Purpose, object and methodology

The main purpose of this research is to assess the impact of the new draft 2007-2013 EU structural funds regulations on Lithuania’s public administration system and public policy. This assessment is aimed at determining an appropriate institutional and policy system of managing the EU structural funds as well as justifying Lithuania’s negotiating position concerning the draft regulations of the EU structural funds.

The scope of the analysis included the following draft regulations:

- draft regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (key regulation);
- draft regulation on the European Regional Development Fund;
- draft regulation on the European Social Fund;
- draft regulation establishing a Cohesion Fund.

The qualitative method of analysis, which included analysis of primary and secondary sources, case studies, interviews with key stakeholders and various methods of policy analysis (including the analysis of strengths/weaknesses and opportunities/threats, policy aims/alternatives analysis, etc.), was applied during this impact assessment.

Reform of the EU cohesion policy and key changes to the EU structural funds in the period of 2007-2013

As under the previous reforms, the current reform of the EU cohesion policy seeks to simplify and decentralise programming and implementation of the EU structural funds and increase their effectiveness. However, greater strategic orientation of the EU structural funds linking their assistance with EU strategies can be regarded as a new direction of the reform.

The new draft regulations foresee the following priority objectives of the EU structural funds for the period of 2007-2013:

- **Convergence objective** (previous objective No. 1), which will be financed from the ERDF, the ESF and the Cohesion Fund, is aimed at speeding up the convergence of the less-developed regions with the EU average;
- **Regional competitiveness and employment objective** (previous objectives No. 2 and 3) is financed from the ERDF and the ESF;
- **European territorial cooperation objective** (similar to the previous INTERREG programme), which will be financed from the ERDF, is aimed at strengthening cooperation at different levels.

Key changes proposed for the 2007-2013 programming period, which are relevant to Lithuania, are as follows:
• EU cohesion policy will be more closely connected with the Lisbon strategy and other EU strategies;

• The number of the EU structural funds will be reduced to three (including the Cohesion Fund), and the management of assistance from the Cohesion Fund will be substantially reformed and integrated into operational programmes;

• Programming of the EU structural funds will be modified: the national strategic reference framework and operational programmes will be prepared on the basis of the EU structural funds regulations and strategic guidelines adopted by the European Council, while the Community Support Framework and programme complements will be abandoned;

• Actions previously financed from the European Community initiatives during the period of 2000-2006 will be integrated into national programmes;

• The management of the EU structural funds will be decentralised and simplified (e.g. in the area of financial management and control) and there will be changes to a framework of responsible authorities;

• Greater attention will be devoted to performance management (using means of evaluation, monitoring, performance and expenditure reserve) in order to increase the effectiveness of managing the EU structural funds;

• Measures of institutional capacity building and increasing the effectiveness of public administration will become eligible under the EU structural funds;

• According to the principle “one fund – one programme” one operational programme will be financed only from one fund (the ESF or the ERDF), but the ESF and the ERDF may finance each other’s interventions in a complementary manner and subject to a limit of 5% (sometimes even 10%);

• The partnership principle will be strengthened, providing for the involvement of all appropriate partners, in particular the regions, in all stages of the EU structural funds management (preparation of programmes, implementation, monitoring and evaluation) as well as the participation of social partners in the management of the ESF assistance at an appropriate territorial level. However, its application should correspond to national practices;

• Rural development and restructuring of fisheries will no longer form a constituent part of the EU structural funds. However, the promotion of diversification of rural economies and of areas dependent on fisheries may be financed from the structural funds. In addition, it will be necessary to ensure consistency between the EU structural funds and the European Agricultural Fund for Rural Development and the European Fund for Fisheries.

This assessment focuses on new provisions of the draft EU structural funds regulations that are important to Lithuania’s institutional framework and public policy. The paper undertakes a detailed assessment of several questions in the following areas: internal and external co-ordination of the EU structural funds; institutional framework and the distribution of responsibility; consistency between the EU structural funds and EU strategies; content and structure of operational programmes financed from the EU structural funds; performance management of the EU structural funds; administrative burden and user-friendliness of the EU structural funds; institutional capacity building and the effectiveness of public administration; and Lithuania’s regional policy.
Impact of the draft EU structural funds regulations on institutional system and public policy

Provisions of the new draft EU structural funds regulations may produce the following impact on institutional system and public policy.

