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Effectiveness of structural funds - microlevel perspective (case of Slovakia)

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Effectiveness of structural funds – microlevel perspective (case of Slovakia)

Abstract:

Cohesion policy and regional policy as a main part of cohesion policy are the most important policies of European Union. This could also be view from the volume of financial resources allocated for these policies. One of the main current research issues is analyzing efficiency and effectiveness of these funds. Examining the effectiveness of funds we can see a number of shortcomings, from which are the most significant deadweight loss effect, substitution effect, lack of application of the principles of partnership, administrative burden focused on expenses and not results or the low multiplier effects. We have analyzed several of them directly in the case study of some Slovak regions.

Key words: cohesion policy, regional policy, structural funds

JEL: R58;

Theoretical background

Regional policy is one of the most important policies of the European Union. It's based on its fundamental principles, among which we include the efforts of economic and social cohesion of the European area. Just regional policy is the most important part of cohesion policy. Volume of support, which leads to less-developed EU regions, is very important for these regions. Between 2000 - 2006 went to the regional policy more than 127 trillion. Euros, what means more than 2% of annual GDP of the least developed countries (CEC 2004). Most analysis on an aggregate level, identified the positive contribution of transfers from the Structural Funds (CEC 2004, Becker 2008, Nagy 2008). However, there is not always evident link between these transfers and the region's economic performance (Nordregio 2005). Some key questions remain - what are the effects of this support towards achieving the objectives which the regional policy sets and in particular how these goals are achieved from the perspective of maximizing outcomes in minimizing inputs. It is therefore necessary to achieve the efficiency and effectiveness of regional policy. The European Commission itself devote significant attention to the evaluation of the policy, what is done by a system of ex ante, interim and ex post evaluations.

In terms of efficiency, thus achieving real convergence of lagging regions, most studies support the argument of real convergence within the EU, although individual results vary considerably in extent

and scope of this convergence. With regard to real convergence within the EU, it can be seen at country level rather than at the regional level. Underdeveloped countries of the South have managed to increase the convergence towards the EU, but the actual differences among regions within countries remained very strong (Cappelen et al. 2003). It runs as a potential conflict between the desire of the country's overall economic convergence, which is easier to achieve through the growth of more advanced regions and efforts to reduce regional disparities within the country itself (CEC 2004). This conflict can be seen also in the case of the Slovak Republic.

Significant successes in the use of EU regional policy, that countries such as Ireland and Portugal have achieved, are largely caused by the fact that EU regional policy is complementary to their own regional policy. Thus, there was a synergistic effect, which was reflected in the positive development of their convergence with the EU developed countries. The problem is that in many new EU countries (including Slovakia) seeking convergence absent just such a national policy to promote regional development (Buček 2009). In Hungary, the resources used for regional policy nearly equaled resources that were included in the national development plan for disbursement of EU aid (Nagy 2008). A similar situation is in the Slovak and Czech Republic. It also appears that the effectiveness of EU regional policy is significantly better in regions that achieve a certain level of development. In regions, where it is most needed, it is already significantly less effective (Cappelen et al. 2003). In the macroeconomic context of the assessment of EU aid by the new member countries is needed to stress, that these countries passed significant changes in many areas before. Access processes forced many countries to change the legislative standards, which in most cases were positive for the country. The same can be said about the opening of European markets (free movement of capital and goods, and partly also work). By joining the EU has significantly increased their perception as economically and politically stable countries. Therefore it is very difficult to determine whether the positive effects of convergence were caused by these factors in this period rather than financial support from the EU.

Most studies accept the fact that the efficiency of EU regional policy is on a relatively acceptable level, but significantly differ over the effectiveness of European regional policy (Ederveen 2007, Molle 2007, Wostner 2008, Nagy 2008, Bradley 2008). The reason is in particular extremely high demands on evaluation of its impact. Although it is possible to calculate, for example, how many jobs were created through supported projects, key issues are different - how would they originated, if supported projects were not implemented or how much they create, if they had used the allocated resources by other means (Molle 2007). These key issues of efficiency measurement are very difficult to measure aggregately, because of the absence of alternative scenarios. In implementing the regional policy during the programming period, there have been significant changes within the various national factors such as demographic, legislative or tax changes, which assess the impact of

