), and focuses on what should be achieved in the sector rather than prescribing how services would be delivered, potentially increasing result-orientation (but making more difficult to assess the effectiveness of actions during implementation, due to a broad time limit). Although evaluation practice (progress reviews and impact assessments) has been institutionalised, there is a mismatch between the scope of the evaluations performed and the scope of the programme (**sub-criterion C.2**).⁷⁵

In addition, no specific features for fostering the economy of operations are foreseen (**sub-criterion C.3**).

⁷⁵ Evaluations are performed on the whole education sector level, which is wider than the scope of NASWD.

Good governance

Transparency is among the responsibilities of the States/Territories, but no specific evidence is available on its features (**sub-criterion D.1**). The definition of long-term objectives contributes to increasing policy ownership at federal level (where priorities are identified) in the targeted area (**sub-criterion D.2**), allowing and encouraging States' flexibility to target funding to individual State needs and achieve agreed outcomes (**sub-criterion D.4**). In addition, annual reporting is carried out to allow for comparisons between governments' achievements and agreed objectives; however, responsiveness may be low considering the five years period planned for review, limiting the possibility for timely adjustments (**sub-criterion D.3**).

Simplification

The DM is characterised by simplified payment arrangements, including simplified procedures for payments to the States/Territories (allocation of funds paid in 12 monthly instalments). The existence of only one piece of legislation regulating all Commonwealth's financial relations with the States, rationalised payments and administrative arrangements, and a simplified performance management system (based on which the Government Report on Performance is done against two long-term benchmarks) are all elements that contribute to reducing complexity and administrative costs (**sub-criterion E.1**). Also for the final recipients, the mechanism regulates only the relations between the Commonwealth of Australia and its States/Territories, making them accountable for the achievement of the mutually agreed objectives and outcomes, but with no obligation on reporting of financial input (**sub-criterion E.2**).

US Block grants

Overview

Block grants are a transfer mechanism that is part of intergovernmental fiscal relations and is typically provided for a specific purpose, although not earmarked so as to define a programme or set of actions. An example of the mechanism is the US Community Development Block Grants (CDBG). In this case, the donor is the Federal Government, which allocates resources to grantees (States or other grantees)⁷⁶ to provide communities with resources to address a wide range of needs, aiming to achieve specific national objectives. The grantees select then the beneficiaries/recipients to implement projects/actions.

Payments under block grants are linked to **inputs** and **actions** (but they can also be linked to outputs and outcomes/results). Specific **preconditions** are foreseen for their implementation, as the use of block grants requires the approval by the Federal Congress of the Act which allows for the appropriation of funds by the Federal Government and the subsequent allocation of grants. In addition, in the implementation phase, grantees must provide the Housing and Development Secretary with all the necessary documents and certificates for accessing the funding. Finally, a series of pre-assessments is carried out by the donor, in order to verify the presence of specific conditions (and absence of risks) to ensure correct and successful implementation (e.g. to identify which recipients require comprehensive monitoring).

The **scope is wide** as the funding is allocated to the grantees (and not directly to projects), that is then responsible to allocate it to actions and projects. **Policy coverage is quite wide**, as Block Grants support a range of thematic fields of

⁷⁶ "Grantees" are entitled entities qualifying for grants based on the size of population represented and the capacity of implementation. Other entities, which cannot qualify as grantees, receive funding from States through mechanisms different from CDBG.

intervention (infrastructure, human capital and endogenous development) in multiple sectors.

The **management** of block grants is usually shared, as the strategic objectives and priorities are defined at central level,⁷⁷ while the state level is responsible for implementation.⁷⁸ Federal administrators have a low degree of discretion over projects receiving grants, with grantees responsible for the selection of supported actions. In the implementation phase, grantees receiving funds from the federal level are required to perform a risk assessment. **Controls** include monitoring expenditure, actions and outputs at project level, with responsibilities and requirements in terms of monitoring and reporting defined for all levels in federal documents. The donor carries out the **performance verification**, in order to measure the overall programme performance. Monitoring also include both administrative and financial monitoring, to ensure that the grantee and the recipients are properly administering the programme. **Risk management** is planned ex ante, as part of the pre-assessments carried out by the grantees to identify which recipients require comprehensive monitoring.

Relevant features per assessment criteria and sub-criteria

Accountability

US BGs are characterised by a strong accountability, with clear and explicit definition and allocation of responsibilities and liabilities (**sub-criterion A.1**). The DM uses specific tools as well as integrated systems for recording and reporting all information with regard to all projects/actions implemented and results obtained (Integrated Disbursement Information System). In addition, the DM presents (a) clear definition of reporting requirements at all levels in CDBG regulations and the State's Statute; (b) clarity on the types and content of reports at all levels; (c) flexible frequency of reporting;⁷⁹ (e) use of specific tools integrated with other investment management processes, such as Consolidated Development Plans (CDP) processes to enhance complementarities and synergies between the different programmes (**sub-criterion A.2**). Dissemination is carried out through a wide range of media channels (**sub-criterion A.3**).

Legality and regularity

US BGs present a flexible framework of eligibility rules. The framework puts emphasis on outcomes (despite payments under US BGs are linked to inputs and actions) and project implementation, and defines eligible actions rather than strict categories of expenditure, as well as precise requirements in terms of timely spending (**sub-criterion B.1**). The DM also presents strong features in terms of segregation of duties, with specific provisions and clear requirements in the regulations stating that an individual shall not have authority over a transaction from the start to the end. (**sub-criterion B.3**). Fiduciary risks management is covered by the national systems for financial and administrative arrangements, relying on internal control systems requirements to ensure the correct use of funds (**sub-criterion B.2**).

⁷⁷ Usually they are managed at central level by the Federal Agency responsible of the sector where the block grant applies.

⁷⁸ The Congress also has a central role in the process, shaping the scope and nature of the federal grants-in-aid system, determining its objectives, deciding which grant mechanism is best suited to achieve those objectives, and creates legislation to achieve its objectives, with oversight to hold the administration accountable (source: Dilger, R. and E. Boyd (2014), *Block Grants: Perspectives and Controversies*. Congressional Research Service).

⁷⁹ Frequency of reporting is flexible depending on the needs, higher for complex tasks (such as construction works). Provisions regarding frequency of reporting by grantees or States provide for yearly and end-of programme reports. However, for project/activity implementation, recipients and implementing organisations may submit even weekly progress reports in case of complex construction works and where the cash flow requires more frequent drawdowns.

However, there is a limited control on the spending of the States (in the case of State Administered CDBG), due to the fact that the legislation requires only timely distribution of resources (not timely expenditure as in the case of Entitlement CDBG). In addition, the lack of programme level evaluations or audit reports limits the information available regarding the overall programme performance (**sub-criterion B.4**).

Finally, US BGs foresee a comprehensive framework for risk identification, assessment and monitoring, including a series of pre-assessments in the preparatory phase, and the definition of a series of risk tools to be used by grantees and States, including risk indicators and main risk assessment areas. These can be used to develop a risk assessment protocol where grantees/States can award points to various assessment areas to make priorities within their monitoring system (**sub-criterion B.5**).⁸⁰

Sound financial management

Financial feasibility (the budget estimates; additional resources leveraged; the project sustainability, the financial management capability of the beneficiary) is taken into account in the selection process, to enhance efficiency of the operations (**sub-criterion C.1**)

The DM foresees tools and procedures for pursuing effectiveness and achievement of objectives, such as the use of integrated frameworks for performance analysis and follow-up (similar to ESI Funds and other DMs' performance frameworks), and of electronic tools and reports, and features to enhance availability and timely spending of funds, such as sanctions (e.g. suspension or withdrawal of funding) applied in case of non-compliance with regulations. Projects and actions are mainly evaluated by their contribution to national objectives, rather than the types of expenditure incurred (**sub-criterion C.2**). Furthermore, no specific features for fostering the economy of operations are foreseen (**sub-criterion C.3**).

Good governance

The DM is characterised by specific procedures to enhance transparency and citizens' access to information, including the sharing of best practices and specific tools (**sub-criterion D.1**).⁸¹ In addition, US BGs foresee arrangements to ensure flexibility and responsiveness, such as the possibility to amend the approved CDP and periodical adjustments of actions and actions (arrangements allow financing of new actions within the current year - if proved necessary - even if not included in the CDP/Action Plans, with corresponding adjustment of CDP/Action Plans done in the following year) (**sub-criteria D.3 and D.4**). Policy ownership is supported by the fact that the programming process empowers States and Communities to decide on objectives and priorities (**sub-criterion D.2**).

⁸⁰ Under US BG; risk monitoring is based on a risk assessment to identify those entities (recipients or UGLGs) that require comprehensive monitoring. To this aim, a risk assessment protocol will be developed where grantees and States can award points to various assessment areas to make priorities within their monitoring system. For experienced recipients/UGLGs that are successfully carrying out activities, grantees/States could plan a more narrowly focused monitoring effort to examine areas where the regulations have changed, new activities that are being undertaken, or program aspects that led to problems in the past. However, the regulations provide for comprehensive monitoring reviews to be conducted periodically, even for recipients/UGLGs with strong past performance, considering that even the most effective and efficient recipients/UGLGs can neglect their responsibilities if grantees do not hold them accountable.

⁸¹ These include best practices in terms of stakeholders and citizens' participation at all stages of programme planning (elaboration of CDP) and implementation (project selection, possibility of stakeholders to comment on reports, etc.), and specific tools (e.g. eCon Planning Suite) supporting the preparation of plans and other documents.

Simplification

The flexible framework of eligibility rules allows for a simplification of the implementation process, reducing the burden for the donor, the grantees and the final recipients. In addition, the DM is characterised by a rather simple institutional framework, facilitated by the use of institutional systems and tools, simple standardised support forms to facilitate reporting (limiting the burden for the beneficiaries/recipients), detailed guidelines for the beneficiaries/recipients and electronic management information systems. However, the DM requires a large amount of legislation, which may imply significant administrative costs for the donor, the grantees and the final recipients, for ensuring compliance with the rules. Additional burden can also be linked to the presence of real costs in the mechanisms (and payments based on input and actions) (**sub-criterion E.1** and **E.2**).

Performance contract – Denmark

Overview

Performance contracts are negotiated agreements between the donor (government) and recipients (public agencies), in which the intentions, obligations and responsibilities of the two parties are negotiated and set out. They are based on performance monitoring and appraisal.

Payments are made according to the plan defined in the contract and outputs/outcomes are evaluated annually. This means that payments are not directly based on expenditure or goals achieved by the recipient, even if the level of achievement of outputs/outcomes affects the amount of financing to the recipient for the subsequent year. Specific **preconditions** are foreseen: goals and targets are discussed and negotiated between the donor and the recipient, and an ex ante assessment can be used to set the conditions to be achieved to conclude a PC. In addition, a framework for the use of the funds needs to be set, in order to ensure that all financed actions are directed towards the achievement of agreed objectives and results.

PCs in Denmark have a **wide scope**, since they support a specific policy/programme,⁸² which is then translated into single projects. They also have a **wide policy coverage**, as they are used for various thematic fields of intervention (such as infrastructure, productive investments, sustainable development, human capital and capacity building), targeting a wide variety of objectives and sectors.⁸³

PCs are driven and based on government policies, and therefore contracts are set in line with the government strategies or programmes. However, the mechanism is **managed** through a **shared system** involving both the donor (the government) and the beneficiary/recipient (the agency) in setting the goals/targets of the contract. Performance contracting provides for ex ante assessment of the capacity of institutions to implement the contract and attain the goals set therein. Also the implementation of PCs is **monitored and controlled** by both parties (with the donor controlling and **verifying the performance** based on results), and each PC provides for regular reporting and steering meetings on performance (usually on an annual basis).⁸⁴ In addition, each of the departments of the agency that has concluded a PC is

⁸² However, they do not explicitly finance a specific section or area of a single programme, targeting projects/activities.

⁸³ The case study refers to research, but performance contracts have been nearly universally adopted in all Danish government agencies (see Binderkrantz, A. and Christensen, J. C., (2009), *Delegation without Agency Loss? The Use of Performance Contracts in Danish Central Government*).

⁸⁴ Budgetary allocations are directly linked to performance (result-based management and resource planning, with definition of targets, contract and report on performance), with a series of detailed goals and performance targets/indicators. Performance contracting provides for ex ante assessment of the capacity of institutions to implement the contract and attain the goals set within it.

evaluated separately, and the management of the contract is also overseen by independent bodies appointed by the Ministry. Performance measurement of goals and targets is monitored by the donor, including with regard to the financial control and audit of the operations. **Risk management** is performed within the pre-assessments, carried out by the donor ex ante to check the capacity of institutions to implement the contract.

Relevant features per assessment criteria and sub-criteria

Accountability

PC are characterised by a weak allocation of responsibilities, since these (as well as liabilities) are defined in the PCs, which are though not legal documents, being usually defined as quasi-contractual agreements between a government body and its subordinate agency (**sub-criterion A.1**). In addition, despite solid reporting requirements (**sub-criterion A.2**), the DM has no specific provisions for dissemination in the contractual documents, with the degree of dissemination that may substantially vary across agencies depending on their willingness and tradition (**sub-criterion A.3**).⁸⁵

Legality and regularity

Similarly to other ADMs, PC foresee ex ante assessment prior to the accreditation of the organisation, as part of the control processes. Assessments focus on financial management measures, ensuring the existence on a reliable accounting system within the agency with which the contract is signed (**sub-criterion B.1**). Segregation of duties is ensured by specific provisions, with entrusted agencies needing a control system and a regular audit of the transactions provided by an external auditor (**sub-criterion B.3**).

Financial management and control of transactions are not defined in the PC, but are the responsibility of the institution implementing the contract. External control may also be performed by independent bodies appointed by the ministries (**sub-criterion B.4**). Finally, there are no specific provisions for risk management in the contracts/agreements, and fiduciary risks are not verified ex-ante, neither benefit from clear provisions for their regular review (**sub-criteria B.2 and B.5**).

Sound financial management

The reports from entrusted agencies are to a very limited degree used for taking corrective actions during the contract period and improving the efficiency of operations (**sub-criterion C.1**).

The DM foresees a series of tools and elements to manage performance and pursue the achievement of objectives, enhancing effectiveness, such as using the assessment of the agency's performance as the basis for negotiations on a possible new PC, eventually driving also the allocation of the future budget to the agency. In addition, the design of the contract clearly sets objectives and results, presence of milestones and key indicators for performance verification, external evaluations and focus on achievements (**sub-criterion C.2**).

However, no specific features for fostering the economy of operations are foreseen (**sub-criterion C.3**).

Good governance

Transparency of information related to PCs is ensured for relevant government bodies or state institutions responsible for follow-up of the relevant policies, as well as to the

⁸⁵ In the case of Risø National Laboratory, reports are disseminated only to external actors responsible for the follow-up of the implementation of specific policies (e.g. Parliamentary committees).

public (through annual reports) (**sub-criterion D.1**). Also the fact that objectives and targets are agreed between the parties involved contributes to raising the policy ownership for the DM (**sub-criterion D.2**).

PC include arrangements to raise flexibility and responsiveness, in particular periodical revision of the most important features (such as inputs, time schedule, etc.) and amendments of the PC (**sub-criterion D.3 and D.4**). Regular revisions at a later stage are also possible in consideration of major changes (e.g. socio-economic or sectoral developments).

Simplification

Due to the shift towards the verification of achieved results and performance, PC are designed to reduce administrative costs and burden, with a focus on the management of goals and results rather than on consumption of resources, budgetary constraints, rules and general regulations. Furthermore, the clarity and simplicity of rules and provisions on monitoring, evaluation, reporting and controls do not bring administrative burden or costs in addition to those related to the usual provisions of the agency entrusted with a performance contract (**sub-criterion E.1 and E.2**).

3.1.3 Summary of the assessment of alternative delivery mechanisms and ESI Funds system

On the basis of the features of the ADMs described in the previous section, Table 4 provides a score of the ADMs for each assessment criterion, vis-à-vis the score of the ESI Funds.

For each assessment criterion, the table presents the main features of each DM. When (+) is reported, it means that the corresponding feature has been assessed as a strength, whereas (-) refers to a weakness.

Table 4 – ESI Funds and ADMs score for each assessment criterion

| DM | Accountability | Legality and regularity of transactions | Sound Financial management | Good Governance | Simplification |
|-------------------|---|---|--|---|--|
| ESI Funds | Score: A Clear and explicit definition and allocation of responsibilities (+) Strong reporting requirements (+) Clear communication rules for result dissemination (+) | Score: A Detailed rules ensuring compliance with applicable legislation, fiduciary risk mitigation, segregation of duties and fraud detection (+) Defined financial control procedures (+) Adequate framework for risks of frauds and irregularities (+) | Score: B Increased emphasis on effectiveness (common result indicators, milestones and targets, performance framework) (+) Clear framework of assessment and evaluation on ex ante, on-going and ex post basis (+) Incentives mostly related to timely use of financial resources and expenditure regularity (-) Low uptake of output based reimbursement schemes (-) | Score: B High level of transparency (+) Strong policy ownership (+) Lack of responsiveness to changing policy priorities (-) Significant flexibility to address national and local needs(+) | Score: C/B Administrative burden for beneficiaries (-) Administrative costs for programme authorities (-) Introduction of simplification measures for both the beneficiaries (+) and the donor (+) in the Omnibus |
| WB – OBA | Score: A Clear and explicit definition and allocation of responsibilities (+) Strong and flexible reporting requirements, focused on the achieved outputs and results/outcomes (+) Clear communication rules for result dissemination (+) | Score: B Pre-assessments to ensure legality and regularity (+) Comprehensive framework to identify, assess and monitor risks (+) Protocols and other specific features established to enhance financial performance verification (+) Donor not directly involved in controlling legality of expenditure (-) Detailed rules ensuring segregation of duties (+) | Score: B Unclear criteria for evaluating financial management performance (-) Definition of results frameworks to measure the achievement of objectives (+) Strong result-orientation and incentives for effectiveness, linking payments to results and outputs achieved (+) Selection of service providers allowing for efficiency gains and economy (+) | Score: C Main project documents are published (+), but detailed information on budget and expenditure is not accessible (-) Relation of performance indicators with broader strategies to increase policy ownership (+) Possibility of periodical revision of key features (+) but long preparatory phase and time to set up management system (-) Limited flexibility (-) | Score: B Simple institutional architecture (+) Long and burdensome procedures for the donor/ implementing agency for setting-up the management system and the procurement process (-) Clear requirements and standardised templates, easy-to-use tools for the recipient (+) Shift from financial transactions verification to results verification, with reduced burden for both donor and recipient during the implementation (+) |
| WB – PforR | Score: B Clear and explicit definition and allocation of responsibilities (+) | Score: B Pre-assessments to ensure legality and regularity (+) Comprehensive framework to | Score: B Definition of framework results to measure the achievement of objectives (+) | Score: B Series of instruments and procedures to increase awareness and transparency (+) | Score: B Use of recipient country own management systems (+) High administrative costs for |

| DM | Accountability | Legality and regularity of transactions | Sound Financial management | Good Governance | Simplification |
|------------------|---|---|--|--|--|
| | <p>Flexible reporting requirements, focused on the achieved outputs and results/outcomes (+), but based on the existing system of the recipient country (-)</p> <p>Clear communication rules for result dissemination (+)</p> | <p>identify, assess and monitor risks (+)</p> <p>Specific features established for performance verification including DLI matrix and verification protocols (+)</p> <p>Donor not directly involved in controlling legality of expenditure (-)</p> <p>Detailed rules ensuring segregation of duties (+)</p> | <p>Strong result-orientation and incentives for effectiveness, linking payments to results and outputs achieved through DLIs (+)</p> <p>Use of a verification protocol for each DLI and entrustment of their verification to independent agencies/bodies (+)</p> <p>Shortcomings in the selection and quantification of DLIs (-) that may also undermine the economy of operations (-)</p> | <p>Responsibilities allocated to recipient country contribute to increasing policy ownership (+)</p> <p>Possibility to adjust and review some elements of approved programmes (e.g. DLIs) (+), but subject to the capacity of the recipient countries (-)</p> <p>Flexibility supported by simple policy guidelines and operational flexibility (+)</p> | <p>the donor in the preparatory and programming phases (-)</p> <p>Easy to use reporting tools and standardised procedures (+)</p> <p>Shift from financial transactions verification to results verification, with reduced burden for both donor and recipient during the implementation (+)</p> |
| ADB – RBL | <p>Score: B</p> <p>Clear and explicit definition and allocation of responsibilities in contract (+)</p> <p>Adequate reporting requirements, with flexible reporting focused on the achieved outputs and results/outcomes (+)</p> <p>Results are not actively disseminated by ADB (-)</p> | <p>Score: C</p> <p>Presence of pre-assessments to ensure legality and regularity (+)</p> <p>Comprehensive framework in place to identify, assess and monitor risks (+)</p> <p>Detailed rules ensuring segregation of duties (+)</p> <p>Specific protocols established for performance verification (+)</p> <p>Donor not directly involved in the control on legality of expenditure (-)</p> <p>No prescribed expenditure control framework, but country-by-country approach is applied, with no common standard procedures for control (-)</p> <p>Lack of depth in the fiduciary risk assessment (-)</p> | <p>Score: C</p> <p>Definition of results frameworks to measure the achievement of objectives (+)</p> <p>Strong result-orientation and incentives for effectiveness, linking payments to results and outputs achieved through DLIs (+)</p> <p>Use of a verification protocol for each DLI (+)</p> <p>Shortcomings in the selection and quantification of DLIs, with no penalties for underperformance (-)</p> <p>Lack of efficiency check and analysis during the implementation (-)</p> <p>No specific requirements/safeguards for the donor in terms of economy of operations(-)</p> | <p>Score: B</p> <p>Absence of transparency requirements for the beneficiary (-)</p> <p>Strong policy ownership in supporting beneficiaries' strategy (+)</p> <p>Only major restructuring of programmes needs to be approved by the donor (+)</p> <p>Flexibility to adapt to local circumstances (+)</p> | <p>Score: B</p> <p>Use of recipient country own management systems (+)</p> <p>High administrative costs for the donor in the preparatory and programming phases (-)</p> <p>Shift from financial transactions verification to results verification, with reduced burden for both donor and recipient during the implementation (+)</p> |
| NORA | Score: A | Score: B | Score: C | Score: B | Score: B |

| DM | Accountability | Legality and regularity of transactions | Sound Financial management | Good Governance | Simplification |
|----------------|--|--|---|---|---|
| D – PbR | <p>Clear and explicit definition and allocation of responsibilities (+)</p> <p>Reporting focused on the achieved outputs and results/outcomes (+)</p> <p>Strong result dissemination requirements (+)</p> | <p>Presence of pre-assessments to ensure legality and regularity (+)</p> <p>Specific features established for performance verification (+)</p> <p>Donor not directly involved in the control on legality of transaction (-) which is carried out by the partner/trustee (+)</p> <p>Detailed rules ensuring fiduciary risks management and segregation of duties, following internal control systems of entrusted entities (+)</p> <p>Trustee and partner entities allowed to use their own risk management standard and policies (+)</p> | <p>Definition of results frameworks to measure the achievement of objectives (+)</p> <p>Strong result-orientation and incentives for effectiveness, linking payments to results and outputs achieved through DLIs (+)</p> <p>Use of real-time evaluations for improving execution (+)</p> <p>No sound theory of change behind the DM (-)</p> <p>Shortcomings in project selection process (-)</p> <p>No specific requirements/safeguards for the donor in terms of economy of operations(-)</p> | <p>High transparency (+) but potentially low responsiveness due to limited capacity in recipient countries (-)</p> <p>Clear institutional arrangements to support policy ownership (+)</p> <p>Good flexibility in the application (+)</p> | <p>Entrustment of the management function to third bodies (+)</p> <p>System of standardised procedures and independent measurement (+)</p> <p>Potential costs and burden falling on beneficiaries due to measurements, reporting and verification requirements, as well as the use of high-level indicators (-)</p> |
| DEVCO | <p>Score: B</p> <p>Clear and explicit definition and allocation of responsibilities (+)</p> <p>Clear reporting requirements (+)</p> <p>Limited accessibility to programme and project information (-)</p> | <p>Score: B</p> <p>Presence of pillar assessments to ensure legality and regularity (+)</p> <p>Internal rules of beneficiaries ensure segregation of duties and fraud detection (+)</p> <p>Arrangements for risk monitoring and defining and monitoring fiduciary risks agreed on a case-by-case basis (-)</p> | <p>Score: B</p> <p>Objectives and performance indicators clearly defined and measurable (+)</p> <p>No specific provisions to assess efficiency and effectiveness of actions (-)</p> <p>Procurement procedures allowing for selection of best value for money services (+)</p> | <p>Score: B</p> <p>Presence of specific provisions on communication (+) but transparency tackled by entrusted agencies on a case-by-case basis (-)</p> <p>Specific rules to enhance policy ownership (+)</p> <p>Possibility for regular updates and review through the implementation (+)</p> <p>High flexibility vis-a-vis the types of interventions (+)</p> | <p>Score: B</p> <p>Entrustment of the management function to third bodies reducing the burden for the donor (+)</p> <p>Clear reporting and control requirements reducing the burden for the implementing bodies (+)</p> <p>High frequency of reporting is burdensome for beneficiaries (-)</p> |
| NIF | <p>Score: B</p> <p>Clear allocation of responsibilities vis-à-vis Partner Financial institutions and beneficiaries (+)</p> <p>Reporting requirements in place (+), but they are broad</p> | <p>Score: B</p> <p>Presence of pre-assessments to ensure legality and regularity (+)</p> <p>Multiple levels of financial control, with also PFIs checking the legality of</p> | <p>Score: B</p> <p>Use of efficient governance system (+)</p> <p>Use of performance bonuses to stimulate effectiveness (+)</p> <p>Use of level of expenditure as a selection criteria to stimulate</p> | <p>Score: B</p> <p>Key information easily accessible (+) but detailed information at project level not always accessible (-)</p> <p>Good overall responsiveness, although some elements can be</p> | <p>Score: B</p> <p>Entrustment of the management function to third bodies reducing the burden for the donor (+)</p> <p>Different arrangements between PFIs and recipients leading to different levels of</p> |

| DM | Accountability | Legality and regularity of transactions | Sound Financial management | Good Governance | Simplification |
|------------------|--|--|--|--|--|
| | and generic (-) Increased publicity and accessibility of information on projects (+) | transactions (+) Segregation of duties and fraud detection ensured by the framework agreement (+) Risk management relying on PFIs systems, with a lack of central and uniform procedures (-) | efficiency and economy(+) Shortcomings in the selection process (-) | improved (-) High policy ownership (+) High flexibility (+) | burden (+/-) |
| BCF | Score: A Clear and explicit definition and allocation of responsibilities (+) Very clear definition of reporting requirements with specific tools and systems (+) Clear communication rules for result dissemination (+) | Score: A Defined financial control procedures (+) Comprehensive framework in place to identify, assess and monitor risks (+) Detailed rules ensuring compliance with applicable legislation, fiduciary risk mitigation, segregation of duties and fraud detection (+) | Score: B Features designed to enhance availability and timely spending of funds, increasing efficiency and effectiveness(+) Use of integrated frameworks for performance analysis and follow-up (+) No specific features for stimulating economy of operations (-) | Score: B Transparency ensured by availability and accessibility of information (+) Projects backed by national strategies favouring commitment and policy ownership (+) Timely adjustment of procedures (+) but still bureaucratic (-) Mechanism specifically tailored for infrastructure and sustainable development (-) | Score: B Use of existing institutional management systems (+) Easy to use reporting tools and standardised procedures (+) Payments based on real costs/inputs, potentially increasing the burden for donor and recipients (-) |
| GRW | Score: A Clear and explicit definition and allocation of responsibilities (+) Very clear definition of reporting requirements with specific tools and systems (+) Comprehensive accessibility of information (+) | Score: B Detailed rules ensuring compliance with applicable legislation, fiduciary risk mitigation, segregation of duties and fraud detection (+) Multiple levels of financial control, with extension of the period of financial verification beyond project completion (+) Framework in place to identify, assess and monitor risks (+), but not including the analysis of error rates (-) | Score: A Efficiency analysis carried out in ex-post evaluation for improving the overall scheme (+) Contribution of selection criteria to effectiveness and economy (+) Mechanisms for penalising underperformance (+) Control on sustainability of projects' results (+) | Score: B Publication of lists of grant beneficiaries and other relevant information on projects (+) Definition of priorities of intervention at state level (+) Possibility to update the DM based on new requirements and needs of beneficiaries (+) Narrow policy coverage (-) | Score: B Monitoring and evaluation effective and not burdensome (+) High administrative costs for the donor for the overall coordination of the DM (-) Payments based on real costs/inputs, potentially increasing the burden for donor (-) while for the recipients the costs may be lower because there is no contracting procedure and the controls are carried out only after the project's completion (+) |
| NSPP - | Score: B Clear and explicit definition | Score: C No clear provisions for risk | Score: C Possible gains in the efficiency | Score: C Limited evidence on | Score: A Simplified payment and |

| DM | Accountability | Legality and regularity of transactions | Sound Financial management | Good Governance | Simplification |
|-------------------|--|---|---|--|---|
| NAS WD | and allocation of responsibilities (+) Simple, standardised and transparent reporting (+) that does not include financial information (-) Clear communication rules for dissemination on performance against indicators (+) | management and regular review of fiduciary risks (-) No control on financial input (-) Clear rules on performance audit implemented at State/Territory level (+) Detailed rules ensuring segregation of duties and fraud detection (+) | of public support due to reduced number of payments from Federal Government to States (+) Focus on the achievement of long term objectives, stimulating result-orientation (+) Mismatch between the scope of evaluation and actual programme (-) No specific features for stimulating the economy of operations (-) | transparency (-) Agreement on long-term objectives can increase policy ownership (+) Long time required for review limiting the room for timely adjustments (-) Flexibility in designing actions at state level (+) | administrative arrangements and lean performance management system (+) Simple legal framework (+) No obligation of reporting on financial input (+) |
| US BG | Score: A Clear and explicit definition and allocation of responsibilities (+) Very clear definition of reporting requirements with specific tools and systems (+) Clear communication rules and use of multiple instruments for result dissemination (+) | Score: B Comprehensive framework in place to identify, assess and monitor risks (+) Flexible framework of eligible expenditure (+) Detailed rules ensuring segregation of duties and fraud detection (+) Defined financial control procedures (+) but with limited control on the spending of States and information on programme performance (-) Adequate framework for risks of frauds and irregularities (+) and flexible use of national systems to cover fiduciary risks | Score: B Features designed to enhance effectiveness and efficiency (+) Use of integrated frameworks for performance analysis and follow-up, and sanctions for non-compliance with regulations (+) Selection process taking into account financial feasibility (+) No specific features for stimulating the economy of operations (-) | Score: A Arrangements allowing transparency as well as high flexibility and responsiveness (+) Policy ownership strengthened by state/communities empowerment in the programming process (+) | Score: C Simple framework, with the use of institutional management systems (+) Flexible framework of eligible expenditure (+) Large amount of legislation potentially creating additional burden for donor and recipients (-) Payments based on real costs/inputs, potentially increasing the burden for donor and recipients (-) |
| PC | Score: C Clear allocation of responsibilities (+), but only on a quasi-contractual basis (-) Clear definition of solid reporting requirements (+) | Score: C Ex ante verification of financial management measures (+) Financial control not defined in the contract (-), but carried out by the institutions implementing the contract, with independent bodies | Score: B Great emphasis on the achievement of objectives through the definition of milestones and performance key indicators (+) | Score: A Arrangements allowing transparency, flexibility and high responsiveness with periodical revisions and updates of key features (+) Agreement on targets and objectives increasing policy | Score: A Shift from financial transactions verification to results verification, with reduced burden for both donor and recipients during the implementation (+) Clear and simple rules and |

| DM | Accountability | Legality and regularity of transactions | Sound Financial management | Good Governance | Simplification |
|----|---|---|--|-----------------|--|
| | No specific provisions for dissemination in the contractual documents (-) | appointed for external control (+) Clear rules ensuring segregation of duties and fraud detection (+) No clear provisions for risk management and monitoring (-), No regular review of fiduciary risks (-) | Assessment of past performance to negotiate current funding (+) External evaluation performed at the end of the four-year contract period (+) Limited use of information from reports for corrective actions during the contract (-) No specific features for stimulating the economy of operations (-) | ownership (+) | provisions on monitoring, evaluation, reporting and controls (+) |

3.2 Assessment of the alternative delivery mechanisms

3.2.1 Accountability

Overall score for Accountability

| ESI Funds | WB – OBA | WB – PforR | ADB – RBL | NORAD – PbR | DEVCO | EU – NIF | BCF | GRW | NSPP-NASWD | US BG | PC |
|-----------|----------|------------|-----------|-------------|-------|----------|-----|-----|------------|-------|----|
| A | A | B | B | A | B | B | A | A | B | A | C |

The accountability of the ESI Funds delivery system is very strong: a sound framework has been set up in terms of definition and allocation of responsibilities, reporting requirements, and results dissemination. Alike ESI Funds, several ADMs (i.e. WB-OBA, NORAD-PbR, BCF, GRW, US BG) are also very strong.

Almost all DMs use **specific tools** and agreements to have a clear and explicit definition of the **allocation of responsibilities and liabilities** among actors involved, ensuring a solid basis for a sound and smooth implementation process. *Tools* include Programme Action Plans (PAPs) or handbooks and guidelines (WB-PforR, BCF). *Agreements* include Administration agreements between the donor and the trustee/intermediate body Transfer Agreements between the trustee and the partner entities, and project documents or grant agreements between the Partner entity and the Implementing entity or the final recipient (NORAD-PbR). Only in one case (PCs), the allocation of responsibilities is not so clear and solid, due to the lack of legal documents stating them.

These features on the allocation of responsibilities and liabilities are not adding to the features of **the ESI Funds system**,⁸⁶ and are mainly stemming from differences in organisation and structures.⁸⁷

As for **reporting tools and requirements**, some international DMs **focus on the achievement of targeted outputs and results/outcomes** and allow for a **flexible and effective reporting** mechanism, producing concise (but still comprehensive) deliverables on the implementation of programmes/projects. This is the case, for instance, of WB-OBA and WB-PforR, which foresee reporting arrangements that provide strategic and key information on programme’s implementation in a simple, synthetic and easy to read format, while still guaranteeing an adequate level of accountability.⁸⁸ Flexibility in reporting is also pursued by ADB-RBL through the

⁸⁶ Even though some ESFI DMs, such as ITIs and CLLD, may present a less clear allocation.

⁸⁷ The ESI Funds system is characterised by a three-layer structure (EU, MS and Programme authorities) involving many actors across all layers, whereas for example national DMs are usually characterised by a simpler two-layer structure, and usually one actor involved in each layer. As an example, BCF is managed at national level by Infrastructure Canada, a governmental department. For national major infrastructure (non-transportation) projects, BCF adopted direct management as implementation method (managed by Infrastructure Canada, the lead department), while for major transportation projects part of the responsibilities have been delegated to an intermediary body. In case of community development projects, responsibilities are delegated to delivery partners and provinces governments, while for small territories the management is indirect, the BCF funding being added up to other local funds.

US BG is using, as ESI Funds, a shared implementation system, with a federal layer, US Department of Housing and Urban Development (HUD), disbursing funds to grantees and States and the Grantees/States layer disbursing funds to projects or to Units of Local General Governments. A specific feature is the larger flexibility that Grantees and States have, compared to ESI Funds, in choosing the method of implementation, through, for example, the use of Community Development Organisations or developers to implement certain initiatives or, similarly to ESI Funds, the use of grants, revolving funds, financial instruments. Grantees and states are responsible for timely distribution of funds and spending.

⁸⁸ Since the donor is mostly interested in outputs and results (linked to payments), the reports collect and provide the relevant information thereto, for instance through (i) the definition of a “result framework” and indicators system for each programme, (ii) linking reporting procedures to the needs of the actors that are going to use such information (WB-PforR), or (iii) analyses of efficiency and effectiveness underpinned by relevant monitoring data (WB-OBA).

provision of different reporting frameworks for beneficiaries/recipients, with requirements that can be adapted to the specific implementation needs and to the fiduciary risks identified in pre-assessments. Also other DMs (DEVCO, BCF) have clear and strong requirements.

Weaknesses are present in the case of NSPP-NASWD: the simple and standardised reporting envisaged in the DM does not include financial information. Further weaknesses may arise from a broad and generic definition of reporting requirements (NIF) or the use of the existing reporting system of the recipient country (WB-PforR). In the latter case, there can be risks of lack of consistency and standardisation across recipient countries, especially in the case of weaknesses in national systems, thus affecting the reporting activities. However, donors usually carry out capacity-building actions to strengthen the national system and reduce the effects and likelihood of such flaws.

The main difference with the **ESI Funds system**, that also presents strong and clearly defined requirements in data collection, reporting and transmission in the CPR and secondary legislation,⁸⁹ is the approach to reporting, that in the case of some of the ADMs (such as WB-OBA and WB-PforR) envisages a simple, focused, more synthetic and easy to read format.

In terms of **dissemination of results**, both national and international ADMs present strong features, such as publishing of information (e.g. list of borrowers/beneficiaries and of the subsidies received by each borrower/beneficiary under WB-OBA and WB-PforR), clear communication strategies with a communication and visibility plan for each project (NIF),⁹⁰ easy access to documents on the internet and availability of reports on the fund website (NORAD-PbR), clear rules (NSPP-NASWD) and use of multiple channels to disseminate information on performance (US BGs). However, similar arrangements are already present in the **ESI Funds system**. In terms of weaknesses, DEVCO does present some limitations, since the mechanism may lack comprehensive and sufficient information on agreements, with limited accessibility to programme and project information. In other cases, dissemination of results is actively pursued neither by donors (ADB-RBL) nor through specific provisions (PCs).

3.2.2 Legality and Regularity of transactions

Overall score for Legality and Regularity of transactions

| ESI Funds | WB - OBA | WB - PforR | ADB - RBL | NORAD - PbR | DEVCO | EU - NIF | BCF | GRW | NSPP-NASWD | US BG | PC |
|-----------|----------|------------|-----------|-------------|-------|----------|-----|-----|------------|-------|----|
| A | B | B | C | B | B | B | A | B | C | B | C |

The ESI Funds delivery system is very strong in ensuring the legality and regularity of transactions, thanks to the detailed rules covering all aspects of this criterion. It is hard to find ADMs with similar features and strengths, as almost all of them present some kinds of weakness compared to ESIF.

As for **compliance with applicable legislation**, both international and national DMs use **analyses and assessments** in all implementation phases, to check key elements and verify possible risks that would prevent the correct and effective implementation of the programme/project. These include **pre-assessments** (WB-OBA, WB-PforR, ADB-RBL, NORAD-PbR, DEVCO,⁹¹ NIF, GRW, PCs) aimed at ensuring the overall

⁸⁹ With AIRs providing a comprehensive overview of outputs, results, and implementation, through defined indicators, and being submitted through SFC2014 Portal.

