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Reforming the implementation of European structural funds: A next development step

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FS II 98-202

**Reforming the implementation
of European Structural Funds**
A next development step

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Abstract

Die Autoren untersuchen die Leistungsfähigkeit des Implementationssystems der Strukturfondsförderung in sechs Mitgliedstaaten der Europäischen Union. Vor dem Hintergrund der Stärken und Schwächen entwickeln sie ein Reformmodell zur Implementation der Strukturfonds in der nächsten Förderperiode nach der Reform 1999. Die Stärken des bestehenden Implementationssystems liegen vor allem in den prozeduralen Innovationen, die z.T. auf das Politikmodell der Strukturfonds und seine Kopplung an mitgliedstaatliche Verwaltungsprozesse zurückgeführt werden können. Die wichtigsten Schwächen sind u.a. die verflochtene Struktur der Entscheidungsprozesse, ein ungenügendes Zeitmanagement und fehlende inhärente Verbesserungsmechanismen des Implementationsprozesses. Um diese Schwächen zu überwinden, schlagen die Autoren ein strategisches Management- und Dezentralisierungsmodell vor. Sein Kern besteht in der Trennung von strategischer Programmierung einerseits und Detailprogrammierung und Implementation andererseits. Die Europäische Kommission und der jeweilige Mitgliedstaat handeln demnach die strategischen Teile der Programme aus. Im Rahmen dieser strategischen Vereinbarung ist dann der Mitgliedstaat für die Detailprogrammierung und Umsetzung der Programme verantwortlich, wobei er vom Begleitausschuß unterstützt wird. Verstärkte Feedbackinstrumente tragen dazu bei, die Einhaltung der strategischen Vorgaben zu sichern.

The authors assess the performance of the Structural Funds' implementation system in six Member States of the European Union. Considering the strengths and weaknesses, they develop a reform model for the implementation of European structural policy after 1999. The strengths of the existing implementation system lie mainly in innovation effects triggered by the Structural Funds' model of policy implementation. Its main weaknesses, inter alia, are an interwoven structure of the decision-making processes, an insufficient time management and a lack of in-built improvement loops in the implementation process. To overcome these shortcomings, the authors propose a strategic management and decentralisation model. It demands a de-coupling of strategic programming on the one hand, and detailed programming and implementation on the other. Under this model, the Commission and the Member State would negotiate on the strategic issues. In the framework of the agreement, the Member State together with the monitoring committees would be responsible for the implementation of the programmes. Strengthened feedback loops would help to assure the attainment of the strategic objectives.

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Summary

0. Purpose and structure of the study

The study on which this paper is based was undertaken on behalf of the European Commission to make an assessment of the strengths and weaknesses of the existing implementation system of the European Structural Funds and to develop options for reforming this system. It is based on empirical research in six EU Member States – Portugal and Spain, Finland and Ireland, the United Kingdom and Germany – as well as the literature and discussion on control models and strategic management concepts in the public and private sectors.

1. Direct and indirect innovation effects generated by EU structural policy

The study reveals clear direct and indirect innovation effects triggered by European structural policy. The individual country studies and interim evaluations show these effects more clearly than the Cohesion Report or public debate in Europe.

2. Structural weaknesses in the support system: complicated decision-making process, insufficient control of deadlines, lack of improvement loops

The study also reveals the structural weaknesses of the present structural support system. The main problems are the interwoven decision-making processes, involving the Commission, the Member States and regional and local institutions, and the lack of control over time dynamics in the system as a whole. These two factors seriously impair the effectiveness, efficiency and quality of structural funding. On top of this, the support system lacks any in-built systematic improvement loops connected to the decision-making process. Nor does the Commission have enough continuity in its administrative culture.

Public discussions highlight the red tape to be encountered in the EU's structural policy institutions and there are widespread calls for the simplification of bureaucratic structures. However, contrary to expectations, this factor does not constitute the main shortcoming in practical structural policy implementation.

3. Strong willingness to improve the institutional aspects of implementation

In contrast to the national reform debates in many Member States, at European level there is a surprisingly high degree of support for institutional improvement and for optimising support through the multi-level approach. There is also widespread agreement about the general direction this process should take. However, consensus largely revolves around abstract principles, while the shape these should take in practice remains unclear. Nevertheless, a third stage of European structural policy is firmly accepted on the political agenda.

4. Decentralised implementation of partnership and variants on this proposal

If we leave aside sweeping reform proposals at the highest level such as an EU-level financial redistribution system or the opposite, a re-nationalisation of redistribution mechanisms, the leading reform proposals agree on three main principles:

- retaining partnership between the Member States and the Commission;
- more decentralised structural policy implementation processes together with administrative simplification;
- finding systematic improvement loops, especially the feedback systems (monitoring, evaluation, financial control).

However, the general consensus on these three central areas of reform is offset by a wealth of different ideas about how they should be translated into practice. We have identified four different variants of reform, broken down into the following dimensions: management and programming model, implementation structure, regional inclusion, and improvement and development mechanisms.

Four alternatives for structural policy reform

Variant Dimension	I. Bureaucratic control model	II. Administrative decentralisation model	III. Strategic management and decentralisation model	IV. Evolutionary development model
1. Management and programming model	Detailed statement of objectives	Detailed statement of objectives with many indicators	Agreement on central quantified objectives with key indicators	In the context of II or III
2. Implementation structure	Joint implementation process	Internal administrative decentralisation of implementation with scrutiny and approval reserved to the centre	Unbundling of programming and implementation, extensive decentralisation of implementation; coaching role of the Commission	In the context of II or III
3. Regional Inclusion	Sporadic participation of the regions	Information and participation of regional actors (sub-regional and social partners)	Empowerment and widening of the regional dimension (local institutions & society)	In the context of II or III
4. Improvement and evolution mechanisms	Uncoordinated evaluation and monitoring measures and financial control	Systematic monitoring, evaluation and financial control measures	Continuous decision process-oriented monitoring and evaluation system (incl. strategic/transnational evaluations) and accompanying financial control	Results-oriented improvement (TQM) and competition mechanisms as well as differentiation of the financial instruments

The table shows four ideal models which can be used to identify the real types of the reform positions:

1. The status quo is largely represented by the bureaucratic control model, but a shift towards a decentralised administration model is already becoming clear.
2. Both the reform debate and our studies clearly show that the Member States generally wish to move away from the bureaucratic control model. The proposed alternatives range between variants II and III, but mainly focus on the decentralised administration model.
3. The Commission's position, stated in Agenda 2000 among others, stands out clearly

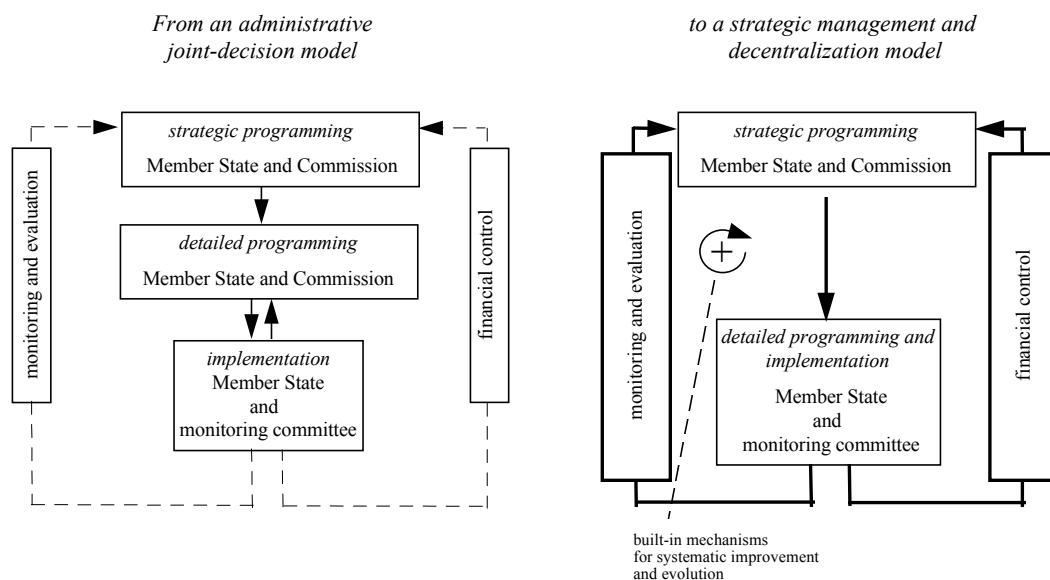
from the general reform debate. Its vision, outlined through general principles, clearly leans towards a strategic management and decentralisation model, and thus goes much further than the reform debate in the Member States.

4. However, the real direction of the Commission's proposal is revealed by the translation of the vision into operative instruments. This shows that there is a serious dearth of instruments needed to implement some of the principles, that the instruments are wrongly specified or reproduce variants I or II to a large extent.

5. Structural redesign: unbundling of programming and implementation

The individual country studies, available interim evaluations and experience in other public and private-sector areas clearly point to the strategic management and decentralisation model option. Programme design must therefore be modified to split strategic programming between strategic political management (Member States/Commission) on the one hand and responsibility for the implementation processes (Member State/monitoring committee) on the other.

A new step of EU structural policy



Separating programming from implementation will confine the strategic programming partnerships between the Commission and the Member State mainly to the level of sub-programmes (support "priorities" or "axes") and will leave all other action the Member State and the monitoring committee. This will remedy many of the weaknesses of the present support system. However, some simplification (including on the administrative side) is still essential for strategic management of the Structural Funds.

6. Making implementation more effective by means of structural redesign

To make implementation more effective, a whole range of improvement loops can be applied within the proposed new structure. These may in principle be based on elements in the existing implementation system, but effective mechanisms have yet to be established in operational terms.

6.1 Potential improvement loops

The following diagram provides an overview of the “solution space”, i.e. improvement loops that can be applied in principle. It outlines the instrumental mechanisms, gives examples of instruments and identifies structural weaknesses of each potential solution.

Potential endogenous evolutionary mechanism (outline)

<i>Mechanisms</i>	<i>Instruments and practical experiences (examples)</i>	<i>Weaknesses</i>
I. Hierarchy	<ol style="list-style-type: none"> 1. Discretionary control through bonuses/penalties in MBR systems 2. Transnational strategic evaluation by the Commission 	Illusion of external control by central administration, or control error
II TQM and interorganisational cooperation	<ol style="list-style-type: none"> 1. Monitoring systems and evaluation cycles stimulating process re-engineering 2. Interregional partnerships to develop new strategies 	“Trust, love, peace and cooperation illusion of networking”
III (Market) competition	<ol style="list-style-type: none"> 1. Interregional “best practice” competitions, results for emulation 2. Financial instruments adapted to market requirements 	<p>Difficulty of designing competition processes specific to this arena</p> <p>Unwanted side-effects on distribution by market forces</p>
IV Democratic politicisation	<ol style="list-style-type: none"> 1. Political campaigns linked to regional policy funding 2. Giving parliaments more responsibility for structural policy 3. Mobilising support and building up skills on a regional/local level 	Over-politicisation and ineffectiveness
V Separate expert body	<ol style="list-style-type: none"> 1. Independent external experts using external analysis systems 2. Central council of experts/committee for regional policy 	Escapes gradually from democratic responsibility

We describe some examples of instruments below, concentrating on what we believe is feasible and politically suited to the multi-level Structural Fund system.

6.2 Revision of the panoply of financial instruments

By moving away from an extensive use of grants towards increased use of loans and financial guarantees, competitive elements can be systematically incorporated into the support system. Financial support can be made even more effective if other policy areas (e.g. taxation) also attack the causes of regional problems.

6.3 Control through systems of bonuses/penalties: effectiveness, efficiency and management reserves

Agenda 2000’s proposal that effective funding be rewarded (“efficiency reserve”) does not appear to be clearly thought-through or politically feasible for a number of reasons. However, bonuses could be given to reward good management practices relating to implementation, using benchmarks such as the process and structure of management practices.

6.4 Improved feedback: monitoring, evaluation and financial control

Feedback complements the use of strategic objectives and decentralised implementation processes. Feedback systems should be improved to produce consistent monitoring and evaluation systems, which include transnational thematic evaluations by the Commission. Strict financial control would also become more important.

6.5 Regional mobilisation and building up regional skills within a centrally set framework

By moving towards decentralised administration and taking into account the interests of local actors and social partners through consultations, some examples show the possibilities offered by autonomous regional empowerment. Local or regional action plans would play a central role in this process. Local actors would be invited to take part in strategic discussions and given a budget. This allows the development of skills on a decentralised basis even outside the classic administration structure.

6.6 Integrated use of the funds

Although being generally far from meeting the expectations, there are already some examples of an integrated use of the funds. They can be observed on the level of projects and especially in the framework of local and regional action plans. A "more integrated" use of the funds is therefore not likely to be achieved through programme design and/or new incentives for the Member States but by simplifying and harmonising the administrative procedures for the use of the funds. Moreover, local or regional action plans offer a tangible potential for integrated use.

6.7 Interregional competition and exchanges of experience

Running "best practice" competitions between regions, disseminating the results and incorporating best practices into the standard support system can build on the resource of "reputation" identified in the country studies, and generate more public involvement. Decentralised exchanges of experience through interregional partnerships to develop new strategies, overseen by the Commission, can enhance the added value of European structural policy: simultaneous implementation in different national contexts allows the possibility of mutual learning.

7. Re-organising the directorates-general

However, the less interdependent decision-making process outlined above, the setting of targets and frameworks by the political leadership and flexible decentralised implementation processes with in-built improvement loops will still require the Commission and Member State administrations to meet a number of organisational requirements: namely, simplifying the administration of the entire support system and more far-reaching intra- and inter-organisational reform of the relevant services.

Once again, the main focus of reorganisation is on strengthening strategic management and control concepts and continuing a limited policy of differentiated service provision (in-house versus outsourcing), moving from being a highly specialised process organisation to being a product-oriented organisational structure, emphasising the general management function of desk officers as opposed to the work of specialists, and attempting to provide integrated customer-oriented solutions at the interface with internal and external partners, based on the "one face to the customer" approach used by integrated companies.

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0 Preface¹

0.1 Purpose and implementation of the study

This paper is based on a study for the European Commission. In August 1997, the authors were asked by the Commission's Directorate General for Regional Policy and Cohesion (DG XVI) to undertake a broad-brush investigation into the implementation system of the European Structural Funds and, based on this investigation, to develop a variety of options for reforming the implementation structure of European structural policy.

The starting point of the study was the Commission's publication, in July 1997, of the Agenda 2000 (Commission 1997). This document, which had been preceded by the Commission's First Report on Economic and Social Cohesion (Commission 1996) and the European Cohesion Forum (held in Brussels in April 1997), contained broad guidelines for further development of European structural policy after the present planning phase, i.e. after 1999. It was the task of the present study to make an assessment of the strengths and weaknesses of the existing implementation system of the European Structural Funds and to develop options for reforming this system within the framework provided by the Agenda 2000. The range of reform options elaborated in this study was therefore constrained by the broad guidelines given in the Agenda 2000. The theoretical range of reform options that goes beyond the scope of options developed here will be only briefly discussed (cf. sections 1.1 and 3.2).

This study was carried out in parallel to the European Commission's own work in preparing draft regulations for the new phase of the European Structural Funds. Some of the policy papers that were written in the Commission during this phase were made available to the authors and were taken into consideration when writing this study. Drafts of the present paper, on the other hand, were discussed with the responsible Commissioner as well as the Director General and senior officials of DG XVI by the end of 1997. The present paper was finished shortly before the Commission published its draft regulations for the new phase of the European Structural Funds on March 18, 1998.