losing usable basis for evaluation. Estimated alternative scenario is then based on trends from previous years before applying for support or it is based on development of other regions that were not supported or on the development across the EU during certain period. Both approaches do not provide a satisfactory answer, as the development of the region would look like without support. The principal advantage of the macro model is an effort to affect externalities and substitution effects, which are hardly reflected at the micro level (Bradley et al. 2005). This is largely the structure of the indicators that are set for individual projects. On the other hand, macroeconomic models have some disadvantages, as well. The key is in particular a number of conditions for their validity and the need for very detailed and often unavailable data, which force the use of artificial variables. EU regional policy also represents a very wide range of activities (from infrastructure, through science, to human resources), which is almost impossible to measure by using existing models (Martin 2006). It is important to mention about the role of retardation effects of the Structural Funds (Esposti 2008) and their difficult separability from other regional policy instruments. A large part of studies, addressing in particular the overall impact of the use of structural funds to the country by using the macro model may therefore focus only on the question of efficiency, but very problematic on the question of efficiency. Also its formulated conclusions rather rely on the fact that convergence occurs, and thus is an effective regional policy. But there is a convergence within the EU at times without a regional policy, as well. EU regional policy, however, should be mainly focused on the level of regions and its effects on them, so also in the empirical part we will focus on specific microstudies effects of EU support for regional development. Such microstudies may also provide an alternative approach to evaluating the effectiveness of regional policy, although we can not answer the key question of the effectiveness of regional policy, but allow to point out specific places and processes where this policy is not effective and therefore identify possible improvements in the functioning of regional policy. This approach is also useful, because the objectives of regional policy are largely political, not economic agenda and thus from an economic point of view is more important question of improving the effectiveness of this policy as a question of whether regional policy is economically efficient. This approach also confirms the expenditure of the Structural Funds, which are not the primary source of economic growth, but they have a significant impact on the quality of life such as investments improving population access to drinking water (Marais 2006). In the last programming period, there where more expenditure aimed at improving the quality of life for residents as measures to stimulate economic growth (CEC 2010). However, this has direct implications especially towards the measuring process of the regions maturity. For the purposes of regional policy is a key indicator GDP per capita, which is the only criterion for inclusion region among the least developed. Backward regions are then indirectly encouraged to focus only on improving the quality of life without the effects towards their competitiveness, what ensure support for the next programming

period. To fully assess the effectiveness seems to be necessary to create a combined system, which would be able to integrate so macro-model "top-down" approach as well micro-impact "bottom-up" approach (Bradley et al. 2005).

Effectiveness can be seen from two perspectives. The first is the effectiveness of regional policy focus. Here, the crucial question is how resources are redistributed among the priorities and assessment of optimization of the distribution resources between priorities. This task is very difficult and its solution is very individual for each country. Completed research studies so far have not proposed a model that would help resolve this issue. There are thus only partial studies. Bradley (2005) in his study estimated the average elasticity of infrastructure projects to 0.33 and the average elasticity of projects aimed at human capital to 0.27, but allows certain problems in interpretations any conclusions. Difficult content rating is complicated by the fact, that the EU's regional policy intervention include many areas, from infrastructure, through innovation, tourism, human capital, to environmental projects. They are made by number of different schemes and instruments, each country has its own, often without the institutional environment for their implementation (Bachtler 2006). This is confirmed by different approaches of individual countries, where support drawing had been very individual. For example, Ireland spent in 2000-06 29.5% of all expenditure to infrastructure in comparison with the period 1994-99, when it spent only 19.7%. By contrast, Spain between 2000-06 exerted 28.1% of all expenditure to infrastructure in comparison with 40.1% in the previous period (Kamps 2009). Due to the many different and often conflicting objectives and priorities, decision on the choice becomes a political decision (CEC 2010).

The second approach, to which we will pay more attention in this work, is about the forms of regional policy measures. In this case, it is about the processes and tools in implementing regional policy, where it is possible to evaluate the effectiveness of concrete activities.

Regional policy EU in Slovakia

Slovak Republic entering the EU has also begun to use the tools and capabilities of its regional policy. The first period of the aid was accounted for 2004 - 2006, which were in terms of spending and absorption of aid extremely difficult, as demonstrated by the extension options of funds remake compared to traditional rule $n+2$. Currently Slovakia draws assistance under the National Strategic Reference Framework (NSRF) for the years 2007 - 2013. From the perspective of the NSRF and the EU regional policy whole Slovak Republic, in addition to Bratislava region, falls under Objective 1. In terms of territorial concentration of assistance, regional policy of the country has significantly different preferences as EU regional policy. This problem is very heavily affected in particular regional policy and strategy formulation of regional development, since this area represents much bigger volume of resources provided from the EU as the amount of money spent by Slovak Republic. This