⁹⁰ The communication strategy under NIF includes a definition of target groups, communication channels, and frequency of communication, as well as relevant indicators and targets.

⁹¹ In DEVCO, such assessments are defined pillar assessments, which are carried out by professional auditors and in accordance with the terms of reference established by the EC.

legality and regularity of transactions. Pre-assessments can focus on various aspects. In the case of NORAD-PbR, they focus on the capacity of entities/organisations that are responsible for the implementation of the programme, and they can result in dedicated capacity building measures. In the case of PCs, they focus on the existence of a reliable accounting system within the recipient agency with which the contract is concluded, and may result in a postponement of the start of implementation of the PC (until the standards are met). Such pre-assessments are somehow **similar to what is foreseen under the ESI Funds system** with the requirements related to the authorities' designation and the overall management and control system (see section 2.2), and the ex ante conditionalities (see section 2.3). The strength of some ADMs is that pre-assessments are incorporated with a comprehensive risk assessment, as described in the paragraphs below, which includes a wide range of risks. In terms of **segregation of duties**, all international DMs are characterised by a strong and clear segregation of duties as part of the internal management and control system of partners (which undergoes an ex ante assessment). For some DMs, as for DEVCO, segregation of duties is viewed as being endogenous to the organisations entrusted with the implementation (responsible also for financial control). Also national DMs foresee the segregation of duties as part of their management and control system. In particular, US BGs regulations stipulate that the internal control systems are to be defined by the grantees, and should provide for an accounting policy and procedures for the proper recording of transactions, and an adequate segregation of duties so that no individual has authority over a transaction from the start to the end. These features of the ADMs **do not add to the ESI Funds system** that also envisages the segregation of duties in the designation process of programme authorities.

When it comes to **financial control and audit**, some international DMs present **specific features established for performance verification** (WB-OBA, WB-PforR, ADB-RBL and NORAD-PbR), further enhancing the verification of results beyond traditional control systems based on reporting. In particular, these features consist of the definition of a verification protocol for each DLI/indicator (WB-PforR, ADB-RBL),⁹² the entrustment of the verification of achievements to external independent bodies (ADB-RBL), or other agents approved by the donor (WB-OBA), such as independent auditors, private firms or consultants, and civil society entities. Such independent verification is even more justified by the fact that these are all result-based DMs, thus a correct, impartial and objective verification of performance is key. GRW further strengthens financial control and audit by **extending the period of verifications** beyond the end of the project for a compulsory "sustainability period" (5-15 years) ensuring further sustainability of results. The mechanism also provides for multiple levels of financial controls, carried out both at state (Land) and federal level.

Performance verifications are also present in the ESI Funds system. The system indeed envisages verifications carried out by MAs on reports submitted and possible field visits. However, *i)* ADMs are more focused on results and are therefore more comparable with **specific ESI Funds DMs** (such as SCOs or JAPs that place outputs and results to the forefront) rather than with the baseline ESIF system; *ii)* ESI Funds verifications cover the implementation period.

Weaknesses vis-à-vis the financial control and audit are linked to the fact that several DMs present no direct involvement of the donor in the control of legality of expenditure (WB-OBA, WB-PforR, ADB-RBL, NORAD-PbR, NSPP-NASWD), with the need to rely on recipient countries or entrusted entities. In the case of NIF, the fact that control is carried out through PFIs own procedures and policies (pre-assessed in

⁹² For each DLI/indicator, the protocol provides its definition, the measurement unit, verification procedures and the authority responsible for verification. These protocols should allow a more reliable and objective verification of the performance.

their capacity), may reduce the uniformity in the approach used among intermediaries. The same applies for ADB-RBL, where there is neither a prescribed expenditure framework nor a common procedure for control. In the case of US BGs it may be difficult for the donor to have a control on the spending of States (for State-Administered BGs), since legislation requires only timely distribution of resources (not timely expenditure). Concerning PCs, while it is true that financial management and control of transactions are not clearly defined in the performance contract, these are nonetheless carried out by the agency implementing the contract, with possible external control from independent bodies.

As for **fiduciary risks**, no specific features of ADMs have been identified that are worth to be compared with or suggested to strengthen the ESI Funds system, which is very strong in this aspect. While most ADMs have no weaknesses in the definition of fiduciary risks and segregation of duties (in BCF, for instance, such risks are closely monitored and are part of the four level assessment undertaken at organisation level), other ADMs do present rather negative features. In the case of NIF, for instance, such risks are not clearly defined at the beginning of the implementation. Also, in the case of DEVCO, fiduciary risks are agreed on a case-by-case basis (and not uniformly at the beginning of the action), while under PCs they are not verified ex-ante and there are no clear provisions regarding their regular review (similarly to NSPP-NASWD). The depth of the assessment of fiduciary risks is not always sufficient as far as ADB-RBL is concerned.

In terms of **risk monitoring**, several international and national DMs foresee a **comprehensive framework and tools to identify, assess and monitor risks** (WB-OBA, WB-PforR, ADB-RBL, NIF, BCF, GRW, US BGs and PCs). As already mentioned, ex ante risk assessment is often an integral part of pre-assessments carried out by the donor in the preparatory phase to ensure legality and regularity of implementation. Some ADMs (WB-OBA, WB-PforR,⁹³ ADB-RBL) establish a very comprehensive framework, including also programme risks,⁹⁴ implementation risks,⁹⁵ technical risks, financing risks and capacity risks (to check the capacity of institutions to implement the contract and accomplish the goals set within it), with a strategic use of risk management.⁹⁶ In the case of US BGs, the regulations define a series of *risk tools* to be used by grantees/States, including risk indicators and main risk assessment areas. These can be used to develop a risk assessment protocol where grantees/States can evaluate and rank various assessment areas to create priorities within their monitoring system.⁹⁷ In ESI Funds, ex ante conditionalities and

⁹³ World Bank (2012), Program-for-Results Financing: Interim Guidance Notes to Staff on Assessment.

⁹⁴ These may include, for instance, environmental and social risks related to the areas and sectors addressed by the relevant programme.

⁹⁵ Implementation risks include, for instance, delays in the activities, lack of skills and personnel to implement actions (WB-PforR).

⁹⁶ As an example of comprehensive risk monitoring, WB-PforR includes an overall risk rating based on the consolidation of risks associated with the operating environment, such as country risk and stakeholder risk, as well as technical risks, fiduciary risk and social and environmental risks. WB-OBA includes pre-assessment of risks made by the donor on the project soundness (e.g. project's relevance, justification, adequacy), financial management (to determine whether the financial management arrangements for the project satisfy the donor's compliance requirements), disbursement, institutional and implementation arrangements (including the definition of the agency which will be responsible for the overall implementation). Also ADB-RBL takes into account a wide range of risks that are strategically important for the allocation of funds, such as results risks and financing risks, with disbursement indicators linked to the achievement of results (unlike ESI Funds).

⁹⁷ Under US BGs, risk monitoring is based on a risk assessment to identify those entities (sub-recipients or units of general local government -UGLGs) that require comprehensive monitoring. To this aim, a risk assessment protocol will be developed where grantees and States can award points to various assessment areas to make priorities within their monitoring system. For experienced sub-recipients/UGLGs that are successfully carrying out activities, grantees/ States could plan a more narrowly focused monitoring effort to examine areas where the regulations have changed, new activities that are being undertaken, or program

assessments are already present and the management and control system must include a comprehensive risk analysis of the programme (as strengthened under the 2014-2020 programming period) even though it is focused mainly on administrative and financial processes in order to prevent and manage frauds. However, several **ADMs include a wider range of risks**, not focusing simply on risks of frauds and irregularities related to expenditure and payments, which still represent the bulk of risk assessment under ESI Funds.

However, some shortcomings vis-à-vis risk monitoring still exist in some other ADMs, as in the case of GRW, where error rates are not included and analysed in risk monitoring process, or under NSPP-NASWD and PCs, where there are no specific provisions for risk management and monitoring during the implementation of the operations.

3.2.3 Sound Financial Management

Overall score for Sound Financial Management

| ESI Funds | WB - OBA | WB - PforR | ADB - RBL | NORAD - PbR | DEVCO | EU - NIF | BCF | GRW | NSPP-NASWD | US BG | PC |
|-----------|----------|------------|-----------|-------------|-------|----------|-----|-----|------------|-------|----|
| B | B | B | C | C | B | B | B | A | C | B | B |

The ESI Funds delivery system appears relatively stronger with regard to sound financial management compared to the previous programming period, with new legal provisions (e.g. ex ante conditionalities and performance framework) putting new and further emphasis on effectiveness and performance. The majority of ADMs perform similarly to the ESI Funds system (with only GRW performing better), and present some features that can build on ESI Funds strengths and/or address its weaknesses, specifically as regards **effectiveness**.

This is especially the case of some international result-based DMs (WB-OBA, WB-PforR, NORAD-PbR and ADB-RBL) which use **DLIs for linking payments to achieved outputs and results** (for instance through a *DLIs matrix*),⁹⁸ emphasising result orientation and creating incentives for effectiveness. WB-PforR foresees also the use of a *verification protocol* for each DLI, specifying the definition of the indicator, the measurement unit, verification procedures and the authority responsible for verification. *DLIs and results frameworks* are also used as key tools to measure achievement of objectives, outputs and outcomes (WB-PforR, NORAD-PbR, ADB-RBL), and to monitor performance (ADB-RBL). Even if the **ESI Funds** system based on real costs does not have such a link to results, the system **already includes some DMs for which payments are based on output or results** (such as SCOs and JAPs), thus providing a certain degree of result-orientation. Nonetheless, **ADMs include such orientation in a more comprehensive and consistent manner**, thanks to their pure results-based approach. However, some shortcomings associated to the use of DLIs have to be noted, such as the lack of financial penalties for underperformance, the possibility of neglecting the programme actions not covered by DLIs, the risk of setting non-ambitious targets in order to favour disbursements, and the fact that long-term impact is not well-addressed by DLIs.

aspects that led to problems in the past. However, the regulations provide for comprehensive monitoring reviews to be conducted periodically, even for sub-recipients/UGLGs with strong past performance, considering that even the most effective and efficient sub-recipients/UGLGs can neglect their responsibilities if grantees do not hold them accountable.

⁹⁸ A “DLI matrix” includes measurable and verifiable indicators representing the most important achievements expected from the operations implementation. The DLIs refer mostly (yet not only) to expected outputs and results, and their achievement is the trigger for the payments to the beneficiaries/final recipients. The effective use of DLIs implies the establishment of specific features for improving performance verification.

Several ADMs present other features to further stimulate the achievement of objectives (DEVCO, BCF, GRW, US BG, and PCs). While some of these tools and procedures are similar to those of the ESI Funds,⁹⁹ PCs present additional features, such as the use of *assessment of the past agency's performance*, which can be used as a basis to negotiate a new performance contract between the parties, eventually driving the allocation of the future budget to the agency. Such mechanism stimulates the achievement of objectives and results agreed in the current contract. Also GRW presents a feature, related to its *performance verification during a mandatory sustainability period* beyond project completion, which can improve project effectiveness and be an incentive towards results. Both these **aspects can be further enhanced under the ESI Funds delivery system.**

GRW presents features to increase the **contribution of selection criteria to result orientation**, as well. The DM foresees both costs (with some top limits/cost ceiling, such as maximum costs per one permanent job) and expected results of the project (such as jobs created and investments generated) to be included among the selection criteria. Only the projects with significant and quantified expected impact on regional development (e.g. in terms of number of jobs created and/or maintained) can be funded. However, this element is similar to what present under ESI Funds in project appraisal, **not adding to the features of the ESI Funds** delivery system.

As for potential weaknesses, in terms of effectiveness compared to ESIF, the following have been identified. The specific nature of the some ADMs (WB-OBA), which allocate funding to single or groups of projects, not to larger programmes, may become a limitation when a wider, longer and more systematic approach to development is needed, for instance by supporting and financing a large programme to address multiple issues or problems with multiannual investments. NORAD-PbR does not present any sound theory of change, with limited evidence of the actual impact of results-based payments on outcomes, while NIF has a relatively weaker link of the payments to results. NSPP-NASWD does have long-term objectives and evaluation of results, but the scope of the evaluations performed and the scope of the programme do not match. NIF selection process does not sufficiently take into account the EU priorities in all sectors.

In terms of **efficiency**, DMs such as BCF and GRW can count on a series of relevant features, such as the inclusion of efficiency analyses in ex-post evaluations and their use to improve the overall mechanism. NIF is characterised by an efficient governance system, also including a built-in mechanism to leverage loans, with contributions from other bodies. US BGs present several strengths, including a great focus on disbursement and expenditures, analysis of financial feasibility during the selection process and a high potential to stimulate leveraging of funds.¹⁰⁰ However, these features are similar to those already present in the ESIF delivery system.

On the contrary, some ADMs present weaknesses in terms of efficiency, such as in the case of ADB-RBL, where no efficiency checks are performed during implementation, or of PCs, where reports from entrusted agencies are to a very limited degree used for

⁹⁹ Similar features include: (i) the *use of integrated frameworks for performance analysis* and follow-up, similar to ESI Funds performance framework (BCF, US BG, GRW, PC); (ii) the *use of a mechanism for penalising under-performance* (pay back procedure of some part of grant amount is initialised if objectives do not meet the targets) with a high potential to incentivise effectiveness (GRW); (iii) the definition of clear and measurable objectives and performance indicators in the programming phase (DEVCO).

¹⁰⁰ According to the 2016 Congressional Justifications prepared by US Department for Housing and Development, CDBG remains a critical part of the Federal funding landscape for state and local government in carrying out a wide range of activities. The ability to use CDBG as local match funding for other Federal programs or for partial funding of an activity enables CDBG to work well with programs administered by a host of other Federal agencies such as Transportation, Agriculture, HHS, Commerce/EDA, Labor, DHS/FEMA, EPA, and the Appalachian Regional Commission.

taking corrective actions during the contract period. Under WB-PforR, the quality of established DLIs and the costing methodology used for preparing the expenditure frameworks is of key importance; any shortcomings may be detrimental for efficiency, since the support cannot be adjusted to the actual costs.

As for **economy**, a limited number of ADMs present features in this regard. DMs such as WB-OBA, BCF and DEVCO foresee rules and provisions to ensure the selection of the best value-for-money services through the procurement process, which – in the case of DEVCO – is carried out following specific and clear rules with a Delegated Agreement. Also NIF and GRW present a common strength related to the fact that one of the selection criteria is the level of expenditure/costs of the project.

Most of the ADMs (WB-PforR, ADB-RBL, NORAD-PbR, BCF, US BGs, NSPP-NASWD and PCs) do not present specific rules and features to stimulate and pursue the economy of operations, since these considerations should be taken into account when setting up the payment triggers (e.g. costing methodology in the PforR).

3.2.4 Good Governance

Overall score for Good Governance

| ESI Funds | WB - OBA | WB - PforR | ADB - RBL | NORAD - PbR | DEVCO | EU - NIF | BCF | GRW | NSPP-NASWD | US BG | PC |
|-----------|----------|------------|-----------|-------------|-------|----------|-----|-----|------------|-------|----|
| B | C | B | B | B | B | B | B | B | C | A | A |

The ESI Funds delivery system is relatively strong in terms of good governance, thanks to a management modality that allows for policy ownership and flexibility. Several ADMs present a similar score to ESI Funds, with only few (US BG and PC) scoring better, mainly thanks to their enhanced **responsiveness**.

ADB-RBL foresees that *only major restructuring of programmes needs to be approved by the donor*,¹⁰¹ contributing to effectively speeding up the process and reducing the time needed to approve such amendments (e.g. minor adjustments can be made throughout project implementation, and can be processed within one month). A **similar distinction is not present in the ESI Funds context**, where amendments of the programme's elements approved by the EC need to be duly justified and require an approval by the Commission,¹⁰² with the approval procedure that can take several months. PCs also present a high level of responsiveness, with *periodical revisions of the most important features* (such as inputs, time schedule, etc.), and specific provisions in place to amend the PC if needed (leading to revisions in consideration of the changing socio-economic environment or the developments in the given sector). Also US BGs present *arrangements allowing for high flexibility and responsiveness*, with specific rules foreseeing the possibility to amend the approved Consolidated Development Plan and periodical adjustments of actions.¹⁰³ Under DEVCO, responsiveness is facilitated thanks to the possibility of regular updates based on the annual reports.

In terms of weaknesses, under WB-OBA key features can be periodically reviewed, but such benefits are counterbalanced by a long preparatory phase and set up of the

¹⁰¹ Examples of major restructuring are changes to the objective of the programme and the financing allocation, while minor adjustments are represented by changes in the DLIs or procedures (e.g. reporting or monitoring). The latter can be made throughout project implementation, and can be processed within 1 month at administrative level.

¹⁰² Article 96(10) CPR.

¹⁰³ Such arrangements allow also the financing of new activities within the current year (if proved necessary), even if not included in the CDP/ Action Plans, with corresponding adjustment of CDP/Action done in the following year.

management system, while in other DMs (WB-PforR, NORAD-PbR) responsiveness is subject to the actual capacity of recipient countries, and its level is not very clear (NSPP-NASWD). Under NSPP-NASWD, also the long period required for reviewing the DM (five years) can be a limit vis-à-vis responsiveness.

The **flexibility** of ADMs cannot be considered as a relative strength compared to ESI Funds: both international and national DMs can cover a broad range of sectors and actors. However, they are still **more limited compared to the extremely wide range of support provided by ESI Funds**.¹⁰⁴ For instance, WB-OBA flexibility is rather limited, implemented in thematic areas where explicit or implicit user's fees are applied and expected outputs/results can be measured. BCF and GRW are designed for specific thematic fields, as well. On the contrary, some DMs present a more flexible nature being able to cover multiple thematic areas and types of intervention (DEVCO, NIF, WB-PforR, US BG, PC), as well as to adapt to local needs (ADB-RBL).

In terms of **transparency**, some ADMs have, similarly to ESI Funds, dedicated features and tools to enhance it. This is the case of both international and national DMs (WB-PforR, NORAD-PbR, BCF, GRW),¹⁰⁵ with specific procedures for enhancing transparency, communication and citizens' access to information (WB-PforR, BCF, US BG, PC). On the contrary, transparency may be limited for other DMs: under WB-OBA, detailed information on budget and expenditures, IVA reports, and contracts is not available; detailed information at project level under NIF is not always accessible, while ADB-RBL does not present transparency requirements for the beneficiary/recipient. In DEVCO, transparency actions are implemented on a case by case basis by the implementing organisations, without a uniform and unique approach. Under NSPP-NASWD there are no specific features for enhancing transparency, which is still among the responsibilities of the States/Territories.

As for of **policy ownership**, ADMs do not present elements that differ significantly from what the **ESI Funds system** already foresees. A series of DMs increase policy ownership by (i) giving responsibilities to recipient countries/communities in programming and/or implementing the operations (WB-PforR, US BGs), (ii) embedding the support into recipient countries' (national/sector) strategies (ADB-RBL), or (iii) allowing the definition of priorities of intervention at state – not federal (donor) – level (GRW). Under NSPP-NASWD, policy ownership is strengthened by the identification of long terms objectives by the governments in the target areas, and the possibility to adjust funding to individual State needs. PC is a mechanism with a good level of policy ownership, increasing commitment in fulfilling the contract and accountability in achieving the objectives and targets, which are agreed between donor and implementing agencies.

3.2.5 Simplification

Overall score for Simplification

¹⁰⁴ More limited flexibility is present only under specific DMs, such as JAPs.

¹⁰⁵ NORAD-PbR presents four key practices, such as: (i) minimum requirements for consultation between actors of the verification reports; (ii) required communication strategy, specifying target groups, communication channels, and frequency of communication; (iii) relevant information on the project, project results, stakeholders' consultation, reports and other documents has to be publicly available; (iv) compliance with communication requirements is subject to monitoring and independent verification.

BCF foresees specific requirements for consolidated reports on public spending and high availability of information for a large target audience, disseminated through a wide range of channels (relevant websites, specific reports, specific brochures and media announcements).

GRW includes the publication of the lists of grant beneficiaries of investment projects on their central websites and information is displayed for ten years, which is easily and freely accessible to the public without any restrictions, regularly updated and available in generally accessible formats, allowing not only administrative but also practical and operational transparency.

| ESI Funds | WB - OBA | WB - PforR | ADB - RBL | NORAD - PbR | EU - NIF | DEVCO | BCF | GRW | NSPP-NASWD | US BG | PC |
|-----------|----------|------------|-----------|-------------|----------|-------|-----|-----|------------|-------|----|
| C/B | B | B | B | B | B | B | B | B | A | C | A |

Attempts have been made to simplify the ESI Funds delivery system, but challenges remain significant, especially for national authorities and beneficiaries. Overall, most of the ADMs appear stronger than ESI Funds in terms of simplification, but this depends also on the differences in the overarching legislative and institutional framework. Indeed, ADMs rely on a limited body of laws, rules and acts,¹⁰⁶ and their implementation usually involves only two institutional layers (the donor and the recipient government) and a limited number of institutional bodies. Furthermore, “gold plating” seems to be a much less frequent practice for ADMs than it is for ESI Funds, with the consequent reduction of the administrative costs and burden arising from it. That being said, some ADMs present specific features for limiting the burden for the donor, the implementing bodies and the final recipients.

In terms of **administrative costs for the donor/managing body/intermediate body**, several ADMs present interesting **features that contribute to reducing them**. WB-OBA presents a *simple institutional architecture*, with one national authority responsible for the whole implementation of each programme instead of multiple authorities (MA, CA, and AA) as under ESI Funds. Also NSPP-NASWD is characterised by a simplified performance management system and, in general, a simple framework that contributes to reducing the administrative burden.

The *use of the beneficiary country own management systems* (WB-PforR, ADB-RBL) ensures a reduction of the burden and costs associated to the creation and use of new and parallel ones. On the contrary, the **ESI Funds delivery system** requires the setting up of a management and control system for each programme, defining also a set of requirements (including IT functionalities) that the system has to comply with. Both WB-PforR and ADB-RBL foresee an ex ante assessment of the country’s own system (see Box 7 in section 4.2) as pre-condition for its use, which still implies administrative costs for the donor in the preparatory phase.¹⁰⁷

The administrative costs for the donor is in some cases limited through the *entrustment of the management function to third bodies* (NORAD-PbR, DEVCO, NIF), transferring responsibilities (and burden) from the donor to such bodies.¹⁰⁸ However, such feature is a characteristic of the indirect management mode, thus **not being particularly relevant for the ESI Funds delivery system**, based on shared management.

In terms of weaknesses, WB-OBA is characterised by high administrative costs for setting up the management system, with long and costly procurement and verification procedures for the donor. GRW is characterised by the involvement of a large number of institutions at all levels, potentially requiring high administrative costs for the donor for the overall coordination of the DM.

Considering the possible reduction of the **administrative costs and burden for both the donor/managing body/intermediate body and the recipients**, ADMs present some interesting features. Several DMs are characterised by a **shift from verification/control on financial transactions to verification/control of results**

¹⁰⁶ For instance, NSPP relies on a single piece of legislation regulating all Commonwealth’s financial relations with the States.

¹⁰⁷ National DMs also rely on the use of existing public administration management system, without the central/federal government requiring states and other local governments to set up a separate system.

¹⁰⁸ Under DEVCO, for instance, the shift goes from implementation tasks to actions rather focused on monitoring and control of the entrusted entities. In addition, clarity of reporting and control terms reduce the administrative costs also for the entrusted entities in the implementation.

(WB-OBA, WB-PforR, ADB-RBL, NSPP-NASWD, PCs). The *use of DLIs* (based on output and outcomes/results) ensures measurable and verifiable indicators that allow for an easier and faster verification and control over achieved results and outputs, adjustable during implementation and adaptable to different types of projects. DLIs **resemble ESI Funds SCOs** in their approach and advantages in terms of simplification of controls on operations, thanks to the emphasis on outputs and result/outcomes, in the case of DLIs, and on actions and outputs, in the case of unit costs and lump sums under ESI Funds SCOs. However, such simplification in the implementation phase can be balanced by disadvantages due to lengthy procedures in the programming phase, with administrative costs that still arise from the identification and selection of DLIs and development of related verification protocols.

US BGs present a **flexible framework of eligibility rules**, putting emphasis on outcomes and eligible actions, rather than strict categories of expenditure (see Box 8 in section 4.2). This feature, **not present under the current ESIF delivery system**, allows for simplification of the implementation by reducing the burden for both the donor (in the definition and verification of expenditure) and the recipient (than can benefit of a wider and flexible range of eligible costs/actions).

Both international and national DMs include **simplified and standardised procedures, as well as easy-to-use tools** for reporting, possibly reducing the burden of the donor, the implementing bodies and the final recipient. These include (i) *simple and concise implementation reports*, summarising in a few pages key information about programme/project implementation, key dates, risks and DLIs (WB-PforR); (ii) *no contracting procedure between the donor and the beneficiary* (GRW);¹⁰⁹ (iii) *no interim verification of financial and other documents before project completion* and final payment disbursement, as administrative and on-site checks are carried out after completion of the project only,¹¹⁰ with the beneficiary obliged to submit a final report as a proof of the grant use (GRW); (iv) *simplified procedures* focused on the control of goals and results rather than on consumption of resources, budgetary constraints, rules and general regulations, with clear requirements and reduced room for their interpretation (NSPP-NASWD, PCs); (v) *institutional systems and tools*, simple standardised reporting and electronic management information systems (US BGs).

While in some cases **similar tools are already present under ESI Funds** (such as easy-to-use reporting tools and electronic systems), others can further build on ESI Funds features to enhance the simplification of the system (especially based on real costs, since DMs such as SCOs and JAPs present features more similar to result-based ADMs), for instance by reducing uncertainty in the interpretation of many specific rules.

However, some DMs (such as BCF or US BG) can imply significant administrative burden for both the donor and the recipients, due to the presence of payments based on real costs/inputs, requiring a comprehensive control on expenditures.

Alternative DMs present also weaknesses in terms of simplification for the recipients. NORAD-PbR, for instance, has strong reporting and verification requirements that can produce additional burden, similarly to the fact that payments are linked to outcomes which occur over a longer period of time, putting financial pressure on the recipient

¹⁰⁹ As a specific feature of the GRW, the contract is not signed between the donor's organisation and grant receiver, but the grant is provided through a simple administrative act with standard conditions. Within documents "Administrative provisions on the Land/federal state budget" there are standard conditions for beneficiaries (companies/municipal receiver).

¹¹⁰ Under GRW state rules, usually the process is designed in such a way that the control of the projects based on documents check does not begin before all payments are done and the project is completed, including the control over beneficiaries' project reports.

country. Under DEVCO, high frequency of reporting (also considering the relatively short time span of programmes) can be a burden for final recipients. The large amount of legislation under US BGs can become a burden for both the donor and the recipients.

3.3 Trade-offs

As in the case of ESI Funds, trade-offs can be identified also for ADMs, suggesting that the perfect DM does not exist, as each DM presents limitations and compromises. Furthermore, ADMs' trade-offs are similar, yet "opposite" in some cases, to those of the ESI Funds delivery system.

The main trade-offs are:

- **Between legality/regularity and sound financial management** in terms of effectiveness and efficiency. Many international donors (WB-OBA, WB-PfR, ADB-RBL, and NORAD-PbR) and some national donors (PCs, GRW) focus controls on the verification/control of performance and results, with less control on the way expenditure is incurred and the funds are used. In order to mitigate this trade-off, the WB and the ADB foresee a pre-assessment of recipient countries' administrative capacity and institutional system, as well as a comprehensive risk assessment and monitoring procedure, in order to verify that minimum pre-conditions are met before providing the financial support;
- **Between legality/regularity and simplification.** Some international DMs (such as WB PforR, ADB-RBL) allow to use the beneficiary country own management system, which is assessed by the donor prior to the start of the support. As a result, differences may arise in terms of procedures and standards used for financial control across recipient countries (for instance, audit is subject to national rules and systems in the case of WB-PforR). In addition, the reduction of administrative costs due to the focus on outputs and results rather than expenditure and inputs may lead to drawbacks similar to those of ESI Funds SCOs (and JAPs), with more limited (if not made impossible) traceability of every expenditure. As a result fraud detection may be more difficult;
- **Within simplification.** As in the case of ESI Funds SCOs, some international DMs present simplified procedures for the implementation of operations which are partly counterbalanced by a notable administrative cost in the programming phase. For instance, the use of result-based payments and DLIs (WB-PfR and ADB.RBL) reduce the administrative costs of control and verification, yet requiring some effort from the donor and recipient country in the selection of DLIs and the development of DLI protocols.

3.4 Differentiation

The possibility to adopt features of ADMs in the ESI Funds context also depends on how the use of these DMs can be differentiated, as well as on advantages and disadvantages of such differentiated use in the ESI Funds framework.

In the case of ADMs, differentiation has been examined according to the following avenues: (i) **thematic fields** of intervention; (ii) **administrative capacity** of the managing and implementing bodies; (iii) **level of funding**.

Thematic fields of intervention

As stated in section 2.7, the ESI Funds delivery system can be used in a wide range of thematic fields of intervention, with MS able to differentiate these grants in order to make them "purpose specific".

Some of the ADMs present a similar level of differentiation, being currently used in several thematic fields of intervention. These DMs include three of the strictly results-based DMs (WB-PforR, ADB-RBL and NORAD-PbR), as well as other DMs used at international (DEVCO) and national level (US BGs and PCs), even if only PCs seem to be currently used in all considered thematic fields as in the case of ESI Funds grants based on real costs (and possibly SCOs following the Omnibus Regulation). However, **in the case of the strictly results-based DMs**, it must be noted that, despite these DMs can be applied across a wide range of thematic fields of intervention and sectors, they are **more suitable for those fields where a clear definition of expected outputs/results and measurable indicators is possible**: disbursements are linked to the achievement of results as defined in DLIs, and setting up the chain of deliverables/triggers for payment is an important factor to take into account. Furthermore, the **WB-PforR and ADB-RBL cannot be used** for actions classified as category A in the Safeguard Policy Statement¹¹¹ and which **involve procurement of high-value contracts**. The original thresholds for these contracts were lower than the thresholds for the ESI Funds major projects (i.e. 50 mln EUR in support through the ERDF and/or Cohesion Fund), but they have been increased by the WB over time, and also the ADB is currently reviewing them.¹¹²

On the opposite, other ADMs present a much lower level of differentiation than ESI Funds, being currently used in few thematic fields. These DMs include some DMs implemented at national (NSPPs, GRW, BCF), and international level (WB-OBA and NIF).

Below, we present the current use of ADMs according to the thematic fields of intervention, highlighting possible advantages and disadvantages of their use whenever evidence is available in this regard.

The DMs currently used for **investment in human capital** are: (i) **NSSPs**, focusing on social protection, health and labour market; (ii) **WB - OBA**, with a small share of supported projects targeting education (1%) and health (16%) sectors by providing vouchers to the users (students/patients);¹¹³ (iii) **NORAD - PbR**, mainly focusing on health;¹¹⁴ (iv) **WB - PforR**;¹¹⁵ (v) **ADB - RBL**;¹¹⁶ (vi) **US BGs** (e.g. education,¹¹⁷ health and Human Services,¹¹⁸ training and vocational training,¹¹⁹ promoting sustainable and quality employment).

Possible advantages for investment in human capital are present in the following DMs:

¹¹¹ Activities that are likely to have significant adverse impacts on the environment or affect people, so called category A expenditure (see Asian Development Bank (2009), Safeguard Policy Statement).

¹¹² High-value contracts were defined at the time as contracts that exceeded 50 mln USD for works, turnkey and supply, and installation; 30 mln USD for goods; 20 mln USD for information technology systems and non-consulting services; and 15 mln USD for consulting services. Based on their procurement policy review, the World Bank adopted in May 2015 new (and higher) procurement thresholds for PforR operations. ADB is currently reviewing its own procurement policy, including the existing procurement thresholds applicable for ADB operations.

¹¹³ GPOBA (2016), Annual Report 2016.

¹¹⁴ The most widespread use of PbR mechanisms in Norwegian development cooperation is found in the health sector. GAVI's (the Vaccine Alliance) adoption of results-based payments from 2000 onwards marked the beginning. (NORAD (2015), *Experiences with Results-Based Payments in Norwegian Development Aid*).

¹¹⁵ The Strengthening Service Delivery for Growth, Poverty Reduction and Environmental Sustainability in the State of Ceará, Brazil supports, among others, vocational training and family assistance.

¹¹⁶ Between June 2013 and June 2016 the DM has financed nine projects, mostly in the education (ADB (2016), Midterm review of Results-Based Lending for Programs).

¹¹⁷ Such as the Innovative Education Program Strategies Block Grant.

¹¹⁸ Such as the Child Care and Development Block Grant, the Community Mental Health Services Block Grant, the Maternal and Child Health Services Block Grant, the Preventive Health and Health Services Block Grant.

¹¹⁹ Such as the Workforce Investment Act (Youth, Adult, and Dislocated Workers).

- RBL and PforR, which can be very effective for **government-owned sector programmes**, as is the case of education development programmes, since government ownership of a programme and commitment to delivering results and improving programme systems are critical to RBL and PforR. This commitment can be articulated through a government's sector strategy, resource allocation, or willingness to improve overall systems by engaging with development partners;¹²⁰
- NORAD – PbR, which has been used by governments to tackle **difficult social problems that lack ready solutions**, such as reducing, reoffending or helping the long-term unemployed in their reintegration in the labour market. According to some literature PbR could give providers the freedom to innovate, which might lead to new, long-term solutions to intractable problems.¹²¹ Another major advantage of NORAD-PbR application in the **health field** is deemed to be related to its **effectiveness** in focusing on results, compared to traditional health sector support.¹²²
- At the same time, the use of RBL and PforR can present a disadvantage in the case of social sectors, due to the length of the results chain from outputs to outcomes (i.e. results can be achieved over time), such as in the case of **improving the quality and delivery of health or education services** (e.g. increased school enrolment and better learning outcomes require interventions that will increase the demand for services and require promoting awareness and behaviour change).¹²³
- Also the use of WB-OBA can present some issues for sectors where smaller service providers operate, as in the case of **health service providers** who may well lack the financing for an adequate level of supplies or personnel to scale-up the clinic to service an increased number of poor people seeking their services.¹²⁴ Indeed, access to finance can be a hurdle for OBA schemes in all sectors – even in mature sectors with a large number of financially sound private service providers such as ICT – due to both the cost of pre-financing and limitations on the development of a private sector that take risks and invest in business expansion.¹²⁵

In the case of **productive investment**, **GRW**,¹²⁶ **DEVCO**,¹²⁷ **WB – PforR**¹²⁸ and **PC** are the only DMs currently used. No specific evidence is available on advantages/disadvantages arising from the use of the DMs in this thematic field of intervention.

Almost all the DMs are used in the field of **infrastructure and sustainable development**, namely: **BCF** (e.g. core national highway system, drinking water, wastewater, public transit and green energy); **WB – OBA**, with funded projects

¹²⁰ Asian Development Bank (2016), *Midterm Review of Results-Based Lending for Programs*.

¹²¹ *Ibidem*.

¹²² NORAD (2015), Basis for decision to use Results-Based Payments in Norwegian Development Aid.

¹²³ *Ibidem*.

¹²⁴ GPOBA (2010), *Access to finance in Output-based aid*.

¹²⁵ International Development Association -Global Partnership on Output-Based Aid (GPOBA) (2009), *Review of the Use of Output-Based Aid Approaches*.

¹²⁶ The following measures are supported: a) rationalisation of commercial enterprises; b) support for economic infrastructure, to the extent that it is directly necessary for the development of the regional economy; c) non-investment and other measures to strengthen the competitiveness of enterprises.

¹²⁷ From 2008 to 2014, 5% of total Das has been used for industry (European Commission (2016), *Evaluation of the EU aid delivery mechanism of delegated cooperation (2007-2014)*).

¹²⁸ The Punjab Jobs and Competitiveness Program focuses on improvements to the business regulatory environment and capacity enhancement of institutions relevant to private sector investment and support to industrial clusters.

targeting energy (44% of the overall projects), water (24%), waste management (5%) and telecommunications (1%);¹²⁹ **EU – NIF**, with the vast majority support between 2008 and 2015 granted to investments in the areas of energy (36% of the total investment), water/sanitation (15%) and transport (15%);¹³⁰ **NORAD – PbR**, as in the case of the Norway International Climate and Forest Initiative in Guyana; **WB – PforR**, especially in the sectors of energy and extractives (6 operations funded between 2012 and April 2017), water (6), and Transport & ICT (5);¹³¹ **ADB – RBL**, with projects funded in energy and transport sectors;¹³² **DEVCO**, especially water and sanitation (15% of the overall DAs between 2008 and 2014) and general environment protection (8%);¹³³ **US BGs** (for instance transport¹³⁴ and air quality measures¹³⁵), and **PC**.

Possible advantages for investment in infrastructure and sustainable development are present in the following DMs:

- RBL and WB-PforR, which are more effective when outcomes can be achieved soon after programme outputs are delivered, such as in the case of energy (such as operations related to electricity transmission and distribution systems).¹³⁶ Furthermore, an increased efficiency arises for operations involving a large or diverse range of actions in the infrastructure fields, since transaction costs of directly monitoring numerous steps in each activity can be excessively high and reducing these transaction costs can become an important rationale for selecting the RBL [and PforR] modality.¹³⁷
- NORAD – PbR, whose application in the **clean energy field** would facilitate leveraging commercial capital for energy investments.¹³⁸
- WB-OBA, which can help **mitigate some of the risks of cost overruns related to infrastructure** project investments, since subsidies are fixed before project implementation but paid after outputs have been delivered,¹³⁹ with advantages in terms of economy. Furthermore, since the service provider only gets paid for the parts of the system that are actually being used (for instance, in **ICT interventions**, disbursement should not be tied to the completion of a telecom tower, but rather to the delivery of connections such as pay phones and tele-centres being operational and used) there is a disincentive for creating excess capacity and an incentive for increasing access, with advantages in terms of **efficiency** and **effectiveness**. Finally, there is evidence of the sustainability (and replicability) of some of the OBA schemes in several fields, since projects have been running for many years – in **ICT and roads especially** – and have been scaled up and replicated elsewhere in the respective regions and even in other regions. Specifically, the ICT sector, where most of the service is provided on a commercial basis, has more robust sources

¹²⁹ GPOBA (2016), Annual Report 2016.

¹³⁰ European Commission (2015), Neighbourhood Investment Facility – 2015 Operational Annual Report.

¹³¹ The World Bank, Operations by region and topic area. <http://pubdocs.worldbank.org/en/261531473875279594/PforR-PDF-of-chart-of-operations-Website.pdf>

¹³² ADB (2016), Midterm review of Results-Based Lending for Programs.

¹³³ European Commission (2016), Evaluation of the EU aid delivery mechanism of delegated cooperation (2007-2014).

¹³⁴ Such as the Federal Aviation Administration Airport Improvement State Block Grant Program and the Surface Transportation Program.