0.2 Methodology, reference framework and structure of the study

The study is based on an assessment of the existing implementation system of the European Structural Funds and of the reform debates in six Member States as well as in the Commission. Due to the tight time schedule of the project, not all the Member States could be included in the assessment. The six Member States - Portugal and Spain, Finland and Ireland, the United Kingdom and Germany - were selected according to criteria such as size, geographical location, territorial organization of the political system, stage of economic

¹ We would like to extend our heartfelt thanks to the many people without whose cooperation this study would not have been possible. We would like to thank those interviewed in the European Commission, the governments of the Member States and of the regions, as well as the intermediary bodies involved and the final beneficiaries, for their readiness to be interviewed and their openness. We would also like to thank those people in the coordination departments in the Commission and in the Member States for their invaluable and efficient organisational and logistical support for the surveys carried out in the countries. Finally, our deep thanks go to an (anonymous) translator in the European Commission, on whose translation of our original study (which was written in German) this text is partly based. In our view, he or she has not only provided a good translation, but has also contributed to clarifying and sharpening our arguments. The remaining errors are, of course, ours.

development, different rationales and procedures of national regional policy, as well as the relative amount of the assistance provided by the Structural Funds.

In each of these countries as well as in the European Commission, surveys lasting two or three days were carried out between August and October 1997. They included interviews and group discussions, inspections as well as the assessment of process materials and existing monitoring and evaluation documents. In each Member State, interviews and group discussions were carried out with persons involved in the programming and implementation of selected Objective 1 and/or Objective 2 programmes at all levels, i.e. senior officials in the relevant ministries of national governments, programme and sub-programme managers in the national government and in at least one regional government or administration, persons in intermediary bodies and final recipients. In addition, interviews were also carried out in the European Commission, in particular with desk officers responsible for the implementation of the ERDF in the selected Member States and with officials responsible for the coordination and evaluation of the ERDF.

The analytical and normative framework of the study has been shaped by the ongoing conceptual discussion on policy reform in the EU context itself (i.a., the Agenda 2000 and the Cohesion Forum) and by two relevant bodies of literature and experience:

1. the literature and discussion on New Public Management (NPM) which has provided a number of widely accepted guiding principles for the reform of the public sector: i.a., the decentralization of decision making, the utilization of management principles and instruments from the private sector, an increase of competition and management by results (target setting, output and impact control) in exchange for a decrease of central regulation; (Pollitt 1990, Naschold 1996, Budäus 1994)
2. the literature and discussion on decision making in multi-level systems of governance which has analyzed the problems inherent in such systems (i.a., the lack of directly attributable responsibilities, the trend toward non-decisions or decisions on the smallest common denominator of consensus among the involved actors) and the need for decision making through persuasion, bargaining and procedural innovations (Scharpf 1988; Kohler-Koch et al. 1997).

In the following chapters, the study will first describe and discuss the basic structure and the specific character of the implementation system of the European Structural Funds along with its variations among the Member States (Chapter 1) as well as the strengths and weaknesses of the existing implementation system (Chapter 2). It will then analyze the potential ways of reforming the implementation system (Chapter 3) before developing concrete options for re-engineering the support system (Chapter 4). The study will conclude with some recommendations on organisational development within the European Commission (Chapter 5).

1 The basic structure and specific character of European structural policy

1.1 Potential variants of European structural policy: the tension between equalising and regulating functions

The current architecture of European structural policy exists within a tension between two lines of development:

- the historical development of structural policy from project-based assistance on a quota system, which had the equalisation function in the centre, to the current system based on

the reform of 1988 and the superimposition of the equalisation function - on the basis of political “side-payments” - with the beginnings of a shared European structural regulation;

- competing regulatory systems based on different ideas of a regional policy, ranging from renationalisation to a European-level equalisation function and structural policy regulation.

Figure 1: Regulatory variants of European structural policy

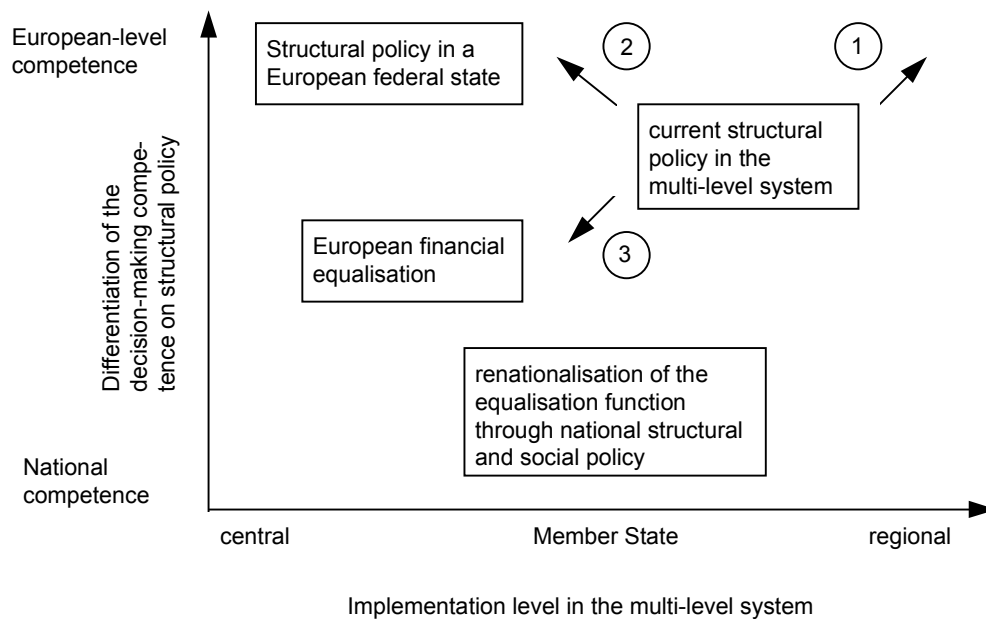


Figure 1 shows the four most important regulatory variants based on the two dimensions “differentiation of decision-making competence” and “levels of implementation”:

- the centralistic variant of European structural policy in the context of a European federal state;
- the opposite perspective of a renationalisation of the equalisation function under national structural and social policy;
- the quite different variant of European-level financial equalisation, which requires a high level of confidence between countries combined with very reduced competence for regulation at the European level;
- the continuing development of the structural policy into a strategic management and decentralisation model involving the Commission, Member States and the regions.

1.2 The basic structure of the existing Structural Funds' delivery system

1.2.1 Introduction

Within the wide scope of potential variants, the basic parameters of the existing delivery system of the Structural Funds have been set in the 1988 reform, and they have been consolidated in the subsequent reform of 1993. As a result of the unique requirements for the implementation of a European policy, a specific implementation model has emerged. It is determined by the basic parameters set by the Structural Funds' regulations and the national paths of policy implementation on the one hand and the results of the day-to-day interactions between the involved actors on the other hand.

The Commission, the Member State governments and subnational actors interact in a multi-level system of governance, consisting of formally autonomous levels of government and administration. Therefore, the central coordination instrument is negotiation, not hierarchy.

In this sub-chapter, we describe the basic structure of the existing Structural Funds' delivery system without taking into account the variance of implementation in the Member States.

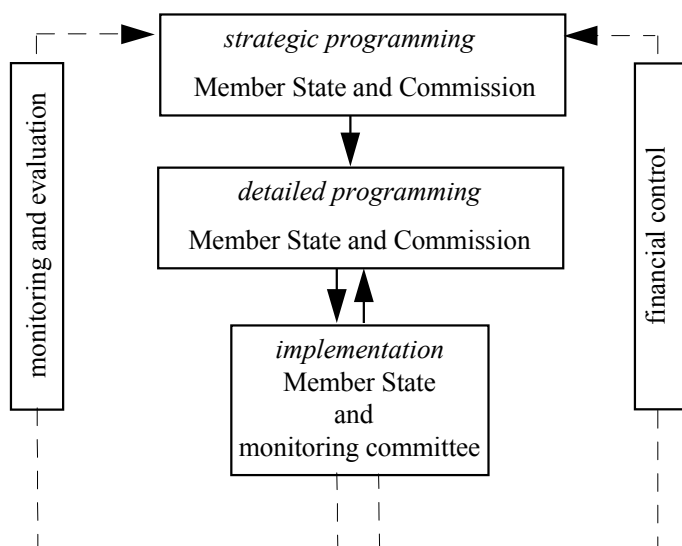
1.2.2 Definition of the delivery system

The delivery system of the Structural Funds is defined as the entire process after the basic parameters for the respective period (i.e. Structural Funds regulations and budgeting) have passed the Council. It comprises programming, implementation, monitoring/evaluation and financial control.

1.2.3 Four main phases of policy implementation

In principle, four main phases of delivering European structural policy can be distinguished (cf. figure 2):

Figure 2: *Basic structure of the delivery system*



1. Based on the regulations and the budget, Member State representatives together with the Commission negotiate the **strategic programming**, i.e. the definition of objectives, the

core strategy for development, and the distribution of funds among the priorities of the programme.

2. **Detailed programming** is done by the same actors, written into the same document, and subject to the same formal approval by the Commission. It comprises the operationalisation of the strategy down to details of eligibility and the breakdown of funds into sub-programmes, measures etc.
3. The **implementation** of the programmes is a diffuse and closely intertwined process between Member States and the Commission. Formally, the Member State authorities are responsible for the implementation, and the Commission participates in the monitoring committees. In practice, the Commission often intervenes down to detailed issues. In addition, the decentral actors' room for manoeuvre is reduced by anticipated central controls – not least financial control, but mainly regarding the interpretation of the programming documents.
4. In the current period, there are two main **feedback loops**: the monitoring system provides information on the implementation of the programmes in terms of output figures. The evaluations produce information on output, outcome and impact of the programmes. The second feedback loop of financial control is concerned with compliance to the rules of spending the funds. In principle, all feedback loops are instruments for the management of the programmes. The evaluations' information on impacts is also geared towards the political system.

1.2.4 Four crucial dimensions of the delivery system

The basic structure of the delivery system is characterised by four crucial dimensions: the degree of strategic orientation of the management and programming model, the intertwinement of decision-making, regional and local inclusion, and the quality of feedback mechanisms.

1. Concerning the **strategic orientation** of the management and programming model, there are elements of management by results (see below). The strategic programming comprises the definition of objectives down to a considerable degree of detail, combined with (occasionally) quantified indicators. Theoretically, monitoring and evaluation shall report the attainment of the objectives by using the defined indicators.
2. Although being formally the sole responsibility of the Member State, the **implementation** of the programmes is a **closely-intertwined** joint process of actors from all involved administrative units. At many stages of the process, decentral decisions are subject to scrutiny and approval at the centre. This applies mainly to the payment of financial tranches, but also to issues such as re-programming or the interpretation of regulations on questions of eligibility.
3. **Inclusion of subnational actors** takes place following the geographical organisation of the respective Member State. In general, regional actors become involved when they are necessary for the implementation of (parts of) the programmes or for the purposes of information and consultation.
4. In principle, the **feedback loops** of monitoring, evaluation, and financial control can function as mechanisms for improvement and evolution of the policy. In the current system, however, there is no systematic linkage between the implementation process and the operation of these feedback loops. Therefore their effectiveness is endangered and depends largely on the specific management of the process and the (mostly voluntary) efforts of the involved officials.

1.3 An assistance system between regulation and management by results

The current assistance system of European structural policy in the multi-level system forms a hybrid arrangement, a compromise between an administrative system of regulation and a system of management by results:

- result management systems in the form of setting targets, finance plans and programming have, as an innovative element of structural policy, the aim of coordinating the actions of the actors with regard to jointly planned objectives;
- regulation in the form of conditions to qualify for programmes under the regulations is meant, at the same time, to render these objective-oriented actions surprise-proof by keeping them within the range of a fixed set of rules.

This parallel operation of two control systems does, however, form an extremely unstable compromise equilibrium. Without further changes it would normally revert to the classic bureaucratic type of regulatory control and would, as a result, run counter to the level of efficiency which is demanded of structural policy.

1.4 The special nature of the European multi-level system and the need for endogenous evolution

The scientific debate as well as our own findings and our remarks thus far indicate the distinctive nature of the European decision-making system, a multi-level system beyond the classic alternatives of national state, multilateral negotiation system or European federal state.

This historical specificity of the EU decision-making system has two clear implications for any discussion on reform:

- In view of the limited experience with the system, the inclusion of other conceptual as well as normative guidelines and experiences is of importance. These can be adapted for example from the New Public Management Movement, from individual sectoral policies of individual national states, such as Swedish policy in the education sector, and from the strategic management experiences of private industry.
- This high degree of specificity does, however, at the same time limit the value of such best-practice and experience transfers and indicates the need for the EU institutions to be able to evolve from within.

2 Performance of the implementation system

This chapter provides our assessment of the performance of the Structural Funds' implementation system in terms of its main strengths and weaknesses. This assessment is based on the sources quoted in the Annex (i.a., existing intermediate evaluations) and, above all, on interviews with key implementing actors on all levels, i.e. in the Commission, national governments, regional governments, local authorities and intermediary organisations down to final beneficiaries. Our lists of strengths and weaknesses have not been derived in a deductive, but rather an inductive way. They form the gist of our empirical findings. In some cases, there are overlaps among the different categories.

2.1 Very variable results and variable quality of the implementation processes

An initial assessment of the existing evaluations for the countries selected reveals, among others, one striking finding: there is a whole series of examples of outstanding results of structural policy - of impressive output, outcome, impact and process findings, but at the same time there is a wealth of ineffective results which are contrary to those intended:

1. Contrary to what is said in the Cohesion Report, there is now relatively reliable evidence of growth effects due to the Structural Funds. Results of econometric model calculations are available for two of the Objective 1 regions investigated:
 - Ireland provides the clearest example of the Structural Funds' contribution to macroeconomic growth. Given assistance at a relatively high level of up to three percent of GDP, Ireland has experienced additional growth effects from the Structural Fund assistance under the Community Support Framework (CSF) 1989-93 and the CSF 1994-99 of, in the short and medium term, 3-4% and, in the long term, 2%. The evaluation of the case of Ireland does, however, show at the same time that this effect is dependent on synergy with other contextual factors. The reverse conclusion is neither possible nor probably even permitted, namely that assistance from the Structural Funds on its own could have achieved this growth effect. However, it is also conceivable that the sustainability of the effects so far is no longer assured in the event of the assistance being possibly phased out (ESRI 1997).
 - Somewhat weaker growth effects are shown by a model calculation from Cambridge Econometrics for the Merseyside region: there – under other context conditions than in Ireland and with Objective 1 assistance only from 1994 onwards – an average annual growth in GDP of 2.2% is expected between 1995 and 2005 compared with an expected growth without Objective 1 assistance of 1.9% (KPMG et al. 1996).
2. In other regions receiving assistance, similar if less clear effects may be present. Conclusive data are scarce; the current intermediate evaluations provide no estimates of the effects on growth for most Member States (for the case of Objective 1 in Germany, cf. ifo 1997).
3. Many qualitative indications do, on the other hand, lead one to expect a low effectiveness of Structural Fund assistance in the following situations:
 - fragmented assistance volumes and assistance structure (in particular Objective 2 areas);
 - limited absorption capacity on the part of the national authorities;
 - unfavourable macroeconomic conditions.

The great variation in results can, of course, be explained by many factors - for example, by the current macroeconomic situation, the variable assistance volumes and many other factors. At same time, however, the results indicate that the high variance of results is also a consequence of the highly different quality of the implementation processes. The performance of the implementation system is therefore a fundamental contributory factor to the high degree of variation in the results. We therefore now turn to the strengths and weaknesses profile of this implementation structure itself.