has resulted in spending a large part of the state budget on co-financing activities set by the European regional policy, and other activities in regional development suffer from a lack of financial resources (Buček 2009). This is exacerbated by the fact, that the level of NUTS II, which is crucial for the implementation of regional policies from the perspective of the EU, in Slovakia is set just administrative and real regional structures are set only at NUTS III level. This model thus may be functional only when coming on strong consensus in the EU and the country priorities. Then the large volume of resources of EU regional policy, which is needed to run out, is able to accelerate the national resources of the country and thus the total volume of resources for key priorities increases. The territorial dimension is missing in the system and operational programs, which are strongly sector-oriented. In the field of integrated programs, there are only a first and very limited attempts. This is in sharp conflict with the stated goals of EU cohesion policy (CEC 2004). The territorial dimension of support should also emphasize innovative and cohesive growth poles and their areas of interest, which have been defined for the programming period as optimal areas for concentration support. In Slovakia is their number very high and in real only in minimally affect the possibility to apply for funding (Buček 2009). Territorial concentration itself is also largely hampered by the relatively artificial system of NUTS II regions. Examples are the regions of Bratislava and Prague, which significantly dominate at NUTS II level, but only because of, for example, Budapest. In Budapest was created bigger NUTS II region, so that Budapest was able to draw assistance under Objective 1. Also Bratislava would draw this help, if it would be administratively at NUTS II associated with the Trnava region. Moreover, in some countries have occurred changes in the NUTS II level, so the current programming period already has a different spatial arrangement of aid than the previous one.

Administrative burden of project implementation does not add to the efficiency of the support. In OIR studies (2003) only one third of respondents identified implementation systems of structural funds to be flexible sufficiently. Format of the projects in some calls also represents more than 60% selection of the projects. This limits the choice of the best projects. Also it leads to discourage many potential candidates for support. This problem, however, concerns not only the Slovak Republic (CEC 2004). Another inefficiency of spending structural funds due to administrative complexity is also reflected in the actual implementation of projects, in this case in particular for projects financed by the European Social Fund. Limits on administrative and project management are limited to 20% of direct expenditure, applicants use this opportunity as much as possible and the experience of project implementation shows, that this volume particularly in smaller projects is still not sufficient. This, however, in terms of efficiency leads to the fact, that actually a fifth of the spent funds is not directed at identified priorities. In addition, in this are not included costs for the programs, i.e. management and intermediary bodies expenditure. Taking into account more than 1 billion. million for ESF

projects, then approximately 150 million. EUR can achieve indirect costs. If appropriate measures have reduced administrative costs by 5%, we will acquire 7.5 million. Euros. It would suffice, for example, to train 25 000 unemployed people in computer skills.

Part of the administrative difficulty is caused by the extremely high level of control. Some expenses may be assessed in form of control or audit even ten times (Wostner 2008). This not only leads to high financial demands on control systems, but also to significant time losses. In the programming period 2004-2006 in the recovery of expenditure on projects supported by the ESF almost never complied the terms and conditions relating to that time commitment for reimbursement of the funds. In a survey sample of 20 projects funded by ESF, which we approached, only two had any problems caused by delays in payments. For other projects that significantly affect the quality of the project as well as its effectiveness. For example 4 project applicants were forced to arrange a bridging loan bank, which means additional financial and time costs for them. This ambitious scheme would be able to be justifiable, if it was able to ensure efficient and effective control. However, as practice shows, this system is not functional sufficiently. According to the European Court of Auditors, at least 12% reimbursement in the structural funds projects throughout the European Union in 2006 should not be reimbursed (European Court of Auditors 2007). Most incorrect or ineligible expenditure is no intent, but precisely because of constant changes in the rules or inattention stemming from very high administrative cost of implementation. One of the other factors affecting this difficulty is requiring the same conditions and procedures for small and large projects. Differentiation of this approach was also one of the recommendations of the study OIR (2003). By division of these processes could be achieved simpler administrative burden on smaller projects. Administrative difficulty reduces the total possibilities of depletion of allocated resources, what is another significant factor. Several countries did not use the full possibilities provided to them (Mili 2007).