¹³⁵ Such as the Energy Efficiency and Conservation Block Grant.

¹³⁶ Asian Development Bank (2016), *Midterm Review of Results-Based Lending for Programs*.

¹³⁷ *Ibidem*.

¹³⁸ *Ibidem*.

¹³⁹ International Development Association -Global Partnership on Output-Based Aid (GPOBA) (2009), *Review of the Use of Output-Based Aid Approaches*.

of funding such as levies on operators or spectrum auctions, which are often used in addition to government funding.

The same DMs can also present some disadvantages:

- In **infrastructure sectors**, the exclusion of components classified as Category A could restrict the types of operations supported by RBL and PforR. For instance, programmes that promote rehabilitation of existing infrastructure or development of small scale infrastructure may be suitable, while in the case of **larger infrastructure**, the DMs may intervene only once they have already been completed by the government under its broader programme.¹⁴⁰
- In the case of the use of NORAD – PbR for new or **innovative services**, it could be challenging to establish performance expectations at the start of a scheme, due to the lack of historic and comparable data. The impossibility of taking into account baseline performance and non-intervention rates, avoiding payment for performance that would have occurred anyway, would lead indeed to a loss in terms of efficiency.¹⁴¹
- The OBA approach can be used only selectively and cannot be utilised for projects financing **large upstream investments** (e.g. power, mining, railways and ports).¹⁴² Furthermore, OBA (and more generally result based financing mechanisms under which service provision is contracted to a third party) will be less attractive to providers if there is a long gap between the intervention (which requires upfront investment from the provider) and payment for a successful outcome¹⁴³ such as in the case of the **construction of large infrastructure** or in the improvement of the **quality of social services**.

As regards **endogenous development**, the DMs currently used for are **GRW, EU – NIF** (both of them through support to small and medium-sized companies), **WB – PforR, US BGs**, supporting for instance local development initiatives in urban and rural areas, as in the case of Community Development Block Grants, and **PCs**.

Most of the DMs implemented at international level (**WB – PforR, ADB – RBL, NORAD – PbR, DEVCO**) are used in the field of **capacity building**, which is an integral part of aid delivery in the framework of development cooperation.

Especially the use of PforR can present advantages in **institutional capacity building**, as the DM is more effective when the success of the investments or other government expenditure programmes require the **strengthening of the policy, government's own systems and institutions**. For instance, this is the case of the improvement of service delivery in a wide range of sectors (e.g. education, health, transport), where policy actions (such as a decentralisation law) and discrete investment actions (such as constructing new schools or contracting works for road maintenance), need to be complemented by improvements in the governance of institutions and systems, including capacity building and changes in management practices and behaviours by service providers and users alike.¹⁴⁴

Administrative capacity

In the ESI Funds context, the differences in terms of institutional and administrative structures and capacities across MS are leading to an increased recognition of the

¹⁴⁰ Asian Development Bank (2016), *Midterm Review of Results-Based Lending for Programs*.

¹⁴¹ Nao (2015), *Outcome-based payment schemes: government's use of payment by results*.

¹⁴² *Ibidem*.

¹⁴³ Nao (2015), *Outcome-based payment schemes: government's use of payment by results*.

¹⁴⁴ IEG (2016), *Program-for-Results. An early stage assessment of the Process and Effects of a New Lending Instrument*.

need for a more differentiated approach in the management and implementation of Cohesion Policy.¹⁴⁵ Indeed, ESI Funds present some elements of complexity and burden (for instance related to controls on expenditure, large number of rules that may lead to misunderstanding or misinterpretation, large number of actors involved in the process, etc.), and MS have proven to have different levels of capacity in the implementation.¹⁴⁶

Also ADMs (both international and national) present different elements of complexity, which may require different levels of administrative capacity of the recipient countries and national authorities.¹⁴⁷ Considering their structure, requirements and implementation, many of the result-oriented international DMs (**WB-OBA, WB-PforR, ADB-RBL, NORAD-PbR**) can be associated to a **high level of complexity**, because of: (i) the fact that payments are linked to outputs/results instead of expenditure, and the need to clearly identify objectives, expected results and measurable indicators, making the implementation of a result framework particularly challenging; (ii) the presence of capacity pre-assessments before the actual release of funding, posing minimum conditions for administrative capacity of recipient countries/agencies responsible for the implementation, to determine whether they are fit to do it. The presence of the latter is shared by other DMs with a lower, still **medium, level of complexity** (**DEVCO, BCF, NSPP-NASWD, US BGs, PCs**), which also takes into account the capacity of the public administration to deal with performance-based budgeting principles (in the case of NSPP-NASWD, PCs) or with the wide involvement of citizens in the programming and implementation of operations (US BGs). Finally, **low complexity** (and no real elements to cause it) are found for **NIF and GRW**.

Hereinafter, we focus the analysis on the ADMs with a higher level of complexity in order to examine possible advantages and disadvantages in their use in the ESI Funds context according to the different administrative capacity of MS.¹⁴⁸ It has to be noted that differences in terms of administrative capacity can exist also across the regions within the same MS, with, for instance, the national “more developed regions” that are likely to have a higher administrative capacity than the fellow “less developed regions”.¹⁴⁹

The **MS (and regions) with higher administrative capacity** are obvious candidates for the most complex and demanding result-based DMs, allowing to better exploit the **advantages** related to the results orientated approach, such as: (i) given

¹⁴⁵ European Parliament – Directorate General for Internal Policy (2017), *Research for Regio Committee – Building blocks for a future Cohesion Policy – First reflections*.

¹⁴⁶ EPRC (2017), *Rethinking shared management for Cohesion policy post-2020: Criteria for deciding differentiation in the management of ESI Funds*.

¹⁴⁷ For the purposes of this study, the level of complexity of the DMs has been qualitatively estimated on the basis of evidence arising from assessment presented in sections 4.2 – 4.7. Further details on the single ADMs are provided in Annex 1.3.

¹⁴⁸ Differentiation of the administrative capacity has been analysed on the basis of one of the Worldwide Governance Indicators (WGI): “Government effectiveness”. It captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The choice fell on this specific indicator, since it seems a good proxy of the administrative capacity required in the context of public policies implementation. The “Government effectiveness” has standard normal units ranging from approximately -2.5 to +2.5. For the purpose of the study, *high* administrative capacity scales above 1.3, while *low* administrative capacity scales below 1.2.

On this basis, the MS have been classified as follows: (i) *MS with lower administrative capacity*: RO, BG, GR, IT, HU, HR, PL, SK, MT, SI, CY, CZ, EE, LV, ES, LT, PT; (ii) *MS with higher administrative capacity*: BE, FR, AT, IE, LU, DE, SE, FI, NL, DK.

¹⁴⁹ According to the Article 90(2) CPR, regions are classified in: (i) *less developed regions* (where GDP per inhabitant was less than 75 % of the EU-27 average); (ii) *transition regions* (where GDP per inhabitant was between 75 % and 90 % of the EU-27 average); and (iii) *more developed regions* (where GDP per inhabitant was more than 90 % of the EU-27 average).

the need to identify clear overall objectives, capable of being translated into a defined set of measurable outcomes, the DMs can enhance the policy effectiveness, helping to clarify the government's priorities and to improve the setting of objectives;¹⁵⁰ (ii) since payments are usually linked to the achievement of output/results, results based approaches may stimulate the progress of the programme and the achievement of expected results, with advantages in terms of both efficiency and effectiveness.

On the opposite, the implementation of complex DMs by **MS (and regions) with lower administrative capacity** could involve some **difficulties and drawbacks** in the implementation, such as: (i) if capacities and public financial management system are deficient, achievement of results could be challenging and the result-based approach might not be suitable;¹⁵¹ (ii) if MS are not able to respond to the pre-assessment requirements, there can be significant delays and risks in the implementation of the DM.¹⁵²

Notwithstanding the difficulties described above, many of result-based DMs (such as the WB mechanisms) are currently and usually implemented in countries where the administrative capacity is similar or lower than the average of EU MS,¹⁵³ suggesting how limited administrative capacity would not necessarily be an unsurmountable issue. To this end, these DMs foresee measures to build administrative capacity, identified on the pre-assessment carried out on recipient country, in order to prevent or mitigate possible drawbacks and risks that administrations may experience.¹⁵⁴ In addition, some of the DLIs/payment triggers can be associated to outputs and results/outcomes linked to an improvement in the administrative capacity of authorities, incentivising as well as rewarding such improvement. Thanks to these arrangements, results oriented DMs can be used also in the case of MS (and regions) with lower administrative capacity, leading to potential **advantages**: (i) adopting a results-focused approach allows public managers to ask fundamental strategic questions about how to programme interventions and to deliver services, and this could improve the quality of public management¹⁵⁵ and strengthen the system as a whole; (ii) the focus on results and the use of external services for verifications (as in the case of PbR –NORAD, OBA, PforR, NIF), offers a higher degree of certainty and reduces the administrative costs related to control at all levels, with advantages for administration with less human and economic resources.

In addition, these DMs, challenging MS with lower administrative capacity, can «raise the bar» for those levels and parts of the public administration that are able (and willing) to implement more demanding programmes and actions. This can lead to improvement in the capacity of the administration level or of the part implementing the DM, but also create some positive spill-over effects over the other level or parts of

¹⁵⁰ OECD (2007), *Performance Budgeting in OECD Countries*.

¹⁵¹ Specifically, the likelihood of 'good performance' (in the sense of achieving results) is more pronounced in cases in which countries have good leadership structures, planning and implementation capacity, and a functioning public financial management system.

¹⁵² Examples of risks relate to the effectively implementation of the operations, the achievement of results, the management of fiduciary risks, as well as environmental and social impacts. Examples of delays can be found in the case of NORAD-PbR, which encountered delays with implementation of the first phases dedicated to capacity development and reforms, resulting in a delay in achieving operations results.

¹⁵³ In 2015, the result in terms of Government Effectiveness of Serbia (subject of the WB-OBA case study) was lower than Bulgaria's. Morocco and Tunisia have results similar to Romania, while Uruguay a level comparable with Italy (all these countries make use of WB-PforR). According to the EPRC study, all the mentioned EU Member States are well below the average EU value for the indicator (Sources: World Bank, *Worldwide Governance Indicators*; and EPRC (2017), *Rethinking shared management for Cohesion policy post-2020: Criteria for deciding differentiation in the management of ESI Funds*).

¹⁵⁴ PforR, for instance, provides specific support for the use of government's own systems to implement the program, including financial planning, procurement, anti-corruption, and environmental and social standards, supporting the strengthening of the internal administrative capacity.

¹⁵⁵ OECD (2007), *Performance Budgeting in OECD Countries*.

the public administration, becoming a way to foster an improvement of the administrative capacity as a whole.

Level of funding

With the ESI Funds regulations setting specific thresholds for the level of EU funding in terms of co-financing rates,¹⁵⁶ the actual rates differ across MS, reaching up to 85%.¹⁵⁷ The co-financing rate at the MS level is also different than the rate at a priority axis or project level, where State aid rules or revenue generation rules are applied.¹⁵⁸

As compared to ESI Funds, few ADMs present specific rules as regards the co-financing rate (BCF, GRW and US BGs),¹⁵⁹ while the large majority of the international ones does not (WB-OBA, WB-PforR, ADB-RBL, DEVCO and NIF), being more flexible in terms of minimum-maximum share of donor's resources.¹⁶⁰ Available information is presented in Table 5 below.

Table 5 - Range and average donor co-financing rate for ADM (where known)¹⁶¹

| ADM | Range of donor co-financing rate | Average of donor co-financing rate |
|-----------------|----------------------------------|------------------------------------|
| WB-OBA | - | 55% |
| WB-PforR | 8% - 100% | 34% |
| ADB-RBL | 4% - 82% | 27% |
| DEVCO | - | 44% |
| NIF | 1% - 80% | - |
| BCF* | Max 50% | - |
| GRW* | 10% - 40% | - |
| US BG* | Up to 100% | - |

¹⁵⁶ Overall thresholds are set in Article 120 CPR. Thresholds are set 85% for the Cohesion Fund; 85% for the less developed regions of Member States whose average GDP per capita for the period 2007 - 2009 was below 85% of the EU-27 average; 80% for the less developed regions of Member States other than those referred to above, and for all regions whose GDP per capita used as an eligibility criterion for the 2007-2013 programming period was less than 75% of the average of the EU-25 but whose GDP per capita is above 75% of the GDP average of the EU-27; 60% for the other transition regions not already categorised; 50% for the more developed regions. Additional (or different) thresholds are set for each Fund under the fund-specific regulations.

¹⁵⁷ European Commission (2016), *European Structural and Investment Funds 2014-2020. 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015*, COM(2016) 812 final.

¹⁵⁸ For instance, in the case of revenue generating operations, the maximum co-financing can be decreased at the moment of adoption of a programme for a priority or measure under which all the operations are supported (art. 61(5) CPR).

¹⁵⁹ As regards US BG, rules are defined in terms of federal/national funding, which is limited to a pre-determined amount. Such amount is always constrained by a cap and does not automatically adjust based on actual costs or actual needs, despite the fact that the funding can change on a yearly basis. However, such pre-determined amount varies across block grants programmes: some capped federal programmes do not require any state spending (thus donor's co-financing rate can be considered as 100%), while others require some level of state contribution, typically based on past levels of state spending in the programme or programmes replaced by the block grant (The Henry J. Kaiser Family Foundation (2004), *Medicaid and Block Grant Financing Compared*).

¹⁶⁰ For some selected DMs (i.e. NSPP-NASWD, PC), no consistent or complete information was retrieved, allowing to have a complete and solid basis for an overview of co-financing rates in use. In the NORAD case on Payment by results, no data (individual donors or aggregate data) is available on trends in the monetary support given to cash-based interventions (Source: NORAD (2011), *We Accept Cash: Mapping Study on the Use of Cash Transfers in Humanitarian, Recovery and Transitional Response*, NORAD Report 10/2011).

¹⁶¹ The asterisk (*) indicates ADMs with specific rules as regards the co-financing rate.

| ADM | Range of donor co-financing rate | Average of donor co-financing rate |
|---------------------|----------------------------------|------------------------------------|
| ESIF ¹⁶² | 31%- 85% | 71% |

Source: Author's elaboration from multiple sources (indicated in text)

Among the former, BCF envisages (at project level) a maximum federal contribution of 50%, with additional conditions set for specific projects¹⁶³ while, in the case of GRW, the maximum possible co-financing is expressed by the incentives rates that are set for eligible regions in the country, depending on the geographical area (from large enterprises in most developed regions to small enterprises in regions on the eastern border with Poland).¹⁶⁴ Among the DMs with no specific rules, the co-financing rates have a very wide and not pre-fixed range. For instance the ADB-RBL rate changes among projects (depending on their size and the presence of additional co-financing organisations), ranging from 4% to 82%.¹⁶⁵ Considering the 27 operations approved by June 2015 under WB-PforR, the share of the WB financing varied widely covering up to 100%, and, considering the total financing, WB share was 34% of total programme cost.¹⁶⁶ Donor's financing under DEVCO reached on average 44.1% over the period 2008-2014.¹⁶⁷ Also for NIF projects approved in 2014, the donor's co-financing rate covers a wide range, up to 80%.¹⁶⁸

Therefore, differences in co-financing rates across countries/MS and projects can be found for both ESI Funds and many of the ADMs, and, generally speaking, low or high co-financing rates bring different potential **advantages and disadvantages**.¹⁶⁹ A **lower co-financing rate** would reduce risks for the donor's budget, since it would mean less resources disbursed by the donor and a limited involvement in funding the programme/project. At the same time, it would create additional pressure (and thus risks) on beneficiaries or other co-financing actors in terms of budget and financial capacity. However, this may stimulate the efforts and commitment of local actors, with a leverage effect in terms of available resources that may overcome a budget fully provided by the donor. In addition, a stronger involvement of local actors in the financing may create also a higher level of commitment, accountability and ownership in the implementation on their part. On the opposite, a **higher co-financing rate** may provide more and direct control from the donor/EU in steering the supported operation, as well as more certainty on the implementation, since the donor would rely more on its capacity and resources. This would limit the need to mobilise local resources and capacities (not always easy to find at national/local level), thus overcoming possible issues that can affect the successful implementation of projects.

That being said, in many of the ADMs, the average donor's co-financing is lower than the thresholds set by ESI Funds regulations, as well as the EU co-financing rate for the ESI Funds current programming period (71% on the grand total of programmed

¹⁶² The value indicates the minimum and maximum co-financing at MS level. Data retrieved from European Commission (2016), *European Structural and Investment Funds 2014-2020. 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015*, COM(2016) 812 final.

¹⁶³ E.g. Municipal projects are cost-shared on a one-third basis (therefore the maximum federal share is limited to one-third), with matching contributions from the province and municipality. For projects where the asset is owned by a private sector entity, the maximum federal contribution is 25 per cent.

¹⁶⁴ Information available at <http://www.foerderdatenbank.de/Foerder-DB/Navigation/Foerderrecherche/suche.html?get=views;document&doc=373>.

¹⁶⁵ Considering the nine projects approved between June 2013 and June 2016. In most of the cases (7 out of 9) such percentage did not overcome 25%. (Source: Asian Development Bank (2016), *Midterm Review of Result-Based Lending for Programs*).

¹⁶⁶ Independent Evaluation Group (2016), *Program-for-Result, An Early-Stage Assessment of the Process and Effects of a New Lending Instrument*.

¹⁶⁷ EuropeAid, *Delegated cooperation - State of Play*, presentation of 13 December 2011.

¹⁶⁸ European Commission (2014), *Neighbourhood Investment Facility – Operational Annual Report 2014*.

¹⁶⁹ See for instance EPRC (2017), *Rethinking shared management for Cohesion policy post-2020: criteria for deciding differentiation in the management of ESIF*, European Policy Research Paper No. 96.

amount).¹⁷⁰ As a whole, ESI Funds show a stronger financial involvement of the EU as compared to other donors/DMs. In the case of ESI Funds, the EU level of control over the programming and implementation of the operations is consistent with the high co-financing rate, but it also results from the ESIF rules and provisions, which apply regardless of the specific co-financing rate at the programme, priority axis and project level.

In order to better understand how suitable ADMs are according to the different EU co-financing rates at MS level, the rates have been combined with ESI Funds funding allocation per capita.¹⁷¹

On this basis, the ADMs associated to lower donor co-financing rates (such as WB-OBA, WB-PforR, ADB-RBL) can be considered to be particularly suitable for the MS with a lower EU co-financing rate and lower ESI Funds financial allocation per capita. Indeed, these DMs are characterised by a strong focus on outputs and results, thus being able to reduce administrative burden associated to their implementation and control, which would be particularly important for those MS receiving a relatively small financial support from the EU. In addition, these MS would be even more committed in achieving the planned outputs and results, as they are used to a higher level of national co-financing, and thus would invest their own financial resources in the operations implemented through the DMs. Finally, these MS usually present a higher administrative capacity,¹⁷² and would be in the position to manage the complexity associated to result-based DMs (see previous section).

¹⁷⁰ European Commission (2016), *European Structural and Investment Funds 2014-2020. 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015*, COM(2016) 812 final.

¹⁷¹ MS have been distinguished between (i) those with EU co-financing rate $\leq 70\%$ and allocation $< \text{€}1,000$ p.c. (NL; BE; LU; UK; DK; DE; SE; FR; AT; FI; IT; IE), (ii) those with EU co-financing rate $> 70\%$ and allocation $> \text{€}1,000$ p.c. (ES; CY; BG; RO; SI; EL; MT; PL; CZ; PT; HU; HR; SK; LV; LT; EE).

¹⁷² EPRC (2017), *Rethinking shared management for Cohesion policy post-2020: criteria for deciding differentiation in the management of ESIF*, European Policy Research Paper No. 96.

4 EXPLORING POSSIBILITIES TO APPLY IN THE POST-2020 ESI FUNDS SOME FEATURES OF THE OTHER DMS

4.1 Introduction

This chapter presents **possible policy options** to improve the post-2020 ESI Funds delivery system, leveraging the transferable features of other international and national ADMs. The identification of options and associated transferable features for ADMs was performed on the basis of their potential and suitability to improve the ESI Funds delivery system using the five assessment criteria: accountability, legality and regularity of transactions, sound financial management, good governance, and simplification.

A few assumptions have to be spelled out before proceeding to the transferable options.

- As compared to ESI Funds, none of the international DMs have the same wide-ranging scope of support, even if their offer is broad. At the same time, it is unlikely there would be so many parallel support schemes running in one country or region as is the case for the ESI Funds. Furthermore, none of the international DMs puts the same importance on the principles of partnership and subsidiarity;
- As compared to ESI Funds, national DMs function within just one public administration framework, even in federal countries, with ad-hoc procedures, few actors involved and in-built audit authorities that cover standard checks of legality and regularity of expenditure. Furthermore, ex ante conditionalities are not imposed from external international authorities (as it is the case of ESI Funds); rather, they stem from the national policies and strategies;
- ESI Funds are governed by EU regulations, which are proposed by the EC but adopted by European Parliament and the Council. Therefore, while the Commission has an important influence on the shape of the EU provisions and thus the ESI Funds delivery system, the ultimate decision about their content is taken by the co-legislators, while in the case of many ADMs the donor (e.g. WB, ADB) can have more control on decision-making process for setting the DM's "rules";
- The transferable features should not add new requirements on top of the ESI Funds existing ones, but rather integrate or replace them with better ones.

The assessment of the ADMs against the ESI Funds delivery system allowed the identification of a set of transferable features, which could be implemented into the ESI Funds context in order to address the weaknesses identified for the ESI Funds while building on their strengths. These features have been structured into five policy options, which are not mutually exclusive and which are presented below.

Option 1. Expanding the use of payment triggers which are not based on real costs but on completed actions/outputs/ outcomes (ADB-RBL, WB-PforR, OBA, NORAD-PbR).

Option 2. Improving responsiveness of the ESI Funds programmes (ADB-RBL).

Option 3. Strengthening the links between the administrative capacity building and investment programmes (PC, NORAD-PbR, and WB-PforR).

Option 4. Simplifying the institutional architecture, rules, processes, and tools

4.1 Simple institutional architecture, (WB-OBA), reducing the number of authorities assigned in the delivery system architecture.

4.2 Use of the recipient country own management system (ADB-RBL, WB-PforR).

4.3. Comprehensive and integrated risk management tools.

4.4 Simplified, standardised procedure, easy to use implementation and reporting tools (international and national DMs).

4.5 A flexible framework of eligible expenditure (US BG).

Option 5. Extending the use of proportional solutions

Each option and feature has been assessed in terms of: (i) strengths and weaknesses against the five assessment criteria; (ii) potential impacts on the current ESI Funds delivery system and grants based on real costs, as well as on its trade-off; (iii) issues and opportunities associated to their practical implementation into the ESI Funds context.

4.2 Assessment of the options

Option 1. Expanding the use of payments triggered by completed actions/outputs/outcomes.

While the reimbursements in the ESI Funds delivery system – between the EC and the programme authorities as well as between the programme authorities and the beneficiaries – are mostly based on the expenditure incurred in the implementation of the operations, it does not mean that it has no safeguards to ensure that the agreed actions and outputs are delivered. They are described in detail in chapter 3, however, in order to put option 1 in the appropriate context, it is worth to briefly recall the key result-oriented tools:

- **As regards the actions and outputs, at the EC-MS level**, apart from the programming rules, there are also result-oriented tools which envisage financial sanctions for non-compliance, i.e.: the ex ante conditionalities (the actions to meet the necessary strategic, legal and capacity preconditions) and performance framework and reserve (suspension of payments at performance review 2019 and net corrections at closure). As regards the relations between the programme authorities and the beneficiaries, the MA has to verify that the co-financed products and services – as described in the contract signed with the beneficiary – were actually delivered. These products and services have to comply with the applicable law, as well as with the conditions for support for the project and with the operational programme.
- **The policy's results and impacts** are analysed through the obligatory monitoring, reporting and evaluation processes for each programme, as well as the EC's reporting to the other EU institutions.

Nonetheless, the assessment of the ESI Funds delivery system has identified a **trade-off** between the legality and regularity and simplification, i.e. that the incentives aiming at ensuring the reimbursed expenditure is regular can generate significant administrative costs and burden.

The analysis of the SCOs used in the ESI Funds delivery system has resulted in a conclusion that lump sums and unit costs may actually address – at least partially – this trade-off. The European Court of Auditors' report on the ESF implementation in the previous programming period pointed out that the SCOs can actually make the projects less prone to error and at the same time decrease substantially the administrative costs and burden, especially for the beneficiaries, while maintaining

result orientation. The JAP was also seen as a promising tool,¹⁷³ facilitating a further shift towards outputs and results in the ESI funds' delivery while allowing the Commission to have a sufficient insight into what is actually happening on the ground. "Joint Actions Plans challenge not only the financial implementation of the Funds by using only SCOs, but they also challenge the normal negotiation process. JAPs can, therefore, be seen as an experiment in alternative modes of implementation of the Funds."

The analysis of the ADMs that use actions, outputs and outcomes as the triggers for payments from the donor to the recipient country has led to similar conclusions as regards these three criteria, and that is why further expansion of these forms is recommended for the ESI Funds delivery system.

The first option would be a pro-active encouragement of the programme authorities to apply these forms in their relations with the beneficiaries – many forms of SCOs are already available, and the Omnibus amendments will broaden their often even more. However, the ECA report on the use of SCOs in the ESF signalled that there is a strong reluctance among the programme authorities towards using such delivery modes, because they weaken the link between the expenditure and the reimbursement, while they still have to function in the legal framework which is based on the real cost logic.¹⁷⁴ The ECA pointed out that "the shift from a real cost-based system to simplified costs can require a change in culture and mind-set. It can sometimes be difficult for beneficiaries, IBs and MAs, as well as audit authorities, to move from a system whereby the golden rule was that all expenditure must be verified on the basis of receipts and invoices, to a system where this no longer applies."¹⁷⁵ This conclusion is backed by the fact that the legal obligation to use SCOs for small operation co-financed by the ESF gave the necessary push to the dissemination of this delivery mode.

Another option could be **to use this delivery mode at a higher tier of governance**, i.e. as a way of reimbursing the EU support between the EC and the programme authorities. Depending on the exact form this option could take, it may require more substantial changes in the EU rules and practices as regards the whole policy cycle. It implies shifting the focus from individual projects (i.e. their compliance with the applicable law on one side and their contribution to the programme objectives on the other side), to the deliverables expressed either in activities or in aggregated outputs/outcomes. In other words, it would be left to the Member State how the aggregated and agreed values will be reached. Defining the exact degree of the Member State's freedom in deciding on the "how" would be the key issue. It would have a major impact on the content of the programming documents, the reporting and monitoring processes as well as on financial management and management and control systems (e.g. relying entirely on the national/regional public administration system). Therefore, it would essentially result in a major redefinition of the shared management relations between the Commission and the Member States.

When reflecting on the implication of such a change, it is also necessary to take into account the fact that the two different delivery modes – payments based on real costs and payments based on actions/outputs/outcomes – will have to coexist for quite a long time. Bearing in mind the ESI Funds' very wide scope of support, multitude of beneficiaries and authorities, it would not be feasible to shift the whole delivery system into a completely new one, because this would pose a serious risk to the performance of the ESI Funds delivery system in terms of the accountability, legality and regularity, the sound financial management and good governance, while

¹⁷³ The ECA report, page 13.

¹⁷⁴ The ECA report page 11.

¹⁷⁵ The ECA report page 13.

simplification gains may not materialise immediately due to increased administrative costs linked to the shift. In addition, in the sectors where the investment costs are volatile or difficult to predict, both the beneficiaries and the programme authorities may prefer to use real-cost based reimbursement.

Therefore, it is advisable that payments based on actions/outputs/outcomes are introduced in the future programming period on a voluntary basis and in carefully selected "pilot" cases. In fact, still in the current programming period there will be a possibility to implement it for the first time due to the introduction of the "payments based on conditions" by the Omnibus. The Commission is currently working on a delegated act that will define the practical terms of using this option.

This new delivery mode needs to have clear requirements as regards ensuring legality and regularity, especially in comparison with the current, real cost-based system, e.g. as regards the audit trail. Otherwise, uncertainties will discourage the programme authorities from using it – as it was the case for the JAP.

Since the strengths and weaknesses of applying this form of payments at the beneficiary level are broadly similar to the ones of the SCOs in the ESI Funds delivery system, the following assessment concerns their application at the higher level, i.e. the EC-MS.

Its estimated impact is summarised in Table 6.

Table 6 - Expanding the use of payments triggered by completed actions/outputs or other outcomes

| | Accountability | Legality and regularity | Sound Financial management | Good Governance | Simplification |
|---|----------------|-------------------------|----------------------------|-----------------|----------------|
| Baseline: ESI Funds delivery system | | | | | |
| Overall score | A | A | B | B | C/B |
| Specific transferable features from ADMs and relative strengths and weaknesses | | | | | |
| Expanding the use of payments triggered by completed actions/outputs/outcomes | - | - | + | + | ++ |

Rating: (++) - significant positive influence; (+) - slight positive influence; (n.a) - no significant influence; (-) - slight negative influence; (--) - significant negative influence

Potential impacts of the option on the ESI Funds delivery system

The key feature of the actions/outputs/outcomes-based payments (as is the case for WB-PforR, NORAD-PbR, ADB-RBL, and WB-OBA) is making recipients accountable for other elements of the intervention rather than merely expenditure, namely outputs and/or results/outcomes. Specifically, the payments are related to Disbursement Linked Indicators (DLIs) with targets to be achieved. DLIs are selected mainly from three categories: (i) outcome/result, (ii) outputs, or (iii) capacity development (or institution strengthening) results. DLIs related to impacts (or results) are not used because in most cases they can only be measured after the programme completion, so they would not be useful as triggers for disbursement.¹⁷⁶

As regards **accountability**, and **legality and regularity**, actions/outputs/outcomes-based payments, many ADMs operating on this basis score well in these criteria. However, using this delivery tool in the ESI Funds delivery system for reimbursement between the EC and the MS will be challenging for the EU level and for the Member

¹⁷⁶ Asian Development Bank (2016), Midterm Review of Results Based Lending for Programs. Available at: <https://www.adb.org/sites/default/files/institutional-document/192626/midterm-review-rbl-programs.pdf>, p.18

States and therefore it may have a negative effect. The main risks are associated with the decreased traceability of the EU resources at the level of projects – and therefore a decreased control. It should be highlighted here that the volume of the international ADM support is significantly smaller than the ESI Funds allocation to net beneficiary Member States. The wide scope of support, the sheer number of co-financed projects, their scale and the reputational risks involved have to be taken into account when contemplating the possibility of introducing this new delivery tool into the ESI Funds, alongside the traditional cost-based approach.

In a system based on the real costs it is easy to identify the projects and concrete expenditure items that received the EU support. In the case of the actions/outputs/outcomes-based payments the traceability of every single EUR from the EU budget will be reduced (see considerations for simplification), as the payments triggers would be defined at a higher level of aggregated projects (in the case of output/outcomes) or would not be linked with projects at all (in the case of actions). The scope of this decrease and its concrete implications are key factors determining the impact of the new delivery tool on the ESI Funds system. It is highly recommended for the ESI Funds to maintain the possibility to identify the support programmes, schemes, groups of projects and maybe even individual projects that received support from the EU budget. These risks stem from the fungibility, i.e. that the EU, national, regional and private resources may become interchangeable and it may be difficult to trace for what the EU resources were actually spent by the Member States and regions. Weaker traceability undermines responsibility for the co-financed projects as well as enforcement of the applicable EU law at the project level. It should be noted here that while the international donors of the ADMs have their own manuals and standards as regards, e.g. public procurement, their scope cannot be compared with the *acquis communautaire*, which requires verification when the EU budget is implemented for all policies, not only the ESI Funds. This makes the reputational risks higher for the EU than for the other international donors.

Despite the above-described risks, payments based on actions/outputs/outcomes may have positive consequences for **accountability**, because the relevant EU rules regulating the obligations and rights of the Commission and the programme authorities as regards the achievement of the deliverables would have to be strengthened and extended beyond the current performance framework.

Similarly, as regards **legality and regularity**, implementing payments based on actions/outputs/outcomes would require a new approach which would ensure greater assurance at the level of aggregated outcomes as well as to fiduciary risks at this level. Here the Commission could build on the past experience with the SCOs and implementation of the new "payments based on conditions" instrument in the current programming period (provided that it will be implemented before the legislative framework for the post-2020 period is adopted). Important changes would be necessary as regards rules concerning the performance controls and the ensuing consequences in the cases of under-achievement. For example, it will be necessary to establish methods and tools for a reliable and objective performance verification, such as (i) defining a verification protocol¹⁷⁷ for each DLI; (ii) entrusting the verification to (external) independent bodies. These tools and methods are particularly relevant for countries where the level of confidence in national governance systems is low.

Moreover, identification of systemic weaknesses in applying the horizontal EU rules on public procurement, state aid, etc will continue to be a challenge. Although results based DMs may require a clearly defined expenditure framework to help results

¹⁷⁷ The protocol defines for each DLI: its definition, the measurement unit, verification procedures and the authority responsible for verification.

delivery,¹⁷⁸ **the control and verification of expenditure are lower**, because payments depend on achievements of the agreed indicators (DLIs) – not on the expenditure as such. Result-based payment also tends to reduce the donors' control, relying more on the strengthening of the internal control systems of the recipients' institutions, beneficiaries, and partners. These systems are assessed ex ante in order to ensure that they possess the required capacity. Weaknesses identified during the pre-assessment are addressed through capacity building measures, which become a condition for investments implementation and payments. Therefore, the donor would perform on the spot checks and controls only if there are reasons to have doubts whether the national/regional system is properly functioning. Therefore, the reputational risks may increase (although it depends from the level of traceability).

Actions/outputs/outcomes-based payment presents a key strength for **sound financial management**. The DLIs are designed not only as triggers for disbursements but to provide incentives for performance and effectiveness, also thanks to the definition of a "DLI matrix" including measurable and verifiable indicators for the most important achievements expected from the implementation of the operation - e.g. e number of jobs created, number of people served by a new services/infrastructure – that could better correspond to the DLIs agreed by EC and MS, rather than broad qualitative criteria. When introducing the actions/outputs/outcomes-based payments, the EC and the programme authorities could build on the experiences with the current performance framework, ensuring an optimal correlation of the framework indicators with the relevant selected DLIs. Furthermore, DLIs can implicitly affect project selection, prioritising the operations that are more likely to produce the actions, outputs and results associated with the DLIs agreed between the donor and the recipient government. However, DLIs appear to have been sometimes designed to ensure that disbursement procedures are not very demanding.¹⁷⁹ However, usually the DLIs do not cover all actions of the programme, but only a selection, what makes them similar to the current ESI Funds system of performance framework, which has to reflect only more than 50% of the financial allocation for the priority axis of the programme. If this approach is applied, it might create a weaker incentive for the Government to be accountable for these elements of the programme which are not linked to DLIs and thus to payments. All considerations above lead to a conclusion that the programming requirements will have to be adjusted to the new mode of payments.

As regards **good governance**, actions/outputs/outcomes-based payments could be a strength for policy ownership, since DLIs are agreed with the national/local governments, who thus will be committed and incentivised in achieving them. However, depending on the exact modalities of the new tool, it may be also more difficult for the Commission to ensure that the partnership principle is properly applied when the selection criteria are prepared and projects are selected. As regards flexibility, currently the EC, the programme authorities and the beneficiaries have the biggest experience with the SCOs in the areas co-financed by the ESF for both, i.e. human capital, social inclusion (as well in the endogenous development) and capacity building. Consequently, introducing payments based on actions/outputs/outcomes in these areas can be significantly easier than in the areas with a very limited uptake of SCOs, i.e. the productive investments, infrastructure and sustainable development. The responsiveness depends on the competencies and skills of the EC and the programme

¹⁷⁸ Asian Development Bank (2016), Midterm Review of Results Based Lending for Programs. Available at: <https://www.adb.org/sites/default/files/institutional-document/192626/midterm-review-rbl-programs.pdf> , p1

¹⁷⁹ World Bank Group (2016), *Program-for-Results, an Early-Stage Assessment of the Process and Effects of a New Lending Instrument*. Available at: <https://ieg.worldbankgroup.org/Data/Evaluation/files/program-for-results-full.pdf> p. 1.

authorities in assessing the necessity of programme amendments and proper translation of these changes into changes in the DLIs.

In terms of **simplification**, the shift from reimbursing real costs to payments triggered by actions/outputs/outcomes may significantly reduce the administrative costs for MAs and burden for beneficiaries during the implementation phase due to the shift of focus of the controls from the expenditure to outputs and results. However, high administrative costs may be associated with the programmes' preparatory process (i.e. pre-assessment of the national/regional management system; definition and selection of DLIs) - especially the first time round.

Finally, it is important to take **differentiation** aspects into due consideration. The payments based on actions/outputs/outcomes require a sound, reliable methodology underpinning the deliverables that will trigger the payments. Since the involvement of the donor in controlling the investment process at the level of individual projects will be less prominent – as regards both their regularity and economy, efficiency and effectiveness – it is important that the recipient administration at the national or regional level has a good, well-established record as well as the prerequisite capacities needed to develop and implement the scheme. That is why it is advisable that this form of support be initially piloted in sectors that have a long, consistent and successful experience with SCOs. In the case of the ESI Funds, this mainly concerns interventions connected to human capital, education, vocational training, labour markets and business support. The analysis of the scope of support of these types of delivery mechanism has shown that they can also be used in:

- **government-led sector programmes**, ensuring ownership of the support by the relevant national or regional public authorities (PforR, ADB-RBL), also through capacity building plans;
- **areas where the recipients should be given some freedom to innovate** in the way they address a particular socio-economic issue (e.g. reintegration of the long-term unemployed in the labour market supported by NORAD-PbR) or to strive for higher efficiency gains (e.g. in the energy efficiency schemes supported by WB-PforR or ICT interventions funded by the WB-OBA). For similar reasons, this form of support could also be useful for endogenous development, supporting local initiatives in urban and rural areas.

Applying this type of support to infrastructure investments is less common (WB-OBA), and it is rather applied at the level of a project or a group of projects, together with the relevant public services (energy, waste and water management, even transport). However, it is necessary to take into account the limitations linked to the public procurement of high value contracts and large projects that require long-term investments (power interconnections, railways, ports). In addition, in this case any cost overruns will have to be covered by the recipients, making this form of support potentially unattractive to them (while making it more attractive to the donor). Payments triggered by actions/outputs/outcomes are more suitable for interventions where the gap between the intervention/costs on the recipients' side and the reimbursement from the donor is not long. Due to the potentially less costly implementation, this form of support may be preferred by the national and regional recipients that have high administrative capacity and receive smaller support, or provide higher own co-financing.

Option 2. Improving responsiveness of the ESI Funds programmes

One main transferable feature that was identified in the ADMs assessment for improving the responsiveness of the ESI Funds programmes, was that only major restructuring of programmes needs to be approved by the donor (ADB-RBL).