2.2 Strengths

The analysis of strengths of the Structural Funds will be concentrated on substantive and procedural innovations in the implementation systems. Our visits to the countries showed a number of modernisation effects on national policy as a result of assistance, but above all on the processes of planning and implementation of the structural policy in the multi-level system.

The delivery system of the Structural Funds is clearly exhibiting direct and indirect innovation effects on national administrative procedures. Three types of effect can be distinguished:

- nil effects, i.e. there is no recognisable change in programme content or processes;
- direct effects, i.e. the Structural Funds lead directly to changes;
- indirect effects ("irritation effect").

Nil effects are frequently seen; direct changes as a result of the Structural Funds are rare. The most sustainable innovations appear mainly as indirect effects. In situations of this kind, the Structural Fund mechanisms act as an impulse for modernisation or an "exogenous shock" on national policies and above all on national implementation processes and structures. In a similar way, "new" requirements coming from the Structural Funds can meet a "window of opportunity" created by similarly orientated, concurrent national initiatives. The Structural Funds are then a welcomed help in making various procedural innovations. These relate, in particular, to the areas of planning, steering and indicator systems, interorganisational coordination and regional mobilisation.

2.2.1 Planning, steering and indicator systems

- *Programme planning as a stimulator of problem and strategy analysis*

The formulation of regional development plans or draft programmes forces administrations to analyse problems, strategies and instruments. In contrast to purely national assistance, the programmes with Structural Funds participation must be checked systematically for their strategic viability. Such efficiency effects of the Structural Funds are cited in Germany and Portugal in particular.

- *Planning certainty*

The greater certainty that programming provides is universally welcomed. The lifetime of programmes over six years offers the target groups as well as the relevant administrative unit stability for designing projects as well as for translating the strategy into policies. When budgets are being trimmed, in particular, national resources for structural policy matching money from the Structural Funds are largely untouched because they can be defended with the argument that EU funding would be lost.

- *Steering potential over sectoral policies*

Coordinating departments and units in the national administrations gain steering potential over specialised departments and units as a result of programming. In North-Rhine

Westphalia, for example, by making reference to the requirements of the Structural Fund regulations, it was possible to demand a more strategic design and planning of assistance instruments in general and stronger orientation to regional development objectives.

- *Indicators and monitoring*

In all of the Member States investigated, efforts to develop or improve the monitoring system can be observed, though widely differing starting situations and levels of development are seen. Finland has had the most far-reaching experience with indicator systems, which go beyond merely checking financial flows, due to management-by-results systems in public administration. In comparison, Germany and Portugal are still much more in the starting phase as regards the development of monitoring systems on the basis of physical and impact indicators.

In addition to the well-established financial monitoring systems, indicators relating to output, outcome and to some extent impact are being developed everywhere. In addition to the insistence of Commission representatives, crucial stimulus has come from evaluation studies. In Ireland, as a result of the intermediate evaluation, there are currently very ambitious attempts to construct a real-time monitoring system using impact indicators.

2.2.2 Interorganisational coordination

2.2.2.1 General departmental coordination

Depending on the national tradition in each country, intersectoral coordination is developed to varying extents. The two extremes are represented, on the one hand, by Portugal, where traditionally there is close coordination between ministries, and the integrated use of policy instruments had already taken place within the framework of the PEDIP programme (developed by DG III and DG XVI). On the other hand, the Finnish ministries work strictly separately from each other in the traditional manner, which on the adoption of the Structural Funds first of all led to considerable coordination problems that in the meantime have largely been overcome.

Irrespective of the starting situation, insufficient coordination and transparency is reported between ministries in all the Member States investigated. The integrated approach of the Structural Funds and in particular the formulation of a common regional development plan or draft programme is therefore a more labour-intensive undertaking at first but ultimately a push towards intersectoral cooperation.

2.2.2.2 Coordination by Monitoring Committees

With few exceptions (Finland, a few German Länder) before 1989 there were no coordination bodies such as the Monitoring Committees. The committees established with the adoption of the Structural Fund mechanisms are in principle welcomed in all Member States and an improvement in the coordination and mutual communication of the implementing actors involved is noted. However, there are considerable practical problems in the work of the committees with respect to their decision-making capabilities, their size and structure, as well as the choice of the "right" members.

2.2.3 Regional mobilisation

In the Member States covered in this study, three models of institutional development in relations between central government and subnational actors can be distinguished:

- marginal changes to relatively stable systems in Spain and Germany;

- internal administrative decentralisation in Finland and Portugal;
- strong local and regional inclusion in Ireland and Merseyside/UK.

In each of these models, the requirement of the Structural Funds to strengthen regional actors and regional participation has had different effects.

2.2.3.1 Existing federalist structures remain powerful

In **Germany**, regional participation is mainly restricted to the level of the Länder, which is also important in many other policies; subregional and local actors take part in the Structural Funds at most as project promoters. With European regional policy, the Länder level is tending to be further strengthened at the expense of the federal authorities: ERDF resources are increasingly being decoupled from the Federal-Länder instrument of national regional policy, the "Joint Scheme for the Improvement of Regional Economic Structures", and are being implemented within the framework of purely Land-level programmes. In the current programming period, corporatist participation of the economic and social partners is being extended to the Structural Funds. After sometimes quite heated arguments between the Commission and national actors, they are now represented – to varying degrees – in a number of monitoring committees or subcommittees.

Analogously to Germany, in **Spain** the main subnational level in the implementation of the Structural Funds is that of the Autonomous Communities. The competences for programming and implementation are divided between central government and region according to the division of tasks also present in purely national policies. Local and societal actors such as the economic and social partners take part in the monitoring committees for the ESF part-financed programmes if anything to a lesser extent than in Germany.

2.2.3.2 Internal administrative decentralisation

Finland adapted the Structural Fund mechanisms to its institutions in preparation for EU entry. The adaptation of the Structural Funds is going hand-in-hand with a decentralisation of policy formulation and implementation as well as the building up of institutional competences at the level of the (partly regionally newly defined) bottom-up organised Regional Councils. The Regional Councils, newly created in 1995, are included in the programming process. Together with the increasingly integrated regional offices of the ministries, these Councils are the central actors in the implementation process. The Structural Funds have been used as an opportunity for the decentralisation of formerly centralised sectoral policies.

Regional mobilisation is taking place in traditionally centrally-organised **Portugal** on two levels. While the local authorities are not experiencing any qualitative expansion of their tasks and competences arising from the Structural Funds, the resources of the Structural Funds are, however, now enabling the actual implementation of numerous tasks of the local authorities. With an average share of 10-12%, the Structural Funds play an important role in the budgets of the local authorities. The adaptation of the Structural Funds was, since the beginning of the eighties, accompanied by simultaneous marked trends to regionalisation. The Comissoes de Coordenação Regional (CCR), created as decentralised units of central government, expanded their capacities with the adaptation of the Structural Funds and now have influence on the planning and implementation of regional programmes. Currently, a new regional level is being created, the top administrative layer of which will be directly democratically legitimised.

2.2.3.3 Inclusion and empowerment

In **Ireland**, which is traditionally organised as a centralised unitary state, the Structural Fund programmes have for the first time introduced a radical decentralisation of tasks to the local

level. Up until now the local authorities have had very limited functions, but slowly they are being drawn into the implementation of the Structural Funds. While to date the picture has been one of partial local implementation of a policy developed at national level, increasingly policy-making powers are being transferred to local partnerships of government, societal and private actors. On the initiative of Commission representatives, the assistance of local development in the CSF 1994-99 was increased compared to the CSF 1989-93. The local partnerships now make their own local development plans and are given a budget from the Structural Fund to implement it. The partnerships are supported both in terms of planning and technically by a completely new implementation structure.

In the United Kingdom, the building up of decentralised Government Offices has been taking place since 1993. The Government Offices are responsible for the implementation of the Structural Funds. In **Merseyside**, the UK region selected for our study, the Objective 1 region coincides with the geographical area of responsibility of the Government Office. The regional partnerships set up below the Government Office and Monitoring Committee levels have, in the Structural Fund programmes, a means for implementing development plans and are not limited to a purely consultative function. Above all, however, in the framework of local action plans there is also the development of capabilities outside the Government Offices. In each of the action plans a specific development strategy for particularly disadvantaged areas is being drawn up and provided with a budget from Structural Fund resources and national match funding. The action plans' measures emphasize particularly employment and urban renewal.

2.3 Weaknesses

The implementation system has a number of weaknesses. After providing an overview of the frequency with which these weaknesses were mentioned by the interviewed implementing actors, and after a discussion of how crucial these weaknesses are, we will consider their main features (section 2.3.2). In the following section (2.3.3), we will explore some of their underlying causes.

2.3.1 Distribution and weighting of the main weaknesses

The interviews with implementing actors on all levels brought up five main weaknesses. Figure 3 represents the frequency of criticism as recorded in the interviews and our assessment of the importance for the performance of the implementation system:

Figure 3: Weaknesses of the implementation system: Frequency of criticism and importance

<i>Weaknesses in the implementation system</i>	<i>Frequency</i>	<i>Importance</i>
1. Red tape	+++	+
2. Lack of administrative culture	++	++
3. Underdeveloped mechanisms of systematic improvement	++	++
4. Uncontrollable time dynamic	+++	+++
5. Structure of the decision-making process	+++	+++

The distribution of the weaknesses indicates the following main deficiencies in the implementation system.

- As expected, the lack of transparency and the excessive complexity of the implementation system are mentioned as weaknesses, but against expectations, this is considered to be relatively unimportant for the overall performance of the system. The problem of bureaucracy in the conventional sense is ever-present, but is not the main shortcoming.
- Deficiencies in the administrative culture as well as the absence of mechanisms for improvement and competition are referred to less frequently, but regarded as being considerable. Both areas are, nevertheless, held to be serious areas of deficiency.
- The central problems, in terms of quantity and importance, are seen quite clearly in the lack of time management and in the structure of the decision-making processes. The time dynamic not only gives rise to considerable delays, but can also cause lasting damage to the quality and stability of the entire process. The absence of control over time is in the end regarded as the expression of structural shortcomings in the decision-making process structure. Lack of clarity in the distribution of tasks and responsibilities is seen as the main cause of many resulting deficiencies and unrealised potential for improvement.

2.3.2 Five central weaknesses of the implementation system

2.3.2.1 Poor flexibility and high complexity of the administrative procedures

The administrations involved on EU- and national and/or regional/local level form together a highly specialized system. Between the administrative units a high vertical and horizontal division of labour exists, in which each unit involved demands the observance of its specific requirements.

This results in the "bureaucratism" of Structural Funds implementation which is broadly criticized in the interviews as well as in the reform debate. It restricts the flexibility of actors at all levels of the implementation system. The administrative expense of implementing the Structural Funds is estimated as being three to four times larger than for the implementation of purely national programmes. Moreover, the involved actors criticise a predominance of administrative technicalities and bureaucratic problems over decisions on the substance and the strategy of structural policy.

Some of the key problems are illustrated by common criticisms:

- the programmes are very detailed, even small technical adjustments are connected with high costs of change;
- the reporting system is being criticized as very ineffective, it does not work and it contains a lot of data which is estimated as not very useful;

- for the different funds, different regulations are to be considered, e.g. concerning eligibility or financial circuits;
- verification of additionality is an example of an administrative effort which produces little to marginal benefit but ties up administrative capacities at all levels; it is impossible in practice, and is undertaken too often at too great expense.

As a result there is a broad over-regulation, it is produced by differing, not homogenized regulative requirements.

2.3.2.2 Lack of homogenous administrative culture in the Commission

The "culture" of an administration shows up in the practices and norms of the daily actions of its officials within its existing organisational structure. In this sense, the Commission lacks an administrative culture in contrast to the mature and comparatively homogenous governments of the Member States.

This can be clarified by some criticized examples:

- A culture of distrust between the levels which becomes visible at the negotiations on the programming documents carried out in part with a "hidden agenda". In a number of cases, national administrations were uncertain as to what the Commission's strategic priorities were; the formal requirements for the drawing up of development plans were published too late to be taken into account properly. In result, procedural requirements (standard clauses) and strategic parts (quantified objectives) of the programmes were defined and unilaterally imposed by the Commission instead of negotiated cooperatively. Such high-friction programming processes have been reported from Germany, Spain, and the United Kingdom.
- The co-ordination routines between the Directorates General (DGs) seem to be underdeveloped. This is reflected in three mentioned cases:
 - Different DGs partly represent different and sometimes opposing positions on, for example, issues of eligibility.
 - Unlike the departmental consultation practice in national governments, there is no consultation between the DGs *before*, for example, meetings of the Monitoring Committees. Consequently, the Desk Officers are unable to represent the Commission's position.
 - Other DGs in some cases seem to work against the policy of the DGs responsible for the Structural Funds. The latter's relationship to DG XX (responsible for financial control) is described as a "dealer-user" one, meaning that DG XX is given everything it asks for in the hope of getting a decision and being able to implement the programme. In addition, its reluctance against forms of support differing from grants is criticised. But many of the problems between DG XX and the DGs responsible for the Funds also seem to be the result of poor coordination or delayed consultation.
- Single Desk Officers are partly criticized for a lacking sovereignty in the management of the implementation processes and taking refuge in bureaucratic attitudes. In addition, their sometimes "unpredictable" behaviour towards actors in the Member State is criticized.

These examples are a result of unstable practices and a lack of stable norms for behaviour. They can be attributed to the still comparatively short existence of the Commission and the heterogeneity of the national education and career paths of its personnel. At the end of the day, however, they must be traced back to the lack of reflection on practices and norms of everyday actions.

2.3.2.3 No systematic mechanisms for improvement

In classical, purely rule-steered bureaucratic organisations there are no systematic mechanisms for improvement. However, the Structural Funds' implementation is marked by a hybrid type of governance containing elements of rule-steering as well as results-steering. In theory, there are five mechanisms for improvement laid out in the present implementation system, which function to varying degrees of satisfaction:

- *Little exchange of experience between regions.* In theory Structural Funds are an excellent area of policy for comparison and the exchange of experience between regions. This works well, for example, within the context of the Nordic Council, but not in the EU.
- *No systematic elements of competition.* The funded measures in operation in the regions of the Member States are all basically very similar. Up to now, however, there has been no inter-regional competition at project level or at measure/programme level. First attempts in this direction are the innovative actions within the framework of Article 6/10 measures and the best practice competitions on employment effects. However, they are not perceived by the decentral actors as being effective competition mechanisms. In addition, there are lacks in the "mainstreaming" of such actions.
- *Little return from monitoring.* The monitoring systems are not immediate enough in time, they consist largely of vast mountains of data which remain at the financial-flow or output level, and contain hardly any usable information on the performance of programmes. Moreover, in the opinion of all involved, the administrative costs are unacceptably high. Those administering funds are "worn out by meeting formal demands" (comment made in an interview).
- *Quality of evaluations.* The main problem lies in the use of evaluation results for substantive and procedural improvements of the programmes. In addition, there are shortcomings in particular in the sophistication of the methods, the database for the evaluations, the independence of the evaluators, and the timing of evaluations. Nevertheless, considerable improvements can be seen in this area, which may be attributed in large part to the encouragement and methodological support provided by the Commission.
- *Effectiveness of financial control.* On the one hand, the capability of financial control to uncover bad management of the funds and to push through better financial management and the compliance with the Regulations can be observed in single cases. On the other hand, it hardly works as a systematic instrument for monitoring and accounting. In addition, partly bad coordination, time delays and inflexible interpretation of the regulations on eligibility are reported.