Problem of efficiency, or rather the effectiveness of regional policy from another perspective is also a "deadweight". About it we can speak, if the projects would be fully or partially implemented without the support from the European Union, as well. Several authors try to measure „deadweight spending“ of expenditure programmes focusing on regional development policies. Accurate data monitoring this effect are rather limited. Several studies suggest, that the amount of funds provided in this way is very high and ranges between 40 to 80%. Lenihah (2004) estimates „deadweight spending“ for Irish industrial policy programmes on the level of 40 - 80% from total provided sum of grants. Leninahn and Hart (2004,) estimated also for Irish conditions is 42,6 – 55,8%. Tokila and Haapanen (2009) estimate in the case of Finish business support policies is 31,9%. The study in the UK pointed to about 20% of projects, that would be carried out without this support (Wren 2005). Study for Italy showed 50% effect of deadweight (CEC 2010). Therefore it is about a very

significant effects that influence the effectiveness of aid. So it is necessary to define better conditions under which the private sector should benefit from EU support instruments.

In terms of generating public investment, however, empirical studies rather point to the fact that regional policy significantly increased the amount of money spent on developing investment projects by individual Member States. Austrian expenditure increased after the entry by 36%, Sweden 14%. In Ireland it was 66% and in Greece it was 24% (Marais 2006). What is more, these expenses are due to the need of co-financing projects protected from budget cuts, thereby developing momentum carried in the budget challenging times. As demonstrate some knowledge of ex post analysis of the ERDF 2000-06 (CEC 2010), increase spending may be inefficient. For example in Poland were identified projects, that were unnecessarily large (e.g. sewages) and their outcomes have not been fully exploited . It is likely, that in some cases are being prepared "projects to the projects", so that available EU funds could be used. The effectiveness of their use is not a fundamental question for a given country or region, because the rate of co-financing made by The EU is very high. The same can be observed in some educational projects in Slovakia, where the degree of necessity of all training (particularly in government) is not sufficiently substantiated in analysis.

We can also perceive differences between declared principles of the European Union and their application at national and project level. While at the national level principles are often applied, at project level it is substantially worse. An example may be the lack of integrated programs, as well as a very limited use of the principle of partnership in the projects themselves, in many cases it is even not allowed. An example may be the inability of schools to bring a joint project, that would upgrade their department or specialty. That is why many projects are carried out by one applicant and have no additional synergies. It is important to emphasize, that the principle of partnership is considered to be one of the cornerstones of improving local governance and partnership level (Marais 2006).

Strict application of the financial management principles at the expense of content effectiveness leads to a large formal guidelines to do things correctly, compared to doing the right thing. This is partly related to the preference of quantity before quality in the projects. Projects are primarily evaluated using the obtained values of measurable indicators, which are quantitatively for all operational programs. Although in the process of evaluation takes into account the quality, at this stage it is only declared quality, not achieved. In the implementation phase, when we are talking about the real outputs quality, however, still dominated quantitative assessment through the set indicators performance.

Against the principle of partnership is still centralized system of management of structural funds. While in the period 2004-2006, this system has been implemented in the most new member states, which did not have sufficiently strong regional capacity to manage the implementation process, in this programming period we can see a move towards a regional level in some countries. Polish

regions have decided by about 30% of EU assistance funds (Bachtler 2007). Slovak Republic, however, still remains on a centralized level. Some studies support this centralization, arguing that just few regions can be able to manage the aid effectively (Lovering 1999). Similar Milio study (2007) pointed to differences in administrative capacity of regions and their impact on the ability of the funds drawing. The European Commission itself (CEC 2004, Bachtler 2007) sees as one of the key indirect effects of structural funds their impact on strengthening the institutional capacity of underdeveloped regions, which will be able to manage other development and support processes effectively, and experience shows that this strengthening occur indeed (Nordregio 2005). This view can be supported even in a case of the new member countries, which thanks to the EU have devoted more attention to the processes of decentralization and regional policy. These processes were not conducted or were conducted in a very limited basis without the possibility of EU funds using.

One of the factors, that may affect an impact of the regional aid instruments use is also the question in what extent backward regions benefit from the resources intended for their development. If we proceed from the principle of concentrating resources as one of the preferred principles of EU support, the more resources will be used in the region of support and the larger multiplier effects they develop, the more effective is the regional policy. Multiplier effects are important element of efficiency in the operation of the Structural Funds, but the theoretical literature has given them very little attention. According to Bradley (2006) macroeconomic study, ex ante calculated cumulative multiplier (calculated as the cumulative increase in GDP/cumulative share SF on GDP) for aid for the programming period 2007 to 2013 with the overall impact for 2020 is between 0,9-2,8, while significant multiplier effects of structural funds are expected in the new member countries. According to Becker (2008), each EURO from the Structural Funds create 1,21 EUR multiplier effects. Similar findings also exist in the ex ante calculation for Slovakia, when the multiplier ranged between 1,1 to 1,8 (Kvetan 2006).