The estimated impact of the transferable feature is summarised in Table 7.

Table 7 – Improving responsiveness of ESI Funds programmes

| | Accountability | Legality and regularity | Sound Financial management | Good Governance | Simplification |
|---|----------------|-------------------------|----------------------------|-----------------|----------------|
| Baseline: ESI Funds delivery system | | | | | |
| Overall score | A | A | B | B | C/B |
| Specific transferable features from ADMs and relative strengths and weaknesses | | | | | |
| Only major restructuring of programmes need to be approved by the donor (ADB-RBL) | n.a | n.a | +/- | ++ | + |

Rating: (++) - significant positive influence; (+) - slight positive influence; (n.a) - no significant influence; (-) - slight negative influence; (--) - significant negative influence

Potential impacts of the option on the ESI Funds delivery system

In terms of **accountability and legality and regularity**, this feature does not present specific strengths or weaknesses, because it does not affect arrangements for management and control.

The implementation in the ESI Funds context of this option is expected to have a **significant net positive impact** in terms of **good governance**, due to improved **responsiveness**, addressing ESI Funds weakness related to the long duration of the process of amending programming documents with the approval of the European Commission.

As regards **simplification** it is expected a **positive net impact** through the reduction of the administrative costs for the donor (the EC) and the recipient (the MS or a region) related to a lengthy process for adopting changes on the programming documents. For instance, in case of ADB, minor changes are processed in 1 month, with reduced administrative costs compared to the changes requiring the approval of the donor. Nevertheless, the changes of the programming documents may have limited weight among the factors influencing the overall administrative costs, therefore it is difficult to conclude that the feature will have.

However, the impact on the **sound financial management** requires some reflection. Transferring responsibilities for a large part of the amendments to the programme authorities means reducing the control of the donor over programme implementation and could be seen as an additional risk / weakness of the DM from the point of view of the sound financial management. Therefore, the key issue is the definition of what constitutes a "major change". Especially that in the current programming period cohesion policy has a similar solution – Article 96(10) CPR, However, the extend of the amendments which have to be accepted by the EC in that case is much broader than, for example, in case of ADB-BRL, where "major changes" mean changes affecting the expected impact of the programme, objectives, and funding. Thus the donor's approval is not required in case of minor restructuring, such as changes in the DLIs, or procedural changes (reporting, monitoring etc.).

Prior to the definition of major and minor changes, it is necessary to review the content of the current programming documents at both partnership agreement level and operational programmes (see option 5) and the level of detail of the information required. Other **differentiation** criteria could be the share of programme's budget concerned by the amendments, e.g. 5%. In addition, it should also be kept in mind that in the case of cohesion policy any amendments of the programmes have to be accepted by the monitoring committee (i.e. consulted with all the relevant partners), where the Commission is present as well (only in advisory capacity).

Option 3. Strengthening the links between the administrative capacity building and investment programmes

The transferable feature identified in the ADMs assessment is integrating administrative capacity building interventions into the investment contract. Provision of financial support for investments is an incentive for the public sector to improve its procedures, systems, rules, and expertise (PC, NORAD-PbR, and WB-PforR).

The estimated impact of the three transferable features is summarised in Table 8.

Table 8 - Transferrable feature for strengthening the links between administrative capacity building and investment programmes

| | Accountability | Legality and regularity | Sound Financial management | Good Governance | Simplification |
|---|----------------|-------------------------|----------------------------|-----------------|----------------|
| Baseline: ESI Funds delivery system | | | | | |
| Overall score | A | A | B | B | C/B |
| Specific transferable features from ADMs and relative strengths and weaknesses | | | | | |
| Administrative capacity building interventions integrated into the investment contract (WB-PforR, NORAD-PbR, ADB-RBL) | n.a | n.a | + | + | n.a |

Rating: (++) - significant positive influence; (+) - slight positive influence; (n.a) - no significant influence; (-) - slight negative influence; (--) - significant negative influence

Potential impacts of the option on the ESI Funds delivery system

This option does not present specific strengths and weaknesses in terms of **accountability, legality and regularity or simplification**.

Integration of the administrative capacity building into the investment contract¹⁸⁰ represents a **strength in terms of sound financial management**, ensuring the capacity of the programme authorities – one of the key factors for the effectiveness and efficiency of the support – is given more attention and is planned alongside the investments. In order to incentivise the government of the recipient country to implement the support measures, relevant capacity building DLIs could be included in the system based on payments linked to actions/outputs/outcomes. However, it is important to discern between the administrative capacity building and the preconditions and the two should not be mixed, i.e. preconditions should cover such requirements that have to be met prior to the implementation, while administrative capacity building actions can take place during implementation.

Making a strong link between the administrative capacity building and the co-financed investments creates a strong incentive and can increase ownership and policy adequacy, making the feature a strength in terms of **good governance** as well. However, the approach based on capacity development preparatory phases (NORAD-PbR) creates a risk of delayed disbursements if progress in the implementation of the capacity development measures is slow or delayed, delaying the implementation of phase.

¹⁸⁰ As a way of example, PbR mechanism designed by NORAD, is based on a three phases financing approach: in phase 1 an unconditional aid for capacity building for preparation of the action implementation, in phase 2 a conditional aid for policy reforms implementation and in phase 3 a results-based aid for the action implementation, consisting of payments for emission reductions. WB-PforR and ADB-RBL provides examples of capacity building actions integrated into the programme. Identified in the pre-assessment or as weaknesses during the programme implementation, they are included in programme action plans and monitored and may include risk management measures, strengthened internal audit and inspection functions, complaints-handling systems, strengthened ethics and integrity processes.

The minimum conditions regarding the administrative capacity could be treated as ex ante conditionalities or as DLIs. The experience with the implementation of the TO11, technical assistance of the MS and of the EC as well as with the 2014-2020 ex ante conditionalities provides a very good basis for the more comprehensive approach to the administrative capacity building in the future programming period.

As regards the **differentiated** approach to using this option, the main targets should be Member States and regions in which past programmes have established that there is an insufficient administrative capacity on the part of relevant authorities, beneficiaries or partners.

Option 4. Simplifying the institutional architecture, rules, processes, and tools

The transferable features identified in the ADMs assessment are the following:

- 4.1 Simple Institutional Architecture, (WB-OBA, ADB-RBL, WB-PforR), reducing the number of authorities assigned in the delivery system architecture.
- 4.2 Use of the beneficiary country own management system (ADB-RBL, WB-PforR)
- 4.3. Comprehensive and integrated risk management tools.
- 4.4 Simplified, standardised procedure, easy to use implementation and reporting tools (international and national DMs)
- 4.5 A Flexible framework for eligibility rules (US BG)

The estimated impact of the transferable features is summarised in Table 9.

Table 9 – Transferrable features for simplifying the institutional architecture, rules, processes and tools

| | Accountability | Legality and regularity | Sound Financial management | Good Governance | Simplification |
|--|----------------|-------------------------|----------------------------|-----------------|----------------|
| Baseline: ESI Funds delivery system | | | | | |
| Overall score | A | A | B | B | C/B |
| Specific transferable features from ADMs and relative strengths and weaknesses | | | | | |
| 4.1. Simple Institutional Architecture, (WB-OBA, ADB-RBL, WB-PforR), reducing the number of authorities in the delivery system architecture. | + | + | n.a | n.a | ++ |
| 4.2. Use of the recipient country own management system (ADB-RBL, WB-PforR). | + | - | n.a | ++ | + |
| 4.3. Comprehensive and integrated risk management tools. | n.a | + | + | n.a | + |
| 4.4. Simplified, standardised procedure, easy to use implementation and reporting tools. | + | n.a | n.a | n.a | ++ |
| 4.5. A flexible framework of eligibility expenditure (US BG) | n.a | + | n.a | n.a | ++ |

Rating: (++) - significant positive influence; (+) - slight positive influence; (n.a) - no significant influence; (-) - slight negative influence; (--) - significant negative influence

Potential impacts of the option on the ESI Funds delivery system

Simple institutional architecture, (WB-OBA), reducing the number of authorities assigned in the delivery system architecture.

The first feature would result in reduction of the number of programme institutions, for example at the moment the cohesion policy has at least three types of bodies: MA, CA and the AA. In addition, the monitoring committee plays a key role in the implementation of the programme and the MA may delegate its tasks to an IB. In both the international and national DMs the institutional system is usually build on the simple bilateral relations between the donor and the recipient, plus a verifying/auditing body (be it external or national). Therefore, there seems to be a room for simplification in the ESI Funds delivery system, at least by merging the tasks of the MA and the CA. In addition, the past performance of the programme authorities – as for example it is the case in the Danish Performance Contracts – could be taken into account. Summing up, it would have a positive impact primarily on **accountability**, ensuring **legality and regularity** and on **simplification**, while the other criteria would remain unchanged.

Use of the recipient country own management system (ADB-RBL, WB-PforR).

As regards the second one – the use of the recipient country own management system - and the **simplification for the national/regional authorities of the recipient countries**, in the budget-support-type international DMs (such as WB-OBA, ADB-RBL, WB-PforR), the administrative costs are limited due to the fact that they rely on the existing national and regional authorities and the implementation system of the relevant national/regional policies instead of creating a parallel system of programme authorities as it is the case in the current ESI Funds system. Therefore, there can be a decrease of administrative costs, but its extent depends on the type of the EU rules their level of detail, which would have to be respected by the national/regional authorities at the programming, implementation, monitoring and evaluation. If the EU reimbursement to the Member State or region is still based on the regularity and legality of expenditure in the co-financed projects, if the traceability of the EU resources is required down to the level of individual invoices, then the simplification impact of this feature may be less noticeable.

It will be necessary for the Commission to acquire the necessary assurance that the (national) institutional system is trustworthy. This imposes pre-assessments of the recipient government (see Option 3), and their extent and complexity may vary. Looking at the assessed ADMs, some are limited to institutional capacity, while others like WB-PforR also including programme soundness, technical, environmental and social systems as explained in the box below. In some cases (such as ADB-RBL) the high administrative costs associated to pre-assessments, make the DM more suitable for support for large infrastructure projects.

As regards simplification for the beneficiaries, the strength of this option is that only the national/regional procedures would have to be applied and so the beneficiaries would not have to deal with possible inconsistencies between the usual national/regional rules and the national/regional rules established to implement the ESI Funds – the two do not have to be the same. However, the final impact depends on the quality and user-friendliness of these usual national/regional rules.

To sum up, this second feature could have a positive impact on **accountability** and **simplification** and a high positive impact on and **good governance**, thanks to an increased policy ownership. However, some drawbacks on **legality and regularity** are possible, especially in Member States and regions with lower administrative capacities and higher risk of fraud and corruption.

Comprehensive and integrated risk management tools.

Looking at the third feature, some ADMs, such as WB-PforR, WB-OBA, ADB-RBL, US BG, include in the pre-assessment **comprehensive and integrated risk management tools** in order to identify major risks and measures to mitigate them, or to decide not to pursue the implementation if the risks are too high. In the case of WB-PforR, risk assessment includes an overall risk rating based on the consolidation of risks associated with the operating environment (country risk and stakeholder risk) and a range of programme-level risks (technical, fiduciary, environmental, social and related specifically to DIIs).¹⁸¹ The risk assessment is designed as a dynamic process, which is updated and monitored throughout the programme preparation and implementation. Such risk based assessments would inform decision-making on the scope and content of programmes as well as measures for capacity development.¹⁸² These risk assessment frameworks could be a tool for improving the administrative capacity of recipient governments as such, helping them in identifying the major risks that could prevent the achievement of programme results.¹⁸³ A risk-based control system should ideally result in significant decrease of the management verifications performed by the MAs and refocus the audits.

Therefore, the feature presents advantages from the point of view of **legality and regularity** of transactions, **sound financial management, as well as simplification**. As for the latter, while the additional administrative costs for carrying out the initial risk assessment and its regular monitoring and update may be a disadvantage for the programme authorities and/or the donor, it may be less burdensome during the implementation in comparison with the current practice of management verifications – both for the authorities and for the beneficiaries. No significant strengths or weakness can be identified in terms of **good governance or accountability**. However, it has to be stressed that in comparison with the current system, scope of the proposed risk assessment may be seen as intrusive by the recipient countries and regions.

In addition it is worth noting, that in the case of the analysed international ADMs the support is preceded by a comprehensive pre-assessment at the programming stage which means that the controls during implementation can be lighter and based on the identified risks. Looking at context of the ESI Funds delivery system, the European Commission – after several programming periods of the pre-accession and ESI Funds support – should have ample, in-depth knowledge of the specific strengths, weaknesses and risks of the national, regional and maybe even local authorities in the Member States.

Box 7 – WB-PforR and ADB-RBL pre-assessment

Under **WB-PforR**, three ex ante assessments are foreseen: technical, fiduciary (including the risk of fraud and corruption) and environmental and social systems assessments (including stakeholder consultations). Such assessments are crucial for the implementation of any operation, since the WB decision takes into account country/sector/multisector-specific circumstances, potential benefits of the programme, the needs and capacity of the recipient government, and the degree to which the financing and implementation support will contribute to the overall programme objectives and results. Additional checks are made throughout the implementation, since this phase is under the responsibility of the beneficiary. The donor (WB) is however responsible for the supervision of the implementation, and also provides implementation support to the government, which may include institutional capacity building actions and risk management measures related to technical, fiduciary and environmental issues. Each operation has an implementation support plan, detailing both WB technical support to the government institutions and WB monitoring and supervision actions. The donor also made on-going checks to monitor

¹⁸¹ World Bank (2012), Program-for-Results Financing: Interim Guidance Notes to Staff on Assessment.

¹⁸² ADB-RBL provides for a similar risk assessment framework, with the integrated risk assessment taking into account a wide range of risks, such as Programme risks; Results risks; Financing risks; Fiduciary risks; Safeguard risks; and Operating environment risks.

¹⁸³ This is the perception of government officials and WB teams about the risk assessment process (see World Bank Group (2016), *Program-for-Results, An Early-Stage Assessment of the Process and Effects of a New Lending Instrument.*)

performance, including bi-annual assessments of the progress to objectives, as well as control over the changes of technical and other risks, with (at least) annual updates of the risk-assessment. In addition, while performance audit is subject to national rules and systems, the WB may conduct its own verifications, and on the spot controls, mainly linked to disbursements.

The **ADB-RBL** has a management framework which builds upon the beneficiary systems and institutions. The DM adjusts its procurement, reporting, monitoring, verification, and financial control requirements to an ex ante determined risk profile, based on pre-assessments of existing procedures and processes, as well as the capacity of institutions to implement the programme and related risks. Specifically, the pre-assessment will examine the M&E systems, the fiduciary systems, the environmental and social systems, and other institutional and system aspects, as relevant and appropriate to the programme. Before providing any financial support, ADB also assesses the quality of the programme developed by the beneficiary (including a required sector analysis), and, if required, provides support to improve it, also in the form of capacity development, institutional strengthening and implementation support. As an additional form of simplification, RBLs follow the reporting framework of the beneficiary/recipient. ADB verifies whether the required information is the beneficiary/recipients' reports. If not, it can set additional reporting requirements or includes the requested information in the audit reports. Additional controls are performed over the achievement of results (based on DLIs and their verification protocol), while ADB monitor risks during the implementation simply through regular technical and financial review missions and a midterm review, as well as the reports received from the beneficiary.

Simplified, standardised procedure, easy to use implementation and reporting tools (international and national DMs).

The fourth feature, "**simplified reporting tools**", includes a number of examples of simplification from international and national DMs. In the case of the international result-based DMs (WB-OBA, ADB-RBL, WB-PforR), the shift from verification/ control of financial transaction to verification of results is mirrored in the reporting tools and requirements. For instance, WB-PforR Implementation Status & Results reports provide, similarly to ESI Funds, key information on the implementation status and key decisions, on disbursements (and key dates) as well as information on indicators and achievements, with a comprehensive overview on DLIs. The only other information included concerns an update of the risk-rating tool,¹⁸⁴ and a synthetic recap of the overall ratings in terms of progress, achievement of objectives and risks. All this information is able to provide a comprehensive yet concise recap of the implementation (for instance, an implementation report for WB-PforR can reach 15 pages, while ESI Funds AIRs can be four, five times as long),¹⁸⁵ focusing on two key elements, such as risks and indicators to measure the performance and its progress, with significant gains in terms of simplification. The AIR could be significantly shortened, with a better focus on achievements, progress, and risks, and a more synthetic and narrative approach to reporting the requested (key) information. The new AIRs could even be merged into the current "summaries for citizens" (art. 50(9) CPR). This would significantly decrease the administrative costs on all parties concerned and would thus generate high **simplification** benefits. At the same time, making the reporting and policy-dialogue between the donor and the recipient less formalistic can have a positive impact on the **accountability**.

In addition, national DMs such as BCF, US BGs, offer examples of simplified and standardised procedures and tools, focused on achievements and management of objectives, rather than on consumption of resources, budgetary constraints, rules, and regulations.¹⁸⁶

¹⁸⁴ It is built on different risk categories, including political and governance, macroeconomic, sector strategies and policies, technical design of project of programme, institutional capacity for implementation and sustainability, fiduciary, environment and social, stakeholders, plus any other category of risks and an overall rating.

¹⁸⁵ As an example, for the WB-PforR Inclusive Housing Finance Program in Egypt, an Implementation Status & Results Report reached 12 pages (<http://documents.worldbank.org/curated/en/610701484326969164/pdf/ISR-Disclosable-P150993-01-13-2017-1484326960626.pdf>).

¹⁸⁶ Examples include the following: Reporting Cycle of Government Expenditure, packages of policies (Policy on Payments Transfers, Policy on Management Resources and Results), the Departmental performance

A flexible framework of eligible expenditure (US BG).

Concerning the fifth feature of this option, “**a flexible framework for eligibility rules**”, US BGs offer an example in this regard (see box 9). The eligible rules are defined in a broad way (such as planning and administration costs, pre-award costs, float funded actions, lumps sums), more oriented towards the types of actions than the types of expenditure, allowing less burdensome forms of controls. In the case of the ESI Funds delivery system, the current approach to eligibility rules is differs between the Funds. For example, there are significantly more eligibility rules defined at the EU level for the EAFRD than for the cohesion policy Funds, where basically the eligibility rules are defined by the Member States. However, even in cohesion policy the eligibility of expenditure is a source of complexity and legal uncertainty. For example, the EU rules concerning the revenue generating projects generates a lot of interpretation questions and a fair share of errors. More flexibility in eligibility rules can further **alleviate the administrative costs and burden** for both programme authorities and beneficiaries, reducing the additional workload generated by the detailed requirements in terms of reporting and control on the expenditure of the current ESI Funds delivery system. Simplification of eligibility rules should make the projects less prone to error what can be beneficial from the legality and regularity point of view, however, it is also likely to influence/reduce the level of control of transactions. As a general rule, it is easier to introduce new rule, than eliminate the already functioning ones.

Box 8 – US BG framework for eligibility rules

The funds allocated from federal level to grantees and States represent non-repayable support. Eligible costs are defined in a broad way and include both direct costs (including staff costs, such as training, travel and other costs, works) and indirect costs, as well as other types of costs and actions, such as:

- Planning and administration costs (type of costs, caps varying with type of support);
- Pre-award costs (the costs incurred before the effective date of US BG grant agreement and paid after this date);
- Eligibility of float-funded actions (financing technique to use funds from the line of credit for alternate actions than those included in the annual Action Plan, whose start is delayed from different factors)
- Revolving funds (many US BG grantees use revolving funds in conjunction with single family rehabilitation programs and microenterprise loans)
- Lump sum draw downs (grantees may draw down funds from HUD in a lump sum to establish a rehabilitation fund in one or more private financial institutions for the purpose of financing eligible rehabilitation actions (scope of such funds: receive benefits from the lending institution with which it places the lump sum)

US BGs regulations also provide for a series of caps for different type of costs, as well as the conditions under which the actions could be undertaken and in some cases, minimum expected outputs and outcomes.

There is also scope for the use of a **differentiated approach** in applying the simplification measures of option 4, in particular as regards the use of the recipient’s own management system or the use of more targeted risk management tools. In order to ensure that the current high levels of legality and regularity of the ESI Funds delivery system are maintained, these measures should be applied when the Member State or region has a good track record in the implementation of management and control measures for ESI Funds.

reports and the Reports on plans and priorities, Programme Alignment Architecture, the Corporate Risk Profile (BCF). US BG is using eCon Planning Suite (web-based, uniform format, quality check features; template integrated with CPD Maps, an online data tool for place-based planning), a collection of tools introduced in 2012 to help grantees create market-driven, leveraged housing and community development plans. Other specific tools are in place for Annual Action Plan, the Consolidated Annual Performance and Evaluation Report (CAPER), as well as up-to-date data sets describing a broad spectrum of community, economic and market conditions.

Option 5. Extending the use of proportional solutions

Proportionality requires a separate section, because it provides a proper basis for discussing the interlinkages between the four options presented above.

Links between option 1 and option 2

An introduction of the payments based on actions/outputs/outcomes-based between the Commission and the Member States may also lead to slimming down of the programmes' content and eliminate some of the main causes of the current programme amendments, e.g. as regards the eligibility of expenditure. However, adjusting the pre-agreed deliverables by reflecting some new, previously unforeseen factors may be challenging for both the Commission and the Member State.

Links between option 1 and option 3

In order to incentivise the government of the recipient country to implement the administrative support measures, relevant DLIs could be included in the payments linked to actions/outputs/outcomes. The pre-assessment of administrative capacity and programmes' performance measurements could also be used by the Commission for deciding on the potential deployment of this DM.

Links between option 1 and option 4

Using payments based on actions/outputs/results creates possibilities for simplifying the organisational architecture presented in the first two features of option 4, which is the common practice in the international ADMs.

The decision regarding the use of national systems may result in implementing the fourth feature of option 4, i.e. in use of simplified procedures. In practice that would simply mean applying the current policies, procedures, and practices of the national/regional public system. However, it is crucial to take fully into account the institutional capacities in a given Member State and/or region, therefore, a thorough pre-assessment of the national/regional system would be necessary, possibly combined with the third feature of option 4, i.e. comprehensive and integrated risk management tools. The ESI Funds delivery system has a long experience with the pre-assessments (e.g. the current designation procedure) as well as some risk-based elements are used in the audits and controls, however, under the payments based on actions/outputs/outcomes, these two tools would have to undergo significant changes. That is why they may not be that quick and straightforward to apply as a proportional, solution.

Under option 1, the implementation of the last feature of option 4, i.e. a flexible framework for eligibility rules, would affect both the programming and control of ESI Funds operations, as the focus would be on the type actions to be funded/verified. Specifically, the compliance of operations with the eligibility rules should be analysed as a part of the pre-assessment (e.g. the level of risk that the support is not being used for the planned eligible actions) rather than a strict and rigid control of the expenditure and costs. It may be necessary to actually avoid requesting that Member States define additional national eligibility rules (going as far as "discouraging" them from doing it) in order to limit the gold-plating practice and reverting to the real-costs-based, burdensome system at the level of the beneficiaries. Striking the right balance may be challenging.

Application of options 2-4 to the payments based on real costs

At the same time, most of the options 2-4, e.g. a slimmed-down of programme documents, a simplified institutional system (be it a roll-over of the management and control systems with a good track record) can be used as well in the current real-cost based system. Some proportional solutions at the project level could also be applied, for example further simplification of monitoring and controls according to the size and length of the projects, and level of risk assessed for the project/beneficiary. In case of

GRW, controls are carried out only once the projects are completed, with no ongoing controls. A similar approach could be applied in the case of small and short-term projects. In case of US BG, the regulations define a series of risk tools to be used by grantees and States, including risk indicators and main risk assessment areas. These can be used to develop a risk assessment protocol where grantees/States can award points to various assessment areas to make priorities within their monitoring system.¹⁸⁷

¹⁸⁷ Risk monitoring in US BG is based on a risk assessment to identify those entities (sub-recipients or units of general local government-UGLGs) that require comprehensive monitoring. For experienced sub-recipients/UGLGs that are successfully carrying out activities, grantees/ States could plan a more narrowly focused monitoring effort to examine areas where the regulations have changed, new activities that are being undertaken, or program aspects that led to problems in the past. However, the regulations provide for comprehensive monitoring reviews to be conducted periodically, even for sub-recipients/UGLGs with strong past performance, considering that even the most effective and efficient sub-recipients/ UGLGs can neglect their responsibilities if grantees do not hold them accountable.

5 CONCLUSIONS

An extensive assessment of the current ESI Funds delivery system and related mechanisms, as well as of alternative international and national DMs was performed in the previous tasks of the study, and main results are summarised in the chapters 3 and 4 of this report, with chapter 5 exploring to which extent some of the ADMs' features could be transferred into the context of ESI Funds. This analysis allows to draw some main conclusions on the implementation of ESI Funds and ADMs.

When compared to the analysed ADMs, the **ESI Funds delivery system as a whole performs exceptionally well in terms of accountability and legality and regularity criteria. In sound financial management and good governance the ESI Funds delivery system proved to be strong, while in simplification it is in the bottom four of the assessed DMs.** However, this was not surprising since achieving simplification proved to be difficult for the ESI Funds in the past and in the current programming period. One of the key aims of the comparative assessment of the ADMs with the ESI Funds delivery system was to address this issue.

A trade-off was identified **between the legality and regularity and simplification** - the detailed rules for assuring the legality and regularity of transactions make the ESI Funds delivery system somewhat complex, placing an administrative costs and burden on programme authorities and beneficiaries.

Therefore, the comparative assessment confirms that the ESI Funds delivery system does not require a fundamental overhaul in the next programming period, but rather an adjustment in order to address weaknesses, build on the numerous strengths and alleviate the tensions created by the trade-offs highlighted above. To this end, the ADMs present some features that can be transferable into the ESI Funds delivery system.

These transferable features have been structured on into five policy options, which are not mutually exclusive and which could have significant positive impacts on the next ESI Funds delivery system, especially in terms of:

- **Sound financial management** due to an increased use of actions/outputs/outcomes-based payments between the EC and the MS and (option 1), higher responsiveness (option 2) and more effective capacity building support (option 3);
- **Simplification** due to the simplification of the overall ESI Funds structure and architecture, through the reduction of the number of authorities involved, management, through the use of the existing national/regional system of the recipient country instead of setting up a new one only for ESI Funds programmes), a more comprehensive control of performance and implementation through simplified reporting requirements and a flexible framework for eligibility rules (option 4), as well as a more extensive use of proportional solutions at (option 5).

It will be necessary to introduce changes towards a system based on actions/outputs/outcomes by building on the achievements of the current system based on real costs (especially that the two systems would have to co-exist anyway) and anticipating the potential risks of new elements within the policy.

In order to fully exploit the potential impacts, these options and associated features need to take into account: (i) the specificities of the ESI Funds context, (ii) its current delivery system; (iii) the variety of thematic fields they operate in; and (iv) the level of administrative capacity of the relevant public authorities, beneficiaries and partners, which can differ even within the same Member State or region. Indeed, there are no ideal solutions, as practical implementation may lead to possible risks and uncertainties, bearing in mind that these features should not just add new requirements and procedures on top of existing ones currently in place in the ESI

Funds, but rather integrate or replace them with better ones. Furthermore, the proposed options and features present their own trade-offs, just as the current ESI Funds delivery system does. The preferred balance between the possible trade-offs will also need to be carefully assessed, as simple “win-win” scenarios without trade-offs are not likely to occur.

ANNEXES

1.1 Mapping grid

Payment modality and framework preconditions

The guiding principle for mapping DMs is the performance orientation of the delivery mechanisms. Literature identified a lack of one common definition¹⁸⁸ for performance orientation, but what all approaches have in common is a relation between performance and financial support. The factor, which triggers payment types and differentiating performance levels seems to be the object selected for supporting (**payment modality**).

Payments can be related to the envisioned outputs and outcomes. However, the selected conditions for payments can also be related to policy actions developed, inputs provided, or actions taking place. There are 5 main **modalities for payments**: objectives/policy actions, inputs, actions, outputs, outcomes.

- 1. Payment modality:** Financial support directly related to the intervention can be used to achieve high level policy actions; the development, realisation or approval of policies, strategies, and programmes directly related to the intervention (preparation phase). Or support can be given in the implementation phase on the realisation of inputs, actions, outputs, or outcomes/results.
- 2. Framework preconditions:** Framework preconditions are ex ante and/or ex post conditions indirectly related to the intervention objectives. These preconditions also contribute to the performance orientation of the Delivery Mechanism and are often also used as payment triggers. Preconditions are mostly ex ante; actions to be fulfilled before a support programme can start or triggering the first disbursements. However, preconditions can also be ex-post: actions to be carried out after support is provided.

Preconditions can either be formulated as: a) **general preconditions**, compliant with key macro-economic performance indicators, rule of law, etc. b) **framework intervention preconditions**, realisation or approval of related policies that support the efficiency and effectiveness of the delivery mechanism. Examples are sector specific regulations, supporting policies, or risk-management related conditions. General conditions and framework intervention preconditions are often policy orientated and are 'enablers'. c) **Implementation preconditions**, related to the implementation process of the project/programme/activity. Implementation preconditions are preconditions that can for example relate to risk management: actions such as the use of a specified Budget Classification/Chart of Account, internal audit function operational, reporting templates accepted, etc.

Scope

The scope of the DMs can be described by administrative and functional aspects. Also, the mechanism defines what is being paid for, to what extent, whether it is a grant, a subsidy, or if you have to pay back, and the total size of the support operations. These elements determine the scope and coverage of the support operations.

- 1. Level of intervention:** Support can be targeted at different administrative levels: on supra-national national, regional, or local/sub-regional level; also on sector level. We will have to distinguish between entrance level (the level on which the policy dialogue takes place), and the support level (the level on which payment triggers are formulated).

¹⁸⁸ DFID (2013), Evaluation of Payment results (PbR): current approaches and future needs, report commissioned by the Department of International Development, working paper 39, January 2013.

2. **Degree of integration:** Next to the level of intervention, support can also be targeted on different operational levels; (sector) strategy, programme, group of projects or project/activity level. Here too, we have to differentiate between entrance level and support level.
3. **Type of costs/expenditure:** What type of costs are covered by support. We distinguish between direct costs and indirect costs. And within direct costs we distinguish between staffing costs and non-staffing costs.
4. **Size of the support operations:** The amount of support provided through the DM. Analyse the current ESI Funds size of support actions and describe the scales of support through other DMs.
5. **Payment coverage:** Support can either have no direct relations with costs associated with achieving the objectives (incentive payments), or intend to compensate partly the implementation costs, or fully fund implementation costs.
 - a. Incentive payments: having no relation to the underlying cost of the strategies, programmes, projects, or inputs/actions.
 - b. Compensation: support is intended to cover part of the costs, but no detailed cost calculations are made and support is not directly related to projects/actions.
 - c. Partly cost-covering: support is meant to cover part of the costs.
 - d. Fully cost-covering: support is meant to cover the full costs.
6. **Financing coverage:** Support can be provided through different modalities. In accordance with the EU regulation¹⁸⁹ we identify three main financing modalities: non-repayable support (e.g. grants, prizes), re-payable assistance (assistance where the re-payment is conditional), and financial instruments (unconditional obligation to repay).

Policy coverage

The elements that focus on Policy coverage can be used to analyse ESI Funds **Policy adequacy**. We group all DM features that reflect the intervention rationale: what to achieve, which sector(s) to include, and whom to reach (target beneficiaries). These features will allow us to analyse compatibility (or non-compatibility) of ADM with ESI Funds goals, supported operations, and sectors. We have identified the following elements for analysis:

1. **Thematic field of intervention:**¹⁹⁰ Support can target different type of interventions. To ensure compatibility with current ESI Funds interventions, the alternative delivery mechanisms have to be reviewed on the following aggregated ESI Funds interventions:
 - a. **Infrastructure:** supporting infrastructure investments in the energy, environment, transport, ICT, social (health/education) sector.
 - b. **Productive investment:** direct aid for investment in SMEs, for enhancing R&I, supporting the shift towards a low-carbon economy, and investment involving cooperation between large enterprises and SMEs, for enhancing access to, and use and quality of, ICT.

¹⁸⁹ Articles 67 to 69 CPR, Article 2(p), and FR Article 2(k) FR.

¹⁹⁰ See Annex A (data collection grid for the details). Classification is according to the provision of the EU fund-specific Regulations.

- c. **Sustainable development:** environment protection, promoting resource efficiency, promoting climate change adaptation, risk prevention and management, forest area development, non-productive investments.
 - d. **Endogenous development:** Enhancing the competitiveness of SMEs.
 - e. **Human capital:** For example education, training and vocational training for skills and lifelong learning, promoting sustainable and quality employment and supporting labour mobility, knowledge transfer and advisory services.
 - f. **Capacity Building:** supporting networking, cooperation and exchange of experience, studies, preparatory actions, promoting social inclusion, combating poverty and any discrimination, Strengthening research, technological development and innovation.
 - g. **Other:** for example compensation measures for fishery and aquaculture products or farming in areas with natural constraints.
- 2. Overall objectives:** Recital 1 of the CPR sets out: art. 174 of the Treaty on the Functioning of the European Union (TFEU) provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, and that particular attention is to be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps.
- Recital 3 of the CPR sets out that in line with the conclusions of the European Council of 17 June 2010, whereby the Union strategy for smart, sustainable and inclusive growth was adopted, the ESI Funds should play a significant role in the achievement of the objectives of the Union strategy for smart, sustainable and inclusive growth, while promoting harmonious development of the Union and reducing regional disparities. This strategy covers five ambitious objectives - on employment, innovation, education, social inclusion and climate/energy).
- 3. Type of objective:** The ESI Funds currently focusses on 11 TOs.
- 4. Sector coverage:** Support provided through ESI funds to the TOs can be described by the following sectors: Transport, Energy, Economic Development, Labour Market, Education, Environment, Agriculture and Forestry, Fisheries.
- 5. Beneficiaries:** a public or private body and, for the purposes of the EAFRD Regulation and of the EMFF Regulation only, a natural person, responsible for initiating or both initiating and implementing operations; and in the context of State aid schemes, as defined in point 13 of this article, the body which receives the aid; and in the context of financial instruments under Title IV of Part Two of this Regulation, it means the body that implements the financial instrument or the fund of funds as appropriate. Beneficiaries could be public bodies, NGOs, private bodies (commercial or non-commercial), or others (individuals or state owned enterprises for example). In ESI Funds both public as private bodies are targeted, identifying even more specific beneficiaries.
- 6. Target population:** Some DMs will be suitable to reach a large target population, whereas other DMs are more appropriate for reaching smaller target groups. Depending on the policy intervention, some target groups can be small (only a few final beneficiaries), and other target populations can be substantial (for example 100,000s of farmers). In addition, the target populations can be substantially different; SMEs, farmers, hospitals, schools, etc.
- 7. Partnership:** Partnership refers to the scope of cooperation between public authorities at national, regional, local levels, and with relevant bodies representing civil society, including environmental partners, non-governmental organisations and bodies responsible for promoting social inclusion, gender equality and non-

discrimination. Partnership must be seen in close connection with a multi-level governance approach.

Functional features

The mapping framework will also include design features for the operations of the Delivery Mechanism in terms of how performance management and risk management, accountability relations, and fund transfers are organised.

- 1. Delivery Mechanism Management:** Does the delivery mechanism delegate responsibility for implementation to the recipient, do the donor and recipient share the management, or is the donor fully responsible for the design, operation, and implementation?
- 2. Performance management:** We have identified the following aspects of performance management to be analysed in detail:
 - a. Condition formulation: for whom and how achievable objectives, outcomes, outputs are set and clarified, indicators developed, information is collected, and data/results are analysed.
 - b. Result verification process: how the monitoring process is organised (external monitoring party, internal monitoring, peer review, etc.) and methods of result verification, and the (administrative) costs of verification.
 - c. Use of performance information: how performance information is used in programme, policy, and budget decision-making processes. Are sanctions and/or rewards formulated and used?
 - d. Follow up process: what procedures and process are in place to sanction underperformance/failure, and reward over performance/success.
- 3. Risk management:** Every support operation has fiduciary risks.¹⁹¹ We have identified the following aspects of risk management to be analysed in detail:
 - a. Use of pre-assessments: assessment on how funds are managed to identify the main fiduciary risks and identification of possible mitigating measures.
 - b. Use of ex ante risk management conditions: conditions that have to be fulfilled prior to the start of the support programme.
 - c. Scope of financial control; what level of detail does the recipient report upon expenditure? And on what level does the donor audit expenditure executed by the recipient?
 - d. Use of risk tools: the use of for example risk registers to keep track of the risks and progress made on mitigating measures.
 - e. Risk monitoring; how risk is monitored (expenditure reports, audits conducted, etc.) and how risk information is used.
 - f. Risk policy: policies developed by the donor what risk level are acceptable.
 - g. Administrative costs of the risk management framework.
- 4. Reporting:** In donor – recipient relations accountability is an important aspect in terms of allocating responsibility for implementation, reporting, and communication. Often multiple accountability relations are involved: the beneficiary to the IB (implementer), the implementer to the donor, the donor to its

¹⁹¹ Fiduciary risk is a type of risk affecting support operations which (1) may not be controlled properly (not accounted for), (2) may be used for purposes other than those intended, and/or (3) may produce inefficient or uneconomic programmatic results.

budgetary authority (usually a legislative body) and more generally, the donor to citizen as a whole. The main aspects to be analysed are:

- a. Content of reported information: financial information, performance information, frequency of this information. Is the right information reported?
- b. Who reports information: who produces financial and performance information, verification reports, and existing local accountability responsibilities? Is the information produced at the necessary level?
- c. Who receives information: who receives financial and performance information, how is this information processed, what is done with the information?
- d. To what extent are the donor reporting requirements aligned with accountability mechanisms at national/regional/local level? Are the accountability requirements supporting ownership? And are the donor accountability relations not distorting accountability relations at national/regional/local level? When recipients have stronger reporting requirements to the donor than to their parliaments/councils, and/or support is so substantial the accountability relation shifts from the parliaments/councils to the donor.
- e. Administrative costs involved: additional administrative costs on top of existing accountability relations.
- f. Overall, does the information reported at the various levels enable each of the actor to adequately carry out its responsibilities?

5. Fund transfer modality: Delivery mechanisms use different transfer modality. Often the choice of the transfer mechanism is risk related, but can also an integral part of the delivery mechanism. For example, general budget support is always transferred to the national account, and block grants are usually also transferred to the general account of the recipient. In contrast, result based financing can follow different transfer modalities. The main aspects to analyse are:

- a. Financial regulations related to the transfer modality of the delivery mechanism.
- b. Administrative costs related to the transfer modality.
- c. Fiduciary risks identified per transfer modality.