Impact on institutional system

- **Co-ordination:** the need for co-ordinating the EU structural funds of interan nature as well as with the European Agricultural Fund for Rural Development and the European Fund for Fisheries will become more acute during the new programming period. In addition, a certain fragmentation of the structural funds programming will bring the need for creating an overall co-ordination framework of the EU structural funds. Moreover, it will be also important to ensure the partnership with all appropriate partners in all stages of the EU structural funds management;

- **Institutional framework and the distribution of responsibility:** EU member states should designate the managing, certification and audit authorities for each operation programme in the period of 2007-2013. The role of these authorities will remain similar to the current programming period of 2000-2006. However, the number of operational programmes and responsible authorities will be the main challenge for Lithuania’s institutional framework of the EU structural funds;

- **Performance management of the EU structural funds:** greater attention for the performance management of the EU structural funds will require additional efforts in the areas of monitoring (e.g. reporting the use of the EU structural funds at the levels of the national strategic reference framework and operational programmes) and evaluation, despite of a certain degree of flexibility at the level of EU member states. However, all these requirements should be perceived positively because they bring more favourable conditions for the effective use of the EU structural funds;

- **Administrative burden and user-friendliness of the EU structural funds:** decentralisation and simplification of the EU structural funds management (e.g. in the areas of financial management and control) as well as the partnership principle should be perceived positively. However, their implementation can produce a regulatory “vacuum” that can be abused by creating more detailed requirements at the national level. In addition, based on the above-mentioned directions and principles of reforming the EU cohesion policy it is necessary to reduce the administrative burden of the EU structural funds at the national level as well as to increase the user-friendliness of its management system.

Impact on public policy

- **Consistency between the EU structural funds and EU strategies:** it will be necessary to bring the EU structural funds in line with EU strategies through the EU strategic guidelines, the ex-ante evaluation and negotiations with the European Commission. Establishing coherence may require certain changes in national policies and budget
programmes (depending on the situation in different sectors) as well as co-operation and consultation among various institutions;

- **Content of programmes financed from the EU structural funds:** a transition to the two-stage programming process of the EU structural funds (the national strategic reference framework and operational programmes) allows reducing the duration of programming as well as enhancing the coherence of programming documents. However, the abandonment of programme complement may contribute to the lack of operational strategy. In addition, greater strategic orientation of the EU structural funds and their decentralisation will bring the need to present a more detailed justification of development strategies in the programming documents;

- **Structure of operational programmes financed from the EU structural funds:** new programming procedures will bring the need to establish a new structure of operational programmes compliant with the principle “one fund - one programme” and integrating various actions (including innovative, urban development and interregional co-operation actions) as well as expenditure (including expenditure of technical assistance and reserve) of the EU structural funds. However, assistance of the EU structural funds will be reported to the European Commission only at the priority level;

- **Institutional capacity building and the effectiveness of public administration:** the draft regulation on the ESF makes measures of institutional capacity building and increasing the effectiveness of public administration eligible. However, it is necessary to take into consideration that measures proposed by the European Commission in this area are of narrow scope;

- **Lithuania’s regional policy:** provisions of the new draft EU structural funds regulations pose certain opportunities (e.g. a bigger share of the total assistance from the EU structural funds over much longer period, decentralisation and simplification of the EU structural funds or the eligibility of institutional capacity building) and threats (e.g. coherence with EU strategies, mobilisation of co-financing or stricter requirements for performance management) that should be exploited or removed (e.g. by creating an integrated regional operational programme).

**Alternatives for managing the EU structural funds in the period of 2007-2013**

It is recommended to continue applying an integrated-centralised system of managing the EU structural funds during the new programming period. This would create a more appropriate administrative system and better coherence of the EU structural funds both with national economic development policy and EU strategies, while preserving the experience of the EU structural funds management.

However, compared to the current programming period, it is possible to change the extent of integration and centralisation in the integrated-centralised system of the EU structural funds management. In the new programming period it will be necessary to make the management of the EU structural funds more integrated (in particular integrating assistance from the EU structural funds into national economic and financial systems). In addition, a limited decentralisation of programme content (e.g. creating separate national operational programmes or even the integrated regional programme) as well as process
(e.g. involving local authorities, regions and various social and economical partners more closely into the management of EU structural funds) will be possible within a centralised institutional system of managing the EU structural funds.