Overall, some improvement mechanisms are missing completely, while others remain underdeveloped. The fundamental problem lies in the parallelism of results-steering and rule-steering in the Structural Fund implementation, whereby the predominance of rule-steering prevents effective improvement mechanisms.

2.3.2.4 Lack of time management and uncontrollable time dynamic

From the perspective of decentral actors, uncontrollable delays arise in the implementation process. They arise from four principal causes:

- due to the large number of involved actors, decisions have to take many loops of approval on all levels;
- each involved organisation has its specific minimum reaction time which cannot be reduced even by setting high priorities for urgent decisions;

- just like in any other organisation, the Commission as well as the national administrations may "forget" to process files or create similar delays;
- "management by delay" can be applied, i.e. the conscious delay of a decision in order to gain negotiation power as can be demonstrated at the example of the programme negotiations.

The interplay of these causes results in a lack of time management and an uncontrollable time dynamic. This can be illustrated by two examples:

- In some cases, approval of programmes has only been achieved after a negotiation phase lasting for up to two years after the start of the respective programming period. These delays initially result from delayed approval of the Regulations by the Council, but in some cases also from lengthy negotiation procedures regarding the programme draft. For the Commission's service there is, as the national actors see it, no time pressure, which is why they often deliberately play for time. The actual start of implementation can be further delayed until the approval under subsidy control is received.
- Confirmations by the Commission of decisions made by Monitoring Committees always take longer than the 20 day period allowed in the Regulation. Depending on the particular fund or Member State, those interviewed referred to *average* approval times for programme changes of between six months and a year.

Apart from the negative effects on process and work planning on all levels, the result is that the effectiveness of the programmes is considerably impaired:

1. Time delays mean that the strategy cannot be implemented as planned and that quick reactions on short-term problems are not possible. The regional actors are unable to act, for legal reasons, until a formal Commission decision has been received, even if the decision has already been informally agreed on. Only in a few cases the enforced gap of implementation can be bridged by using national resources. Such solutions are impossible, in particular, if parts of the programmes are being implemented by intermediary organisations which cannot use the national budget to buffer cash-flow problems.
2. In most cases, there are considerable problems with absorption because implementation must be halted or because of delayed approval. Such absorption problems are perpetuated throughout the remaining lifetime of the programme. They emerge, for example, if funds that have not been released in the first or second year because of a delayed start of the programme cannot be spent for useful projects in the subsequent year either. In result, the resources have to be transferred further year after year - or they are appropriated to dubious projects in order not to lose them. The same applies to reprogramming activities which also delay implementation.

All the outlined weaknesses in the delivery system result in the end in delays which cannot be controlled by the decentral or by central actors. At first glance, the administrative problems may seem to create purely procedural inefficiencies; in fact, however, they seriously jeopardize the effectiveness of the programmes themselves.

2.3.2.5 Structure of the decision-making process: the double-face of partnership

With only a few exceptions all decisions in the implementation system are made in a tension between on the one hand the Commission's need for control resulting from its responsibility for the proper use of Structural Funds resources and its lacking own implementation competence on the other hand. The Commission acts therefore in partnership with all levels involved. As compared to the former mode of implementation, when individual projects were approved and financed by the Commission, this cooperative implementation constitutes a

remarkable achievement, because it bears considerable potential for innovation. Nevertheless, in the single phases of the implementation process there is no clear ownership. Procedural leadership is not clearly assigned with a level and unit of administration.

In addition, the system of decision-making in partnership comprises a large number of partners – and therefore a large number of actors who can bring the implementation system to a halt. In the vertical dimension, three to four administrative levels are involved. In the horizontal dimension, the respective administrative department or DG for the management of the fund, further sectoral departments and DGs, and occasionally representatives of the economic and social partners take part in decision-making.

The limiting effect of this decision-making structure is seen in particular in the work of the Monitoring Committees:

- Their ability to act as strategic management committees is restricted by the number and heterogeneity of their members. Usually they reach a number of members which makes efficient decisions almost impossible. In addition, depending on the represented organisation the members hold vastly differing degrees of information and competence. Central co-decision-making parties such as DG XX are frequently absent.
- The Commission's representatives are not empowered to commit the Commission to negotiation positions. The Monitoring Committees therefore cannot make final decisions but simply prepare formal decisions of the Commission.

As a result, the actual decisions are made not in the committees, but in informal coordination meetings within the core administration, i.e. among the funds managers – and must nevertheless first be confirmed by the Monitoring Committee and afterwards in a lengthy process by the Commission itself.

The outlined problems restrict the efficiency of decision-making. Beyond that, the effectiveness of the programmes is affected, too: the structure of the decision-making process hampers quick reactions of the actors with the specifically required competences, because all involved actors must be consulted, whether or not this is necessary for functional reasons.

2.3.3 Three main causes of the weaknesses

There are two general positions concerning the causes of the criticised weaknesses:

- In the reform discussion, the criticism usually refers to an unsatisfactory application and implementation of generally welcomed principles of the Structural Funds' implementation. As one of the interviewed put it, "the problems lie in the operational questions, the advantages in the principles".
- The observed problems are mainly a result of the fundamental constitution and design of the implementation system.

In order to find explanations for the weaknesses, we first analyse three dimensions of the implementation system's constitution and then weigh the possible causes.

2.3.3.1 The multi-level constitution of the EU and the intertwined decision-making processes

The central constitutional basis of the EU is its character as a multi-level system of formally autonomous levels of government and administration. The Member States do not completely transfer sovereignty to the European level, but only limited parts. As a consequence, one level of government cannot act independently of the others in many fields of European

policy-making. This may result in a "joint-decision trap" (Scharpf 1988), i.e. the inability to reach effective and efficient decisions to which all levels have agreed.

In the field of European structural policy, the consequence of this constitutional arrangement is a permanent state of tension for the Commission between its responsibility and its lack of own administrative competences:

- On the one hand, the Commission is politically responsible for the aims of cohesion and convergence as well as juridically responsible for the use of the Structural Funds resources.
- On the other hand it has no own administrative competences for the implementation of the programmes. It also cannot even fall back on hierarchical relationships to the Member States' administrations in order to guarantee an implementation in line with the policy objectives and the Regulations. Neither are the Member States the EU's lower level of administration nor is hierarchy given within the Commission, it rather works as a collegiate body.

In situations of divergent interest of the national actors, the Commission cannot negotiate in the shade of hierarchy but must rely on moral suasion, on skillful negotiation or – in the extreme case – on procedural obstruction.

The single applicable coordination instrument of negotiation implies two essential consequences:

- Because the negotiation system consists of autonomous actors, each participant in principle is in a position to bring the implementation process to a halt. In practice, it is mainly the Commission that stops the implementation process because its "management by delay" is one of the very few instruments with which the Commission can effectively influence an ongoing implementation process. As a result, uncontrollable time dynamics are likely to occur.
- For non-participants, the assignment of the concrete responsibility for negotiation results is not possible. In the case of non-decisions or of unpleasant results, it therefore is always possible to point to the other levels. This is a common characteristic that the European policy-making and implementation process shares with many other multi-level decision-making arrangements.

2.3.3.2 Interaction of bureaucratic organisations

Despite their differences, the national administrative systems and the Commission share the classical model of bureaucratic organisation. It can be outlined on the basis of four characteristics:

- The implementation of the Structural Funds requires cross-sectoral coordination, but the involved administrations are organised sectorally. Coordination between the departments and/or units is an exception rather than the rule, in part because it is associated with additional work for the responsible official. At the project level this becomes visible e.g. in the low extent of integrated use of the funds.
- The incentive systems for the officials are orientated toward the respective functional unit, and not toward the effectiveness of programmes or the efficiency of the entire implementation process.
- The implementation of the Structural Funds is characterized by a hybrid of results-steering and rule-steering, yet the rule-steering clearly predominates. It yields a high degree of detail in the regulation within the programmes, which restricts the flexibility of the implementing actors.

- Horizontal, and especially vertical cooperation, cumulates the negative effects of the bureaucratic organisation. For example, the different regulatory requirements are not harmonised but exist side by side.

2.3.3.3 Structural differences between the Commission and the national governments

The fundamental difference lies in the fact that the Commission is simply not the government of the EU. Its tasks includes a mixture of legislative, executive and quasi-judiciary activities: the Commission has the initiative for Community law-making, it implements the Council's decisions and it is the "guardian of the Treaty", i.e. it examines compliance with the *aquis communautaire*.

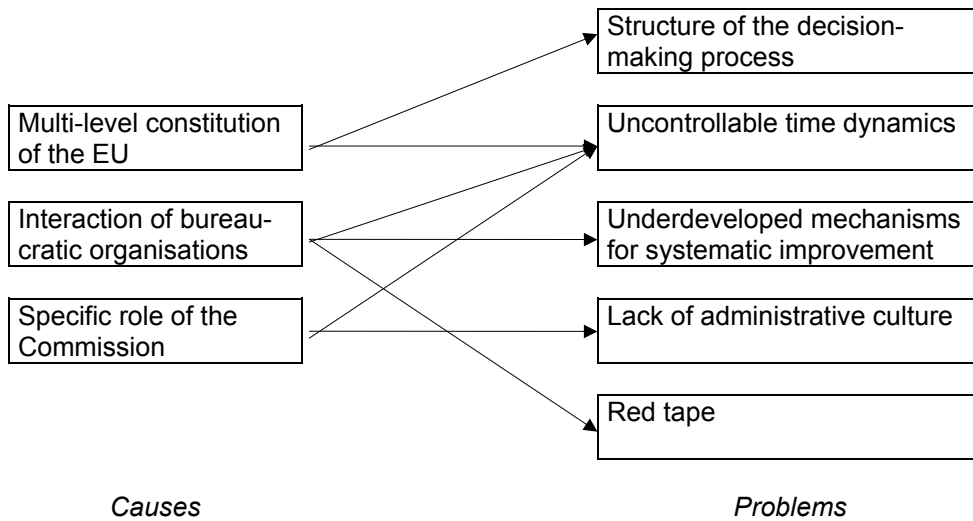
In addition some minor differences between the Commission and the national governments exist. These differences include:

- National governments have existed considerably longer than the Commission, which cannot yet be characterised as a fully developed administration. The Member States possess a far more developed administrative culture in the sense of institutions for coordination between the departments and levels. Moreover, the officials of the national administrations have been trained in the same educational and career systems.
- The autonomy of the national departments is substantially larger than that of the DGs of the Commission. In contrast to the horizontally intertwined DGs of the Commission, the sectoral departments of the national governments *can* and do work separately from each other in the implementation of the programmes.
- Not least the political responsibility of the national governments is more direct and more visible than that of the Commission. The Commission still lacks direct democratic legitimation. Thus at the national level there exist more direct connections between the programme beneficiaries and the government. Political pressure for quick reactions to problems can thus be much greater for national government officials. This connection is strengthened by the national or regional parliaments, whose power position vis-à-vis the respective government is much stronger than that of the European Parliament vis-à-vis the Commission.

2.3.3.4 Weighting of the causes

The cited argument that the five weaknesses discussed above result from the unsatisfactory implementation of generally welcomed principles may be partially true, but it cannot be the single explanation. Many of the weaknesses have to be attributed to the basic structure of the implementation system itself. Figure 4 shows the relation between the main weaknesses and the three main causes:

Figure 4: Main causes of the weaknesses



The comparison clearly shows that the weaknesses with the largest importance, i.e. time dynamic and structure of the decision-making process, are due to the basic political structure of the EU as a multi-level system of governance.

The missing mechanisms for systematic improvement and the underdeveloped administrative culture result mainly from the principally similar endogenous problems and the specific differences between the Commission and the national administrations. Less important problems like red tape can be traced back to the bureaucratic organisation of the involved administrations.

3 Reform variants

3.1 The basic rationale for action

Structural assistance represents a public investment. This is only justified if there are clear and well-founded reasons for action. Following the principles laid out in the mid-term evaluation of the CSF 1994-99 in Ireland (ESRI 1997), there are three essential criteria for public intervention:

- It is not enough simply for public investment to provide a financial return. The central justification for public intervention lies rather in the offsetting of distortions of the market, i.e. of pareto-inefficient regional development.
- Even given these conditions, assistance is only justified if, because of the comparative efficiency of public action, the opportunity cost of public investment is lower than by using alternative methods.
- The scope for quantifying targets and outturns is of tremendous importance of course. But the two justifications above also apply given "qualitative targets" and incomplete information as with investment decision processes in private sector companies.

3.2 Reform concepts and scope for their political realisation

In principle, a wide variety of options is available in the reform of the structural policy of the EU: a centralised structural policy in a European federal state, a renationalisation of the equalisation function, European-level financial equalisation, and a further development of the present model of a partnership-based structural policy in the European multi-level system (see above 1.1).

Clearly the first three variants cannot be realised politically (at least not yet). Depending on the variant, there would be considerable resistance in the Council from the donor and/or recipient states. Centralisation of structural policy is also fundamentally at odds with the principle of subsidiarity.

In addition, the potential for innovation driven by the Structural Funds as already seen would be given up. The effects outlined in the strengths profile (see above 2.2) are very widely welcomed by the participants at all levels, and with only a few exceptions a safeguarding of these effects is also called for in the next assistance period.

Accordingly, with few exceptions (e.g. the proposal from Bavaria), the discussion on reform is focusing on further development of the existing model of a partnership-based structural policy in the multi-level system.

3.3 Four variants for European structural policy

In the reform debate, no variants on complete reform designs are being developed, but instead we see a series of isolated ideas on reform. On the basis of four dimensions, however, four main reform variants for a structural policy in the multi-level system can be identified (Figure 5):

Figure 5: Four reform variants for structural policy

Variant \ Dimension	I. Bureaucratic control model	II. Administrative decentralisation model	III. Strategic management and decentralisation model	IV. Evolutionary development model
1. Management and programming model	Detailed statement of objectives	Detailed statement of objectives with many indicators	Agreement on central quantified objectives with key indicators	In the context of II or III
2. Implementation structure	Joint implementation process	Internal administrative decentralisation of implementation with scrutiny and approval reserved to the centre	Unbundling of programming and implementation, extensive decentralisation of implementation; coaching role of the Commission	In the context of II or III
3. Regional Inclusion	Sporadic participation of the regions	Information and participation of regional actors (sub-regional and social partners)	Empowerment and widening of the regional dimension (local institutions & society)	In the context of II or III
4. Improvement and evolution mechanisms	Uncoordinated evaluation and monitoring measures and financial control	Systematic monitoring, evaluation and financial control measures	Continuous decision process-oriented monitoring and evaluation system (incl. strategic/transnational evaluations) and accompanying financial control	Results-oriented improvement (TQM) and competition mechanisms as well as differentiation of the financial instruments

Today's status quo falls between variants I and II. Depending on the way the delivery system actually operates in the individual Member States, the emphasis lies either more on I or there are tendencies for a transition towards II:

- In the dimension "management and programming model" there are detailed statements of objectives, to which specified indicators are already being assigned. As our surveys showed, optimisation attempts in the context of the mid-term assessment are leading, in the short term at least, to a considerable quantitative expansion of the indicator sets.
- The closely-linked joint implementation is tending to undergo an internal-administrative decentralisation (above all in some Member States). At the same time, however, extensive scrutiny and approval powers remain with the central agencies, i.e. with the Commission and the national governments, as against decentral implementing agents.
- Involvement of the regions takes place - apart from a few exceptions such as, for example, Merseyside - following the existing geographical organisation of the Member State in question. Sub-regional and social actors such as local authorities and the social partners are included, if at all, for the purposes of information or consultation.
- As regards the mechanisms for improvement and evolution, there are the three main instruments of monitoring, evaluation and financial control. The transition from the isolated use of these instruments as and when needed to systematic feedback loops is presently being made only in its initial stages.