1.2 Assessment grid

| Criteria | Sub-criteria | Descriptors | |
|---|--|--|---|
| A - Accountability | A.1 - Definition and allocation of responsibilities and liabilities | A.1.1 - Are responsibilities and liabilities effectively defined and are they understood/accepted by all the parties involved? Are defined at legal and/or at agreement level, or are they implicit? | |
| | | A.1.2 - When are responsibilities and liabilities defined? Prior to the support activity, as part of the start of the support activity, or during implementation? | |
| | A.2 - Reporting requirements | A.2.1 - What information is reported considering each actors in the chain "budgetary authority-donor-implementer-beneficiary" (e.g. separate report with only results, report with funding and results, analysis of efficiency and effectiveness)? | |
| | | A.2.2 - What is the frequency of reporting (annual, end of program, occasionally)? Is that considered sufficient? | |
| | | A.2.3 - Is report information effectively used (e.g. to correct issues, improve future interventions)? Are the results used at donor, intermediate body or recipient level? | |
| | A.3 - Dissemination of results | A.3.1 - Are results communicated? Which are the target groups of communication (donor, intermediate bodies, recipients, final beneficiaries/stakeholders, general public)? Is communication seen as effective by the stakeholders involved (e.g. relevant data is reported, complete information on how the funding has been spent is provided, communication channels are suitable to reach the involved stakeholders)? | |
| | | A.3.2 -What is the frequency of communication (annually, continuous, occasionally)? Is that considered sufficient? How is communicated (through multiple channels - use of media, such as TV, radio, newspaper, brochures, distribution, website)? | |
| | B - Legality and regularity of transactions; spending according to the rules | B.1 - Compliance with applicable legislation | B.1.1 - Is there a control strategy/system in place? Is the compliance of the expenditure with applicable legislations/regulations verified? Who is in charge of verifications and how they are done? Does the level of control depend on the risks involved? |
| | | B.2 - Fiduciary Risks | B.2.1 - Are fiduciary risks identified at the start of the support intervention? Are fiduciary risks part of ex ante conditions or performance conditions? |
| B.2.2 - Is there an accounting system in use? Does it provide reliable information? Are the accounting standards used compatible with the structure of the budget? Is it easy to verify that the resources budgeted for the intended purposes (i.e. possibility to create a direct link between expenditure and intended actions)? Is monitoring/reporting of actions performed against the budget? | | | |
| B.3 - Segregation of duties and fraud detection | | B.3.1 - Does the internal control system provide for specific arrangements to ensure the segregation of duties in the financial circuit (between accounting and authorising officers)? People in charge of responsibilities and duties in the financial circuit, have they the adequate skills and the proper tools at disposal? Is there a duly documented process in place? | |
| | | B.3.2 - Can fraud detection take place? By the donor, intermediate body? | |
| B.4 - Financial control; performance audit | | B.4.1 - Can expenditure be monitored in-year? Which is the frequency of the financial control? Which is the level of aggregation (e.g. analysis on single actions/sub-measures or at programme level)? | |
| | | B.4.2 - Who is executing financial control? The donor, the managing body, the intermediate body, the recipient? | |
| | | B.4.3 - Is performance verified? By donor, managing body, intermediate body, independent auditors? Are audit reports discussed? By whom? Are the results acted upon? | |
| B.5 - Risk monitoring | | B.5.1 - How and when are risks identified and assessed? At the start of the support intervention? Is the error rate included in the risk analysis? | |

| Criteria | Sub-criteria | Descriptors |
|--------------------------------|---|--|
| | | B.5.2 - Are fiduciary risks separately monitored? |
| C - Sound financial Management | C.1 - Efficiency | C.1.1 - Based on representative cases or on literature (e.g. results of other studies), to what extent are the costs involved justified, given the results/changes which have been achieved? Do ex ante and/or ex-post efficiency analyses take place (also as part of overall evaluations)? By whom are these evaluations and analyses performed? |
| | | C.1.2 - Are conclusions of evaluation and analyses performed taken into account to implement improvements or take corrective actions (if needed)? |
| | C.2 - Effectiveness | C.2.1 - Are specific, measurable, achievable, and relevant and timed objectives defined? Are related expected results defined up front? Are these translated in indicators? |
| | | C.2.2 - Are the projects selected according to their ability to achieve policy objectives and results? |
| | | C.2.3 - Do ex ante and or ex-post effectiveness analyses take place (also as part of overall evaluations)? By whom are these evaluations and analyses performed? |
| | | C.2.4 - Are conclusions of evaluation and analyses performed taken into account to implement improvements or take corrective actions (if needed)? |
| | C.3 - Economy | C.3.1 - Does the procedure succeed in selecting the cheapest solution to the problem? |
| | | C.3.2 - Are the resources received considered sufficient in quantity and quality? |
| | D - Good governance | D.1 - Transparency |
| D.2 - Policy ownership | | D.2.1 - Do people in charge of implementation of the policy (e.g. managing authority, intermediate body) feel responsible for it and do they engage for it? |
| D.3 - Responsiveness | | D.3.1 - Are there periodical revisions foreseen in order to adapt the plan/budget during the implementation period, based on changing needs or on the results of evaluations performed? Are there mechanisms to answer, in a timely manner, to need for revisions? How burdensome are the procedures for approving adjustments? |
| | | D.3.2 - How long is, on average, the process to agree on the funding, conditions/results expected? Are obstacles/long procedures recorded? |
| | | D.3.3 - Is the timing for the implementation of the projects considered long? Are there bottlenecks or inefficiencies that prevent a higher speed of delivery? |
| D.4 - Flexibility | D.4.1 - How much detailed are the modalities to use the DM and to what extent does this reduce the possibilities of use (e.g. in different sectors, conditions, etc.)? Or is the DM applied in different sectors and types of intervention? If yes, are adjustments needed and is the performance equally satisfactory? | |
| E - Simplification | E.1 - Administrative costs for the donor/Managing body/intermediate body | E.1.1 - Workload associated with the design of the support programme (drafting the strategy, indicators, allocation of resources, etc.) and its management (e.g. organisation of procurement procedures, selection of beneficiaries, coordination with other entities). |
| | | E.1.2 - Workload for the monitoring and evaluation of the programme (implementation and management of data collection systems, evaluations of the results, follow-up of the evaluation findings) |
| | | E.1.3 - Reporting requirements (technical and financial reporting on the execution of the programme and expenditure) |
| | | E.1.4 - Workload for the certification of expenditure (taken into account the different types of costs and related eligibility rules) (if applicable) |
| | | E.1.5 - Costs of controls (internal and external audits) |

| Criteria | Sub-criteria | Descriptors |
|----------|--|---|
| | E.2 - Administrative burden and costs for the recipient/beneficiary | E.2.1 - Definition of the plan for use of the resources/the achievement of the objectives, monitoring of performance and financial indicators |
| | | E.2.2 - Reporting requirements |
| | | E.2.3 - Procedure to obtain reimbursement (taken into account types of costs and eligibility rules) |

1.3 DM fiches

International DMs

WB Output Based Aid (OBA) – Transport Rehabilitation Project in Serbia

Quick Facts

| | | | |
|-------------------------------|--|---|--|
| Donor | World Bank (WB) | Payment modalities | Outputs |
| Launch year | 2002 | Delivery Mechanisms | Payment/disbursement on outputs/results |
| Implementation Methods | Recipient-driven Management with implementation largely given to the service providers | Sector relevant to the ESI Funds | OBA is mostly applied in infrastructure sectors - mainly transport, telecommunications, and energy, but also education, health, water and sanitation |
| Budget | Indicative: 2006 to 2016 a total of 133 mln USD disbursed | Thematic Objectives (TO) | TO4, TO5, TO6, TO7. |

Key features of OBA

Payment modality and framework preconditions

Payments are directly linked to the achievements of the service delivery **outputs**. These refer to the **detailed actions defined in the project management documents** applied by the WB – i.e. **Project Appraisal Document (PAD)**, credit agreement, loan agreement, procurement plan, project papers, implementation status and result reports and implementation completion report.

Table 10 – OBA Schemes

| | |
|-------------------------------|--|
| <u>One-off subsidies</u> | Most common form of subsidy, which is used to buy down the capital cost required to obtain access to a given service. Under this scheme, the service provider pre-finances the delivery of the service and is reimbursed through the OBA subsidy following delivery of the service. |
| <u>Transitional subsidies</u> | Used to support tariff reforms, where a subsidy is used to fill the gap between what the user is deemed able and/or willing to pay and the cost-recovery level of the tariff. |
| <u>Ongoing subsidies</u> | Required in cases where there is a continuous gap between affordability and cost recovery. They are mainly used in situations where there is some agreement that the public sector should have a long-term role in funding services (e.g. health care) or where cost-covering user charges are not deemed feasible (e.g. roads transport). |

A particularity of OBA projects is the appointment of an **Independent Verification Agent (IVA)**, to verify the delivery of the services (IVAs are usually *independent consultants*).¹⁹² IVAs can be an audit firm, an NGO or civil society representative, a qualified individual consultant, or a government agency. More specifically, the objectives of the IVA are to: verify that the pre-agreed outputs have been physically delivered and properly documented; recommend reimbursement of OBA subsidy payment to the service provider by the WB or the implementing agency. The **Output**

¹⁹² International Development Association, Global Partnership on Output-Based Aid (GPOBA), Finance, Economics and Urban Department (2009), A Review of the Use of Output-Based Aid Approaches.

Verification Report is usually prepared **quarterly** and contains a summary of baseline conditions along with a detailed description of the post-investment situation, and as appropriate, the relevant monitoring and evaluation data.

Implementation preconditions are identified under performance-based contracting during the preparation phase of the project. Implementation preconditions usually refer to higher **framework intervention preconditions**, which refer to policy change in the recipient countries and are **linked to the objectives of the OBA project**. The amount of the subsidies are defined at the beginning of the implementation, in terms of unit prices. It is to be noted that since the beginning of the last decade and in the recent years, the number of conditions set by the WB follow a downward trend.

Scope

OBA **is not designed to support a particular administrative level** as it can involve the participation of any level of the recipient country's central, regional or sector administration. Due to the rationale of OBA involving **risk taking by the service providers**, OBA is considered as one of the main mechanisms through which efficiency gains from sector reform have been shared with users through improved access and standards of service. The delivery mechanism of OBA relies on the **flexibility allowed to service providers** to bring their commercial and operational practices into the structuring of OBA schemes. The delivery mechanism is designed for the **implementation of specific projects – or groups of projects** – and is not a substitute for technical assistance or service contracts for enhancing governance structures or implementing sector reforms. The **size of the subsidy** may vary between projects. The projects usually involve **co-financing** by the recipient country to the investment subsidy funding provided by the donor institution. **Design** elements include inter alia, output definitions, payment triggers, provisions for financial sustainability,¹⁹³ funding sources, role of the private sector, and provisions for monitoring and evaluation.

All expenditure categories are eligible if they fall within the scope of the donor's policy principles. OBA covers all the costs related to the provision of services since subsidies are provided to cover the difference between the costs sustained by the service provider and the fees paid for the service. In the definition of the payment method, unit costs are linked to defined service outputs and the support to be provided. **OBA is based on a subsidy scheme, but a part of the total costs can be covered by a loan**, which is by definition **repayable**.

Policy Coverage

OBA supports projects which are developed following a request by the beneficiary countries or institutions. Subsidies are relevant to the government's **strategy** in the recipient country as well as to the donor's assistance strategy. The project is further developed defining the technical and institutional features and the context of the economic and sector specificities. OBA schemes focus on services which are **mostly infrastructure based**, include fee-payments, and address the required subsidies to have services provided. The **sectors** usually covered by OBA schemes are solid waste management (5%) telecommunications (1%), energy (44%), water and sanitation

¹⁹³ These can vary depending on the type of project and the country. For road rehabilitation projects, some countries introduce road funds which operate under a user-pay model aimed at reassuring contractors that governments will meet contractual commitments to pay by creating a sustainable source of funding that is independent of the government's other fiscal constraints and obligations. However, after completion of the project these are not any longer monitored by the WB unless if this is specified in the credit/loan agreement.

(24%), health (16%) and education (1%).¹⁹⁴ OBA are therefore providing coverage of a **wide range of thematic areas currently covered by ESI Funds**.

The WB disburses funds to achieve clearly specified results (service delivery) that directly support improved access to basic services. The first direct beneficiaries of the interventions are the designated government authorities and service providers, while OBA schemes targets service provision to **poor individuals**, who **represent the final beneficiaries** of the benefits produced by the implementation of the project. While beneficiaries of the support are the populations of the region where the investments are located, in a wider sense the entire population of the region/country can benefit from the outcomes of the operation. The GPOBA's annual report 2016 stated that since 2003, 9 million poor individuals have been reached in over 28 countries.

OBA schemes are often a component of **public private partnerships** (PPPs) especially in areas where it is considered of utmost importance that the population targeted by the development schemes benefits from the PPP. **Monitoring is ensured by the beneficiary's project implementation team, which reports directly to the WB.**

Functional features

Delivery Mechanisms management

The management process of the delivery mechanism seems to be quite **delegated**, since implementation is under the responsibility of the agencies/actors receiving the subsidy. Besides the preparation of the PAD and the implementation of the project, the beneficiary is responsible also for its monitoring, while **the donor is responsible for the definition of the procurement plan, carrying out the pre-assessments (including risk assessment), and definition of the lessons learnt from the implementation, as well as to overview the independent evaluation. Financial and performance controls are performed by the IVA.**

Targeting mechanisms used by OBA schemes for the definition of the outputs against which subsidies will be disbursed create increased **ownership** of the beneficiary countries. In the process of service expansion, also user communities in the targeted countries are involved. This contributes to increasing the sense of ownership in the region, which in turn enhances **sustainability**. Moreover, the IVAs are closely cooperating with the government agency responsible for the implementation of the OBA scheme, which is also in charge of the monitoring and evaluation of the project. This increases **ownership and accountability over the relevant recipient country institutions**.

The WB develops for all its OBAs, in cooperation with the beneficiary/recipient, a PAD. The objective of this document is to support effective project implementation, monitoring and reporting. It contains detailed information on the project development objective, the sector-related country assistance strategy goal supported by the project, a project description and provisions for implementation, monitoring and evaluation.

Performance management

Condition formulation: OBA projects require a strategic context from the beneficiary. This is used to define and elaborate the strategic and relevant operational objectives of the project. Ideally the conditions are aligned with the national/sector strategies in which the project is announced. However, in most cases the performance conditions, including output indicators, are derived from the feasibility studies and/or technical studies, as part of the development of the PAD.

¹⁹⁴ Percentages refer to the GPOBA portfolio in 2016.

Result verification: Information on performance is used to issue the actual payment to the service provider. The beneficiary is also bound to setup a monitoring mechanism for the regular follow-up of the progress in the delivery of the outputs. Disbursements are done on a regular basis, following the issue of a positive recommendation by the IVA.

Risk management

Critical risks are analysed in the PAD. A Pre-assessment of risks is done by the donor, and may cover the following elements: **The project soundness** assessment will evaluate the project's relevance, justification, adequacy, and appropriateness of its implementation arrangement; **The financial management review** to determine whether the financial management arrangements for the project satisfy the donor's compliance requirements; **Monitoring and evaluation** provisions and links with disbursements assessment; **The institutional and implementation arrangements**, which detail the project implementation provisions, define the agency which will be responsible for the overall implementation and the contribution of other agencies/departments in the implementation of specific features of the project.

Specifically, **Bank policies require that financial/disbursement and procurement assessments shall be conducted by WB specialists** to determine the arrangements and capacity of both the service provider and of the government counterpart. **In the course of the implementation, risk management is performed by the beneficiary, who includes regular updates in the progress reports.** The donor does not perform any direct control during the implementation, and the financial control is performed by the IVA or the very government's monitoring unit. Service providers usually pre-finance inputs, and reporting is checked by IVAs and/or the government's monitoring unit. Regarding **performance risks**, these **are largely shifted to the service providers**, as OBA requires the service provider to pre-finance inputs.

Sustainability of infrastructure and other service schemes imply that the project will have a long-lasting positive impact to the sector and to the population of the beneficiary country. Two characteristics of OBA in particular help to address the issue of sustainability: nature of the subsidy design, and performance risk shifted to the providers.

Reporting

Content of reporting information & who reports. Under the WB Transport Rehabilitation Project in Serbia, reporting included the following reporting mechanisms: PAD, responsibility of the beneficiary/recipient; Environmental assessment report and environmental management plan, responsibility of the beneficiary/recipient; Implementation Status and Results Report, responsibility of the WB with inputs from the beneficiary/recipient; Implementation Completion and Results Report, responsibility of the WB; Interim Financial Reports and Final Financial Report, responsibility of the beneficiary/recipient; Procurement Plan, responsibility of the WB; Independent Evaluation Review, responsibility of the WB; Audit reports (financial audits), responsibility of the beneficiary/recipient (outsourced); Other review reports and project papers, responsibility of the WB; Communication on the progress and outputs, both by the beneficiary and the WB.

Fund transfer modality

Disbursements are made following standard WB practice for investment projects: namely, to a special account; or to an appropriately controlled government project or operating account, possibly used solely for service provider payments. Payments are done periodically (monthly or quarterly) following the submission of an invoice by the service provider to the government for the outputs produced or for claiming advances with a projection of outputs for the following period (based on the approved work

plan). The outputs/projections are verified by the government (or by an IVA) and payments are made to the service provider from the deposit account.

World Bank - Program-for-Results Financing Case Study

Quick Facts

| | | | |
|-------------------------------|---|---|---|
| Donor | World Bank (WB) | Payment modalities | Mainly based on outcomes/results |
| Launch year | March 2012 | Delivery Mechanisms | Disbursing on the basis of the achievement of key results under the programme |
| Implementation Methods | Shared | Sector relevant to the ESI Funds | 01, 04, 05, 06, 07, 09, 10 g ¹⁹⁵ |
| Budget | USD 12 bln total WB financing, total programme cost USD 57 bln (49 operations) ¹⁹⁶ | Thematic Objectives (TO) | TO3, TO4, TO5, TO6, TO7, TO9, TO10, TO11 ¹⁹⁷ (may be applied for all themes) |

Key features of the PforR

Payment modalities and framework preconditions

The WB **payments** (loan disbursements) are **triggered by the achievement of preliminary defined disbursement-linked outcome/results**.¹⁹⁸ Results in a PforR operation can range from outputs, to outcomes/results, to actions, depending on the specific programme and development challenge.¹⁹⁹ While the majority of the payments are triggered by outcomes/results and outputs, **some of the payment triggers may be actions** that are outside the programme results framework, but are important for improving the overall control environment or environmental or social safeguards. The IEG evaluation reported that 45% of the WB financing was committed to results/outcomes, 21% to outputs, 22% to actions/actions, and 11% to processes. **Payments are not related to programme expenditure** necessary to achieve the result. A general requirement is the disbursement-linked results to be part of the supported programme result framework and to be sufficiently high in the programme results chain. The PforR instrument envisages two types of *pre-financing payments*: *Payment for prior results* and *Advance payment for disbursement-linked results*. Advanced disbursements are recovered from disbursements due when the results are actually achieved and new advances are disbursed, on a rolling basis. The advances are subject to recovery, if the results are not achieved by the programme end.

In terms of payment modality, the PforR is similar to JAPs under ESI Funds²⁰⁰. The major difference is that under JAPs, payments are the reimbursement of the costs related to the results achieved, while, under PforR, **payments are not related to the**

¹⁹⁵ Based on current 49 operations, 6 September 2016.

¹⁹⁶ Status 6 September 2016.

¹⁹⁷ Based on 49 operations approved by 6 September 2016.

¹⁹⁸ Results are both the outputs, outcomes and impacts of operations; outputs are the products, goods, services, or actions associated with an operational activity; intermediate outcomes describe how programme outputs are used; outcomes describe the uptake, adoption, or use of programme outputs by the programme beneficiaries and relate to the programme development objectives.

¹⁹⁹ World Bank, Program-for-Results: Results, brochure, <Available at: http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244163232994/6180403-1340125811295/PforR_Results_update.pdf>.

²⁰⁰ Articles 104 to 109 of the Common Provision Regulation. The Joint Action Plans are operations (project or a group of projects), which are managed in relation to the outputs and results to be achieved and payments are made, if results are achieved.

costs for the achievement of the results. There are no general preconditions under the PforR. **The framework and implementation preconditions are identified in the ex ante technical, environmental, social and fiduciary assessment.** Similarly to ESI Funds ex ante conditionalities, they address all critical factors for the effective implementation of the programme. The preconditions are included in the **PAP** that becomes legally binding with the signature of the **Legal Agreements**.

Scope

The PforR policy guidelines give a significant *flexibility on the scope of the supported programmes*. According to PforR policy guidelines, **programmes** may be: '(a) new or already under implementation; (b) national, subnational, multisectoral, sectoral, or sub-sectoral in scope; (c) part of broader, longer-term, or geographically larger programmes; and/or (d) carried out by governmental and/or nongovernmental parties'.

The main requirement is the PforR operation to be anchored to a government programme. **PforR may finance the whole government programme or a specific time-slice, geographical-slice, components, investments, financial lines** of a government programme. The scope of the PforR programme depends on available resources, expected effectiveness and related risks. **The majority of approved operations support national level programmes.** However, there are a number of programmes that are managed at national level but that support regional or local level interventions. There are also approved programmes at sub-national level. The *size of the PforR programmes* vary significantly from minimum 20 mln USD to maximum 22 bln USD,²⁰¹ and are provided in the form of a loan (IBRD), credit or grant (IDA). The PforR policy guidelines establish that **WB financing may not exceed the total programme expenditure** at the end of the implementation period. The PforR aims also to **facilitate pooling of resources with other donors**. About 30% of the programmes are co-financed by other multilateral or bilateral donors. The programmes may support recurrent costs (salaries and operating costs) and capital costs. Within the supported programmes financing may be in the form of grants, procurement contracts, financial instruments, or any other form.

Policy coverage

The PforR policy guidelines put **no restriction on the policy coverage, type of investments or economic sector of the supported programmes**. The supported PforR operations address directly eight of the **ESI Funds TOs**. Programmes with development objectives addressing directly TO1, TO2, and TO8 have not been supported, but within the programmes there are components supporting research, ICT penetration and employment creation. The largest number of programmes address TO 9, to which are allocated about 3 bln USD WB funding. Next in importance are the operation focused on low carbon economy and environment (TO 4 and TO6) – in total 14 operations with WB financing amounting to 5 bln USD WB funding. Nearly 20% of the operations have as a *main objective* policy reforms, enhancing institutional capacity of public authorities and improving efficiency of public administration (TO 11). In addition, the majority of approved PforR operations have components or actions focused on policy reform or institution building. In terms of *economic sector*, the greatest number of operations are in economic affairs – energy and transport (12 operations).

The PforR instrument does **not have specific requirements for programme beneficiaries and target groups**. The number and type of beneficiaries and target groups depend on the programme objectives and scope. Furthermore, the instrument

²⁰¹ Data in this section is for 49 operations approved by 6 September 2016.

applies a *context-specific approach to consultation processes*, and **there is no uniform consultation structure or procedure** that has to be applied to all programmes. The **general requirement is to ensure good governance and effective consultation** and to promote stakeholder participation in decision-making, especially when responsive behaviour is essential to achievement of the programme objectives. The programmes governance structure, including co-operation of public authorities at national, regional, local levels, is subject to an ex ante assessment.

Functional features

Delivery Mechanism Management

At programme level, the **WB makes the decisions for commitment and disbursements of the funds**. The WB carries out identification, preparation, assessment, appraisal of the PforR operations and **provides implementation support** to implementing partners, which includes supervision. The **programming phase is led by the WB**, which conducts in-depth assessments of the technical, environmental, social and fiduciary aspects of the programmes. The WB is responsible also for conducting stakeholder consultation under the environmental and social assessment. Costs vary significantly by programme size and tend to be lower where PforR preceded by IPF operations or where WB country staff and government accumulated experience in PforR (WB 2-b 2016). The average preparation time for a PforR was 13.6 months, ranging from 6.9 to 28.7 months (WB 2-a 2015).

The implementation of the PforR is under the responsibility of the borrower government institutions using country systems for budgeting, procurement, financial management, reporting, monitoring and evaluation. During implementation, the **WB provides implementation support to the government**. Each PforR operation has an **implementation support plan**, which covers both WB technical support to the government institutions and WB monitoring and supervision actions. The disbursement of funds is executed after WB approval of technical reports on the achievement of the DLIs.

Performance management

Each PforR operation has a *results framework* specifying the programme development objectives, which according to policy guidelines has to be at outcome level and intermediate results with specific and measurable indicators. The results framework is elaborated during the PforR programming and appraisal in consultation between the WB and the borrower government institutions. The IEG evaluation reported that in PforR operations approved by the end of 2015, the **programme development objectives are rarely at the outcome level**; in the majority of cases, they are stated as intermediate outcomes or institutional results (WB 2-b 2016). Each PforR operation has also a *DLIs matrix*, which specifies the DLIs and WB financing amounts linked to each indicator. IEG evaluation reported that **DLIs are often—but not always—well integrated with the results frameworks**, while not all objectives and related programme indicators can be covered by DLIs. The PforR policy guidelines require the financing amount allocated to a DLI to be determined based on its relative importance for the overall programme objectives; it does not relate to programme expenditure necessary to achieve the result.

Selection of DLIs and setting targets and amounts requires a highly specialised technical expertise. The main challenge is to set the right balance between the disbursement objectives and incentives for performance objectives. **DLIs trigger disbursements under PforR**, and have to be predictable and to ensure sufficient flow of funds during the implementation. **The DLIs and targets may be revised**

during the implementation.²⁰² Each DLI has a *verification protocol*, which specifies the definition of the indicator, the measurement unit, verification procedures and the authority responsible for verification. During the implementation the WB and the government *monitor performance*. The **WB conducts regular monitoring and supervision of the programme progress and the performance of the systems**, which is risk based. It conducts also bi-annual assessments of the progress to objectives, which is summarised in Implementation Status Reports.

Risk Management

As commented, each **PforR operation is subject to three ex ante assessments**: technical, fiduciary and environmental and social systems assessments. The objectives and the scope of the *fiduciary systems assessment* is stated in the PforR policy documents. The fiduciary systems assessment covers procurement systems; programme financial management systems; fraud and corruption risk management and handling. Based on the above stated assessments, the ex ante risk assessment is carried out, which is focused on the identifying key risks for programme results and objectives.

The **ex ante risk assessment is the key input for the WB decision to approve a PforR operation**. The PforR instrument has few uniform rules for addressing ex ante identified risks. The ex ante risk assessment is taken into account in the defining of programme scope and targets and may also lead to identification of measures to improve capacity, systems, and procedures that have to be implemented prior to the programme start or during programme implementation.

The PforR is subject to WB anti-corruption guidelines,²⁰³ including reporting and the WB right to investigate fraud and corruption allegations and to impose sanctions. The IEG evaluation reported that risks related to PforR operations have generally been well identified and assessed. The fiduciary risk are the main risks drivers of the PforR programmes. During implementation, the WB monitors the changes of technical and other risks and at least annually updates risk assessment. As commented the implementation of risk mitigation measures is also regularly monitored.

Reporting

The reporting requirements are stated in the legal agreements between the WB and the borrower. At *programme level* the **government/borrower has to submit to the WB bi-annual reports and final report on the programme performance** against approved results framework. In addition, there are *technical reports on the achievement of disbursement-linked results/indicators* that are preceded by an independent verification. The government/borrower has to submit also to the WB *annual audited Financial Statement* of the programme. **The financial reporting to the WB is at programme level**, but in some cases additional requirements may be put in the Legal Agreements. In the preparation stage, the WB reaches agreement with the government and the country's audit authorities on the audit terms of reference. Adjustments could be made to audit terms of reference to focus on the areas of weakness or riskiness. The reporting on action level/component level follows the existing systems of the borrower, including the procedures and reporting lines. In case of weaknesses in the existing systems for reporting, internal and external audit, the PforR operations may include actions for strengthening of the systems.

Fund transfer modality

²⁰² For example in Rwanda Transformation of Agriculture Programme 6 out of 14 targets were increased to reflect constant overachievement and 1 was reduced to reflect outbreak of brown streak disease which significantly impact total yield.

²⁰³ Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing (WB 1-a 2012).

The rules for disbursement of funds are stated in the special and general conditions of the Legal Agreements between the borrower and the WB. The WB credits the amount of the loan/credit to a loan account. The disbursements (withdrawals from the loan account) are deposited by the World Bank into an account established at the Central Bank of the borrower or other account acceptable to the WB. Applications for withdrawal from the loan account may be sent at any time after the WB has accepted evidence of achievement of the specific disbursement-linked result. The amount of the withdrawal depends on the amount of loan allocated to the respective result.

Asian Development Bank - Result Based Lending

Quick Facts

| | | | |
|-------------------------------|--|---|---|
| Donor | Asian Development Bank (ADB) | Payment modalities | Outputs, outcomes/results |
| Launch year | March 2013 | Delivery Mechanisms | Disbursement on outputs and outcomes/results achieved |
| Implementation Methods | "Shared Management" ²⁰⁴ | Sector relevant to the ESI Funds | Mostly applied in Economic sector and education (but can be used in all sectors) ²⁰⁵ |
| Budget | 1.6 bln USD (8 operations, average operation 208 mln USD) ²⁰⁶ | Thematic Objectives (TO) | TO5, TO6, TO7, TO8, TO9, TO10, TO11 ²⁰⁷ (but can be used for all themes) |

Key features of the RBL

Payment modality and framework preconditions

The disbursements are directly linked to the achievements of programme **outputs**, **outcomes/results**, and **actions; institutional changes** that address sector performance bottlenecks. DLIs are formulated in the Loan Agreement under the Appendix "DLI Matrix". The selected DLIs are the result of discussions between ADB and the beneficiary/recipient. The objective is that the ADB uses the results framework of the beneficiary/recipient, specific to the selected programme. If a results framework is not in place or not sufficiently well defined, ADB will work with the beneficiary/recipient to develop or refine it. The RBL includes **implementation preconditions**, mostly used at the start of the programme. These preconditions are identified in four main assessments that take place in the preparation phase of the programme: 1) is the programme sound? 2) is the expenditure and financing framework supporting the programme sound? 3) is the result framework appropriate? 4) are other institutional and systems aspects effective?

Scope

The RBL is a **flexible delivery mechanism** and not specifically designed to support a particular administrative level. It can be used to target the beneficiaries/recipients at national, subnational, and or local administrative levels. It can also be used to target semi-government entities, such as State Owned Enterprises (SEO). RBL can support programmes that are defined at sector level. The ADB defines sector broadly; it can be a sector, a subsector, multi-sectors, or a cross-sectoral theme such as environmental protection, poverty reduction, gender equity, public financial management, community development, and private sector development. **RBL is based on co-financing**: partly financing the programme that is financed by the beneficiary/recipient country and possibly also by other donors. Over the past few years the average RBL loan is 208 mln USD. Currently RBLs finance on average between 5-10% of a programme. **All expenditure categories are eligible**, and a maximum of 20% pre-financing is also

²⁰⁴ Following a broader definition of shared management than the EU definition, see project glossary

²⁰⁵ Based on current 8 operations, March 2016

²⁰⁶ Status March 2016

²⁰⁷ Based on current 8 operations, March 2016

possible. However, the RBL excludes actions that are likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. RBL also exclude actions that would involve procurement of works, goods, and services under contracts whose estimated value exceeds:

- 50 mln USD for works, turnkey and supply, and installation contracts
- 30 mln USD for goods
- 20 mln USD for technology systems and non-consulting services
- 15 mln USD for consulting services.

As the RBL is a loan, it is by definition **repayable**. The amortisation schedule and the financial interest rate to the borrower vary from one support operation to another and are specified in the "Loan Agreement

Policy Coverage

The **RBL can be used to finance all types of interventions**; infrastructure, productive investments, sustainable development, endogenous development, human capital, and capacity building. The only exception is made for expenditure classified as category A in the Safeguard Guideline (2009). RBL is one of three main ADB modalities, next to Investment Lending and Policy-based lending, to achieve the overall objective of the ADB: Asia and the Pacific free from poverty. ADB, in partnership with member governments, independent specialists and other financial institutions, is focused on delivering projects in developing member countries that create economic and development impact. ADB operations are designed to support the three complementary agendas of inclusive economic growth, environmentally sustainable growth, and regional integration. The DM is not excluding any thematic areas currently covered by ESI Funds. **Current operational RBLs cover TO5, TO6, TO7, TO8, TO9, TO10, and TO11.** The ADB also does not apply any sector restrictions for RBL. Since the RBL has been approved by ADB in 2013, 8 programmes have been financed through this modality. Among those 8 programmes, most of them cover education and economic sectors. Beneficiaries of the ADB's RBL are public entities and the characteristics of the targeted population differ from one country to another. Creating partnership has focused on **developing financing partnerships**: engaging with other donors/financers, also thanks to the result orientation of the instrument. ADB does engage with NGOs and private sector stakeholders in the consultation phase of the programme, but actual partnership with NGOs and private partners have been limited up to now.

Functional features

Delivery Mechanism Management

RBL is executed through **shared management**, as both the ADB and the beneficiary/recipient are involved in the design and implementation of the support operation. ADB leads the final evaluation, based on information supplied by the beneficiary/recipient. The RBL supports (part of a) programme that is developed by the beneficiary/recipient. This programme is presented to ADB in the form of a "sector analysis and strategy". ADB assesses the quality of the sector analysis and strategy before launching the support programme. In order to ensure a programme can be efficiently implemented, ADB offers the beneficiaries capacity development, institutional strengthening and implementation support. ADB also develops, in cooperation with the beneficiary/recipient, a **Program Implementation Document (PID)**. The objective of the PID is to support effective programme implementation, monitoring and reporting. It summarises all pre-assessment reports, the actions that resulted from these pre-assessment, and the DLIs and disbursement procedures. It is a live document, updated throughout the duration of the project.

Performance management

Condition formulation: The RBL is based on a programme, which is supported by a government's sector strategy (or a similar document)²⁰⁸ and should include a results framework. If beneficiary/recipient already developed the sector strategy, implementation programme, and supporting results framework, ADB will assess these documents to analyse the result chain and suitability of the result indicators for DLI formulation. If the results framework is not in place or not sufficiently adequate for DLI formulation, the ADB will work with the beneficiary/recipient to develop and refine it. ADB will also require a sector analysis from the beneficiary.

Result verification: ADB's disbursement of funds is conditioned upon verification that the DLIs have been achieved. Each DLI will have a **verification protocol**, agreed in advance by ADB and the beneficiary/recipient, which defines how achievements will be measured and verified.²⁰⁹

Performance information is used for disbursement decisions. No additional (financial) rewards or sanctions are part of the disbursement scheme. A PAP is also part of every RBL operation, focusing on technical aspects of programme implementation. The beneficiary/recipient reports on progress made on the PAP to the ADB. On average a PAP includes a limited set of 20 to 25 actions, including only the critical actions for project implementation, and focusing on institutional strengthening. RBL allows **partial disbursements** if DLIs are partially met. How partial disbursements will be carried out can be different per RBL. For example, (i) disbursing after a minimum number of DLIs have been met, (ii) disbursements take place after a particular DLI has been met, or (iii) having a percentage rule for DLIs. RBL also allows for deferring disbursements, or disbursing ahead of the planned schedule depending on the achievement of the DLIs.

Risk management

Use of pre-assessments: The capacity of institutions to implement the programme, as well as the risks associated with a programme are assessed prior to the start of the support. Each programme will undergo a pre-assessment covering the four following elements:

- The programme soundness assessment will evaluate the programme's relevance, justification, adequacy, and appropriateness of its implementation arrangement;
- The expenditure and financing assessment will review the efficiency, effectiveness, adequacy, and sustainability of the program's expenditure framework and financing;
- The output/outcomes and links with disbursements assessment will examine the appropriateness of the results framework, select DLIs, design the DLI verification protocol, and make disbursement arrangements;
- The institutional and system assessment will examine the M&E systems, the fiduciary systems, the environmental and social systems, and other institutional and system aspects, as relevant and appropriate to the programme. For each programme, there is a report called "Programme Safeguard Systems Assessment" that assesses those risk and that proposes mitigating measures to be implemented in the early months of the programme.

²⁰⁸ There is no pre-described blue-print for the sector strategies, as long as the strategy includes basic objectives and strategies for the sector.

²⁰⁹ For an example of a summarised verification protocol, see Annex C.

Use of risk management preconditions: The PAP can include preconditions in the context of risk management, resulting from one of the four main pre-assessments. Mitigating measures are agreed between ADB and the beneficiary/recipient and monitored by the ADB throughout the programme implementation.

Scope of financial control & fund transfer modality

Expenditures are controlled following a country approach, without a prescribed framework for the whole DM. Financial control is applied at two levels:

- **Account level:** The beneficiary/recipient has to maintain two separate accounts and records for the programme; a loan account and a deposit account. First, ADB transfers the full loan to a "Loan Account". Then, the beneficiary/recipient has to open a "Deposit Account" (in a bank selected by ADB). After achieving the DLIs, funds will be transferred from the Loan Account to the Deposit Account. The beneficiary/recipient needs the approval from ADB before withdrawing money from the Deposit Account to finance the programme. ADB can also request the financial statements of the Deposit Account to be audited by independent auditors.
- **Expenditure programme level:** Accounting standards for the expenditure programme are not pre-described by ADB. The only requirement is that the accounts are 'acceptable' to ADB standards. The beneficiary/recipient is required to submit annual audited financial statements (financial audits) of the programme to ADB.

Risk monitoring: All risk management related to the programme is handled by the ADB team overseeing the specific operation. The main entry points for risk management are all the reports received and PAP progress reports.

Risk Policy: ADB's risk policy is reflected in risk management procedures. For example, part of the risk policy is that risk assessments are part of the Country Assessments, underlying all ADB actions in a specific country. There are no stated risk ceilings; acceptable risks are assessed on a case by case base. Risk management is mostly focused on credit risk: the risk the beneficiary/recipient will not pay back the loan.

Reporting

Content of reporting information & who reports: An RBL programme includes multiple reporting requirements: Pre-assessment reports, responsibility of the ADB ; Reporting on progress made on the DLIs, responsibility of the beneficiary/recipient ; Reporting on progress made on the PAP; responsibility of the beneficiary/recipient ; Final assessment report, Responsibility for ADB ; Financial statement reporting, responsibility of the beneficiary/recipient ; Audit reports: responsibility of the beneficiary/recipient ; Other review reports – both the ADB and the beneficiary/recipient may decide to conduct reviews of the performance of environmental and social impacts management system, procurement system, etc. Next to reporting requirements at operational level, there is also an annual progress report going to the ADB Board. The objective of this report is to inform the Board; no decisions are requested.

Administrative costs and burden. The policy paper stated that there are no clear indications that RBL will require more resources to design and implement than a traditional investment lending project. Based on interviews with key ADB staff members, we identified the following perspective on administrative costs and burden:

- From **ADB perspective:** compared to standard loan, administrative costs decreased when moving from a transaction based verification approach to a performance based verification approach. Also, ADB involvement is more concentrated at the start of the project rather than during the implementation phase, which led to a total decrease of man-power required per operation.