Summary of recommendations

Recommendations concerning negotiations

The first recommendation is related to negotiating more favourable conditions of the EU structural funds eligibility in the period of 2007-2013. Key issues of negotiations include the eligibility of different sectors and expenditure from the EU structural funds, a greater limit of complementary co-financing from the ESF and the ERDF as well as a more flexible application of the “n+2” rule for the Cohesion fund. However, it is also possible to negotiate a more clearly defined distribution of interventions inside the EU structural funds and other relevant issues in this area.

Although financial issues were not assessed in this paper, another research carried out by the Public Policy and Management Institute (“Analysis of the capacity to absorb the 2007-2013 EU structural support”) recommended negotiating the 4% limit. There negotiations can be executed in the direction of reducing the scope of this “capping” (e.g. excluding assistance for agriculture, rural development and fishery) and changing its calculating assumptions.

In addition, it is recommended negotiating a more favourable structure of the EU structural funds programming and implementation. For instance, in the programming area it is possible to better integrate separate stages of programming, whereas in the area of implementation it is possible to reduce the number of monitoring reports and apply the ex-ante evaluation in an integrated way. Since these issues would contribute to better absorbing of the EU structural funds and their utilisation in a more effective way, these also require sufficient attention during the negotiation process.

Recommendations concerning internal changes

First, it is recommended to begin preparatory work and start programming the EU structural funds as early as possible, even before the approval of the new draft EU structural funds regulations and the strategic guidelines on economic, social and territorial cohesion.

Key tasks for the new programming period should include the establishment of an institutional framework of the EU structural funds management (designating managing and other authorities) and a structure of operational programmes (identifying the number and scope of operational programmes according to various criteria, while maintaining the small number of programmes and priorities). Also, it will be necessary to set up the overall co-ordination structure for the EU structural funds (designating one co-ordinating authority and establishing one strategic committee) and complete other tasks (e.g. organising the ex-ante evaluation that would include a proposal for investment priorities
in Lithuania for the period of 2007-2013 and preparing a clear regional policy strategy that would include a detailed list of problem territories and interventions).

In addition, it is recommended to apply an active method of co-ordination between the EU structural funds and EU strategies (involving the change of Lithuania’s public policies and budget programmes) on the basis of a higher-level national strategy. Resources of the EU structural funds should be planned on the basis of a strategic content, but also taking into consideration the absorption capacity. This would ensure that the correspondence of the national strategic reference framework and operational programmes to both national demands and EU strategies.

The principles of proportionality, consistency, transparency and accountability should be applied as well as the provision of information, advisory and training services should be improved in view of making the system of managing the EU structural funds more user-friendly and reducing its administrative burden. Finally, it is proposed to make the partnership process more extensive and intensive in all stages of the EU structural funds management (from programming to evaluation).

**Conclusion: absorption and effectiveness of the EU structural funds**

Greater attention should be paid to the effective use of the EU structural funds during the period of 2007-2013. However, it is not sufficient to apply measures proposed by the European Commission (monitoring, evaluation, performance reserve) for increasing effectiveness.

Therefore, it is necessary to take into consideration the following factors:

- effective use of the EU structural funds depends not only on factors at the level of implementation (e.g. monitoring), but also on a rational distribution of resources during the programming stage. The more rational is the distribution of resources during the programming stage, the more favourable conditions emerge for the effective use of the EU structural funds;
- such measures as monitoring and evaluation, whose potential is fully exploited during this programming period, yield influence on the effective use of the EU structural funds. Also, effectiveness depends on such additional measures as the level of administrative burden and user-friendliness of the EU structural funds management, institutional capacity building, partnership and consultation, etc (see the paper for their assessment);
- effective use of assistance from the EU structural funds also depends upon the forms of assistance (e.g. assistance for public or private projects under the state aid schemes). Although direct support to business may assist in reaching certain aims, it may also create unexpected negative effects (e.g. distortion of market competition or the business dependence on state aids). In addition, it may be difficult to achieve certain aims (e.g. these concerning regional development) only in a horizontal manner in the absence of sufficiently developed vertical measures;
the public procurement process influence the effective use of the EU structural funds. Public-private partnerships can also be applied in absorbing the EU structural funds. Compared with traditional public procurement, this method allows more efficient and faster development of public infrastructure and services of higher standards.