Our surveys have once again made it very clear that the Member States are determined to give up the bureaucratic control model. Proposals for reform are spread over variants II to III, but are predominantly aimed at an administrative decentralisation.

The position of the Commission, as outlined among other things in Agenda 2000, is clearly in favour of a strategic management and decentralisation model. The actual thrust of the proposal is to be seen, however, only in the specific instruments intended to realise the principles. Depending on the dimension, the proposed instruments or the lightness of these instruments, there is a tendency to remain within variants I and II:

- With regard to the management and programming model and to regional involvement, there is a clear preference for variant III. It still remains unclear, however, how targets and key indicators would be selected.
- In terms of implementation structure the proposed scope for intervention remains closer to variant II. This is seen in the proposal from DG XVI to leave detailed programming to the Member States within the framework of the Monitoring Committees, while at the same time preserving a de facto right of approval, giving the Commission the option, if it wishes, to withdraw some of the Structural Fund contribution. This is “management by exception”, which only allows internal administrative decentralisation in the sense of variant II.
- Greater regional involvement in the sense of variant III is the declared objective of the responsible Commissioner, Mrs Wulf-Mathies, but is not referred to explicitly as a declared objective in Agenda 2000. A proper translation into instruments can be seen neither in Agenda 2000 nor in the subsequent proposals.
- The picture is still unclear with regard to the mechanisms for improvement and evolution. In terms of design, it is clear that variant III is aimed at, but the current developments in instruments, such as, the present draft of a regulation on financial control, still lie between variants II and III.

The re-engineering model for the assistance system which is developed in the next chapter can be located between variants III and IV. On the basis of a strategic management and decentralisation model, it contains elements leading towards an evolutionary development model.

4 Re-engineering the support system

Experience shows that the evolutionary development of assistance systems, such as the European regional support system in this case, is conditioned by a mixture of path-dependent trends, political bargaining, exogenous shocks, but also planned re-engineering. The remarks that follow relate to this area of planned organisational change, touching also on historical-path dependency and relevant political background conditions.

One central political background condition is the Commission's role as guardian of the Treaties. This includes both its political obligation to implement the goals of the Treaties and its legal responsibility for the use made of the resources of the Structural Funds. But it can only perform its duty as guarantor, politically and managerially, in partnership with the administrations of the Member States.

In line with this kind of logic of planned organisational change, then, the first issue must be the redesign of the basic organisational structure of the assistance system, and secondly the development of an endogenous capability to evolve by way of built-in improvement loops and competition mechanisms.

4.1 Strategic management of structural policy

Although the reform debate in the Member States and at the Commission is essentially focused on a number of individual structural features, the real, underlying debate is concerned with arguing about the pros and cons of the administrative decentralisation model on the one hand and the concept of strategic management and decentralisation on the other.

We cannot become involved here in the substantive debate regarding these different concepts. Instead, we single out a few relevant practical experiences and conceptual considerations for deciding between these two alternatives:

- Although the administrative decentralisation model does overcome many of the weaknesses of the bureaucratic control model, all experience suggests that, because it remains wedded to a structure of interdependent hierarchies, a dual tendency exists: a tendency to relapse into traditional controlling measures on the one hand, and a tendency to deliver an insufficient incentive effect to bring about independently responsible implementation processes on the other.
- Experience (and theoretical concepts) of more recent control systems, as exemplified in the Swedish educational system, practical experience of the development of "New Public Management" in many OECD countries at municipal and central level, and not least the experience of successful companies in the private sector, argue in favour of the continued development of regional policy beyond an intra-administrative decentralisation model towards a combination of strategic management and regional empowerment.

In our national surveys and in the evaluation reports we were also able to identify many points at which such a strategy of continued development could take over.

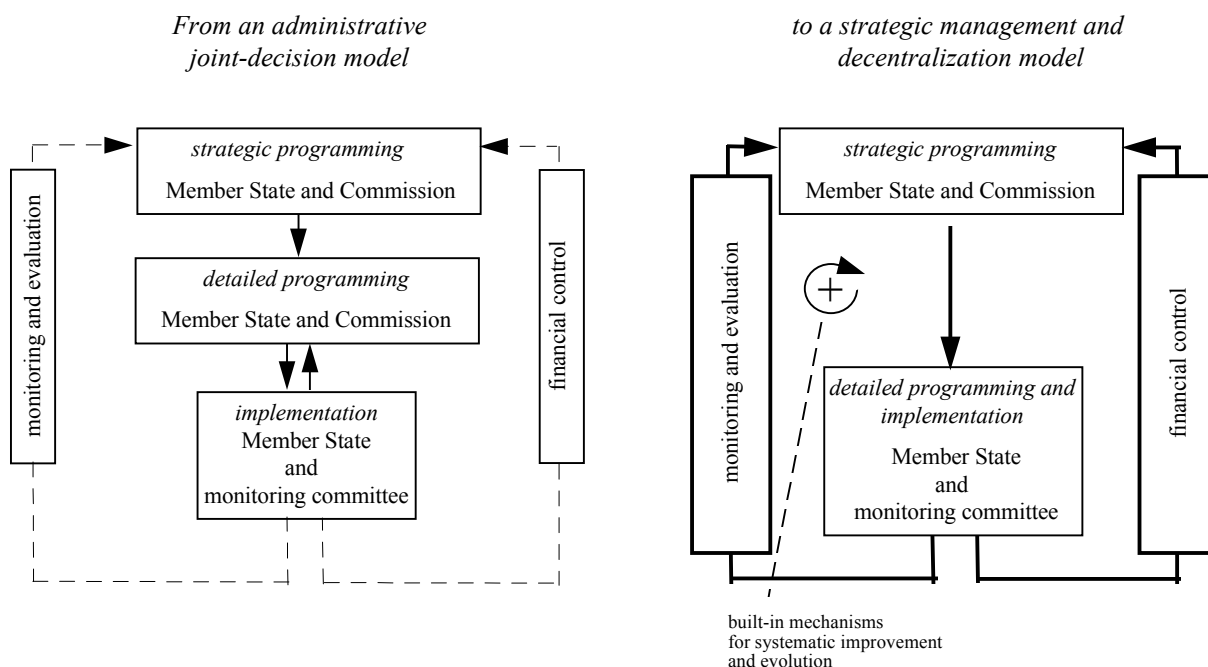
The reshaping of structural policy in accordance with this kind of concept of strategic management combined with decentral empowerment must, then, be geared to the following principles:

- unbundling the decision-making processes between the Commission and the Member States;
- strengthening strategic goals devised and agreed jointly, with structured time management, by the Commission and Member States;

- devolution of certain programming decisions from EU level to the Member States and regions;
- clear transfer of responsibilities for the implementation process to the Member States and monitoring committees;
- reinforcing systematic feedback systems by forms of monitoring, evaluation and financial control;
- strengthening institutional capability to evolve by means of continuous improvement loops and mechanisms for market-type competition.

In the sections that follow, a strategic management and decentralisation model is developed on the basis of these principles. Figure 6 shows the basic structure in comparison with the current administrative joint-decision model:

Figure 6: A new era in regional structural policy



To implement this model and correct the weaknesses of the support system described above (see above, 2.3) changes are needed in programming, reprogramming, implementation and the control and feedback systems.

4.1.1 Programming

In the case of programming, changes are necessary at three levels in order to correct the weaknesses in the support system described above and to implement the principles of unbundling, decentralisation and management by results: changes to the design of programmes, changes to responsibilities and procedures, and changes in the Commission's internal management.

4.1.1.1 Changes to the design of programmes

- *Reduction in the number of Objectives and Community Initiatives:* The Commission's endeavours to reduce the number of Objectives and Community Initiatives (cf. Agenda

2000) is not only capable of reducing the programming effort but can also support the principle of decentralisation. The more comprehensive the Objectives, the more comprehensive the programmes have to be. And the more comprehensive the programmes are, the greater is the scope for programming design and hence the greater, too, at least the potential design scope of the Member States in programming.

- *More stringent target system and quantified targets:* In order to improve the possibility of evaluating the programmes and strengthen the central monitoring of target achievement in a strategic management model, most programmes must contain more stringent and more highly operationalised target systems than they have in the past. Experience in other policy areas show that “statutory coherence” increases the flexibility of the implementation actors and ultimately results in more effective programmes (Meier/McFarlane 1996). Overall, the programmes need to include the same degree of detail as previously, but they also need to contain quantified targets for each sub-programme, evolved stringently from the target system, to a much greater extent than in the past. The quantified targets must be reflected in a small number of measurable indicators. In the case of ESF-financed subprogrammes, for example, these indicators are the relief of the labour market (reduction of unemployment), the medium-term fate of those participating in the measures (differentiated by various target groups) and a few indicators for the level of qualification of the working population.

4.1.1.2 Changes to programming responsibilities and procedures

The following changes to programming responsibilities and procedures are necessary to correct the weaknesses of the support system, as described above, and implement the principles of strategic management:

- *Decentralisation of programming:* It is in line with the trust that has developed between the Commission and the Member States, and with the principles of unbundling and decentralisation, if in future the allocation of funding is arranged jointly only down to the level of sub-programmes (“priorities” or “axes”), and the further suballocation to specific measures is left to the Member States in cooperation with the monitoring committees.
- *Involvement of the monitoring committees in programming:* Setting up the monitoring committees at the very outset of programme negotiations rather than after programmes have been approved enables their work to be put on a continuous footing. This also results in a better match between supply and demand as far as the members’ competences are concerned, since the economic and social partners, in particular, are able to make more useful contributions to strategic planning than they could to administrative monitoring as in the previous system. Then the Commission’s representatives can ensure, for the decentralised parts of programming as well, that the regions within the Member States are at least as much involved in the support system as they were in the past.
- *Programming and agreement on objectives based on Commission priorities:* In order to prevent programming in the Member States from beginning - as in the past - without any precise knowledge of the Commission’s objectives and priorities, the Commission’s priorities must be known at an early stage of the planning process.

The agreement on objectives between Member State and Commission is reached in the Community Support Frameworks. The Commission could disclose its negotiating position for this in two stages. The general objectives of Structural Fund support are laid down in the regulations on the funds. For example, the Commission could disclose its priorities, applicable to all Member States, regarding such matters as Community policies and the corresponding orientation of the programmes in guidelines to be published shortly after

approval of the regulations. Similarly - either in the same document or on a purely bilateral basis - the Commission's priorities could be published as a basis for negotiation on the respective strategic agreements on objectives with the Member States. An essential basis, as regards both substance and procedures, for the Commission's priorities (for example, regarding the portfolio of the financial instruments or regional mobilisation) are the results of the evaluations: the current evaluation cycle on the one hand, and the trans-national evaluations on the other.

Thus, all the Member States and regions can take the orientation points and guidelines for regional development planning as a basis when drafting Regional Development Plans.

- *More binding programming deadlines:* The Member States complain that programming is often delayed by internal consultations within the Commission and that the resulting time pressure becomes a power resource in the hands of the Commission, since the Member States are more reliant than the Commission on prompt approval of the programmes ("power by delaying"). In order to limit planning delays and spread the programming time pressure uniformly over the negotiating partners, deadlines must be set for all phases of joint programming which are more binding than those laid down in the present regulations. At the same time, it must be established that drafts and proposals put forward by one side are deemed to be accepted by the others unless a substantive counter-proposal has been put forward by the other side within the period allowed.
- *Decentralised detailed programming subject to legal but not technical supervision by the Commission:* Proper decentralisation is undermined if the central authority has extensive rights of approval. The Commission's supervisory powers over the decentralised implementation actors should therefore be clearly confined to legal supervision and not include technical supervision.

4.1.2 Implementation and reprogramming

The implementation of the programmes in the Member States has hitherto been characterised by laborious administrative procedures (cf. 4.4 below) and cumbersome, costly reprogramming procedures. Problems with reprogramming arise primarily from the limited strategic scope of action of the monitoring committees and the time taken for the Commission to confirm resolutions adopted by the monitoring committees (see above, 2.3). There are three ways in which these problems could be eased for the purposes of the strategic management and decentralisation model:

- *Decentralisation of reprogramming:* If, in future programming, the allocation of funding is undertaken jointly only down to the level of sub-programmes ("priorities" or "axes") and further distribution of funding over the various measures is left to the Member States, the same must also apply to programme modifications. In future, decisions on reprogramming that changes the sub-programmes should still be made in partnership between the Member State and the Commission, while programme changes below that level could be decided upon by the monitoring committees without the Commission having any formal right of veto. In order to be able to do this, it is not absolutely essential for the monitoring committees to have the status of a legal entity, because they would be able to make decisions only below the level of the sub-programmes approved by a formal Commission decision. The decisions within their competence would, at the most, relate to legal responsibilities of the Member States which need not necessarily be regulated at European level.
- *Binding time limits and improved internal coordination within the Commission:* In order to cut down on delays in the reprogramming process and limit the exercise of the Commission's "power by delaying", the rules proposed above for the programming phase

- tighter deadline control and better internal coordination at the Commission - should also apply at the reprogramming stage. To allow the Commission to carry out its internal consultations before decisions are taken by the monitoring committees, the meetings at which the latter discuss reprogramming need a longer preparation time than at present (three weeks).

- *Strengthening the management functions of the monitoring committees:* Decision-making on implementation and reprogramming should remain in the hands of the monitoring committees. The Commission should continue to be represented in the committees, since it can feed supra-regional information into the implementation and reprogramming process and obtain an insight into the strengths and weaknesses of programme implementation. However, the committees themselves need to concentrate much more than at present on strategic functions and to delegate the more formalistic jobs.

According to the subjective assessments given in the interviews with experts, much more than half of the time of monitoring committees is spent on non-strategic "programme rewriting" as a result of over-detailed programme descriptions and bureaucratic mechanisms, and taking note of masses of unprocessed monitoring data. Under the strategic management and decentralisation model outlined here, about two thirds to three quarters of this work could be dropped, leaving room for strategic functions of these committees: monitoring and evaluation, possible reprogramming, and applying improvement loops and evolutionary mechanisms.

There should also be discussion of the idea of dividing up functions between the monitoring committees and executive committees reporting to them. The job of the plenary monitoring committee (often more than 60 people) would be to discuss strategic decisions, leaving the executive committee - consisting only of those responsible for a programme from the Member State's central government, the region and the Commission - to steer policy and manage. The monitoring committees would meet before the executive committee, in order to provide it with strategic guidelines.

4.1.3 Strengthening the feedback systems

Once the funding of structural assistance moves from a rule-based to a results-oriented system with strategic management, feedback mechanisms and checks on target attainment will considerably gain in importance. Monitoring, evaluation and financial control are all parts of such feedback systems. They will need to exert much more of a steering function once the classic forms of bureaucratic control are largely reduced by unbundling, decentralising and moving to management by results.

4.1.3.1 Feedback through monitoring

The purpose of the monitoring systems is to enable the Commission and the participants at all levels to be given an up-to-date picture of implementation. On the basis of the management model that has been outlined, and in view of past practical experience, this poses two requirements:

- The indicators must reflect the target system of the programme as directly as possible.
- Monitoring must concentrate on a restricted stock of informative core data that can be kept up to date by the actors involved in implementation at a decentralised level.

At the level of the quantified targets for the individual priorities, a minimal set of 2-3 standard indicators (see above, 4.1.1.1) can be agreed in each case to be used, so far as possible, for all similar subprogrammes in the various Member States. This opens up the possibility, both

for the Commission and for the actors involved in implementation at a decentralised level, of an inter-regional comparison of the performance of the programmes during their life.