- From the **beneficiary/recipient's perspective**: the benefits in terms of administrative burden are more controversial. On the one hand, the administrative burden decreased as beneficiaries/recipients do not need pre-approval statements (i.e. a non-objection letter) from ADB to make an expense. On the other hand, beneficiaries/recipients are required to provide additional reports (result verification, PAP reporting) to ADB.

Payment-by-Results: Norway International Climate and Forest Initiative in Guyana

Quick Facts

| | | | |
|-------------------------------|--|---|---|
| Donor | Norwegian Agency for Development Cooperation | Payment modalities | Actions/outputs, outcomes/results or a combination of these (depending on the phase of partnership development) |
| Launch year | 2008 | Delivery Mechanisms | Payment for delivery of ecosystem services |
| Implementation Methods | NA (similar to EU indirect management mode) | Sector relevant to the ESI Funds | 05 Environmental protection |
| Budget | Guyana - 250 mln USD (2010-2015) | Thematic Objectives (TO) | TO5 - Promoting climate change adaptation, risk prevention and management |

Key features Payment-by-Results in Guyana

Payment modalities and framework preconditions

Payment modality

The international REDD+ mechanism envisages a gradual **three-phased approach to performance based payments**. In the first phase, payments are for **actions and outputs** related to policy development, capacity building and establishment of the framework for result-based payments. In the second phase, national action plans are implemented, which may involve further capacity building, and results-based demonstration actions. In the third phase, results-based actions can be fully measured, reported, and verified and payments are linked only to **outcomes/results**. An evaluation of the NICFI revealed that by the end of 2014 only Guyana and Brazil reached third phase funding.

According to the Norway and Guyana Joint Concept Note (main project document), "Guyana is being paid for its performance through an incentive structure which rewards keeping deforestation below an agreed reference level and for avoiding increased forest degradation". The Norway **payments are committed after verification of outcomes/results**, and **disbursed based on the cash flow needs** of implemented GRIF projects. There are no deadlines for disbursement of received payments/or decommitments.

Framework preconditions

There are **no general preconditions**, as countries voluntarily commit to implement REDD+ and the instrument supports policy and institutional developments. The **framework and implementation preconditions** relate to the REDD+ safeguards agreed on the UNFCCC Conference in Cancun in 2010. The safeguards include procedures and approaches for enhancing positive and reducing negative effects of REDD+ actions on people and environment.²¹⁰ In Norway-Guyana partnership the

²¹⁰ The safeguards address the following issues: a) consistency with objectives of national forest programmes and relevant international conventions and agreements; b) transparent and effective national forest governance structures; c) respect for the knowledge and rights of indigenous peoples and members

safeguards are addressed in indicators for enabling actions. Guyana has an obligation to report on these indicators and the reports are independently verified.

Scope

In terms of **level of intervention**, the Norway bilateral partnerships are **managed at national (Guyana) or sub-national level** (e.g. Amazon forest). Considering the **degree of integration**, as commented, the Norway payments are reward for environmental outcomes.

Considering the **size of the support operations**, Norway commitments under bilateral forest partnerships are large-scale and multiannual. The evaluations considered that the large-size of the commitments contributed to the effectiveness of the mechanism, since it attracted public attention and political commitment.

Considering **payment coverage**, the payments from the donor/contributors to the beneficiary country are **incentive payments**, which are not related to the costs for delivery of results. The payments from the Trust Fund projects are full or partial reimbursement of costs. Considering **financing coverage**, the contribution of Norway is a **non-repayable grant**. In Guyana, GRIF has no restrictions on the form of support. Some of the projects provide grants, others create financial instruments or combination of these.

Policy coverage

The delivery mechanism is designed to **reward climate change mitigation actions**. The payments are used to support actions with broader objectives, focused at addressing a variety of factors that determine prevention of deforestation and sustainable forest management. All Norway bilateral forest partnerships support national actions for reducing emissions from deforestation and forest degradation as well as actions for conservation, sustainable management of forests and enhancement of forest carbon stocks.

The donor/trust fund contributors put **little restrictions on the type of supported interventions**, if they contribute to low carbon and sustainable development. In terms of **beneficiaries and target population**, the instrument has no specific restrictions. For example, in Guyana the supported projects target farmers, micro and small enterprises, indigenous people, forest management authorities, etc. In the case of Guyana, the Joint Concept Note put **high standards for partnership and stakeholder consultation in all stages** of the strategy and projects implementation. It establishes a requirement for 'institutionalised', systematic and transparent process of multi-stakeholder consultation, enabling the participation of all potentially affected and interested stakeholders at all stages of the REDD-plus/LCDS processes. It puts a special emphasis on full and effective participation of indigenous people and other forest-dependent communities.

Functional features

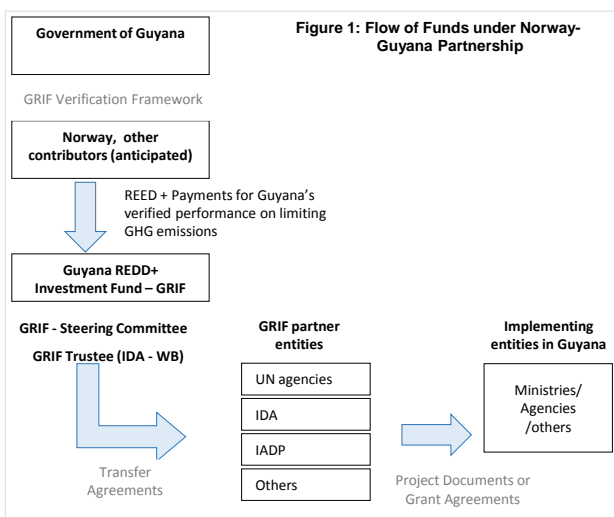
Delivery Mechanism Management

The DM mechanism integrates results-based aid with the traditional mode of result-based investing. In Guyana the **management of the results-based payments has some similarities with the EU indirect management mode**, under which the Commission entrusts budget implementation tasks to international organisations or bodies after the assessment of their systems. **In Guyana the management of the**

of local communities; d) the full and effective participation of relevant stakeholders, in particular indigenous peoples and local communities; e) conservation of natural forests and biological diversity and enhancement of other social and environmental benefits; f) actions to address the risks of reversals; g) actions to reduce the displacement of emissions.

results-based payments is entrusted to the GRIF. The donor ensures that reliable control systems are present at the trustee and partner entities level.

Figure 1 – Flow of Fund under Norway-Guyana Partnership



The GRIF manage payments provided by Norway and transfer payments for projects and actions that support the implementation of Guyana's Low Carbon Development Strategy (Figure 1). GRIF organisational arrangements include IDA as a trustee, providing financial intermediary services. Operational services are provided by UN agencies, IDB, and IDA, which are responsible for project development, implementation, monitoring and reporting.

GRIF Steering Committee is a decision-making body for the investment of GRIF funds and monitoring of implementation.

Members of the Steering Committee are the Government of Guyana and financial contributors to the GRIF (currently only Norway).

The Norway bilateral forest partnerships have different REDD+ institutional and governance arrangements. Thus, for example in Brazil the Amazon Fund, which administrated by the Brazilian Development Bank, which is a state-owned and state-controlled financial institution.

Performance management

The Norway-Guyana partnership has two outcome/result components: 1) continued low deforestation, and 2) improved governance in the forestry sector. There are two sets of indicators, which are set in consultation between partner countries and responsible national agencies.

The first set of indicators are the REDD+ performance indicators. They are used for calculation of the amount of payments from Norway to Guyana and relate to the rate of deforestation and forest degradation. Payment are be made for performance against a baseline. The outcomes/results are monitored by national bodies and verified every year by an independent third party (external/contracted consultants).²¹¹

The second set of indicators are the indicators on enabling actions, intended to support national management of the policy development and institution building actions. The indicators on enabling actions are grouped under five policy areas: (1) Strategic framework, (2) Continuous multi-stakeholder consultation process, (3) Governance, (4) The rights of indigenous people and other forest communities as regards REDD+ and (5) Integrated land-use planning and management. For each group there is a statement of goals, expected actions, measurable indicators and sources for verification. The indicators are regularly amended to reflect changing priorities. The responsible bodies prepare action plans specifying responsibilities and deadlines for achievement of the targets set in the indicators.

²¹¹ In Guyana verification is done by the Det Norske Veritas GL, which is an international certification body and classification society with main expertise in technical assessment, advisory, and risk management.

Risk Management

In the case of Guyana, the financial management of GRIF funds is entrusted to the trustee and partner entities. According to the approved GRIF procedure, the partner entities are entrusted to manage projects applying their own policies and procedures, including procurement and grant award procedures, financial management, fraud and corruption prevention, environmental and social safeguards and reporting.²¹² No ex ante risk assessment is carried out for the financial management procedures of international organisations – IDA, IADP and UN agencies. The funds are audited according to the internal and external audit standards of the partner entity. The partner entity's external auditors audit the financial statements of the dedicated account. It has to be noted that the DM creates no financial risk for the donor. The payments are made after delivery of agreed result.

Reporting

There are two reporting lines. The reporting on the performance indicators is a responsibility of the national authorities. In the case of Guyana, the Guyana Forestry Commission (GFC) and Office of Climate Change (OCC) are the agencies responsible for preparing Guyana's two separate reports on REDD+ performance indicators and indicators of enabling actions, respectively. The reports of the national authorities are verified and assessed by independent entities. Progress on performance indicator is reported to the Government, donor and Multi-Sectoral Steering Committee. The reporting of the actions of the Trust fund is a responsibility of the trustee and partner entities. The financial information is reported by the GRIF Trustee. It prepares annual financial report, which is presented to the GRIF Steering Committee. Partner entities report to the GRIF Steering Committee annually on the progress of implementation of its actions, results achieved compared to planned results and on the financial status of projects, which they implement. Partner entities prepare also final implementation reports.

Fund transfer modality

The funds transfer arrangements are regulated by the Administration Agreement between the trustee and the Norwegian Agency for Development Cooperation. Contributions are paid in annual instalments, once the amount of result payments are determined (based on observed performance). The amount of annual instalment is determined on the basis of annual cost projections of implemented projects or fees.²¹³

²¹² The GRIF Operational Manual (standard Transfer agreement) states that 'partner entity, in accordance with its policies and procedures, shall: (i) maintain books, records, documents, and other evidence in accordance with its usual accounting procedures to sufficiently substantiate the use of the transferred funds; (ii) provide periodic financial reports including annual unaudited or audited financial reports, as agreed with the Steering Committee; and (iii) provide any other relevant financial information.'

²¹³ This funds transfer modality is determined by the Norway regulations on financial management of aid, which requires all disbursements to be based on documented financial needs - expected costs to implement the supported programme within the specified time period.

Delegated Cooperation- Value Chain Agro Finance

Quick Facts

| | | | |
|-------------------------------|---|---|--|
| Donor | European Union (DG DEVCO) | Payment modalities | Input, Outputs, outcomes/results |
| Launch year | 2008 (first year with budget commitments) | Delivery Mechanisms | Delegated cooperation (Payment/disbursement on inputs and outputs) |
| Implementation Methods | Indirect management | Sector relevant to the ESI Funds | Transport, environment, climate change, private sector development, institutional development and capacity building. |
| Budget | Delegated Agreements (DAs) of a total value of 1.263 mln EUR and Transfer Agreements (TAs) of a total value of 261 mln EUR ²¹⁴ (EC committed amount) in the period 2008-2014 | Thematic Objectives (TO) | TO3, TO5, TO6, TO7, TO9, TO10, TO11 |

Key features of the Delegated Cooperation

Payment modality and framework preconditions

Implementation and payment modalities are detailed in the special conditions of the Grant agreement signed between the European Commission (contracting authority) and the delegate (Organisation). Payment procedures include **pre-financing instalments** in line with the provisions of the special conditions, and a final payment of the balance. There are **no preconditions linked to the implementation** of the DA or framework intervention preconditions.

Further disbursements are linked to the experts' inputs (on the basis of monthly timesheets) as well as to achievements in results (outputs or outcomes/results as measured by corresponding Indicators).²¹⁵ Progress in the achievement of the outcomes/results is provided in regular progress reports containing a complete account of all relevant aspects of the implementation of the action consisting of a narrative part²¹⁶ and a financial part. Fund transfers to the organisation are in line with the PRAG rules. Generally, following a first pre-financing instalment at the beginning of the implementation, the balance payment is done at the end of the implementation period. The final amount of the EU contribution is determined with the approval of the organisation's final report. According to the no profit principle, the EU contribution may not produce a profit in the framework of the DA, unless specified otherwise in the special conditions of the PA grant agreement.

DC is an instrument integrated into the normal Project Cycle Management (PCM) procedure and it is ruled by the General Conditions of the Pillars Assessed Grant or

²¹⁴ The two types of delegated cooperation are the Delegation Agreements (DAs): funds entrusted by the European Commission to development cooperation entities from EU Member States or other donors; and Transfer Agreements (TAs): funds entrusted to the Commission by EU Member States, other governments, organisations or public donors. This case study concentrates on DAs, which represent the largest part of the mechanism of delegated cooperation.

²¹⁵ Unfortunately, the Grant Agreement for the Value Chain Agro Finance Project was not made available for this Case study.

²¹⁶ For the content of the reports, please refer to the section "Reporting".

Delegation Agreement (PAGoDA).²¹⁷ The financial support to final recipients may take the form of “conditional” or “unconditional” cash transfers. “Unconditional”, means that financial support is given without anything in return, i.e. without any specific result other than helping the final recipients, e.g. scholarships. “Conditional” transfers mainly refer to support provided if given conditions are fulfilled (e.g. support to SMEs investments that generate employment). The **financial support may take the form of simplified cost options**.²¹⁸ The total amount of financing that may be awarded on the basis of simplified cost options may not exceed EUR 60.000, unless otherwise provided for in the Special Conditions.

Scope

DC is a delivery mechanism for a variety of tasks including provision of technical assistance, implementation of grant award and procurement procedures, implementation of financial instruments, etc. The main **principles and objectives** of DC stem from the Paris Declaration (2005), the Accra Agenda for Action (2008), Busan Partnership agreement (2011) and the Agenda for Change (2012); all converging to the need to increase aid effectiveness, strengthen ownership for the beneficiary countries, reduce fragmentation and ensure better coordination among donors support.

In recent years, DC has been applied also for support to EU Member states, under the Commission’s Structural Reform Support Service (SRSS). DC may **cover budget implementation for an entire programme or part of it**, in the form of a project or a group of projects, at a beneficiary country national, regional or local level. Since the **financing coverage of a DA is a grant (a non-repayable support)**, eligible direct costs must be in line with the PRAG eligibility rules and conditions and the organisation’s financial management rules and procedures (such as cost of staff, travel and subsistence costs, procurement/contracting costs, etc.).

Under the Value Chain Agro Finance project in Kyrgyzstan, the implementation is done through groups of projects managed by KfW. The project allows increasing availability of finance in local currency for the acquisition of agricultural equipment and machinery. It also provides working capital to create and support selected value chains across the Kyrgyz Republic for the production of competitive agri-food products in a sustainable way.

Policy coverage

DC can cover any types of intervention, including mainly productive investments, sustainable development, institutional capacity of public administrations and capacity building for stakeholders, etc. in **all sectors and areas of support** eligible for receiving EU co-financing. It can therefore potentially encompass all types of objectives of the ESI Funds, although general practice show that actions implemented under DAs correspond to sectors of strategic importance for the beneficiary country or the European Commission, or the organisation implementing the grant.

Partnerships are sought between donor organisations, with multi-donor actions involving joint co-financing from various donors being encouraged. Under multi-donor DAs, jointly co-financed actions need to have costs eligible to the European Commission to cover its contribution.

The Kyrgyzstan project objectives focus on areas clearly linked to two TOs:

- TO3 – Enhancing the competitiveness of SMEs

²¹⁷ http://ec.europa.eu/echo/sites/echo-site/files/General_Conditions_PA_Grant_Delegation_Agreements.pdf

²¹⁸ In accordance with the national procurements roles of the Member State of specific procurement rules applied by the organisation.

- TO9 - Promoting social inclusion, combating poverty and any discrimination (indirectly, through private sector investments in rural areas)

Functional Features

Delivery Mechanism management

DC is executed through indirect management. Policy choices remain within the responsibility of the European Commission, as they are not budget-implementation tasks and are not delegated through the DA. For this reason, the Terms of Reference (ToR) of a DA (annexed to the agreement) contain detailed information on the basic parameters of the action and ensure that the policy choices and planned actions are set by the Commission. As already mentioned, under the Value Chain Agro Finance project in Kyrgyzstan, the implementation is done through groups of projects managed by KfW.

Performance management

Result verification is done by the European Commission (contracting authority) through review of the progress and final reports, other monitoring reports and on-the-spot visits. In the course of the implementation, the European Commission participates in the Steering Committees and in any monitoring and evaluation missions that may be organised in the framework of the assessment of the performance of the Action. Steering Committee minutes and/or reports on monitoring and evaluation missions must be communicated to the European Commission.

Risk management

The entrusted entities must demonstrate a level of financial management equivalent to that of the Commission. This is verified by the (ex ante) pillar assessments of the entities.

Pillar assessments are carried out by professional auditors and in accordance with the terms of reference established by the European Commission. The auditors must be independent and registered member of a national accounting or auditing body or institution, which in turn is a member of the International Federation of Accountants (IFAC), and which is certified to perform audits. The objective of this pillar assessment is to confirm that the entity fulfils the requirements set out in the Financial Regulation.

Following the signature of the DA, the beneficiary organisation has full financial responsibility towards the Commission. To this end, the organisation must carry out ex ante and/or ex-post controls including, where appropriate, on-the-spot checks on representative and/or risk-based samples of transactions, to ensure that the action is effectively carried out and implemented correctly. Within this framework of control the organisation has the authority to apply its own Regulations and Rules to recover irregularly used funds, including, where appropriate, legal procedures. A summary of controls carried out and available final audit reports (in line with the organisation's policy on disclosure of such controls and audit reports), must be included in the regular reporting to the Commission.

Reporting

DAs require the submission of regular reports to the European Commission. Progress reports and the final report must contain a complete description of the implementation of the action according to the actions envisaged in the contract and the degree of achievement of the results, as measured by corresponding indicators. Progress reports must at least include:

- summary and context of the Action;
- actual results: an updated table based on a logical framework matrix including reporting of results achieved by the Action (Impact, Outcomes or Outputs) as measured by their corresponding indicators;

- agreed baselines and targets, and relevant data sources;
- actions carried out during the reporting period (i.e. directly related to the Action and described in the Agreement);
- information on the implementation of the Visibility and Communication Plan and any additional measures taken to identify the EU as source of financing;
- information on the implementation costs incurred as well as the legal commitments entered into the organisation during the reporting period;
- a summary of controls carried out, if any under PA Grant Agreements, and available final audit reports in line with the organisations' policy on disclosure of such controls and audit reports;
- under Delegation Agreements, control measures carried out on Sub-delegates, if any. In case weaknesses are detected, information on their nature and extent as well as corrective measures adopted;
- where applicable, a request for payment;
- work plan for the following period.

Reports contain a financial and a narrative part, summary of available audit reports and controls on annual basis, accompanied by a management declaration assuring that information is complete and accurate, expenditure was used for the intended purpose and that internal control systems guarantee legality and regularity of transactions.

Scope of financial control & fund transfer modality

In the implementation of a DA, **the organisation is responsible for providing an independent external audit of the interim and final invoices.** Expenditure verification is performed at the end of the DA's period of implementation. The auditor verifies that relevant, reliable and sufficient evidence exists on:

- The experts' inputs consistency with the amounts claimed in the experts' invoices and in the financial reporting spreadsheet submitted with the progress and final report;
- Amounts claimed have actually and necessarily been spent in accordance with the requirements of the DA;
- Amounts claimed as part of the provision for expenditure verification have actually and necessarily been spent in accordance with the requirements of the DA.

Funds are transferred in the general account of the organisation, unless if specific provisions are taken by the organisation for a separate bank account (not required by the Regulation).

EU Neighbourhood Investment Facility (NIF) - Social & Energy efficiency housing Finance - Armenia

Quick Facts

| | | | |
|-------------------------------|---|--|---|
| Donor | European Union | Payment modalities | Mostly Inputs |
| Launch year | 2008 for NIF in general, 2014 for NIF "Social & Energy efficiency housing Finance" Armenia | Delivery Mechanisms | Investment grants; Technical assistance |
| Implementation Methods | Indirect management | Sector relevant to NIF programme in Armenia | <i>NIF in general:</i> Transport Energy Environment Social Development <i>NIF "Social & Energy efficiency housing Finance" Armenia:</i> Energy Environment |
| Budget | Between 2008 and 2015 - €1,431m, including €35m in management fees. NIF "Social & Energy efficiency housing Finance" Armenia - EUR 11 500 000: EUR 10 000 000 soft loan for refinancing renovation loans, EUR 700 000 technical assistance, EUR 700 000 credit enhancement support, EUR 50 000 visibility and communications, EUR 50 000 independent external auditors | Thematic Objectives (TO) | <i>NIF in general:</i> TO04 TO06 TO07 TO09 <i>NIF "Social & Energy efficiency housing Finance" Armenia:</i> TO09 |

Delivery Mechanisms and key features of NIF

Payment modalities and framework preconditions

Considering the variety of types of instruments/areas/implementing bodies/country specific arrangements/involvement of commercial banks with own terms, **no standard payment modality applicable for NIF could be identified**. Instead, in this analysis of the delivery mechanism the focus is on the Armenia case only, which focuses mainly on **inputs**.

Payment modalities

European Investment Bank – Agence Francaise de Developpement

Payments are based on reported inputs utilised. AFD prepares funding requests to the Manager of the Trust Fund, covering both direct costs and its remuneration. AFD's remuneration is based on the final amount of financing by the NIF Trust Fund. The final amount of the remuneration will be communicated by AFD to the NIF Trust Fund Manager at the end of the programme together with the technical completion report. If it is less than the pre-financing paid, AFD will repay the difference to the NIF Trust Fund. Interest, if any, earned by the AFD on funds received from the NIF Trust Fund will be returned to the NIF Trust Fund at the end of the Action. However, should the total cost of the Action exceed the agreed upon amount, any interest earned can be used to cover the difference.

AFD – NMC Payments from AFD to NMC are also based on inputs utilised, based on a predetermined methodology reflected in the agreement. Under the agreement between ADF and NMC, the grant will be disbursed in two drawdowns to the NMC and

allocated by NMC to Final Beneficiaries through their Partner Financial Intermediaries, according to a methodology of calculation set in an operational manual, acknowledged by AFD also.

Partner Financial Institutions – Final recipients can get **two types of loans** from the PFIs: micro loans (apartments, dwellings or single family houses can apply – with the exception of Yerevan city centre) and energy efficiency loans (all households in Armenia (except centre Yerevan) who have a regular income can apply).

As part of the programme, for micro-loans, the household owners have the opportunity to get a bonus of 10% of the amount invested. If they spend more than 50% of their investments on energy efficient renovation, they can then apply for the grant through the Partner Financial Institution that will reduce their amortisation charge during the remaining period of the loan. For energy efficiency loans, the household owners have the opportunity to get a bonus of 5% of the amount invested. If they spend more than 70% of their investment in energy efficient renovation and reach 40% of energy saving, they can then apply for the grant through the Partner Financial Institution that will reduce their amortisation charge during the remaining period of the loan (the performance grant is transferred to the borrowers' credit accounts, reducing the outstanding loan balance). For both types of loans, NMC has developed guidelines for energy efficient equipment and supplies to support final beneficiaries in getting 5-10% of their loan back. Thus, in the case of the grant component supported by NIF programme, **the payment is triggered by both inputs (a certain amount of investment in energy efficiency renovation) and outputs (a certain level of energy saving obtained)**. At the end of 2015 **22 families have received the performance grant** according to Armenian National Social Housing Association.

Framework preconditions

There are **no specific preconditions** that need to be fulfilled prior to the start of the support operation.

Scope

NIF is a **grant-based project** modality, combining European Union grant contributions with other public and private sector resources such as loans and equity in order to leverage additional non-grant financing. From the point of view of some key features of scope: The level of intervention is national; The **integration** is done at project/group of projects level; It covers **direct costs** related to energy renovation and indirect costs related to the fee of AFD; The payment is **partly cost covering** (between 5%-10% of the loan for the performance grant). About €13.83bn of lending has been provided by European Financial Institutions to projects since the NIF was launched in 2008. A total investment volume of €30bn is estimated to have been triggered in this period. On average, NIF project contributions have been about 13 mln EUR per project in the period 2008 to 2015.

Policy coverage

NIFs' primary aim is to support key investment infrastructure projects in the transport, energy, social and environment sectors as well as to support private sector development (in particular small and medium-sized enterprises) in the EU neighbourhood region of East and South. The overall aim of the Social & Energy Housing Finance project is to stimulate the renovation of housing for lower and middle income populations, particularly in rural areas and secondary cities. Through a concessional credit line and the NIF grant, AFD and the EU help the local National Mortgage Company and Partner Financial Institutions provide smaller renovation loans or micro credits to lower and middle income households in Armenia (except centre Yerevan).

NIF pursues three Strategic Objectives: 1) establishing better and more sustainable energy and transport interconnections, improving energy efficiency and demand

management, promoting the use of renewable energy sources, strengthening energy security through diversification of energy supplies and energy market integration, and supporting investments related to the implementation of EU agreements, including agreements on Deep and Comprehensive Free Trade Areas (DCFTA), as set out in the ENP Association Agendas/Action Plans ; 2) Addressing climate change, as well as threats to the environment more broadly ; 3) Promoting smart, sustainable and inclusive growth through support to small and medium-sized enterprises, to the social sector, including human capital development, and to municipal infrastructure development.

In terms of **sector coverage**, according to the first level COFOG-Classification of the Functions of Government classes, NIF "Social & Energy efficiency housing Finance" corresponds to the following sectors: 04 Economic affairs: Fuel and energy ; 06 Housing and community amenities ; 10 Social protection: Social exclusion. The NIF case "Social & Energy efficiency housing Finance" also includes **technical assistance**. The partner countries are the **final beneficiaries** of NIF, either directly or indirectly through their central, regional and local administrations or semi-public institutions.

Functional features

Delivery mechanism management

NIF presents an **indirect management**, with the EC being the policy holder and the Partner Financial Institutions delivering directly support to final beneficiaries through different financial products. The roles and responsibilities of stakeholders is straightforward and are likely to support the programme sound management through multiple levels of selection and control and independent technical expertise. AFD manages the funds in accordance with: (i) its internal policies and procedures applicable to actions financed by external technical cooperation funds, and/or (ii) any other procedures that the AFD considers necessary and/or appropriate for the efficient administration of funds, but which are consistent with the terms under which such grants have been allocated to the AFD by the NIF Trust Fund Executive Committee. NMC concludes implementation agreements related to payment of the performance grants with partner banks and credit organisations; Reports to AFD and acts as an extension of AFD in Armenia and monitors and evaluates the programme implementation and success. KPC, MEI, ASBA (technical assistance) prepares studies, procedures and delivers different technical assistance actions in support of the programme implementation.

Partner financial institutions are in charge of identifying and attracting potential final beneficiaries, determine the list of documents needed for the loan application and represents the signatory party of the loan contract with the final beneficiary. Loan borrowers need to calculate their energy use and potential savings, select a partner financial institution, provide the requested documents, get the loan and make the renovation.

Performance & risk management

Performance and risk are managed through the ex ante assessments of the organisations to which tasks are delegated, which guarantee a level of protection equivalent to the EU managing the funds directly. These ex ante assessments are strict. Once the organisation passes the ex ante assessment, only a low level of risk management is implemented. The performance & risks management measures and monitoring actions per intervention are reflected in the framework agreement.

First level – performance & risk management in relation to AFD mandate

Planning of such checks should be carried out, and procedural matters should be agreed upon, by the AFD and relevant European Union body, in advance. On the occasion of checks, the draft report will be made available to the AFD for comments prior to final issuance.

Second level – performance & risk management in relation to NMC mandate

The performance & risk management in relation to NMC mandate is ensured in several ways. One way is through the impact indicators listed in the agreement between AFD and NMC; another way is through the technical assistance component that should support and guide the operational implementation of the programme. A third way refers to the control and verifications that AFD performs on NMC actions. According to the agreement between AFD and NMC, the first is entitled to defer or definitively dismiss any drawdown request upon the occurrence of established main events.

In addition, according to the same agreement with AFD, NMC undertakes all diligent measures to ensure that its equity and the funds invested in the Project will not be of an illicit origin and to notify AFD without delay if it has knowledge of any information which leads it to suspect any illicit origin of any funds invested in the Project. Also, AFD has the right to carry out verification on NMC implementation of its vigilance obligation relating to the fight against money laundering and terrorist financing. Furthermore, the project accounts of NMC are audited on an annual basis for the duration of the support. Also, during the drawdown period, AFD may carry out random inspections. AFD should carry out an evaluation of the programme. Feedback from this evaluation is to be used to produce a performance report containing information on the programme.

Third level – performance & risk management in relation to PFIs mandate

The forex risk and swap cost and risks will be fully taken by NMC through financial arrangements with local banks and credit organisations. The disbursement of sub loans and lots to PFIs is managed by NMC under the existing framework and rules applicable through its PFIs Master Credit Agreements. PFIs are responsible for developing or using relevant mechanisms and procedures for attracting loan applicants and are also responsible for monitoring the loan use and repayment. Also, the PFIs are assessing their own risks and covering these risks with the adequate mortgages or third parties securities.

Reporting

Reporting in the context of NIF "Social & Energy efficiency housing Finance" can be seen from different perspectives as presented hereafter.

European Commission – AFD Reporting by AFD to the European Commission consists of annual progress and financial reports plus financial reports specifically linked to payment requests ; at the end of the programme a final performance and financial report, including an evaluation of the technical assistance ; third party consultants' reports; Audit reports.

AFD – NMC has the following reporting obligations in relation to AFD: it submits half-yearly a technical and financial progress report; at the end of the programme NMC will provide AFD with a general progress report and an impact report focused on the following indicators: Number of household financed; Reduced energy bills; Number of household financed outside Yerevan and surroundings; Energy savings; CO2 reduction.

The donor-recipient agreement/programming documents is at the level of group of projects.

Financial control & Fund transfer modality

AFD is committed to the following financial controls at account level: keeping NIF Trust Fund financed project funds on a separate account; and providing the Trust Fund Manager with an account statement of the NIF Trust Fund financed project account and a financial statement guided by International Financial Reporting Standards every half year.

National DMs

Building Canada Fund (BCF)

Quick Facts

| | | | |
|-------------------------------|---|---|--|
| Donor | Building Canada Fund | Payment modalities | Inputs |
| Launch year | 2007 | Delivery Mechanisms | Payment/disbursement on expenses made, Real costs |
| Implementation Methods | <ul style="list-style-type: none"> ▪ Direct Management (Major Infrastructure Component – except Transport) ▪ Shared Management (Community Infrastructure Component and Major infrastructure Component for Transport) ▪ Indirect Management (e.g. Community Infrastructure Component for the three territories) | Sector relevant to the ESI Funds | Almost all sectors: transport, environment, broadband infrastructure, brownfield development, health , education, etc. |
| Budget | 8.8 bln USD | Thematic Objectives (TO) | TO2, TO4, TO5, TO6, TO7, TO9, TO11 |

Key features of BCF

Payment modalities and framework preconditions

BCF works on a reimbursement basis. **Payments are linked to inputs**, with only an **indirect link to results**, by verification of the achievement of a set objectives at project level, through the progress and final reports.

The delivery of the programme is subject to three kinds of preconditions in order to assure that funded projects support the nation's priorities, namely **general preconditions** such as the approval of general strategic documents, **framework intervention preconditions** such as the conclusion of *Infrastructure Framework Agreements* (IFA) signed with provincial and territorial governments, and lastly specific **implementation preconditions**, which require the approval of terms and conditions of BCF by Canada's Treasury Board prior to the development of eligibility criteria.

Scope

BCF is **designed at national/federal level** and contains targeted programmes that balance regional and local needs (provinces, territories, municipalities) with national priorities. **The programme is implemented at the level of provinces (regional and local level)**, based on the provisions of Infrastructure Framework Agreements (IFA). **BCF provides funding directly to projects**. While BCF-MIC finances larger infrastructure projects of national and regional scope, BCF-CC funds priorities at the level of communities.

Funding under BCF is granted based on the **cost-sharing principle**, project contribution ratios differ between the two programme components and according to the owner of the project. Higher funding contribution ratios are allowed for public sector and non-for-profit sector owned projects.

Eligible costs covered **comprise both direct and indirect costs** of the operations. Concerning the size of the operations, the total available funding under BCF-MIC

reaches up to 7.7 bln USD, with \$1.1 bln USD allocated to BCF-CC. In general, **support granted under BCF is non-repayable.**

Policy Coverage

BCF supports projects in the field of infrastructure, sustainable development, institutional capacity and capacity building. The eligible categories of investment for Public Infrastructure projects under both components are both **National Priority Categories** (such as Water Infrastructure; Wastewater Infrastructure; Public Transit Infrastructure), and **Local and Community Priority Projects**: Disaster Mitigation Infrastructure; Solid Waste Management Infrastructure; Brownfield Redevelopment Infrastructure; Cultural Infrastructure; Sports Infrastructure; Connectivity and Broadband Infrastructure; Local Road Infrastructure; Short line Rail Infrastructure; Short Sea Shipping Infrastructure; Tourism Infrastructure; Regional and Local Airport Infrastructure.

A correspondence can be observed between the objectives of the interventions under BCF and those of the European Union Strategy for smart, sustainable and inclusive growth, with BCF support being directed to objectives similar to TO2, TO4, TO5, TO6, TO7, TO9 and TO11.

Eligible beneficiaries include public and private bodies, as well as NGOs and partnerships between public and private bodies. Certain differences can be observed between the two components as regards specific eligibility (e.g. NGOs are not eligible under BCF-CC). **Partnerships are encouraged and used at all levels**, at both programme design and delivery level, and project level. Infrastructure Framework Committees (IFCs) facilitate cooperation and coordination between the Parties of a project regarding public infrastructure initiatives in the respective province.

Functional features

Delivery Mechanism Management

BCF builds on partnership and relevance and aims at generating added value. The delivery mechanism (and management) differs for the two BCF components. For BCF-MIC, the management and delivery are centralised (direct management), while for BCF-CC, the management is shared between Infrastructure Canada, the Federal Delivery Partners and the Oversight Committees, which have an important role in the selection process. In both cases, however, a contribution is delegated to the beneficiary/final recipient, who is responsible that the project is completed as per the Terms and Conditions of the Contribution Agreement, as well as for the on-going operation and maintenance of the asset.

For BCF-MIC projects, the responsible authority is Infrastructure Canada. Transport Canada undertakes management and monitoring tasks for transportation projects. For non-transportation projects, these tasks are the responsibility of Infrastructure Canada, which is also responsible for negotiating agreements with the funding recipients for this type of projects.

Infrastructure Framework Committees (IFCs) are established in each Province to facilitate cooperation and coordination between the Parties regarding Public Infrastructure initiatives in the Province. The IFC Co-chairs (Provincial and Federal) have the role of recommending the projects considered as priority to their respective Minister and forward the selection process.

A Project Review Panel structure is functioning at the level of Infrastructure Canada with the role of advising the Minister in relation to certain projects needing a separate approach. Dedicated risk tools are used in this process.

BCF-CC is delivered by Federal Delivery Partners (FDPs) with the direct involvement of the provinces. Infrastructure Canada is the federal department accountable for BCF-CC, responsible for programme design and negotiating agreements with the partners. FDPs are in fact the Regional Development Agencies. Their tasks and responsibilities in

relation to programme implementation are defined in Service Level Agreements signed with Infrastructure Canada. Separate federal-provincial contribution agreements (CAs) govern the programme, each of which is managed by an Oversight Committee established by the Infrastructure Framework Committee that includes both federal and provincial senior officials, and municipal associations if the case.

Performance Management

Performance management and assessments are developed at three levels: national level, department/organisational level, and project level. Performance monitoring starts at project level, in terms of expenditure made, funds leveraged and results achieved. At department level, the Program Alignment Architecture (PAA) sets a number of strategic outcomes and establishes the corresponding programmes contributing to the achievement of the single outcomes. A number of organisational priorities are identified to improve performance and operate efficiencies. A risk analysis is done at PAA level and mitigation measures are foreseen and implemented. Reporting and performance monitoring occur both at programme level and at the level of each strategic objective.

The use of performance information for continuous improvement is very important in the Canadian context. Quarterly and/or yearly result verification at project level covers monitoring actions and milestones throughout the whole project cycle, such as monitoring of mitigation measures identified in the environmental assessment, as well as assessment of eligibility and reasonability of project costs, information on cash-flow and budget, claim verification, payments processing.

A comprehensive database at the level of Infrastructure Canada supports the monitoring and reporting process. The Shared Management System for Infrastructure (SIMSI) is a web based programme management system that allows users to register projects online, monitor project status, and access benefits and payment information, covering the entire lifecycle of a project.

The performance management is completed by a follow-up process, a sound integrated approach to corporate planning and risk management, used throughout Infrastructure Canada, as well as by other programme managing organisations.

Risk Management

Pre-assessments are used at the level of the managing organisations, with the help of specific tools and as per national guidance dispositions. Infrastructure Canada elaborates yearly its Corporate Risk Profile (CRP), which contains the department's corporate risk profile report, the Semi-annual report on risk responses and re-assessment of critical risk placements and the Specific risk analysis for larger programmes.

Ex ante risk management conditions are used in the planning and implementation process, are integrated in the management process and cover the entire programme cycle. In the Corporate Risk Profiles risks are identified in relation to the strategic outcomes defined as per the department's PAA. Mitigation measures and actions are identified to improve the deployment of resources and operate efficiencies in each stage of programme management, as well as increase programme added value.

As regards the risk tools used, the CRP²¹⁹ differentiates itself as an important tool used by organisations managing/implementing the programme (in this case Infrastructure Canada), as it describes organisation's key risks, including both threats and opportunities, and the risks are categorised and mapped against strategic outcomes and operating environment.

²¹⁹ <http://www.tbs-sct.gc.ca/hgw-cgf/oversight-surveillance/maf-crg/index-eng.asp>

Risk monitoring takes place at the level of Infrastructure Canada. The Departments' CRP, as per the Treasury Board's Guide to CRP, includes determination of the responsible of monitoring and reporting functions. The risk management actions ensure that the Departmental Management Committee is aware of emerging risk drivers and offers an opportunity to implement new measures to achieve departmental priorities and advance its Strategic Outcome.

Moreover, risks are monitored also at the level of the programme management and implementation supporting systems. At project level, significant project risks and the respective mitigation strategy are identified from the stage of the application form.²²⁰

Reporting

Reporting requirements for organisations and applicable procedures are well defined. The involved departments and agencies work within the framework of the Reporting cycle of Government Expenditures and according to the Financial Administration Act, elaborating in particular a Management, Resources and Results Structure (MRRS), which supports the development of a common government-wide approach to the identification of programmes and to the collection, management, and reporting of financial and non-financial information relative to those programmes.