Case study of the Banska Bystrica region

For the analysis of the EU grants micro-impacts we have taken analysis of the projects in the Banska Bystrica region. In Slovakia this region belongs to the regions covered by Objective 1, together with the Presov and Kosice region. Region itself is differentiated, the northern part is relatively mature with unemployment rates below the national average. In contrast, the southern part belongs to the regions with the highest unemployment rate in Slovakia.

For studying the impact of the structural funds, we have analyzed projects in several areas supported under the Banska Bystrica region. The aim of research was to identify the funds distribution in projects, that remain directly in the region and funds, which are moved outside the target region or

returned through taxes or levies back to the state. In the research we have examined various types of projects implemented by different types of beneficiaries.

In the private sector, we evaluated two specific challenges - measure 1.1. OP Industry and Services (OP PaS) and measure 1.1 OP Competitiveness and economic growth (OP KaHR). In both cases it was about the purchase and transfer of innovative technologies. Analysis was performed on all 25 projects supported in the Banska Bystrica region, the data wasn't obtained from one company.

Table 1: The percentage of primary expenditure transfer of innovation projects

	SOP PaS		OP KaHR	
	supplier	producer	supplier	producer
Banska Bystrica region (BBSK)	6.82	0	7.49	1.6
Bratislava region (BSK)	29,48	5,83	13,03	0
Other regions outside the BSK and BBSK	24,76	8,54	42,21	15,26
Foreign	38,94	85,63	37,27	83,14

Source: Own processing on the basis of completed projects

As can be seen from Table. 1, most of the expenses involved in purchasing technology ultimately ended in abroad. It therefore appears that for these activities, we can talk about the return of significant resources to the more advanced EU regions, which are producers of modern technology. Mainly dominated purchases from Germany, followed by Italy, the Czech Republic and Austria. This type of project is without any multiplier effects, which were caused by the implementation of part of expenses directly in the region. Slovak entities often serve as a mediator. The reason of the reduced possibility of multiplier effects is that the Slovak Republic is very limited technological equipment manufacturer. More than 25% of resources were allocated to the backward regions of the Czech Republic, which, unlike Slovakia have in this respect better economic activity.

The situation was quite different in the case of OP Basic Infrastructure projects, where we analyzed the measure school infrastructure. Together we evaluated 23 supported projects. In this case, more than 73% of funds were allocated to firms in the region, 10,5% were allocated to the Bratislava region and 16,5% were allocated to the remaining counties. With this measure the multiplier effects were significantly greater than in the first case.

As a last we analyzed measure 1.1 Conversion of traditional to modern school in the Operational Programme Education. In this case, it was unlike previous measures, non-investment projects supported by the European Social Fund. Here, compared to other measures, create a strong back line the flow of subsidies to the state budget as part of the budget are the cost of human resources.

In the Banska Bystrica region in this case the most resources remains directly in the region (61%), the second largest volume were revenues of state budget, social and health insurance (23%) and a small percentage of resources ended directly in abroad (1,5%). Even here the situation is changing, when taking into account the end-producers, though ends in developed countries 10% of financial allocation in this case. Different types of measures have significantly different direct multiplier effects. Through these measures part of the funding return to developed regions, thus the concentration of aid is reduced significantly.

Deadweight effect is also present in the case of Slovakia. We analyzed two groups of the projects. First group consists of projects, whose obtained enough points to be supported, but lack of financial resources did not allow to do that. Second group were supported projects. All projects were of the schemes were designed to purchase innovative technologies. We took into account only the criterion of the volume of financial resources that would be incurred in case of failure to obtain funding.

First group were projects from scheme „for industry and services – measure 1.1 – Transfer of Innovation“ Together, 80 projects were scored enough high, but did not obtain financial support. We surveyed 18 enterprises, which represents 22,5%. Results are shown in table 2. There were mainly two edge situation, most of the companies either did not realized proposed project or realized it in full content as proposed. All of the companies, whose have less than 3 years of existence, answered, they wont realized project without EU support.