In addition to this, specific indicators can be defined for the various programmes and used to monitor the specific implementation of the programme. With regard to the specific indicators, preparatory work currently being undertaken in nearly all Member States (in particular, in the context of the interim evaluation) can be utilised.

The critical point, however, is to make the transition from data on the outflow of resources and, in some cases, physical output data (such as the number of projects), which have dominated the picture previously, to performance data.

In order for it to be possible to use monitoring systems optimised along these lines, the data must be available and analysed rapidly. One way of doing this is at the regular meetings of the monitoring committees, as a basis for the strategic discussions, but the data should also be made available to the participants at shorter intervals than in the past. A monthly reporting system, for example, would be conceivable in the short term, but in the medium term, if appropriate information technologies were used, a database with real-time access for participants at all levels would be a real possibility. In the case of the ESF, the technical requirements for this are already in place.

4.1.3.2 Feedback through evaluations

The national actors questioned give the Commission a great deal of credit for the continued development of evaluation methods and practice, especially within the framework of the MEANS programme. Feedback through evaluations can be further developed on the basis of this favourable initial situation. The critical point here is not increasing the quantity of evaluations but optimising their quality and ensuring that their results are utilised in the implementation process.

The main types of feedback system used by the Commission are ex post evaluations and interim assessments. Experience to date strongly suggests that these should continue to be designed and implemented jointly (i.e., in partnership), in order to avoid confrontational and non-productive reactions by the decentralised actors.

The content of the evaluations can be further developed in two directions on the basis of improved monitoring systems:

- In order to strengthen the evaluation feedback loop, verification of target achievement, effect analysis and strategic discussion should be improved at a high level and according to scientific standards. In this respect, the mid-term assessment of the Objective 1 CSF for Ireland, undertaken by the Economic and Social Research Institute, can be identified as best practice.
- On the other hand, even in this case, the necessary study of the implementation processes (which would reveal potentials for improvement) still falls short of what is possible. But it is precisely this aspect that offers the decentralised actors a particular incentive to regard evaluations as a welcome advisory service and not as a form of control to guard against.

In the case of the ex post evaluations, experience to date suggests that quantitative restriction and qualitative expansion make sense - concentration on a few selective but exemplary studies in which the basic parameters of Structural Fund support are also reviewed. This opens up improved possibilities for paradigmatic or "double-loop" learning as compared with the instrumental or "single-loop" learning in the case of evaluations which remain within the framework of the basic parameters.

In addition to the “standard evaluations” of the individual programmes, to be undertaken in partnership, the Commission can call upon the instrument of thematic transnational evaluation, by means of which it can obtain comparative information on specific priority themes. From the standpoint of the Member States there are also positive examples of general comparative evaluations that can already be built upon - mention is made, for example, of the comparative ex ante evaluation of all Objective 2 programmes.

4.1.3.3 Feedback through financial control

The significance of financial control increases considerably in an unbundled and decentralised model of European structural policy. The principles of decentralisation and unbundling on which the strategic management and decentralisation model is based can, however, also be applied to financial control. This provides an opportunity to eliminate the criticised weaknesses (see above, 2.3).

The Commission’s financial control could gradually change its role and move away from an independent control of the use of European support funds to a control of national controlling bodies and procedures.

A specific model, taking as its starting point the Regulation on financial control that has recently been adopted, in conjunction with the currently ongoing bilateral consultations between Commission and Member States, could comprise the Commission (together with external experts) evaluating national controlling bodies and procedures and awarding a (time-limited) certificate to efficient national controlling bodies and procedures empowering them to undertake exclusive control of the use of European support funds (without additional controls by the Commission). In this case, financial control by national controlling bodies and procedures would be sufficient (within the period for which the certification applies).

Where such certification is not obtained, or sought, the Commission would continue to exercise a more radical control of use in the Member States, either by delegating Commission representatives to national controlling institutions or by direct control by the Commission down to project level. Such a model is capable of taking due account of the differing levels of development of national financial controls and decentralising and unbundling the financial control on an appropriately differentiated basis.

4.2 Strengthening evolutionary capacity through improvement loops and competition mechanisms

4.2.1 Initial situation: lack of in-built evolutionary mechanisms

In our surveys and in the literature the existing core processes of the structural policy are very clearly and forcefully subjected to a threefold criticism:

- The standard support process in the case of Objective 1 and Objective 2 is a largely static process of control by regulation, rather than a self-optimising process of monitoring of results with in-built improvement elements. System improvements arise, if at all, in the major rounds of new negotiations but not in the everyday performance process or at important interfaces within the programme period, as is standard procedure in efficient organisations in the private sector, and indeed in the public sector.
- The Article 6/10 measures are admittedly innovative at individual project level but generally fail to achieve critical minimum thresholds at programme level.
- The Community Initiatives are under-focused and in most cases represent a duplication of the standard programmes, thus failing in their strategic orientation.

Overall, therefore, the structural policy support system lacks inherent mechanisms for continuous process improvement and institutional evolutionary capability.

By contrast, representatives of all countries included in our surveys - with a surprisingly high general degree of consensus - stress the need for the continued development of the existing support system towards a system of continuous improvement. Furthermore, the Commission has taken its place in the vanguard of the reform movement with Agenda 2000. There is thus a surprisingly high degree of willingness at the generalised level, in both Commission and Member States, to reform the joint decision-making structures; a degree that goes well beyond the existing willingness for change in most sectors of nation-state policy. The EU structural policy can thus be seen as a system that is open to criticism.

The unresolved question, though, is to what extent this general receptiveness towards reform can be converted into specific, objectively sensible and politically feasible measures of continuing system development. Our surveys have identified a source of evolutionary capability which has hitherto been little discussed or used: the reputation of the individual Member States and their governments and administrations, the risk of losing reputation and, conversely, the opportunity of gaining it, represent a resource for continuing system development that must not be underestimated and could be put to better use.

4.2.2 Basic principles for developing the capacity for improvement and evolution

From the requirements and experience of "learning organisations" in turbulent environments with uncertain information, we know about the importance of in-built self-corrective loops and progressive evolution. There is simply no such thing as an organisational design in institutions which, once successful, can be retained stably over the course of time; what are decisive are the continuous and discrete organisational adjustments to changing environments and shifting needs.

In view of the specific features of the Union, and the characteristic multi-level system of its institutions, these mechanisms of continuing self-reform represent probably the greatest challenge to the EU system - including the Member States that comprise that system.

From the widespread debates and evaluations on the regional structural policy we summarise the most important suggestions for evolutionary mechanisms that may realistically be possible. We distinguish them in terms of their essential underlying mechanisms, their strategic instruments and their central weaknesses. This is followed by a necessarily brief discussion of selected development mechanisms which play a prominent part in the present discussion, in both theory and practice.

Figure 7: Potential endogenous evolutionary mechanisms (outline)

<i>Mechanisms</i>	<i>Instruments and practical experiences (examples)</i>	<i>Weaknesses</i>
I. Hierarchy	1. Discretionary control through bonuses/penalties in MBR systems 2. Transnational strategic evaluation by the Commission	Illusion of external control by central administration, or control error
II TQM and interorganisational cooperation	1. Monitoring systems and evaluation cycles stimulating process re-engineering 2. Interregional partnerships to develop new strategies	"Trust, love, peace and cooperation illusion of networking"
III (Market) competition	1. Interregional "best practice" competitions, results for emulation 2. Financial instruments adapted to market requirements	Difficulty of designing competition processes specific to this arena Unwanted side-effects on distribution by market forces
IV Democratic politicisation	1. Political campaigns linked to regional policy funding 2. Giving parliaments more responsibility for structural policy 3. Mobilising support and building up skills on a regional/local level	Over-politicisation and ineffectiveness
V Separate expert body	1. Independent external experts using external analysis systems 2. Central council of experts/committee for regional policy	Escapes gradually from democratic responsibility

Figure 7 reproduces the variants of potential endogenous evolution discussed hitherto, their most important instruments and characteristic weaknesses in conceptually compressed form. They also correspond to the control mechanisms known from the relevant research on governance structures. From this arises the justified suspicion that the scope for solutions described here has in principle been marked out and, therefore, exhausted, so that further variants can only be looked for within these existing instrumental mechanisms. A few brief notes will have to serve to indicate what those instrumental mechanisms are:

- By way of hierarchical arrangements, systems of bonuses and penalties can be introduced into the control of programming by results. In view of predictable reputation effects, such systems of bonuses and penalties can develop, under the discretionary control of the Commission, into quasi-hierarchical instruments. The weakness of such hierarchical assistance systems - especially in the EU multi-level system - lies, of course, in the highly probable illusion regarding the possibilities of centralised administrative external control of the regions and hence the risk of a major control error - especially, as we know, with output-oriented indicator systems.
- Organisational self-improvement processes along the lines of Total Quality Management, building on qualified monitoring systems and an evaluation cycle, and the kind of inter-organisational cooperation that we find in the form of joint experience-exchange and

problem-solving link-ups in inter-regional strategy development partnerships, can activate important potentials for improvement, as widespread experience has shown. Such improvement loops, however, are on the other hand constantly subject to the risk of over-optimistic action assumptions, known as “trust, love, peace and cooperation illusion of networking”.

- Competition mechanisms, especially processes of market-type competition, are regarded in a good many groups within the reform debate as an “all-purpose weapon” to combat “governmental failure” of assistance policy. Instruments of this kind aim at inter-regional and inter-programme best practice competitions, but especially at the introduction of strong market economy financing instruments as compared with the dominance of the granting of public subsidies. (Strategic considerations regarding the reprivatisation of the structural policy are beyond the terms of reference of this report.) The risk and limitations of (market) competition mechanisms lie, of course, first in the inherent difficulty of generating arena-specific competition mechanisms in the first place - because regional structural policy has particularly highly specific processes. Secondly, side effects often arise that are undesirable in terms of distribution policy - especially in the case of one of the Union’s main redistribution policies.
- Many discussion groups consider that a substantial evolutionary reform potential lies in the democratic politicisation of assistance under the structural policy: through the coupling of major political campaigns to special measures of structural policy, as most recently in the case of labour market and employment policy; through the upgrading of the Parliament in the structural policy process; and, especially, through regional and local mobilisation and empowerment. However forward-looking and encouraging many relevant experiences may be, the converse is also true: there are also a great many instances of ineffectiveness and tendencies to over-politicise in the sense of the political instrumentalisation of the structural policy for completely different purposes.
- As compared with the democratic politicisation of structural policy, external and independent expert authorities form a contrasting instrumental mechanism: by moving the production of knowledge and evaluation out of the area of democratic responsibility. By “contracting out” broad areas of policy consultancy, the Commission has already taken numerous steps in this direction, and more extensive steps than the Member States. In the field of labour market and employment policy, for example, the Committee for Labour Market and Employment is emerging as a relatively independent central council of experts. The attraction of such improvement loops, however, has its reverse side: the risk of their independence or politicisation in the sense of committees being captured by interest groups.

In the remarks that follow, we intend to take a somewhat closer look at a few exemplary instruments among the various instrumental mechanisms for increasing endogenous evolutionary activity and to study them in the light of two criteria:

- the objective relevance of the instruments/instrumental mechanisms with regard to the elimination of regional market distortions by means of cost-effective public assistance;
- the political relevance - not in the more obvious though admittedly indispensable sense of tactical feasibility, but rather from the standpoint of their structural fit, based on the specific nature of the EU system of institutions.

4.2.3 Operative ways of developing structural policy's capacity for improvement and evolution

From discussions within the framework of the project, the literature and analogous reform experiences of private industry and the public sector, six basic mechanisms can be identified for developing structural policy's capacity for improvement and evolution.

4.2.3.1 In-built improvement loops in the standard process of management by results: the role of evaluation

A focal point of the development of the capacity for improvement and evolution must lie in the reform of the standard processes: in the evolution of the predominant control by regulation into a self-improving cycle of management by results with in-built elements of a continuous improvement process. Essential to this are appropriate target systems, integrated monitoring and evaluation systems and an improvement process managed by the "owners" of the process and supported by the Commission. Only through the improvement of standard processes can the efficiency of structural policy be enhanced.

Operative approaches are to be found primarily in two processes: (1) the annual management-by-results cycle based on an integrated system of financial and performance monitoring, so that the annual report could be developed from an inconvenient chore, usually dealt with as a formality, to become part of a genuine reporting system that would also include the improvement process; (2) the evaluation cycle that is provided for in the regulations in any case, and, in addition, targeted evaluations, especially transnational evaluations on the responsibility of the Commission. In our national surveys we have had the opportunity to observe excellent evaluations as starting points for consistent processes of improvement in institutional evolution. However, we did also find the opposite practice in the form of scientifically unprofitable obligatory exercises, combined with a comparatively low level of political acceptance and enthusiasm for implementation.

However, the number and quality of the evaluations carried out are increasing across the board. The regional programme managers no longer take a defensive or indifferent attitude towards them but, increasingly, regard them as a welcome instrument of optimisation.

All experience, then, confirms that evaluations can be a central element in the process of improving target monitoring systems. At project level the process of improvement is sustained by the project and programme managers, supported first by the monitoring committee, while the process as a whole is sustained by the monitoring committee supported by the Commission. In this process of improvement, the representatives of the Commission have an important advisory and coaching function (see 2.4).

4.2.3.2 Exchanges of experience and joint problem-solving in inter-regional clusters: inter-regional partnerships for strategy development

In many regions/Member States, the desire for problem-specific, flexible, inter-regional cooperation groups making use of the Commission's experience was expressed almost everywhere. Such inter-regional clusters, such as the former Nordic Council cooperation network, pragmatically include a limited number of regions/Member States which band together to form loosely structured problem-solving groups or longer-term partnerships to develop strategies. They are supported by technical assistance. The "IQ-NET" cooperation project of Objective 2 regions, initiated by DG XVI, is a highly promising move in this direction.

The formation of such partnerships should generally be initiated by the regions. The desk officers play an important part as a catalyst here because of their general overview. They can only fulfil that role, however, if the highly specialised division of tasks in DG XVI's country

units is supplemented by new coordination mechanisms at the Commission. The costs of establishing and maintaining such partnerships needs to be incorporated into the annual project and financial plan. In addition, sufficient flexibility for ad hoc interactions needs to be built into the current budgetary year.

4.2.3.3 Inter-regional best-practice competitions and dissemination of results

In the field of local government, international competitions between cities on selected reform topics or for the overall development of cities have proved extremely successful (see especially the Bertelsmann Prize competition with international networking of local authorities, cf. Bertelsmann-Stiftung 1993). DG XVI is currently undertaking a relevant pilot project to track down and disseminate best practices in innovative employment initiatives. Such competitive processes, involving invitation of entries and the identification of best practices and defined dissemination processes, could supplement the standard repertoire of improvement strategies based on evaluations.

The basis of such a competition mechanism is formed by the reputation resource referred to above, which can be used for both inter-regional and international performance competitions. A prerequisite here is that the competition should receive extensive publicity.

Within structural policy, a distinction can be made here between two types of competition process:

- competitive invitation by the Commission within the framework of prospective Article 6/10 measures, as with the successful example of IRISI;
- competitive invitation procedure relating to expired projects in order to ascertain best practices and disseminate them. An example of this is the current competition for innovative employment initiatives.

Both types of competitive process could be made into a systematic component of the structural policy with a view to the further development of its capacity for improvement and evolution. The operational initiatives for these competitive processes lie with the Commission, networked with the Monitoring Committees and the regional programme managers.