Reporting by final recipients is project related and involves completion for claim forms, a detailed summary of expenditure and periodic progress reports (which should be attached to each claim form), as well as final reports and corresponding claims, when the project is completed.

Funds transfer modality

Fund transfers under the programme are regulated by a federal legislative act (Treasury Board Policy on Payments Transfers), which contains a clear set of roles and responsibilities for programme payments.

GRW²²¹ - Joint Task Programme for the improvement of the Regional Economic Structure

Quick Facts

| | | | |
|-------------------------------|---|---|-----------------------------------|
| Donor | Federal government, governments of federal states + ERDF (in some cases) ²²² | Payment modalities | Inputs |
| Launch year | 1969 | Delivery Mechanisms | Real costs |
| Implementation Methods | Centralised Management at the level of Laender (recipient-driven) | Sector relevant to the Funds ESI | Economic sector development |
| Budget | 1.2 bln EUR | Thematic Objectives (TO) | TO 1, TO 3, TO 8 and partly TO 10 |

Key features of GRW

Payment modalities and preconditions

Payments are linked to inputs (expenditure) and provided following the beneficiary Request for payment. Payments can be processed in a few instalments. Documentary checks on the projects do not begin before all payments are done, and the beneficiary project report submitted. If the project is co-financed by ERDF, ERDF rules are followed.

Funds are allocated and reimbursements are done on the basis of real costs²²³ and do not depend on specific goals of GRW or ERDF.

General preconditions require compliance with EC Guidelines on regional state aid for 2014-2020; Commission Regulation No 651/2014 (General block exemption Regulation); So-called "Incentive map" based on macro-economic indicators of federal states and their regions (Average rate of unemployment, average gross annual wage, employment forecast, infrastructure indicator). Furthermore, GRW projects are requested to be closely coordinated with instruments related to specific policy areas, such as labour market, innovation, education, and environmental policy. Within the implementation process some financial conditions of the projects are applied as a tool of risk management.

Scope

Level of intervention. The definition of the coordination framework is placed at **federal level** with the participation of the Laender. The support level is focused at Land level. Regarding the degree of integration, GRW support **focuses on projects/actions** that contribute to the balanced regional development by generating income and creating new jobs or maintaining existing ones. The GRW is based on

²²¹ Gemeinschaftsaufgabe „Verbesserung der regionalen Wirtschaftsstruktur“

²²² Decision regarding co-financing from ERDF depends on federal states.

²²³ There is some deviation in case of building construction projects; the grant may be paid regularly in the following partial instalments: 15% after the award of the project, 40% after the completion of the building shell, 40% after indication of the completion of the construction site and 5% on presentation of report of expenditure.

direct costs, with both non-staffing costs (investments) and staffing costs (assumed salaries costs). The financing modality is based on non-repayable grants.

Regarding the **size of support operations**, the annual budget of GRW funding amounts approximately 1.2 bln EUR. The federal state and the Laender each provide half of the financing for the GRW.

Policy Coverage

The GRW eligible interventions can be divided into four basic types:

Productive investments, as for the construction of new facilities (commercial units, industrial premises, permanent business establishment) and for the expansion of existing capacities; to diversify and modify productions and entire production processes; for the acquisition of the assets of a closed or not operating establishment, or an establishment which would have been closed without an acquisition.

Infrastructure relevant for business development, such as new development, construction and revitalisation of industrial and business areas; transport connections of business areas; utilities; connection of enterprises with the regional or supra-regional supply network; facilities of vocational training and communication links; elimination of industrial and military contaminated sites.

Endogenous development, with a focus mainly on increasing the competitiveness of SMEs, as well as of the large companies; and **human capital**, where interventions support training measures and formation of human capital.

There is a direct relation to four of the **TOs** of the 2014-2020 cohesion policy: TO 1; TO 3; TO 8 and TO 10. GRW's main focus is on supporting SMEs, strengthening technology and innovation, and supporting rural areas. In principle, the GRW is equally oriented towards urban and rural regions. GRW focuses on **both the private and the public sector**. The DM can cover a wide range of **sectors**, allowing federal states and their regions to respond to specific regional problems.

GRW **integrates with other economic and sectoral policy measures**, especially those related with labour market, innovation, education, environmental, etc. **Beneficiaries** of the GRW are business companies, mainly SMEs, municipalities and their associations and not-for-profit oriented bodies. Commercial companies and public administrations may be involved in projects targeting their specific sector. The targeted population in the actual programming period 2014-2020 is wide and embraces SMEs and large companies within eligible sectors from 14 federal states of Germany. **Partnership** is feasible within GRW projects, and it is especially expected between public authorities at regional or sub-regional level for some infrastructure projects covering to sub-regions or group of municipalities.

Functional Features

Delivery Mechanism management

The coordination framework approved by the Coordination Committee is designed to be regularly reviewed and adapted if necessary. It defines areas eligible for the GRW funding (the incentive map); eligible measures as well as conditions, type and level of support; the allocation of federal funds to the federal states; the financial management of the funds; reporting, statistical analysis and evaluation arrangements.

The GRW follows a Centralised Management approach at the level of the Laender. The implementation of GRW is under the responsibility of the individual Laender that define priorities for eligible regions, select projects, issue the grant approval notice, and check compliance with relevant provisions. Specific public authorities are authorised to manage GRW as MAs, development banks and similar institutions can be involved as intermediary bodies. Regular regional political reports by the Federal Ministry of Economics and Energy inform the German Bundestag about the implementation of GRW.

Performance Management

Specific conditions of eligibility contribute to achieving GRW objectives and resource efficiency, such as:

- The purpose of the grant cannot be achieved without the grant contribution;
- Achievements of primary effects. A project can be funded only if it creates additional revenues in the respective economic area;
- Achievements of workplace effects and need for “special effort”. Projects have to create new permanent workplaces/jobs or existing ones have to be maintained in the subsidised area, for at least five years after the completion of the investment project;
- “Special effort” based on investments and jobs creation. Investment projects are eligible only if the investment amount exceeds the average earned depreciation over the past three years at the time of the application submission by at least 50 percent (excluding special depreciation) or the number of permanent jobs currently existing is increased by at least 10 per cent in the factories of the enterprise in the municipality where the supported project is located.

The results in terms of jobs are monitored within five-year monitoring periods following the completion of the project. If results are not confirmed within the monitoring period, grants might be recovered. Results on jobs are also crucial to define the amount of eligible costs. The maximum intensity of aid can be granted when specific structural effects are expected, i.e. if the project is suitable to counteract the quantitative and qualitative deficits in the economic structure and the jobs offer in the assisted areas.

The information on objectives, outcomes and outputs, which are quantified in the application form, is collected at the level of federal states and provided to BAFA as a basis for monitoring and evaluations at federal level.

Risk management

Result verification

At the level of federal states checks are performed to verify whether the beneficiaries meet eligibility criteria and all obligations that are related to the grant. After project completion, beneficiaries submit reports showing how grants have been used. The Land examines the reports in terms of correctness and accuracy of accounting records, of the asset acquisitions included in the projects, and in terms of jobs created or sustained. The Federal State Court of Auditors and Courts of Auditors of individual Laender are also included in the verification process. The Court of Auditors at Land level verifies the implementation of GRW support, in terms of legitimacy and correct grant use, it examines the conception and organisation of the GRW in terms of efficiency, and performs on-site checks on a sample of randomly selected projects. The Federal Court of Auditors restricts its audits to the accounting documents of the Laender, and examines the actions of the federation within the conception and implementation of the grant system.

Follow up process

On a yearly basis, the beneficiary has to report the fulfilment of his obligations. In case of over-performance, no premiality is envisaged. In case of project underperformance, the grant will be withdrawn and payments already received shall be fully or partly paid back. After project completion its results are monitored on a yearly basis. In case of non-achievements (e.g. new jobs and sustained jobs), partial or full grant payback can be decided on.

Risk management procedures

There are risk management procedures. Being the main risk that a beneficiary is not be able to sustain the results of the grant for the whole period of compulsory sustainability (5 years/15 years), in accordance with the “Administrative provisions on the Land/federal state budget”, projects may not be supported without ensuring that they can be fully funded. Applicants have to prove their ability to co-finance their part/share of the project costs. This may involve commercial banks which co-finance projects, and for greater projects verification on financial background, market circumstances/conditions, etc. In addition, if state’s contribution exceeds €100,000, the Federal State Court of Auditors is asked to express itself on the award of the grant.

There are no risk ceilings. Risk is assessed for each project and the decision for awarding the project application is taken if the risk is at an acceptable level.

The basis for risk monitoring are all reports and documents provided/submitted by the beneficiary, the auditor, or the tax representative. Standardised report templates are used for reporting, especially for expenditure. Beneficiaries is obliged to keep documents and contracts for 5 years after project completion if not otherwise required by tax authorities. In case a project is not completed in accordance with the approved grant application, an intermediate verification has to be executed. The beneficiary has to prove that all information is correct, the expenditure are necessary, operation was budget-wise and cost-effective, the figures are identical with those in accounting system.

Reporting

Beneficiaries report to implementation/intermediate body, while the intermediate body reports to the relevant ministry at Land level. Finally, the federal states report to the Federal Ministry of Economics and Energy, and this Ministry reports to the National parliament (Bundestag) and the EC.

Reports include Progress/interim reports; Final reports; and Annual reports on fulfilment of beneficiary’s obligations by the Beneficiaries, reports about main priorities of GRW, on awarded grants within 4 weeks; Control of Proofs of grant use after project completion; Ex-post checks on workplace effect; Statistical Reports to BAFA; Monthly reports about disbursement of GRW funds. At least quarterly information about repayments of grants by the Laender, and Regional policy reports to the Bundestag/national parliament and Reporting to the EC by the Federal Government.

External evaluators at federal and Land level regularly execute programme evaluations - every 2/3 years (2010, 2013, 2015, 2018, 2020)-, based on the BAFA statistics on approved funding, comparing initial target figures with real time figures.

Fund transfer modality

The federal budget transfers funds to the account of the Laender (50% of the commitment to the beneficiaries on the basis of grants awarded). The Laender have to disburse financial means to the beneficiaries immediately, at the latest within 30 days after the approval notice. Federal funds which are not disbursed to beneficiaries within 30 days shall either be repaid to the federal treasury or the interest has to be paid until they are paid back to federal budget or properly used for new grants – awarded projects.

Community Development Block Grants (CDBG)

Quick Facts

| | | | |
|-------------------------------|---|---|---|
| Donor | Federal Government | Payment modalities | Inputs/Actions/Sub-programmes |
| Launch year | 1974 | Delivery Mechanisms | Funds allocation by formula – mixed application methods for projects/actions/sub-programmes |
| Implementation Methods | Shared Management for both programmes | Sector relevant to the ESI Funds | Almost all sectors: SMEs, environment, social inclusion, health, education, housing etc. |
| Budget | Approx. 3bln USD (yearly appropriation from Congress) | Thematic Objectives (TO) | TO3, TO4, TO5, TO6, TO8, TO9, TO10, TO11 |

Key features of CDBG

Payment modalities and framework preconditions

A **mix of payment modalities is used**, depending on administration methods. For both Entitlement and State Administered CDBG programs, the grantees and respectively the States receive fund allocations through credit lines opened at the US Treasury, and transfer of funds is made against specific drawdown requests.

Payments can be done both **based on inputs**, as well as **on actions and outputs or outcomes/results**. For Entitlement CDBG, **cash advances** are the most frequent payment method, followed by **expense reimbursements** and the working capital method, when the recipient lacks sufficient working capital. For State Administered CDBG, allocations received by the States are **distributed** to units of general local government (UGLGs), according to an agreed distribution, based on the UGLGs drawdown requests.

General preconditions. CDBG is approved under Title I of the Housing and Communities Act. Allocation of grants to grantees and states under the two programmes is subject to the appropriation of necessary funds by the Government. **Implementation preconditions** refer to the certifications that grantees have to bring to the satisfaction of the Housing and Development Secretary.

Scope

CDBG is **designed at national/federal level** and **implemented at city and county level**. Funds are transferred to grantees at city/county level in the case of Entitlement CDBG and to states, which further distribute the funds to Units of General and Local Governments (UGLGs), in the case of State Administered CDBG. **CDBG does not provide funds directly to projects or implementing entities. Funds are allocated from the federal level to grantees and States based on the Community Development Plan**, which includes both CDBG, as well as other programmes, such as HOME. **Funds are then allocated for projects and actions or sub-programmes** (in the case of Entitlement CDBG) or to the UGLGs (State Administered programme).

Leveraging investments through partnerships is an important principle of CDBG funding. Although no minimum contribution ratios are set for project beneficiaries or activity/sub-programme implementers, **CDBG functions on a cost-sharing principle** and aims at maximising the available funds.

Eligible costs include both direct and indirect costs. Eligibility is defined differently compared to ESI Funds, in wider terms. Programme provisions set specific rules for all programming phases, including also a series of **caps** for different types of expenditure, as well as conditions under which the actions could be undertaken and in some cases, minimum expected outputs and outcomes.

The **total yearly appropriation for CDBG** amounts to approximately 3bln USD. The total amount awarded to CDBG program for the period 2003-2016 was 49.8 bln USD.

The funds allocated from federal level to grantees and States represent **non-repayable support**.

Policy coverage

All CDBG actions must meet one of the three **national objectives**, namely Benefit low- and moderate-income persons; Aid in the prevention or elimination of slums and blight; and to meet certain community development needs having a particular urgency.

The **CDBG areas of intervention are similar to those supported under ESI Funds**. CDBG objectives and delivery mechanism cover almost all TOs, with support being directed to objectives similar to TO3, TO4, TO5, TO6, TO8, TO9, TO10 and TO11. Common aspects include also the Union Strategy for smart, sustainable and inclusive growth, in the context of the CDBG focus on actions that benefit the low-and-moderate income (LMI) persons and the interventions meeting community development needs.

Eligible beneficiaries include at the upper level the entitlement grantees, which are public sector entities and local governments of principal cities of Metropolitan Statistical Areas (MSAs), other metropolitan cities with populations of at least 50,000 and qualified urban counties with populations of at least 200,000. The **target population** for Entitlement CDBG is represented by the citizens of the central cities of Metropolitan Statistical Areas (MSAs), the population in the metropolitan cities with populations of at least 50,000 and in the qualified urban counties with a population of 200,000 or more. The State Administered CDBG targets the cities with populations of less than 50,000 and counties with populations of less than 200,000. The focus of CDBG is on Low and Moderate Income persons (LMI).

For the Entitlement programme, the **partners** include the U.S. Department of Housing and Urban Development (HUD) at federal/national level and the HUD local offices, the local governments and citizen communities and the organisations at regional and local level. **Citizen participation** is a pre-requisite for grantees and States to actually access the funds.

Functional features

Delivery Mechanism Management

The delivery mechanism of CDBG program has **two layers**, the federal layer disbursing funds to grantees and States and the Grantees/States layer disbursing funds to projects, in the case of Entitlement CDBG and, respectively, to UGLGs in the case of State Administered CDBG.

The **implementation of the programmes at grantee/State level is different from one programme to another** but follows the same pattern: defining the method for programme administration; project and partner selection; ensuring compliance with different federal requirements; addressing financial and administrative requirements; entering results into the Integrated Disbursement and Information System (IDIS) and report and monitor progress. Specific criteria are defined for each of the implementing organisations, in terms of eligibility and types of actions to be carried out. Specific agreements (e.g. with recipients) are concluded to ensure compliance with applicable requirements.

The differences in relation to project and partner selection are most consistent between the two programmes. The entitlement grantees can use different approaches to select actions and organisations for funding under local CDBG programs within the framework of the CDP, whereas under the State Administered CDBG, where States distribute about 97% of the funds as grants to UGLGs, the assistance must be in form of grants to non-entitlement UGLGs, excluding loans.

Performance management

Condition formulation regards the national, regional/local level and the project/activity level. At the national level, objectives are: benefit the low-and-moderate income persons; aid in the prevention or elimination of slums and blight and meet certain community development needs having a particular urgency. Objectives to be achieved and actions to be implemented at regional/local level are defined by the grantees and, respectively by the States in the Consolidated Development Plan (CDP), condition for receiving funding under the programme. Definition of objectives, indicators and targets at project/activity level is similar for both programmes and it is done based on CPD Outcome Performance Management System, used for reporting.

Compliance with CDBG and other Federal standards is ensured by monitoring actions carried out at the administrative and financial level, at the programme level and at the Project level, covering the entire project cycle. Implementing organisations can be asked to submit progress reports even weekly with each drawdown request, in order to flag any pending or anticipated problems.

Use of performance information. The performance measurement system was developed to enable HUD and grantees, as well as states to use a standardised methodology and system to measure the outcomes of CDBG and the other CPD grant formula programmes. A series of standardised reports facilitate data aggregation and analysis. Mapping of actions and eligible expenditure against national objectives also helps tracking progress against achievement of the set targets. Sanctions may apply in case of non-adequate performance.

Follow-up process. Monitoring is used as an effective tool for avoiding problems and improving performance, it involves an on-going process of planning, implementation, communication, and follow-up.

Differences exist also in terms of control on the spending of States, where in the case of State Administered CDBG legislation requires only timely distribution of resources, while in the case of Entitlement CDBG, it is required to have timely expenditure.

Risk management

Use of pre-assessments. Entitlement grantees should perform a risk assessment to identify which recipients require comprehensive monitoring, in order to identify high-risk recipients.

Use of **ex ante risk management conditions**. Certifications (such as proof of compliance with eligibility requirements, submission of an acceptable CDP, Citizen Plan etc.) are requested for both Entitlement and State Administered CDBG prior to grant approval. Differences can be observed between the two programmes as regards the scope of financial control. The CDBG regulations require that grantees and recipients that are governmental entities or public agencies, or UGLGs in the case of State Administered CDBG, adhere to certain administrative requirements, with regard to cost principles, standards for financial management systems and audits. The CDBG regulations also prescribe the fiscal controls and accounting procedure requirements for states and UGLGs, in the case of State Administered program. With regard to the fiscal and administrative requirements, States have more options. The audit requirements are similar for both programmes. CDBG grantees and recipients (or, States and UGLGs, in the case of State Administered CDBG) that expend \$500,000 (\$750,000 beginning Dec14) or more in a year in Federal awards must be audited;

otherwise the grantee is exempted from the audit requirements (however, records have to be available). Audits cover financial statements, internal control, and compliance with applicable laws and regulations.

Risk monitoring arrangements and tools are similar for both CDBG programs. Risk monitoring is based on a risk assessment to identify those entities (recipients or UGLGs) that require comprehensive monitoring. The regulations provide for comprehensive monitoring reviews to be conducted periodically, even for recipients/UGLGs with strong past performance, considering that even the most effective and efficient recipients/UGLGs can neglect their responsibilities if grantees do not hold them accountable. The regulations define a series of risk tools to be used by grantees and States, including risk indicators and main risk assessment areas.

Reporting

Performance reports include CDBG Performance Measurement Report, CDBG Strategy Area, CDFI and Local Target Area Report, as well as the Housing Report. In order to prepare these, as well as other necessary reports, grantees and States will collect information from recipients and UGLGs respectively.

The reporting process takes place at three levels: first from implementing organisation/recipient (or UGLG in the case of State Administered CDBG) to the grantee/State and the formal reporting to be done by grantee/State to HUD. In addition, requirements are established for HUD reporting to the Congress. The reports cover the entire Consolidated Development Plan, referring also to other programmes such as HOME, HOPWA and ESG programs.

Ownership and possible distortions in accountability relations. Strict recordkeeping requirements are defined for participants, including general administrative and financial requirements, recordkeeping for each project/activity, for each national objective, for determining and documenting income, records on recipients/UGLGs, record retention, access to records etc. Entitlement grantees and recipients are required to retain CDBG records for a period of not less than four years. For sub-recipients, the record retention period begins from the date of submission of the CAPER in which the specific activity is reported on for the final time rather than from the date of submission of the final expenditure report for the award.

A CDBG reform proposal from August 2014 regarded a series of measures to reduce undue administrative burden on grantees by aligning the cycles for the submission of plans and reports as well as the cycles to qualify for the CDBG program.

Funds transfer modality

Aspects related to fiduciary risks are covered accordingly to the financial management standards. The CDBG regulations require that grantees and recipients adhere to certain administrative requirements, following a series of cost principles (such as consistency with the regulations, proper documentation etc.), as well as compliance with clearly defined standards for financial management systems and audits.

National Agreement for Skills and Workforce Development (NASWD) Case Study

Quick Facts

| | | | |
|-------------------------------|--|---|--|
| Donor | State budget | Payment modalities | Inputs – on the condition, funds to be spent in the VET sector, for which funds are provided. |
| Launch year | January 2009 | Delivery Mechanisms | Block grant |
| Implementation Methods | Shared management type | Sector relevant to the Funds ESI | Human capital (Employment and labour mobility; Social inclusion; Education, training and vocational training for skills and lifelong learning) |
| Budget | On annual basis provisions (b/n \$1,3m-\$1,5m) under the National SPP for the NASWD, amounts defined until 2020 for each school year | Thematic Objectives (TO) | TO9, TO10 |

Key features

Payment modality and framework preconditions

Under the new framework for federal financial relations (IGA FFR), the previous more than 90 different SPPs from the Commonwealth to the States have been combined into five new National Specific Purpose Payments (SPPs). SPPs are ongoing financial contributions on annual basis²²⁴ (in 12 monthly payments) from the Commonwealth to the States/Territories to be spent in the key service-delivery sectors (*policy actions*), including skills and workforce development. National SPPs are associated with National Agreements between the Commonwealth and State governments. They establish the policy objectives in the key service sectors and set out the objectives, outputs, outcomes/results and performance indicators for each sector, clarifying also delivery roles and responsibilities of the Commonwealth and States.

The payments are linked to **inputs** on the condition **to be spent in the provided sector**, i.e. the VET sector for the NASWD. There is a **clear separation of policy outcomes and objectives** from funding arrangements, to ensure that the policy focus is on the achievement of better services.

There are **no specific NASWD general, framework and implementation preconditions**, neither at national level, nor at state/territory level.

Scope

The level of intervention of the NASWD is **national**, covering all Australian states and territories. The degree of integration between the Commonwealth and all States/territories of Australia occurs on **sector level**, i.e. the development of the VET sector, through programmes. There are currently a number of Commonwealth Own Purpose Expenses, which sit outside the National Specific Purpose Payment (SPP) associated with the NASWD, but complement the NASWFD in the development of the

²²⁴ Indexed each year by growth factors, specified in the IGA FFR, and distributed to states/territories on population share each month.

targeted VET sector, such as the Australian National Agreement for Skills and Workforce Development Apprenticeships Incentives Programme, the Australian Apprenticeships Access programme, Apprenticeship Support Services, Group Training, adult literacy and workforce development initiatives. State and Territory Governments also contribute to these areas. There are also several National Partnership Agreements with National Partnership Payments²²⁵ that run simultaneously with the NASWD, assisting the reform in the targeted VET sector. The **size of the annual support** under the National SPP for the NASWD varies from 1.3 to 1.5 bln USD for each year, and is defined until 2020.²²⁶

NASWD-SPP configures an **unconditional grant**. It does not prescribe types and ways of implementation of service to be provided or the funds to be repaid. The only condition is payments to be spent in the relevant sector.

Policy coverage

The NASWD does not prescribe the type of interventions, but it focuses mostly on human capital interventions (vocational training).

The overall objective of the NASWD is creating a VET system that delivers a productive and highly skilled workforce, and which enables all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market and contribute to the Australia's economic future, supporting the achievement of increased rates of workforce participation or targeting human capital interventions.

The TOs, relevant to ESI Funds and supported by NASWD, are TO 9 - Social Inclusion and Poverty reduction and TO 10 - Investing in education, training and vocational training for skills and lifelong learning.

NASWD's beneficiaries are all states/territories of Australia, and the target population is the population of Australia's states/territories, aged 20-64 years.

Functional features

Delivery Mechanism management

The NASWD management is of the type of shared management between the Commonwealth of Australia and its states and territories. The roles and responsibilities of the Commonwealth and the states and territories are provisioned in the NASWD.

The Commonwealth provides funding contributions to the states and territories to support their training systems; provides specific interventions and assistance to support: 1) industry investments in training; 2) Australian Apprenticeships; 3) literacy and numeracy; 4) those seeking to enter the workforce.

States/territories determine resource allocation within state/territory; oversee the expenditure of public funds from, and delivery of, training within states and territories; and ensure the effective operation of the training market. The shared responsibilities include both development and maintenance of the national training system.

Performance management

Financial relations between the Commonwealth of Australia and the states and territories are subject to the IGA FFR. The States/territories have budget flexibility to allocate funds within that sector in a way that ensures the achievement of mutually

²²⁵ National Partnership Payments to the states are the key vehicle to facilitate reforms or support the delivery of specified projects. National Partnerships are typically entered into for a fixed period of time, reflecting the nature of the project or reform involved.

²²⁶ For 2009-2010 year - \$1,318m; 2010-11 - \$1,339m; 2011-12 - \$1,363m; 2012-13 - \$1,390m; 2013-14 - \$1,417m; 2014-15 - \$1,446m; 2015-16 - \$1,445m; 2016-17 - \$1,476m; 2017-18 - \$1,499m; 2018-19 - \$1,522m; 2019-20 - \$1,548m.

agreed objectives and outcomes of the NA. The Council of Australian Governments (COAG) monitors annually the progress on all aspects of the framework for federal financial relations and publishes annual Reports on performance (of all National Agreements and National Partnership Agreements).

The NASWD has specific performance indicators which measure the contribution to improvements demonstrated by progress against outcomes.²²⁷

The targets of the April 2012 NASWD for achievement over the period from 2009 to 2020 include halving the proportion of Australians nationally aged 20-64 without a qualification at Certificate III level or above; and doubling the number of higher qualification completions (Diploma and Advanced Diploma). There is also an emphasis on improving foundation skills in the working population.

Risk management

National Agreements, NASWD included, do not include financial or other input controls imposed on service delivery by the States and Territories, giving them more flexibility and accountability on service provision to achieve outcomes. National Agreements also avoid prescribing delivery mechanisms. Policy outcomes and objectives have been separated from funding arrangements to ensure that the policy focus is on achieving better services.

Reviewing of funding adequacy on the basis of performance is undertaken after five years by the Standing Council on Federal Relation, which also has an on-going role in monitoring the maintenance of the reforms in this Agreement too, and in making recommendations to COAG for its consideration and endorsement. It also monitors the compliance with the Commonwealth's undertakings with respect to financial support to the States and Territories. For each Financial year, each State and Territory Treasurer reports to the Standing Council on: gross State or Territory expenditure in each target sector; National SPPs received in respect of each target sector; the amount spent in the relevant sector; and detailed explanation for any discrepancy between the amounts specified. The Standing Council maintains a register of the national minimum data sets required to allow comparative reporting of governments' achievement against agreed objectives and outcomes, and provides an annual report to the Department of the Prime Minister and Cabinet.

Reporting

The COAG Reform Council (CRC) provides annual reports to COAG containing performance data, covering all National Agreements and National Partnership Agreements (six National Agreements and eight National Partnership Agreements in the last 2016 report), i.e. no specific provision for NASWD. It also reports its own comparative analysis of the performance of governments in meeting the objectives of the National Agreements. The states/territories provide to the COAG Reform Council the information necessary for it to fulfil its role, as directed by COAG.²²⁸ The Reports on performance do not contain financial statements since National Agreements do not include financial or other input controls (for example, funding matching or

²²⁷ Outcome 1: a. Proportion of working age population (WAP) with higher level qualifications; b. Proportion of employers satisfied that training meets their needs;

Outcome 2: a. Proportion of WAP with adequate foundation skills; b. Proportion of WAP with or working towards a non-school AQF qualification;

Outcome 3: a. Proportion of VET graduates with improved employment status after training; b. Proportion of VET graduates with improved education/training status after training.

²²⁸ (IGA FFR, Para 16 and 17) The Parties (the Commonwealth of Australia and the states and territories) are committed to on-going performance reporting and to working together to improve performance reporting for the sake of enhanced public accountability. The performance reporting framework focuses on the achievement of results, value for money and timely provision of publicly available performance information.

maintenance of effort requirements) imposed on service delivery by the States and Territories (IGA FFR, A5). Under the IGA FFR framework, policy outcomes and objectives have been separated from funding arrangements to ensure that the policy focus is on achieving better services for all Australians and addressing social inclusion.

The CRC reports to the Prime Minister on National Agreements/National Partnerships, assisted every two to three years by the Productivity Commission, which also reports to COAG on the economic impacts and benefits of COAG's agreed reform agenda. Even if the CRC ceased operations on 30 June 2014, the May 2014 Commonwealth Budget gave the Department of the Prime Minister and Cabinet an ongoing role in monitoring performance under the NAs, which has requested that the Steering Committee continues to collate performance information.

Fund transfer modality

The Standing Council for Federal Financial Relations is responsible for the transfer of funds from the Commonwealth to the states and territories of Australia. Payment and administrative arrangements are simplified and centrally administered through monthly payments from the Commonwealth Treasury to each State and Territory Treasury, valid for all National Agreements (NASWD included) and all national Partnership Agreements. Each of these payments amounts one twelfth of the estimated annual payment, to simplify administration. All payments are made directly to each State Treasury. State treasuries are then responsible for distributing the funding within their jurisdiction.

The annual adjustment amount, which may be positive or negative in order to account for any difference between the estimated and actual outcome for the previous financial year, is acquitted in the first available payment following advice of the final outcome.

In the Commonwealth, the Treasurer, who is the Chair of the Standing Council for Federal Relations, is accountable for the appropriations, estimates and payments under the framework. These arrangements are implemented through the Federal Financial Relations Act 2009.²²⁹ All the Commonwealth's financial relations with the States are contained in one piece of legislation. This improves the public transparency of these payments and the ability of the Parliament to scrutinise the payment arrangements. The Treasurer is responsible for ensuring that National Agreements align with the design principles (described in Schedule E – National Policy and Reform Objectives of the IGA FFR).

²²⁹The Act provides a standing appropriation for the Commonwealth to make ongoing financial contributions to the States through five National SPPs, and for the Treasurer to determine GST payments to the States.

Performance contracts - Risø National Laboratory (Denmark) (PC-DK)

Quick Facts

| | | | |
|-------------------------------|--|---|---|
| Donor | National governments Case study: Danish state budget (through the Ministry of Research and Information Technology) | Payment modalities | Payments follow budget plan in Performance based budgeting framework where past performance affects budget allocation. |
| Launch year | 1990s Case study: 1994-1997 & 1998-2011 | Delivery Mechanisms | Next years' Disbursement are affected on results achieved |
| Implementation Methods | Shared Management | Sector relevant to the ESI Funds | Performance contracts were applied in all sectors Case study: Development in energy technology and energy planning, environment, and industrial production |
| Budget | Used in national governments across the world. Case study: 1994-1997: 251.5 mln DKK ²³⁰ annually (estimated, at 1994 price level; currently around 34.5 mln EUR) 1998-2001: 267.2 mln DKK ²³¹ annually (estimated, at 1998 price level, currently around 35.9 mln EUR) | Thematic Objectives (TO) | Case study: TO1, TO4, TO5 and TO6 |

Key features of the Performance Contracts

Payment modality and framework preconditions

Under PCs, **payments are not directly linked to results**. The performance results are measured towards targets set as outputs and outcomes of the planned interventions. **Payments are done according to the plan defined in the contract**, while outputs and outcomes are evaluated annually, partly on the basis of achievement of (qualitative) milestones defined in the contract and partly based on performance with regard to the targets set for a series of quantitative indicators. Goals and targets setting is discussed and negotiated between a central government authority (usually a ministry) and their agencies or departments within the agencies. The objective of this negotiation is to set measurable goals and targets within the policy framework of the ministry.

Ex ante financial performance review is often used as a basis to set the conditions that must be achieved before the conclusion of a PC. Performance contracting does not impose **implementation or other types of preconditions**. The contract states that the agency must have coherent professional, physical and financial planning, and that

²³⁰ Approximately 34 mln EUR in current exchange rate.

²³¹ Approximately 36 mln EUR in current prices.

the agency has established procedures and developed tools to achieve this end. However, no specific verification of these requirements is carried out.

Scope

PCs are considered as a **flexible delivery mechanism applicable to several public management settings and levels**. Although it is designed for use at central government level, it can also be used to set **specific goals/targets at sectoral level and at national/regional/local administrative levels**. Thus it can also be used to target semi-government entities, such as State Owned Enterprises (SOE) as well as to support programmes defined at sector level.

PCs are used to support a policy (detailed in an expenditure and finance framework), but do not explicitly finance a specific section of a programme. Performance contracting is a tool in a top-down financing framework, based on the principle of performance budgeting and taking into account practical and operational restrictions of the modes of central governance within a given country or policy setting. Performance contracting may involve **co-financing**. Agencies must include in the financial forecast of the implementation period of the PC other sources of financing (commercial or donors' income generation), and the potential use of these funds for the achievement of the goals/targets set by the contract.

All expenditure categories are eligible, including infrastructures or staff salaries, as PCs refer to the entire budget allocation of the agency.

| Risø's income 1995 (in MDKK) | |
|-------------------------------------|------------|
| Ministry of Research: | 246 |
| Danish programmes: | 69 |
| EU programmes: | 31 |
| Others: | 7 |
| Total research programmes: | 107 |
| Authorities: | 32 |
| Danish industry: | 18 |
| Foreign industry: | 24 |
| Others: | 21 |
| Total commercial contracts: | 63 |
| TOTAL | 448 |

Policy Coverage

PCs **can be used in a variety of governance settings and types of interventions, objectives, and sectors**; infrastructure, productive investments, sustainable development, human capital, and capacity building. In most EU Member States, they are also designed to support the implementation of policy agendas that are also targeted under ESI Funds. It is widely used in research, education, environment and energy sectors.

In the case study examined in this paper, the two consecutive PCs of the period 1994-1997 and 1998-2001 had a direct **link to the European policies** for environment and energy. In terms of current TOs of the ESI Funds,²³² the Risø's PCs covered TO1 - Strengthening research, technological development and innovation; TO4 - Supporting

²³² Article 9 of the Regulation (EU) No. 1303/2013; Rural Development (RD) Priorities / Focus areas as defined in Article 5 of Regulation (EU) No. 1305/2013

the shift towards a low-carbon economy in all sectors; TO5 - Promoting climate change adaptation, risk prevention and management; and, TO6 - Preserving and protecting the environment and promoting resource efficiency. Generally, and beyond the case of Denmark examined, the **target population** that ultimately benefits from the improved performance of the agencies and any achievements of public sector reforms, are the citizens of the country as a whole.

Functional features

Delivery Mechanism management

Performance contracting is a powerful mechanism for building accountability and ownership. **Both the donor and the beneficiary/recipient are involved in setting the goals/targets of the contract**, while the implementation is closely monitored by both parties through regular reporting and evaluation provisions, which creates a clear sense of accountability of the respective parties. Performance contracting sets however a framework for the use of the funds, directing each financed operation towards the goals set in the contract. Performance measurement of goals and targets is tightly monitored, including the financial control and audit of the operations. Financial management and control of transactions, however, are not defined in the performance contract, but are the responsibility of the institution implementing the contract.

In Denmark, the management of the contract is overseen by independent bodies appointed by the ministry. In the case of Risø National Laboratory, three independent bodies were appointed: the board, the follow-up committee, and the international panel. The multitude of independent bodies and the division of tasks was criticised by the evaluation panel of Risø's contract, which recommended that the board is to be used by the ministry to monitor Risø during the contract period and that international evaluations can be considered as an instrument to assess results achieved as inputs for future performance contracts.

Performance management

Condition formulation: Performance contracting is based on the government policies, which is supported by a government's sector strategy and complemented by the agency's strategy. It is within this structure that the result framework is set. The agency's strategy is assessed by the government central body (usually the ministry) prior to the conclusion of the PC. In Denmark, performance contracting also requires a sector analysis from the beneficiary agency. A sector analysis should cover a diagnosis of the constraints facing the sector, an assessment of key issues, and the roles of the public and private sectors. The sector analysis can be used to identify goals and targets included in the PC. PCs are centrally-driven and therefore contracts are set in line with the government strategies or programmes. Hence, agencies have a smaller degree of autonomy in setting goals and targets. Therefore, indicators refer more to internal actions and quantitative outputs than to outcomes and results.

Result verification: Each PC provides for regular reporting and steering meetings on performance. It is to be noted that the results are to a very limited degree used for rewarding good performance or applying sanctions²³³ to bad performance. In Denmark, external control is performed by independent bodies appointed by the ministries.

²³³ Where applied, consequences for bad performance may take the form of sections towards the top management of the agency, withholding payment of budget transfers, loss of some decisions rights, or the use of performance information as an input in the budget process to assess the agency's budget for the following year.

Judgement and decision-making on improvement of performance and results are mediated through dialogue. Results achieved by the agency may however drive performance based budgeting in the following years, according to the so-called taximeter model applied in Denmark since 1981. The taximeter model in education uses a simple output criterion to determine the level of funding for tertiary institutions, depending on the students' successes, which result to funds allocated to the Universities according to different tariffs defined in advance (in fact, a price fixed for each successful student). For unsuccessful students or for students who do not attend exams, the Universities do not receive any funds. Universities receive 30 to 50 percent of their funding through this system, while the remainder is given through fixed appropriation in the budget law, to cover operational costs.

Risk management

Use of pre-assessments: Performance contracting provides for ex ante assessment of the capacity of institutions to implement the contract and attain the goals set within it although, as mentioned earlier, this assessment is rather superficial. It also does not include a detailed analysis of the risks associated to the achievement of the targets set. According to the literature, only few contracts may contain risk management objectives or policies, or provide for risk reports.

Follow-up and control measures are responsibility of the management of the agencies, to ensure coherence in the internal financial planning. Details of plans, forecasts and status are presented annually, in line with the available budget, and they include all categories of costs, such as salaries, research expenses, etc. Institutions are encouraged to develop internal forecast and control models. However, PCs are seen as a shift in the relationship between the agencies/institutions and the ministries, from control and top-down regulation to dialogue and agreements based on the institutions' own goals and commitments. Hence, emphasis is put at the definition of concrete goals rather than in the development of elaborated management and control systems. The only obligation is that the institutions implementing PCs ensure the development of annual reports analysing progress in the follow up on goals, results and plans.

Reporting

Content of reporting information & who reports: PCs require mostly annual reports aligned with the budget cycle, which refer to the physical and financial information related to the progress of the implementation of the contract. It also contains information regarding the progress on performance with regard to the goals/targets contained in the contract. Reporting is done by the recipient agency to the relevant government institution with which the contract was concluded. PCs in Denmark, where the national audit body is expected to performance audit all government institutions, provide for external verification.