Table 2: Results of deadweight loss effect (unsupported projects)

Length of company existence	Project will be realize without EU support (%)	Project will not be realize without EU support	Deadweight loss effect
Less than 3 years	0	4	0%
More than 3 years	2 (100%), 1 (50%)	11	16,67%
Together	3	15	13,88%

Source: own calculation based on own survey

The second group are projects that have received support from the scheme de minimis OP Competitiveness and economic growth. Under these schemes were supported 151 projects, the answers we received from 35, representing a 23.17% share.

Table 2. Results of deadweight loss effect (supported projects)

Length of company existence	Project will be realize without EU support (%)	Project will not be realize without EU support	Deadweight loss effect
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Less than 3 years	1 (20%),1 (50%)	5	10%
	5 (100%), 7 (50%), 1 (30%), 1 (35%), 2 (25%), 1 (20%), 1 (70%), 1 (40%)		39,11%
More than 3 years		9	
Together	21	14	33,28%

Source: own calculation based on own survey

We again found that new enterprises achieve lower deadweight effect than existing ones. The total deadweight loss were higher than in previous case. There could be several explanations. One of the possibilities is „paradox of good choice“. The most of evaluators tried to select „the best projects“ and do not reflect real requirements and real necessity of public support.

Tabuľka 3: Results of deadweight loss effect (all projects)

Length of company existence	Project will be realize without EU support (%)	Project will not be realize without EU support	Deadweight loss effect
Less than 3 years	1 (20%),1 (50%)	9	6,36%
	7 (100%), 8 (50%), 1 (30%), 1 (35%), 2 (25%), 1 (20%), 1 (70%), 1 (40%)		27,73%
More than 3 years		20	
Together	24	29	23,30%

Source: own calculation based on own survey

The total deadweight effect is quite low compare to similar studies abroad. One of the reasons could be economy crisis, which lead to lower investment of the companies.

Conclusions

After joining Slovakia gained the possibility of using regional policy resources, which represent a much larger volume of support than has hitherto used for such activities. This use is not completely ideal and for taking out you can see a few critical points. Drawing on an examination of the use of structural funds for the Slovak Republic would be necessary to consider some adjustments relating to the rules of their utilization.

1, Targeting on SMEs, specially new companies

The deadweight effect was much lower in projects of the new companies than in other projects. Many existing companies applying for the grants just as a possibility to finance their regular investment or education activities. New businesses also have a more positive impact on the

competitive environment, and their support, on the contrary, this environment does not interfere significantly.

2, Simplifying the administrative burden

One important measure is to simplify the administrative burden. In this area there are several options. One of them is the use of percentage of indirect expenses that would not be needful to recognize. Such a model has been successfully running for some international projects of the EU. Interesting is also thought to realize the performance of intermediary bodies with procurement as it is for example in the UK (Nagy 2008), which could be a real appraisal of prices of projects administration and thus make it more effective. Linked to this is fact, more attention should be given to the outputs and not to the costs of projects. We are also missingy micro-studies, which compared the effectiveness of individual measures. As some studies pointed, these measures have very different effects on the development of individual regions.

3, The increased involvement of partners and local institutions

Positive effect would also be an effort to create multiplier effects of projects promoting the use of local resources under certain conditions. In Slovakia, in this programming period, are only tested strategies for a comprehensive approach and just drawing of these projects is lagging most. The partnership principle is also very limited used. Especially with the "soft" projects, the partnership effects, whether in project implementation or dissemination of outcomes, would result in a significant increase in the effectiveness of regional policy. With this also implies the complexity of projects, where there is a comprehensive local project, reflecting the region's needs in different areas, which complement each other and create synergies. The possibility of such projects should have significantly positive impact already in the pipeline project, which would require the cooperation of all interested institutions and thereby strengthen the ability of regional "governance".

4, System of project selection

One of the open questions is a system of project selection. Experience shows that "eligible" projects (projects, where contribution get each in compliance with conditions, for example - grants to newly opened trade for long-term unemployed) have a much lower administrative costs and often higher achieved effects. Their big advantage is significantly lower threat of the corruption, as well. From number of projects for the private sector, large companies in developed regions are in favor, because they have better resources and information for project preparation and also for possible corruption. This should be considered, especially if the aim of regional policy is the support of backward regions. These suggestions could be supported also be results of deadweight loss measurement, which shows much higher deadweight in better projects (scoring high in the evaluation process) than worses projects (scoring lower, but still sufficient for be considered as supportable). This lead to „paradox of

good choice“ - The public institution tends to support „best projects“ instead of „best projects, that need an assistance“.

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