4.2.3.4 Improving mainstreaming

Various initiatives, some of them highly innovative, have been launched within the framework of the Article 6/10 measures. In order to develop the capacity of structural policy for improvement and evolution, it is necessary to eliminate the main shortcoming that exists here: the conversion of innovative pilot projects into standard programmes, known as mainstreaming. Improving the mainstreaming of Article 6/10 measures is the fourth cornerstone of a strategy to improve and evolve structural policy. This is one specific area where the initiative must lie first and foremost with the Commission. To give the Commission the necessary powers, however, requires changes to the existing arrangements within and between the individual Directorates-General.

4.2.3.5 Control through systems of bonuses and penalties: reserves of effectiveness, efficiency and management performance

An important proposal introduced by the Commission (in Agenda 2000) into the debate on mechanisms and incentives for continuing process improvement and institutional evolution was that of a "performance reserve". Under this proposal, "at least 10%" of the funding would be withheld by the Commission at the start of the support period and "allocated to the most efficient regions on the basis of verifiable results, including the financial procedures, only at

mid-term” in the support period. Detailed proposals developed along these lines by the Commission envisage the reserve being allocated on the basis of three packages of criteria:

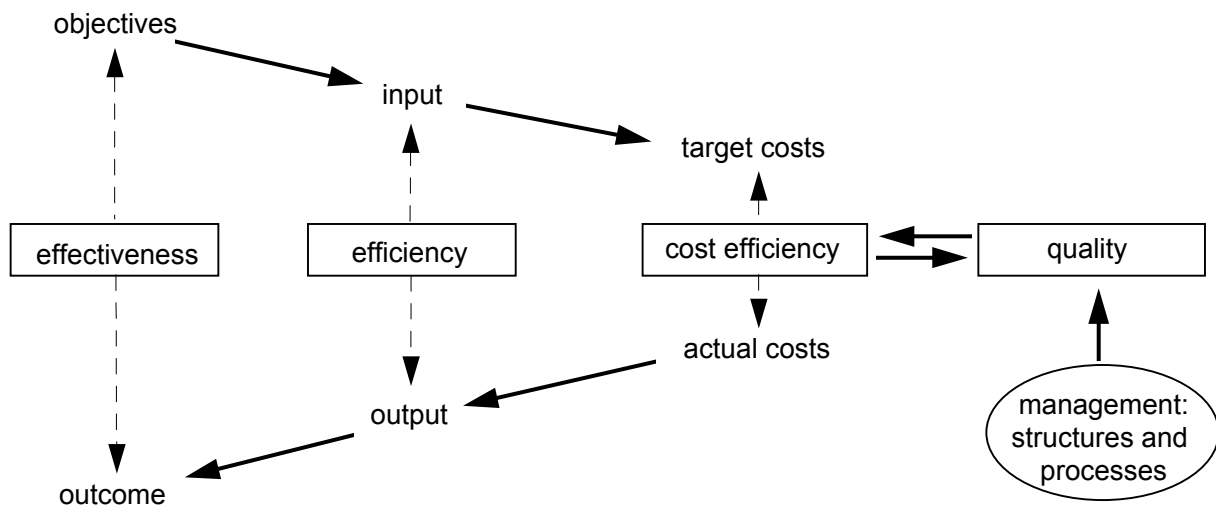
- *Output criteria.* These include, inter alia, the gross effects on employment. For these, quantified targets are to be agreed in advance between Commission and Member State, and the achievement of those targets will then be ascertained at the stage of the interim evaluation of the programme. When the extent to which targets have been achieved is evaluated, the specific characteristics of the respective programme and the macroeconomic context will have to be taken into account, so that the Commission will need extensive scope for discretion.
- *Management criteria.* These include indicators regarding the existence and quality of monitoring, evaluation and financial control and the methodological quality of project selection.
- *Financial criteria.* These include indicators regarding the flow of funds and the mobilisation of national resources.

According to this proposal, then, programmes and regions are to be rewarded if they stand out from other programmes and regions on the basis of output indicators, including the flow of funds, and on the basis of the quality of their management and feedback systems. If this evaluation and bonus concept is compared with a reference framework derived from the “3E concept” in public management literature (cf. inter alia Budäus 1994; 1996) (Figure 8), comprising

- effectiveness (extent to which objectives are achieved),
- efficiency (output/input ratio),
- cost efficiency (ratio of actual and target costs) and
- management quality (throughput quality),

it can be seen that the proposal focuses on two levels: efficiency (especially output measurement) and management quality.

Figure 8: Reference framework of a management performance reserve



From our angle there is good reason to suggest that, under the specific conditions of the European Structural Funds, a bonus system based on efficiency criteria is problematic. In our view, however, a bonus system based on management performance is objectively reasonable and politically feasible. There are three central objections to the proposed dominant role of output criteria in a bonus and penalty system:

1. (Inevitable) neglect of impacts/outcomes: the extent to which European structural policy achieves its targets can be evaluated and rewarded only if the targets are defined and operationalised in the form of impacts or at least outcomes. Whether support improves the socio-economic conditions of a region can be judged not by output indicators but only by impact or at least outcome indicators. All past experience of monitoring systems and evaluations, however, indicates that it is impossible to obtain objectivisable criteria at outcome and impact level which are sufficiently robust and comparable to be used in a bonus system - and particularly impossible when subject to the time restrictions of an interim evaluation.
2. Incorrect control by output indicators: the use of output and outflow-of-funds indicators as parameters is not only unsuitable for the achievement of targets, and hence for improving the support system, but also involves the risk of counter-productive control errors, of which there has been adequate evidence in practice. Although output and outflow-of-funds indicators are relatively easy to ascertain, they nevertheless result - if they are defined as incentives - in three adverse effects with regard to the effectiveness of support:
 - Rewarding the outflow of funds financially results in the classic bureaucratic error of control aimed not at the evolutionary development of effective support instruments but at the fastest possible spending of budgeted funds.
 - Monitoring and evaluation systems are also incorrectly controlled by concentration on outflow-of-funds indicators because, as a result, they are geared not to the most valid and actual assessment of the effects of aid and the attainment of objectives but, primarily, to the measurement of bureaucratic activity.
 - Last but not least, the resources of the Structural Funds may - at least in principle - also be incorrectly controlled in terms of geographical area and substance. Placing a premium on output and outflow-of-funds indicators does not necessarily steer additional resources to the regions with the heaviest pressure of problems or most effective level of support, but to the regions with the most efficient administration, which is most likely to be able to absorb the available funds quickly. In principle, this may

result in resources being redistributed away from the actual problem regions into more developed regions. In current practice, however, this much-debated risk seems not to exist, since the utilisation of resources is no less in the regions with the heaviest pressure of problems than it is in other regions.

The rewarding of regions and programmes on the basis of output and outflow-of-funds indicators cannot, therefore, even be regarded as a second-best solution: in comparison with the actual intention to reward the effectiveness of the support system it is not a second-best solution but results in counter-productive effects which are more harmful than beneficial to the support system.

3. Lack of political acceptance: Finally, the rewarding of regions and programmes on the basis of output criteria is also a virtual political impossibility. If it is to be fair, it cannot be an automatic process but must also take account of and evaluate the various specific characteristics of the programmes and the differing macroeconomic contextual conditions by means of discretionary decisions. Such discretionary decisions (such as the weighting of output indicators by the Commission), which would result in the redistribution of resources between the Member States, would, however - in the light of all previous experience - be politically impracticable within the non-hierarchical multi-level EU system, since however well planned they were they would not be completely transparent and acceptable. Rewarding on the basis of output criteria thus confronts the dilemma that it cannot work without discretionary decisions but that such discretionary decisions are politically impossible to arrange under the competitive conditions of a bonus system.

Bonus systems which try to measure and reward effectiveness and efficiency under the specific conditions of the European Structural Funds therefore seem not to be feasible, either objectively or politically.² This leaves, as a variant that is both objectively and politically feasible, a bonus system which is geared to management performance and rewards those regions and programmes which have above-average management and feedback systems. A bonus system which rewards not output and the outflow of funds but management structures and processes would offer the regions an incentive for the continuous improvement of their support processes and institutional evolution, and so, indirectly, the effective and efficient implementation of Structural Fund resources. The specific form taken by such a

² The problems associated with a performance reserve as proposed by the Commission become particularly clear when it is compared to instruments with similar intentions. The U.S. Department of Health and Human Services implements a "high performance bonus" to support the States with the best results from the Temporary Assistance for Needy Families programme (TANF). The allocation of 200 million US dollars each year is based on a ranking of all States according to four indicators. The ten best States receive a proportion of the bonus that is proportional to their budget of TANF. The States are ranked by use of a formula without discretion of the Federal Government. The indicator comprises four measures: job entry rate, success in the work force (job retention rate and earnings gain rate), increase in job entry rate, increase in success in the work force.

This bonus system is highly interesting as an example for rewarding performance, because it is geared at outcome, not output, and it appears to be politically feasible because it requires no discretion in the allocation of the bonus. However, there are three main differences between the U.S. TANF programme and the Structural Funds: The Structural Funds' policy rationale and their set of objectives are much more complex than the objective of the U.S. programme of facilitating the transition of people from welfare to work. The collection of data and the comparison between baseline (case load) and results is possible for TANF but there are no comparable data for the Structural Funds programmes. Finally, however, TANF is implemented by States and controlled by a Federal agency that holds a sovereignty not comparable to that of the European Commission.

For a comprehensive presentation of the TANF high performance bonus cf. <http://www.acf.dhhs.gov/news/welfare/highperf.htm>

management bonus could be based on the standards of administrative modernisation developed in the new public management debate and the “performance reserve” proposals formulated by the Commission, where these envisage rewards based on management criteria. The following model, for example, would be one possibility:

- At the start of the support period a small proportion of Structural Fund resources for the various Objectives (about 3%) is withheld by the European Union.
- At the time of the interim evaluations, a ranking of support programmes is produced based on management indicators.
- Two-thirds of the reserve are then (proportionally to the previous programme volume) distributed over the programmes in the upper third of the ranking, and in the same way one-third is distributed over the programmes in the middle third of the ranking. The last third receives nothing.

The necessary indicators for a structural benchmarking of management practices can be derived from four areas:

1. *Management structure*: organisation of the monitoring committees, etc.;
2. *Regional involvement*: inclusion of regional and local actors in the implementation process;
3. *Horizontal coordination*: cross-sectional coordination and integrated use of the instruments at decentral level;
4. *Feedback systems*: quality of the feedback systems.

At present, indicators in these four areas vary in respect of their level of development and availability. With regard to the feedback systems of monitoring, evaluation and financial control, extensive studies are already available from DG XVI and Member States which can serve as a basis for the development at short notice of a usable set of indicators which is technically achievable and politically acceptable.

In the other areas, however, usable indicators have yet to be developed. The experience of the “International Network for Better Local Government” of best-practice local authority administrations in the OECD shows that it takes about three years of expensive technoscientific, managerial and political work to develop a usable set of management indicators to the application stage.

This suggests the following option for the application of a management performance reserve within the framework of implementation of the Structural Funds:

- The instrument can be used even in the next support period, based on indicators of the quality of the feedback systems such as the existence of an independent, external interim evaluation, the proportion of expenditure for projects with evidence of use, and the availability of data for unit cost comparisons.
- Indicators for the other three areas can either be developed by the conclusion of the programming negotiations or the Commission and Member States can reach agreement by the next mid-term review on a minimum set of indicators, which can subsequently be applied.

4.2.3.6 Adapting the panoply of financial instruments: differentiation, improving efficiency and more competitive orientation

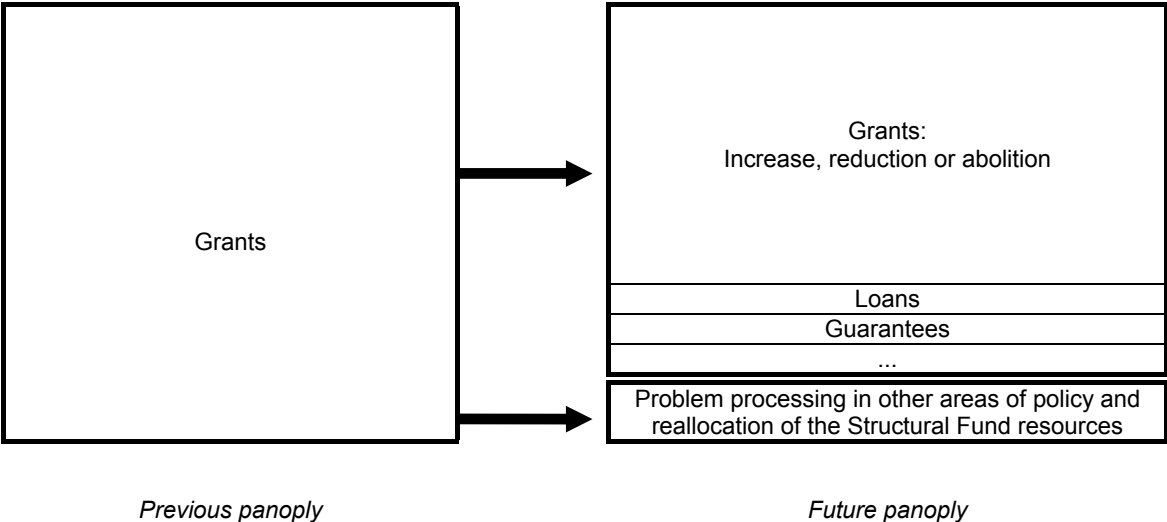
The Structural Fund regulations and CSFs provide for a wide range of financial instruments. They range from grants-in-aid to government guarantees. In practice, however, according to information received from Member States, the instrument of grants-in-aid (‘lost grants’) is the

one mainly used. This “extensive use of grants” (ESRI 1997) is often regarded as economically unjustified and frequently associated with negative side effects in relation to the above-mentioned public investment criteria (see above, 3.1).

This subsidy practice, with the often unjustified dominance of lost grants, is admittedly very much in the interests of the administration of the funds, since it helps to simplify their administration. According to information received from the Member States, DG XX has a clear preference for simple instruments of financing, i.e. lost grants. But it becomes clear from the discussions and evaluations that the financial instruments offer substantial potential for improvement. It thus seems necessary to revise the panoply of financial instruments with a view to differentiating them and making them more effective and more competitively oriented.

A possible way of approaching this revision of the panoply of financial instruments can be illustrated with reference to the mid-term evaluation of Ireland (ESRI 1997), whose comments on the selection of the financial instruments can be briefly and diagrammatically illustrated here:

Figure 9: Improving the efficiency of the panoply of financial instruments



Accordingly, starting from the objective of the various measures and the evaluation of their results, the following way of differentiating the lost grants suggests itself: retention, increase, reduction or abolition and replacement by loans³, guarantees⁴ or other financial instruments. An important area for such a differentiation of the financial instruments are rent-generating (public) infrastructures.

In addition to subsidies by means of various financial instruments, the Irish evaluation also refers by way of example to two other options:

³ The use of loans and guarantees as an alternative to lost grants is discussed in some other evaluations. With regard to loans, risk capital funds are a particular subject of discussion at present, for example in Merseyside.

⁴ The instrument of government guarantees is, for example, being used - apart from the Structural Fund support - within the framework of purely national programmes in Eastern Germany.

- in areas where incentive effects of subsidies are dubious they should be abandoned entirely;
- support is frequently aimed not at the causes of problems but merely at their symptoms. In these areas, it is more sensible to operate with the appropriate instruments, such as fiscal policy, and to divert the Structural Fund resources to areas where they produce more effect.