Fund transfer modality

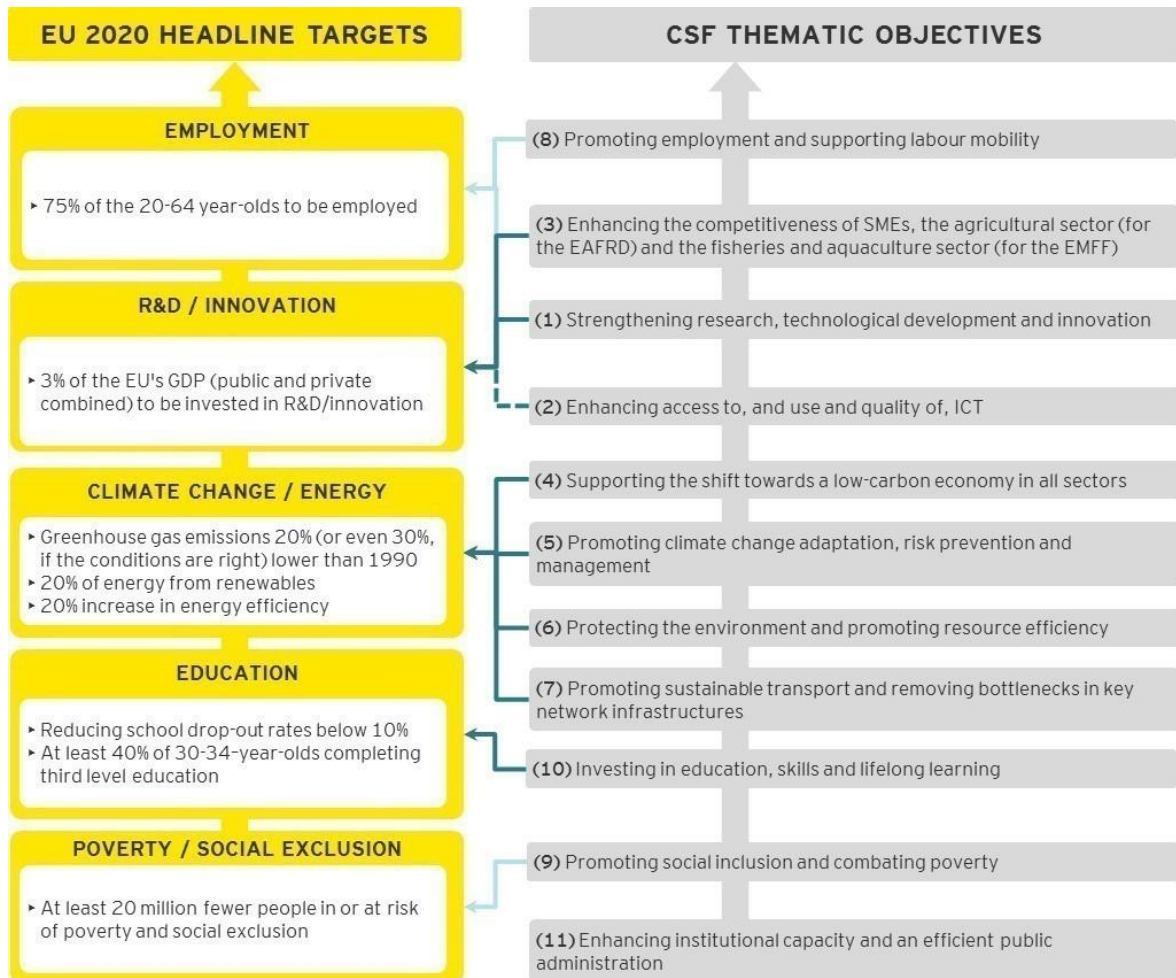
As PCs are part of a performance based budgeting system, funds are released through the regular state budget transfer provisions, by the Ministry of Finance.

1.4 ESI Funds Thematic Objectives

| CSF TOs | Scope of TOs | ESI Funds covering TOs |
|---|--|---------------------------|
| 1) Strengthening research, technological development and innovation | R&I infrastructures and capacities to develop and promote centres of excellence; supports postgraduate studies, training of researchers. Link w/Horizon2020 | ERDF - EARDF |
| 2) Enhancing access to, and use and quality of, ICT | develop ICT services; broadband deployment and roll-out of high-speed networks; ICT applications for e-commerce, e-government, e-learning, e-inclusion, e-culture and e-health | ERDF - EARDF |
| 3) Enhancing the competitiveness of SMEs, agricultural and fisheries sectors | funding business incubators; developing new business models for SMEs; helps entrepreneurs and employees adapt to change; promotes social enterprises and a social economy | ERDF – EARDF - EMFF |
| 4) Supporting the shift towards a low-carbon economy in all sectors | high-efficiency cogeneration; smart distribution grids and integrated low-carbon and sustainable energy action plans for urban areas | ERDF – EARDF - EMFF - CF |
| 5) Promoting climate change adaptation, risk prevention and management | sustainable water management; improved soil management; maintaining genetic diversity; climate change mitigation; environmental protection and resource efficiency | ERDF – EARDF - CF |
| 6) Preserving and protecting the environment and promoting resource efficiency | organic farming; introducing wildlife zones in farm and forest areas; water use efficiency; improve water and soil quality; granting compensation to farmers | ERDF – EARDF - EMFF - CF |
| 7) Promoting sustainable transport, removing bottlenecks in key network infrastructures | connecting secondary and tertiary nodes to TEN-T; eco-friendly transport systems; interoperable railway systems; smart energy distribution, storage and transmission systems | ERDF - CF |
| 8) Promoting employment and supporting labour mobility | sustainable integration into employment through active inclusion, and occupational and geographical mobility; youth employment. Link w/EaSI and Erasmus+ | ESF – ERDF – EARDF - EMFF |
| 9) Promoting social inclusion and combating poverty | adopting inclusion strategies; providing efficient and adequate income support; tackling poverty. 20% of the ESF budget at national level is earmarked for this TO | ESF – ERDF – EARDF |
| 10) Investing in education, skills and lifelong learning | support equal access to quality education at all levels; restructure and modernise processes; improve the match between skills supply and labour market demand | ESF – ERDF – EARDF |
| 11) Enhancing institutional capacity and an efficient P.A. | support the modernisation of public services in areas such as employment, education, health, social policies and customs | ESF – ERDF - CF |

Source: EY based on EC documents

1.5 Relation between the EU2020 targets and ESI Funds Thematic Objectives



Source: EY based on EC documents

1.6 Allocation of responsibilities under the ESI Funds delivery system

| Body | Level | Responsibilities |
|--|-----------|--|
| European Commission | EU | <ul style="list-style-type: none"> Negotiating and approving the Partnership Agreements and programmes, as well as their subsequent amendments Making the ESI Funds resources available for programmes through pre-financing, interim and payment on final balance (Article 23 CPR). Verifying that the management and control systems set up by the Member States complies with the relevant EU rules and that they are functioning effectively. Interrupting the payment deadline, suspending payments or impose financial corrections,²³⁴ as well as reallocating or withdrawing funding from a Member State.²³⁵ |
| European Court of Auditors (ECA) | EU | <ul style="list-style-type: none"> Checking and verifying the regularity and efficiency of the process, and the management and control system set up by programme authorities (see “programme level” below) |
| Member State | National | <ul style="list-style-type: none"> Elaborating proposals of Partnership Agreement and programmes Defining the detailed rules on eligibility of expenditure, except where specific rules are laid down in the CPR or other Fund-specific rules Designating the programme authorities, in accordance with the criteria and procedures laid down by regulation and sector-specific rules²³⁶ |
| Managing Authority (MA) ²³⁷ | Programme | <ul style="list-style-type: none"> Managing the programme: a) preparing the annual and final implementation reports and – following the approval by the monitoring committee – submitting them to the Commission; b) establishing a system to record and store in a computerised form the necessary data on each operation Selecting the operations: a) drawing up and – once approved by the monitoring committee – applying selection procedures and criteria, which ensure the contribution of operation to the achievement of the specific objectives and results of the programme, b) ensuring that the beneficiary receives a document defining the conditions of support and has the administrative, financial and operational capacity to fulfil them Assuring programme financial management and control: a) verifying that the co-financed products and services have been delivered and that expenditure declared by the beneficiaries has been paid and complies with the applicable law, and the beneficiary has appropriate accounting system in place; b) taking up anti-fraud measures taking into account the risks identified and that there is a sufficient audit trail; c) drawing up and submitting to the Commission on an annual basis the management declaration and annual summary of the audits and controls. |
| Intermediate Body (IB) | Programme | <ul style="list-style-type: none"> carrying out certain tasks of the Managing or Certifying Authority (except for EAFRD) under the responsibility of that authority |
| Certifying Authority (CA) | Programme | <ul style="list-style-type: none"> certifying completeness, accuracy and veracity of the accounts and that the expenditure entered in the accounts system complies with the applicable law in the case of ERDF, CF, ESF and EMFF, drawing up and submitting the payment applications and the accounts to the Commission |
| Audit Authority (AA) | Programme | <ul style="list-style-type: none"> in the case of ERDF, CF, ESF and EMFF carrying out audits on systems, operations and on the accounts certified by the CA |
| Paying Agency (PA) | Programme | <ul style="list-style-type: none"> in the case of the EAFRD, managing and controlling expenditure |

²³⁴ Articles 83, 85, 142, 143-145 CPR.

²³⁵ Articles 85-88 CPR.

²³⁶ Regulation No 966/2012 art. 59(3).

²³⁷ MAs bear the main responsibility for the effective and efficient implementation of co-funded programmes. In the case of the ERDF, ESF, CF and EMFF (the EAFRD has separate provisions) the MA responsibilities are laid down by Article 125 CPR

| Body | Level | Responsibilities |
|---------------------------|-----------|--|
| Monitoring Committee (MC) | Programme | <ul style="list-style-type: none">• reviewing the implementation of the programme and progress towards its objectives, taking into account the financial data and the programme indicators• examining and approving the methodology and criteria used for selection of operations, the annual and final implementation report, the evaluation plan, the communication strategy and any proposal of the MA to amend the programme• examines any issues that affect performance of the programme (e.g. follow-up given to the evaluation's findings, implementation of the communication strategy) |

Source: EY based on EC documents

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1.8 List of interviewees

Scoping interviews

The following preliminary consultations have been conducted in the inception phase.

| Directorate-General | Interviewees |
|--|--|
| DG AGRI Consistency of rural development | Petr Lapka, Mike Mackenzie, E. Vounouki, B. Riksen |
| DG EMPL ESF and Cohesion Policy | Vitor Nogueira and Sonia De Melo Xavier |
| DG REGIO Policy Development, Strategic Management and Relations with the Council | Axel Badrichani and Stephanie Gantzer-Houzel, Eveline Petrat |
| DG REGIO Competence Centre Smart and Sustainable Growth | Witold Willak |
| DG REGIO Financial Instruments and International Financial Institutions Relations | Rachel Lancry and Ieva Zalite |
| DG REGIO Evaluation and European Semester | Ivanka Lakova |
| DG BUDGET Performance-based budgeting | Domenico Gullo |

Interviews at the EU level with representatives of the DGs involved in the delivery of the ESI Funds

| Directorate-General | Unit | Interviewee(s) |
|---|---|---|
| DG for Regional and Urban Policy | DGA1.01 Policy Development, Strategic Management and Relations with the Council | Peter Berkowitz, Ragne Villakov, Stephanie Gantzler |
| DG for Regional and Urban Policy | B.3 Financial Instruments and International Financial Institutions Relations | Stefan Appel, Rachel Lancry, Hanna Dudka, Ieva Zalite |
| DG for Regional and Urban Policy | C.1. Coordination, relations with the Court of Auditors and OLAF | Christophe De Lassus Saint Genies |
| DG for Regional and Urban Policy | DGA2.01 Better Implementation | Murray Gilland |
| DG for Regional and Urban Policy | G.1. Competence Centre Smart and Sustainable | Colin Wolfe |
| DG for Regional and Urban Policy | H.1. Competence Centre Inclusive Growth, Urban and Territorial Development | Judit Torokne Rozsa |
| DG Employment, Social Affairs and Inclusion | F.1. ESF and FEAD: Policy and Legislation | Stefan De Keersmaecker, Jader Cane |
| DG Employment, Social Affairs and Inclusion | F.1. ESF and FEAD: Policy & Legislation | Colin Byrne |
| DG Employment, Social Affairs and Inclusion | G.2. Audit Shared Management I | Mark Schelfout |
| DG Employment, Social Affairs and Inclusion | C.5. Social Affairs: Germany, Austria, Slovenia, Croatia | Adam Pokorny |
| DG Employment, Social Affairs and Inclusion | G.3. Audit Shared Management II | Filip Busz |
| DG Agriculture and Rural Development | H.1. Consistency of rural development | Petr Lapka, Guido Castello, Ricard Ramon I Sumoy |
| DG Agriculture and Rural Development | H.2. Financial coordination of rural development | Alexander Bartovich |
| DG Agriculture and Rural Development | J.1. Coordination of audit of agricultural expenditure | Bruno Chauvin |
| DG Maritime Affairs and Fisheries | A.3. Structural policy and economic analysis | Frangiscos Nikolian |

Interviews at the EU level with representatives of DGs not involved in the implementation of ESI Funds

| Directorate-General | Unit | Interviewees |
|------------------------------------|---|-------------------------------|
| European Court of Auditors | Chamber II – Investment for cohesion, growth and inclusion | Martin Weber |
| European Court of Auditors | Chamber II – Investment for cohesion, growth and inclusion | Juan Ignacio Gonzales Bastero |
| DG Economic and Financial Affairs | B.4 Impact of EU policies on national economies | Emanuelle Maincent |
| Directorate-General for the Budget | B.1 Multi-annual financial framework, funding systems and forecasts, budgetary aspects of enlargement | Stephanie Riso |
| Directorate-General for the Budget | BUDG.DGA.01. Budgetary Discharge procedure, relations with Institutions concerned and parliamentary questions | Tina Svendstrup |

Interviews at MS level – National Coordination Bodies

| Member State | National Coordination Authority |
|-----------------------|--|
| Bulgaria | Central Coordination Unit - Council of Ministers, Programming of EU Funds Directorate |
| Cyprus | Directorate General for European Programmes, Coordination and Development (DG EPCD) |
| Czech Republic | Ministry of Regional Development - Department of Management and Coordination of EU fund |
| Estonia | Ministry of Finance of the Republic of Estonia - Structural and Foreign Assistance Department |
| Netherlands | Ministry of Economic Affairs |
| Romania | Ministry of European Funds - General Director of the General Directorate for Analyses, Programming and Evaluation |
| Spain | Ministerio de Hacienda y Administraciones Públicas - Unidad Administradora del Fondo Social Europeo (UAFSE) |
| Spain | Ministerio de Economía y Competitividad – Subdirección General Fondos Comunitarios, Unidad Administradora del Fondo Europeo de Desarrollo Regional |

Interviews at MS level – Selected programmes by Member States and Funds

| Member States | Operational Programme | Fund | Relevant Authority |
|-----------------------|---|----------|---|
| Austria | Rural Development Programme | EAFRD | BMLFUW - Koordination ländliche Entwicklung und Fischereifonds – Managing Authority |
| Austria | Investment in Growth and Employment | ERDF | Österreichische Raumordnungskonferenz – OROK – Managing Authority |
| Belgium | Wallonia | ERDF | Service public de Wallonie - Département de la Coordination des Fonds structurels – Managing Authority |
| Bulgaria | Transport and transport infrastructure | CF-ERDF | Ministry of Transport, Information Technology, and Communications – Managing Authority |
| Croatia | Competitiveness and Cohesion | CF-ERDF | Ministry of Regional Development and EU Funds (MRDEUF) – Managing Authority |
| Croatia | Rural Development Programme | EAFRD | Ministry of Agriculture, Service for Financial Management and Control of Implementation of Rural Development Programme – Managing Authority |
| Czech Republic | Enterprise and Innovation for Competitiveness | ERDF | Ministry of Industry – Managing Authority |
| Czech Republic | Prague – Growth Pole | ESF-ERDF | Ministry of Regional Development – Managing Authority |
| Czech Republic | Environment | CF-ERDF | Ministry of Environment – Managing Authority |
| Czech Republic | Transport | CF-ERDF | Ministry of Finance – Audit Authority |

| Member States | Operational Programme | Fund | Relevant Authority |
|-----------------------|--|-----------------|---|
| Czech Republic | Integrated Regional Operational Programme | ERDF | Ministry of Regional Development – Managing Authority |
| Denmark | Rural Development Programme | EAFRD | Ministry of Environment and Food, Danish Agrifish Agency – Managing Authority |
| Estonia | Operational Programme for Cohesion Policy Funding | ERDF-CF-ESF | Ministry of Finance – Foreign Assistance Department – Managing Authority |
| Finland | Sustainable growth and jobs - Structural Funds Programme of Finland | ESF-ERDF | Ministry of Employment and the Economy – Managing Authority |
| France | Auvergne - Rhône Alpes | ESF-ERDF | Conseil Régional Rhône-Alpes – Managing Authority |
| France | Employment and Social Inclusion | ESF | DGEFP - Managing Authority |
| France | Operational Programme for the implementation of YEI in mainland France and outermost regions | ESF-YEI | DGEFP – Managing Authority |
| France | Regional programme Midi Pyrénées Languedoc Roussillon | ESF-ERDF | Conseil régional Midi-Pyrénées – Managing Authority |
| France | Multiple programmes | ERDF – CF - ESF | CICC – Audit Authority of ESI Funds France |
| France | Bourgogne | EAFRD | Conseil régional de Bourgogne – Managing Authority |
| Germany | ESF Nordrhein-Westfalen 2014-2020 | ERDF | Finanzministerium des Landes Nordrhein-Westfalen, Prüfbehörde EFRE – Audit Authority |
| Germany | ESF Sachsen 2014-2020 | ESF | Sächsisches Staatsministerium für Wirtschaft, Arbeit und Verkehr – Managing Authority |
| Germany | Niedersachsen 2014-2020 | ESF-ERDF | Ministerium für Wirtschaft, Arbeit und Verkehr – Audit Authority |
| Germany | ERDF Bayern 2014-2020 | ERDF | Bayerisches Staatsministerium für Wirtschaft und Medien, Energie und Technologie Europäischer Fonds für regionale Entwicklung – Managing Authority |
| Germany | ESF Bayern 2014-2020 | ESF | Bayerischen Staatsministerium für Arbeit und Soziales, Familie und Integration – Managing Authority |
| Germany | Lower Saxony / Bremen | EAFRD | Niedersächsisches Ministerium für Ernährung, Landwirtschaft und Verbraucherschutz – Paying Agency |
| Greece | Attica | ESF-ERDF | Managing Authority |
| Greece | Central Macedonia | ESF-ERDF | Managing Authority |
| Greece | Competitiveness, entrepreneurship and innovation | ESF-ERDF | Managing Authority |
| Greece | Transport Infrastructure, Environment and Sustainable Development | CF-ERDF | Managing Authority |
| Greece | Rural Development Programme | EAFRD | Managing Authority |
| Greece | Multiple programmes | All | EDEL - Audit Authority |
| Hungary | Economic Development and Innovation | ERDF-ESF-YEI | Ministry of National Economy – Managing Authority |
| Hungary | Territorial and settlement development | ERDF-ESF | Ministry of National Economy – Managing Authority |
| Ireland | Rural Development Programme | EAFRD | Department of Agriculture, Food and the Marine – Rural Development Division – Managing Authority |
| Italy | Lombardia Rural Development Programme | EAFRD | Regione Lombardia – DG Agricoltura – Managing Authority |
| Italy | Lombardia Rural Development Programme | EAFRD | Regione Lombardia – DG Agricoltura – Paying Agency |
| Italy | National Operational Programme on Enterprises | ERDF | Ministry of Economic Development – DG for incentives to enterprises – Managing Authority |

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| Member States | Operational Programme | Fund | Relevant Authority |
|------------------------|--|-----------------|---|
| | and Competitiveness | | |
| Italy | National Operational Programme on Security | ERDF-ESF | Ministry of Internal Affairs – Technical Secretariat for Managing Funds and Operational Programmes – Managing Authority |
| Italy | Puglia ERDF ESF | ERDF-ESF | Regione Puglia – Managing Authority |
| Italy | Sardegna ERDF | ERDF | Regione Sardegna – Managing Authority |
| Italy | Umbria ERDF | ERDF | Regione Umbria – Audit Authority |
| Italy | Lombardia ESF | ESF | Regione Lombardia – DG Lavoro – Managing Authority |
| Italy | Marche ESF | ESF | Regione Marche – Audit Authority |
| Italy | Marche ERDF | ERDF | Regione Marche – Audit Authority |
| Latvia | Growth and Employment | CF-ERDF-ESF-YEI | Ministry of Finance, EU Fund strategy department – Managing Authority |
| Lithuania | Operational Programme for EU Structural Funds Investments for 2014-2020 | CF-ERDF-ESF-YEI | Ministry of Finance – EU structural assistance management department – Managing Authority |
| Luxembourg | Luxembourg - Rural Development Programme (National) | EAFRD | Ministère de l'Agriculture, de la Viticulture et du Développement rural – Managing Authority |
| Malta | Fostering a competitive and sustainable economy to meet our challenges | CF-ERDF | Office of the Deputy Prime Minister - Planning & Priorities Coordination Division – Managing Authority |
| Netherlands | ESF 2014-2020 Netherlands | ESF | Managing Authority |
| Netherlands | West Netherlands ERDF 2014-2020 | ERDF | Managing Authority |
| Poland | Infrastructure and Environment | CF-ERDF | Ministry of Development- Department for Infrastructure Investment – Managing Authority |
| Poland | Smart growth | ERDF | Ministry of Development - Department for Innovation and Development – Managing Authority |
| Poland | Rural Development Programme | EAFRD | Ministry of Agriculture – Department for Rural Development – Managing Authority |
| Poland | Education and Development | ESF-YEI | Ministry of Development – Department for Knowledge, Education and Development – Managing Authority |
| Poland | Regional Operational Programme for Śląskie Voivodeship | ESF-ERDF | Slaskie Regional Office – Managing Authority |
| Poland | Multiple programmes | All funds | Ministry of Finance - Audit Authority Poland |
| Portugal | Human Capital | ESF | Poch Portugal – Comissao Diretiva – Managing Authority |
| Portugal | Human Capital | ESF | Inspecao Geral de Financas – Audit Authority |
| Portugal | Operational programme Norte | ERDF | Inspecao Geral de Financas – Audit Authority |
| Romania | Operational Programme Human Capital | ESF-YEI | Audit Authority |
| Romania | Rural Development Programme for Romania | EAFRD | Managing Authority |
| Romania | Large Infrastructure Operational Programme | CF-ERDF | Managing Authority |
| Romania | Regional Operational Programme | ERDF | Managing Authority |
| Slovak Republic | Integrated Infrastructure | CF-ERDF | Managing Authority |
| Slovak Republic | Quality of Environment | CF-ERDF | Managing Authority |
| Slovak Republic | Integrated Regional Operational Programme | ERDF | Managing Authority |
| Slovenia | Operational Programme for the Implementation of the EU Cohesion Policy in the period 2014 – 2020 | CF-ERDF-ESF-YEI | Government Office for Development and European Cohesion Policy - Managing Authority |

| Member States | Operational Programme | Fund | Relevant Authority |
|-----------------------|--|-------|---|
| Spain | Smart growth | ERDF | Managing Authority |
| Spain | Sustainable growth | ERDF | Ministerio de Economía y Competitividad – Managing Authority |
| Spain | Madrid ERDF | ERDF | Comunidad de Madrid – Audit Authority |
| Spain | Rural Development Programme for Madrid | EAFRD | Comunidad de Madrid, Unidad de Coordinación y Contabilidad SBDG Política Agraria y Desarrollo Rural – Paying Agency |
| Sweden | Rural Development Programme | EAFRD | Jordbruksverket – Managing Authority |
| United Kingdom | ESF Scotland | ESF | Government of Scotland – Managing Authority |
| United Kingdom | ERDF Scotland | ERDF | Government of Scotland – Managing Authority |

Interviews at case study level

| DM | Organisation | Position |
|-------------|---|---------------------------------------|
| ADB-RBL | ADB, East Asia Urban and Social Sectors Division | Senior Education Specialist |
| ADB-RBL | Strategy and Policy Department | Senior Planning and Policy Specialist |
| ADB-RBL | Asian Development Bank - ADB | Programme manager RBL Indonesia |
| NORAD - PbR | Funding agency Norwegian Ministry of Climate and Environment | Senior Adviser |
| DEVCO | European Commission, DG DEVCO | Desk officer for Kyrgyzstan |
| NIF | European Commission, DG NEAR | Policy officer |
| NIF | Agence Française de Développement | Senior officers |
| GRW | German Trade & Invest | Senior Manager Financing & Incentives |
| GRW | German Trade & Invest | Senior Manager Financing & Incentives |
| GRW | Country Aid Institute Meklenburg-Vorpomern | Head of the infrastructure subsidy |

1.9 Glossary

The glossary contains definitions of key terms and concepts as they are used in the context of this study. The source is provided when definitions are taken from EU legislation.

| Term | Definition |
|-----------------------------|--|
| Accountability | Obligation to demonstrate that work has been conducted in compliance with agreed rules and standards, or to report fairly and accurately on performance, results, mandates, roles and/or plans. In the EU context: ensuring enhanced sound financial management and the protection of the EU's financial interests (source: EC, Financial Regulation, synoptic presentation) |
| Actions | Cover the actions and tasks associated with delivering project goals. |
| Audit Authority | A body that ensures that audits are carried out on the management and control systems, on an appropriate sample of operations, and on the accounts (source: CPR par. 110, page 334). |
| Beneficiary | A public or private body and, for the purposes of the EAFRD Regulation and of the EMFF Regulation only, a natural person, responsible for initiating or both initiating and implementing operations; in the context of State aid schemes (as defined in CPR art 2(13)), the body which receives the aid; in the context of financial instruments (under Title IV of Part Two of CPR), the body that implements the financial instrument or the fund of funds as appropriate (source: CPR art 2(10)). |
| Certifying Authority | A body that draws up and submits payment applications to the Commission. It should draw up the accounts, certifying their completeness, accuracy and veracity and that the expenditure entered in them complies with applicable Union and national rules (source: CPR p334 recital (109)). |
| Certifying Body | A body selected by Member States to provide an opinion on the completeness, accuracy and veracity of the annual accounts of the EAFRD paying agencies (source: Reg. 1306/2013 art. 9). |
| Preconditions | Ex ante and/or ex post conditions <i>indirectly</i> related to the intervention objectives. Preconditions can either be formulated as; a) <i>general preconditions</i> , related to compliance with key macro-economic performance indicators, rule of law, etc. b) <i>framework intervention preconditions</i> , related to the realisation or approval of policies that support the efficiency and effectiveness of the delivery mechanism, similar to the ex ante conditionalities in the ESI Funds; c) <i>Implementation preconditions</i> , related to the implementation process of the project/programme/activity |
| Coordinating Body | A body designated by a Member State on its own initiative, which is responsible to liaise with and provide information to the Commission, to coordinate actions of the other relevant designated bodies and to promote the harmonised application of applicable law (source: CPR art 123, RD art. 66, Reg. 1306/2013 art. 7). |
| Cost object | The object to which the cost refers. Examples of cost objects are input; activity; output; outcome; policy action (such as the cost of the product produced or service provided) |
| Delivery Mechanism | The set of processes and procedures required to achieve the defined policy objectives and to regulate tasks relating to the implementation of donor's budget, and, where appropriate, the relationship between the body which is accountable for the implementation of the donor's budget and the bodies to which implementation tasks have been delegated (source: adapted from ToR p. 2). |
| Differentiation | The extent to which the use of a delivery mechanism can be differentiated in terms of, for instance, type of intervention and sector. |
| Direct costs | In relation to a given cost object, those costs that can be traced to the cost object in an economically feasible way. Within direct costs, differentiation is made between staffing costs and non-staffing costs. |
| Direct management | A method to implement the EU budget. The European Commission is in charge of all EU budget implementation tasks, which are performed directly by its departments either at headquarters or in the EU delegations or through European executive agencies (source: Financial Regulation art. 58(1(a))). |
| Donor | Any entity including sovereign governments, intergovernmental institutions, private non-profit entities, and private for-profit organisations, that contributes to funds for pursuing social and economic development. |
| Economy | "The principle of economy requires that the resources used by the institution in the pursuit of its actions shall be made available in due time, in appropriate quantity and quality and at the best price" (source: Financial Regulation art. 30(2)). |
| Effectiveness | "The principle of effectiveness concerns the attainment of the specific objectives set and the achievement of the intended results" (source: Financial Regulation art. 30(2)). |

| Term | Definition |
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| Efficiency | “The principle of efficiency concerns the best relationship between resources employed and results achieved” (source: Financial Regulation art. 30(2)). |
| Fiduciary risk | The risk that: (i) funds are not used for the intended purposes; (ii) funds are not properly recorded and accounted for; and (iii) value-for-money objectives of the programmes/projects financed remain unachieved. |
| Financing modality | The way support is provided. In accordance with the CPR three main financing modalities are identified: non-repayable support (e.g. grants, prizes), repayable support (the repayment of the support is conditional), and financial instruments (unconditional obligation to repay) (source: CPR, art. 66). |
| Final recipients | A legal or natural person receiving financial support from a financial instrument (source: CPR, art. 2(12)). |
| Fund transfer modality | The way to transfer support to the beneficiary, through state treasury, escrow account, general or dedicated account of the recipient. |
| Good governance | Aspects linked to transparency, ownership, responsiveness and flexibility. |
| Impact | The positive and/or negative changes produced by a development intervention, directly or indirectly, intended or unintended. This involves the main impacts and effects resulting from the activity on the local social, economic, environmental and other development indicators. |
| Indicators | Quantitative or qualitative factors or variables that provide simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor. |
| Indirect costs | In relation to a given cost object, those costs that cannot be traced to the cost object in an economically feasible way. Typical indirect costs are administrative/staff expenditure, such as management costs, recruitment costs, costs for the accountant or the cleaner, telephone, water or electricity costs, and so on. |
| Indirect management | A method to implement the EU budget. Under indirect management, the European Commission entrusts budget implementation tasks to: partner countries (or to bodies designated by them); international organisations; development agencies of EU Member States; the European Investment Bank and the European Investment Fund (source: Financial Regulation art. 58(1(c))). |
| Input | The financial, human and material resources used for the development intervention |
| Intervention | An act or process of intervening with an aim to change the situation or to promote development. A development intervention usually refers to a strategy, programme, a part of a programme/thematic component, a package of projects, or a project. |
| Intermediate Body | A body that carries out certain tasks of either the Managing Authority or the Certifying Authority (source: CPR art 2(18)). |
| Intervention logic | Explicit or implicit logic that explains how results are to be achieved, including causal relationships and underlying assumptions. |
| Legality and regularity | Legality and regularity of transactions in terms of compliance with applicable legislation, fiduciary risks, segregation of duties and fraud detections, financial control, performance audit and risk monitoring. |
| Level of Intervention | Level at which support is targeted. Support can be targeted at different administrative levels: supra-national, national, regional, or local/sub-regional level, and also at sector level. |
| Management Mode | An arrangement of the division of responsibilities in a principle-agent relation for managing the strategy/programme/package of projects/project when implementing the intervention. |
| Managing authority | A Body that bears the main responsibility for the effective and efficient implementation of the Funds (source: CPR, p 333 (108), RD art 65). |
| Operation | A project, contract, action or group of projects selected by the Managing Authorities of the programmes, or under their responsibility, that contributes to the objectives of a priority or priorities; in the context of financial instruments, an operation is constituted by the financial contributions from a programme to financial instruments and the subsequent financial support provided by those financial instruments (CPR, art 2 (9)). |
| Operational coverage | Level to which support is provided: to a (sector) strategy, programme, package of projects, or projects. |
| Outcome/result | Immediate changes that arise with the contribution of the interventions designed. |
| Output | The products, capital goods and services which result from a development intervention; they may also include changes resulting from the intervention which are relevant to the achievement of outcomes. |
| Package of projects | A number of projects of limited financial volumes that are implemented as a single operation (such as small project fund). |
| Partnership | The cooperation between a) representatives of competent regional, local, urban |

| Term | Definition |
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| Partnership Agreement | and other public authorities, b) economic and social partners and c) other relevant bodies representing civil society,(including environmental partners, non-governmental organisations and bodies responsible for promoting social inclusion, gender equality and non-discrimination) (Source: CPR page 2) |
| Paying Agency | Strategic plan with investment priorities negotiated between the Commission and national authorities on the five ESI Funds. In the Common Provisions Regulation, Partnership Agreements are addressed in Chapter II, Articles 14-17. |
| Payment coverage | A body responsible for managing the measures of support for agriculture and rural development. EU Member States designate an authority at ministerial level responsible for the issuing, reviewing and withdrawing of accreditation of Paying Agencies (source: Reg. 1306/2013 art. 7). |
| Payment modality | The level of coverage of payments towards costs. It is possible to distinguish the four following categories of payment coverage: a. Incentive payments: having no relation to the underlying cost of the strategies, programmes, projects or inputs, actions. b. Compensation: support is intended to cover part of the costs, but no detailed cost calculations are made and support is not directly related to projects/actions. c. Partly cost-covering: support is meant to cover part of the costs incurred for achieving results. d. Fully cost-based: support is meant to cover all costs incurred for achieving results. |
| Performance based budgeting | The object which triggers the disbursement of payments. Payment modalities can be based on: high level policy actions, outcomes/results, outputs, actions, inputs Budgeting that links the funds allocated to measurable results. Three types of Performance based budgeting can be identified: a) presentational, b) performance-informed, and c) direct performance budgeting. <i>Presentational performance</i> budgeting means that performance information is presented in budget documents or other government documents. <i>Performance-informed budgeting</i> means that resources are indirectly related to proposed future performance or to past performance. <i>Direct performance budgeting</i> involves allocating resources based on results achieved. |
| Performance management | Performance management is defined via a series of processes related to: <ul style="list-style-type: none"> • setting performance objectives and targets; • giving managers responsible for each programme the freedom to implement processes to achieve these objectives and targets; • measuring and reporting the actual level of performance against these objectives and; • targets; • feeding information about performance level into decisions about future programme funding, changes to programme content or design and the provision or the provision of organisational or individual rewards or penalties. |
| Policy | A policy is a set of principles to guide decisions and achieve outcomes. A policy is a statement of intent. It can be implemented as a procedure or protocol, or detailed in a Strategy/programme for execution. |
| Policy Action | The development, realisation or approval of policies, strategies, and programmes directly related to an intervention. |
| Policy adequacy | The suitability of a delivery mechanism to ensure efficient and effective implementation of the EU objectives of the EU supported by the ESI Funds. |
| Policy coverage and scope of the DM (extent of support) | The policy coverage includes the features of the DM in terms of type of intervention, objectives, sectors, thematic coverage, beneficiaries, target population and partnership. The Scope describes the DM in terms of level of intervention (administrative level) and degree of integration (strategy, programme, project), plus detailing the types of costs/expenditure, the total size of the support operations and the payment and financing coverage. |
| Programme | A set of interventions, marshalled to attain specific global, regional, country, or sector development objectives. Programmes may include elements of related work outside scope of the discrete projects in the programme. |
| Project | An individual development intervention designed to achieve specific objectives within specified resources and implementation schedules, often within the framework of a broader programme. |
| Programme area | A geographical area covered by a specific programme or, in the case of a programme covering more than one category of region, the geographical area corresponding to each separate category of region (source: CPR art 2(7)). |

| Term | Definition |
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| Recipient | A person or institution (agency, government, and so on) that receives or is awarded something (support, development aid, and so on). |
| Result | In the EU/ESI Funds intervention logic context, the term "result" is having a narrow, operational meaning, which is by other donors/entities referred to as "outcomes" (see outcome/result) of the intervention. Other entities are using "results" in a broader context, referring to the outputs, outcomes, and impact of an intervention. The term "result" is used in the report referring to its broad definition; the term outcome/result refers to the immediate changes. |
| Result orientation of the DM | The suitability of the DM to maximise the achievement of effects (outputs and outcome/result) relevant for a defined policy. |
| Risk management | The processes and procedures related to the identification, analysis and either acceptance or mitigation of uncertainty |
| Shared management | A method to implement the EU budget. Where the Commission (or another donor) implements the budget under the shared management, implementation tasks shall be delegated to (Member) States. In the context of the EC, the Commission and the Member States shall respect the principles of sound financial management, transparency and non-discrimination and shall ensure the visibility of Union action when they manage Union funds. To this end, the Commission and the Member States shall fulfil their respective control and audit obligations and assume the resulting responsibilities laid down in the Financial Regulation, art. 59. |
| Simplification | Reduction of administrative cost to the administration, administrative burden to beneficiaries and cost effectiveness of controls. This covers cutting red tape, speeding up procedures, specifically the time-to-grant, and shifting the focus from paperwork to performance. (source: EC, Financial Regulation, synoptic presentation) |
| Size of the support operations | The amount of support provided through a delivery mechanism. |
| Sound financial management Strategy | Compliance with the principles of economy, efficiency and effectiveness (source: Financial Regulation art 30(1)). |
| Type of costs/expenditure | A high level plan to achieve one or more goals. Strategy generally involves setting goals, determining actions to achieve the goals (determining the logical framework and identifying supportive actions), and mobilising resources to execute the actions. |
| Thematic field of intervention | Direct costs (costs directly related to an individual activity) and indirect costs (costs which are not directly connected to an individual activity such as administrative costs). |
| Thematic field of intervention | Classification based on the ESI Funds Implementing Regulation related to the type of investment (aggregated): |
| Thematic field of intervention | <ul style="list-style-type: none"> • Infrastructure: supporting infrastructure investments in the energy, environment, transport, ICT, social (health/education) sector. |
| Thematic field of intervention | <ul style="list-style-type: none"> • Productive investment: direct aid for investment in SMEs, for enhancing R&I, supporting the shift towards a low-carbon economy, and investment involving cooperation between large enterprises and SMEs, for enhancing access to, and use and quality of, ICT. |
| Thematic field of intervention | <ul style="list-style-type: none"> • Sustainable development: environment protection, promoting resource efficiency, promoting climate change adaptation, risk prevention and management, forest area development. |
| Thematic field of intervention | <ul style="list-style-type: none"> • Endogenous development: Enhancing the competitiveness of SMEs. |
| Thematic field of intervention | <ul style="list-style-type: none"> • Human capital: For example education, training and vocational training for skills and lifelong learning, promoting sustainable and quality employment and supporting labour mobility. |
| Thematic field of intervention | <ul style="list-style-type: none"> • Capacity Building: supporting networking, cooperation and exchange of experience, studies, preparatory actions, promoting social inclusion, combating poverty and any discrimination, Strengthening research, technological development and innovation. |
| Thematic field of intervention | <ul style="list-style-type: none"> • Other: for example compensation measures for fishery and aquaculture products or farming in areas with natural constraints. |

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