In accordance with the conclusions reproduced here, the efficiency and level of target achievement of structural policy could be considerably increased by this kind of differentiation, increased efficiency and greater competitive orientation. Within the framework of the strategic management and decentralisation model outlined above, the Commission - and, of course, any Member State - could take the initiative for this kind of review:

- in defining the panoply of instruments in the regulations;
- as a statement of strategic aims in the form of a communication to all Member States at the start of the programming process;
- as a negotiating mandate for the bilateral strategic agreements on objectives in programming and reprogramming.
- The strengthened feedback systems (monitoring, evaluation and financial control) could monitor, control and support the level of target achievement resulting from this restructuring of the panoply of financial instruments.

Instead of imposing alternative financial instruments - for example by defining a percentage of the programme's assistance volume which must be spent by using loans and guarantees - a promising strategy of the Commission for the differentiation of the panoply of financial instruments would be, on the one hand, a mixture of arguing and convincing as outlined above and enabling the implementation of alternative instruments by facilitating the administrative procedures, especially concerning financial control.

4.3 Regional mobilisation and developing regional skills

4.3.1 Initial situation: innovative expansion of centralised public structural policy

As part of the regulation of the partnership (Article 4 of the framework regulation) and at the initiative of the Commission, the traditional Objective 1 and Objective 2 process has been expanded beyond the traditional circle of centralised public actors. In particular, an attempt has been made here to incorporate two new actor systems into the structural policy:

- the economic and social partners;
- the subnational actors at regional and local level, such as local authorities and citizens' groups.

The expansion of the traditional centralised structural policy to include the regional dimension with its additional actor systems has progressed to varying extents but is predominantly regarded as an important innovation in policy architecture, though it does at the same time create numerous secondary problems.

4.3.2 Trends towards regional mobilisation and development of regional capabilities, but wide differences and uncertainty about results

There is a perceptible trend in all countries, though to an extremely varying extent, towards greater involvement of regional actors outside the narrowly defined state sector. This process of differentiation takes three very different forms:

1. The corporatist expansion model in federally structured countries like Spain and Germany, where associations are guaranteed increased access to information in the public system.
2. The intra-administrative decentralisation model in countries like Finland and Portugal, where new regional administrative forms, often sectorally integrated, are being created at the initiative of the State apparatus, and this is linked with a certain degree of basic participation.
3. The devolutionary model, in which radical decentralisation is linked to autonomous empowerment of local groups. This is most marked in the Merseyside case and in a number of Irish examples. Within this evolutionary model there are a great many very different development variants, all of which are more or less subforms of “public private partnerships”.

In all three variants there are, as it were, underlying system questions to be discussed: in the federal systems, regionalisation is highly politicised below state level; in the English and Irish examples the question of dependent decentralisation as compared with genuine empowerment with autonomous resources is a critical decision to be taken; in countries like Portugal and Finland the issue is whether to establish a new, intermediate regional level in the first place.

4.3.3 Uncertainty about results

The first qualitative findings from evaluations indicate that the effects of the trends described to date are very difficult to assess and, where they can be assessed, an extremely wide diversity of very different configurations and levels of effectiveness can be observed. Highly innovative and effective instances contrast with a great many deadweight effects and collusion and cooperation situations.

4.3.4 Strategy development for regional mobilisation

The national examples show very clearly that local mobilisation and development of capabilities are most successful where national or federalist structures and institutions are still weak or non-existent. This becomes all the more apparent when compared with the contrasting examples of Germany and Spain, where the participation of subnational actors ends at the level of regions that are relatively strong within the national system - the autonomous regions in Spain and the states (Länder) in Germany.

The relatively strongest mobilisation effects have arisen with action plans (within narrow local or regional limits), such as the one in Merseyside, or on a smaller scale within the framework of the Irish programme for local and rural development. In these cases, capacities for programming, implementation and evaluation are built up at local level, the local actors gaining in competence relative to the national actors.

In view of these experiences, the strategy of regional and local action plans should be pursued and intensified. It is equally clear, however, that in view of the uncertainty about the results to be expected and the lack of experience of decentral actors, guidelines and support structures should be incorporated into this process as both opportunities and restrictions. They include:

- the administratively supported regional or local action plans, as in Merseyside;
- autonomous allocation of resources with clearly defined legal responsibility and clear financial control;
- support for networking in the form of public private partnerships.

At present, the participation of the two sides of economic and social partners is more lastingly successful in Germany and Spain, where they are involved - if at all - only in non-binding consultations. But if, as in Merseyside or Ireland, they are involved in the planning and implementation of action plans, then the invitation to discuss development strategies is linked to an offer of a right of codecision on the use of specific funds for their implementation. In this situation there is a significantly greater incentive for social actors to develop competences and play an active part in shaping them.

As shown by the three models that have been outlined, the level of mobilisation varies between the development of large-area regions, as in Finland or Portugal for example, and a more local level, as in Merseyside, or, especially, in Ireland. Irrespective of the particular level, however, the examples show that powerful effects are possible when a window of opportunity can be utilised:

- It exists when the impulse of the Structural Funds encounters more or less pronounced national attempts at decentralisation.
- The Structural Funds then provide a welcome opportunity to “test” the development of decentralised skills before other, more classic functions of central government are decentralised.
- The Structural Funds permit devolution going beyond administrative decentralisation, in the sense of an involvement of societal actors. The receptiveness of the governmental actors towards this is evidently greater when a new level is created than when the implementation of the Structural Funds merely becomes an additional task for an established administrative level.

It will be a central task of the Commission to promote further regional mobilisation and the skill development based on the experiences described above. The strategy can be supported by an inter-regional exchange of experiences and a coaching of the individual regional and local partnerships as outlined above. However, there are no models to be replicated throughout the EU. But regional mobilisation can be promoted and facilitated on four main levels: Structural Funds regulations, programme negotiations, incentives in the framework of the performance reserve, and finally in the context of the Monitoring Committees.

4.4 Integrated use of the Funds

The national survey confirms the familiar picture: the integrated use of the funds falls well short of expectations; the implementation actors all report non-functioning positive or even negative incentives at programming level. Particularly suggestive is the criticism of the multifund programmes in Eastern Germany. However, there are also some highly promising exceptions at project or local level.

4.4.1 Three obstacles in the existing delivery system

As described in more detail in the analysis of the strengths and weaknesses of the existing implementation system (see above, 2), there are three evident obstacles to integrated use:

- The national ministries responsible for the implementation of the various funds work in too much isolation from one another to develop and implement genuine joint strategies, programmes and projects. This problem fundamentally exists in all Member States, though to a very varying extent and with different consequences.
- Similarly, there is insufficient cooperation between the Commission DGs involved.
- But the main obstacle lies in the excessively variable process requirements of the funds. In Member States with their own support instruments, which are implemented “in harness” with the Structural Funds, this programme is further intensified by, in some cases, excessively varied process requirements of the national instruments.

4.4.2 Examples of success at project and local level

At project and local level there is a comparatively impressive number of positive examples: the implementation of an Irish sub-programme by transferring a global grant to an intermediate organisation, a few outstanding projects in Merseyside and various projects in Finland and Portugal.

The integration of the funds takes place there at the level of individual projects or within the framework of local action plans in which, with the participation of local actors, a specific strategy is linked to an independent budget. The essential preconditions for these successful examples are probably the following:

- a greater need for tailored integrated projects is perceived on the spot than in the distant central administration;
- in the examples referred to, the decentralised implementation structures are only at the build-up stage. The organisational routines and institutions are, therefore, less rigid than at national level, where the sectoral ministries already have a long tradition of working separately. In addition, multisectorial administrative structures are often built up on a decentralised basis: examples of this are the Finnish Regional Councils or the integrated Government Offices in the United Kingdom.

4.4.3 Towards a "more integrated" use of the Funds

Experience, especially experience of the German multifund programmes in the Objective 1 region, shows that integrated use cannot be enforced by means of programming. On the basis of the positive examples referred to and the widely welcomed coordinating effects of the Structural Funds (see above, 2.2), however, the following could be identified as starting points for a Commission strategy aimed at “integrated” use of the funds:

1. A necessary precondition is to eliminate the different procedural requirements of the funds (see below, 4.5) and the lack of coordination between the Commission DGs (see below, 5). Only in this way will the local actors find more integrated use possible.
2. In addition, in view of the positive examples, the instrument of local action plans should be put to greater use:
 - In the monitoring committees, the Commission’s representatives can help to create conviction by reference to best practices.
 - The application of alternative models of implementation should be facilitated. Previous experience in Ireland, for example, shows that the combination of global grants and an intermediary organised under private law allows considerable gains in flexibility and hence also facilitates integrated use. At the same time, however, the special problems that exist with this model, such as the impossibility of providing a buffer for the cash flow, have to be solved.

The positive examples show that such initiatives certainly do exist in the Member States. In order to achieve a "more integrated" use of the funds, then, the Commission needs not to produce new incentive systems for the Member States but to eliminate existing administrative obstacles and boost conviction through the dissemination of best practices.

4.5 Administrative simplification

A further development of implementation of the Structural Funds towards a strategic management and decentralisation model, including a partial unbundling of the decision-making processes (see above, 4.1), will make it superfluous to retain many of the bureaucratic procedures that are still needed during the current period: apart from "minor" reprogramming operations below the level of support priorities, this relates especially to the purely "technical" reprogramming operations, such as those involved in the distribution of the indexing resources.

Nevertheless, some administrative obstacles to strategic management still remain to be eliminated. These relate particularly to the process requirements of the various funds and the flexibility of the actors involved at a decentralised level. Finally, two essential strategic elements of the action and reaction capability of the delivery system must also be ensured, without fail, by appropriate bureaucratic procedures.

4.5.1 Standardising procedural requirements

At present the various Structural Funds are subject to different procedural requirements. These give rise to regulations that are in some cases contradictory, for example regarding the eligibility of expenditure for support. In particular, the support is artificially split administratively, which in many cases presents an obstacle to integrated use of resources (see above, 2.3).

The administrative procedural requirements of the various funds must therefore be harmonised, as a matter of urgency. The first and most important step in reform of the Structural Funds relates to the structure of the new Regulations: standardised procedures can best be ensured if all procedural questions for all funds are regulated in the Coordination Regulation. The Regulations on the individual funds can then be focused on a clear, user-friendly definition of eligibility for support in each case.

Accordingly, then, all subordinate regulations, such as the implementing regulations, must be coordinated and standardised across all the funds within the Commission.

4.5.2 Enabling flexibility of actors at decentral level

The unbundling of the decision-making structures and a decentralisation of the power of implementation call for a corresponding flexibility on the part of the actors at the decentralised level. To this end, some of the administrative obstacles outlined in the review of strengths and weaknesses must be eliminated:

- The requirements for the programme drafts, in terms of content and procedures, must be available sufficiently early to be taken into account by the Member States when preparing their regional development plans (see above, 4.1.1.2).
- Procedures to reallocate resources even between funds or programmes must be simplified.
- With simultaneous strengthening of financial control, financial management can be facilitated: to this end, global management of the resources in the Member State should be made possible, which in turn will allow resources to be called up jointly for all programmes. In addition, a larger proportion could be transferred at the start of the support period or of the year in question, to be recalled automatically if not used.
- The definition of eligibility for support must be clear at the start of the support period.
- The mandatory formal procedural requirements for programme planning, reports and evidence of use should be proportionate to the magnitude of the programme. In accordance with the respective financial benefit of the programmes for the region, “leaner” bureaucratic requirements should be laid down, in particular for smaller programmes below a defined threshold of financial magnitude of the programme.

A possible starting point here, for example, is the existing *tranche unique* and experience of global subsidies. Overall, such a slimming-down will be geared to the principle of a transition from detailed control of many individual stages of implementation to a transfer of overall responsibility to the implementing agencies.

4.5.3 Administrative means for ensuring the delivery system can operate properly and provide faster response at all levels

The ability of the Monitoring Committees to operate properly and of the delivery system to produce a rapid response are two essential elements of the strategic management and decentralisation model (see above, 4.1). They must also be ensured bureaucratically in the new implementation system, so as not to be levered out by technical procedural requirements:

- The Commission’s representatives must be able to give definitive opinions and cast definitive votes locally. A necessary precondition for this is that the position of the Commission on, for example, reprogramming operations, should be agreed internally before the Monitoring Committees meet.
- The transfer of powers to the Monitoring Committees will make an essential contribution to overcoming the out-of-control time dynamics of the decision-making processes. Rigid time limits which can be kept to by the participants must be set for all decisions that cannot be taken at the meetings in the regions. Consideration needs to be given to the possibility of relieving the procedures of the burden of purely formal declarations of assent by means of the principle of “saying nothing by the deadline counts as assent” (preclusion principle).

5 Reorganisation of the Directorates-General

The above measures to re-engineer the regional assistance system also entail changes to central Commission bodies, i.e. the Directorates-General. In this section we shall not yet be making specific proposals for the reform of individual Directorates-General. Instead, we summarise the many ideas put forward in our discussions in the Commission and the Member States and condense them, drawing on the “enlightened” New Public Management movement’s experiences in the OECD regions, into guidelines for the re-organisation of these Community-level bodies.

5.1 The central Commission bodies’ ambivalent role

Our findings, and other similar studies (such as the survey of front end officers in geographical units at DG XVI in 1996, etc.), show a universally divided understanding of the role of the Directorates-General, especially in the geographical units:

- The level of qualifications among the staff is uncontestedly regarded, both inside and outside the Directorates-General, as almost universally high in both operational and multicultural terms. At the same time, there is almost equally unanimous criticism that almost all of them are overloaded with detailed technical procedures; in other words, that the specific strategic human resources of the Commission are being systematically underused.
- There are frequent complaints of a lack of administrative experience and administrative culture, although there are also significant exceptions. At the same time, surprisingly, virtually all Member States frequently and consistently express a desire for procedural backup - in very different ways - by the various functional divisions of the Directorates-General.

According to our findings, this dual role of the Directorates-General is very definitely attributable to two structural features of the support system:

- it is an expression of the unresolved parallelism between regulatory control and target control, in which the bureaucratic routines of regulatory control are increasingly dominant;
- this also provides evidence of under-modernisation of the Directorates-General, at least when measured against the advanced modernisation efforts and standards in a good many EU countries and internationally.

On the basis of our studies, we now focus on a few examples to illustrate various principles and starting-points for an internal organisation reform of the Directorates-General.

5.2 Strategic resources available to the Commission and Directorates-General: the comparative advantage of European institutions

The role of the Commission and its Directorates-General in structural policy needs - in view of the specific features of the European multi-level system as compared with nation-state hierarchies - to focus even more than previously on the possible competitive advantage over the Member States. The possible “value added” by Commission and Directorates-General lies, on the basis of our studies and the literature, in three strategic resources:

- an accumulated, international database as “co-owners” of national monitoring, evaluation and financial control information;

- the international experience of the Commission and Directorates-General - often in the form of “tacit knowledge and skills” - based on long and varied interaction with the various Member States and their regions;
- their role as an equitable mediator in clashes of interest between nation states and as an efficient catalyst in dealing with complex processes of structural policy.

However, these three strategic resources have two specific characteristics as compared with other “assets”:

- all three resources are not immediately accessible but need specific investments and procedures to activate them;
- in particular, the second and third resources are - because of their primarily “tacit” character - closely linked to the existing human resources.

The development, advancement and skilful deployment of these resources held by the European institutions thus represent the precondition for enhancing the effectiveness of the structural policy.

5.3 Changing the organisational culture in the Directorates-General

Activating the strategic resources of the Commission and Directorates-General in order to develop structural policy in the direction of strategic decentralisation calls for a change of culture in the existing mode of organisation of the European institutions. Against the background of known modernisation programmes undertaken by public institutions in the OECD countries, relevant experience from the private sector and, not least, many indications revealed by our surveys, we should like to outline, in summary form, a few principles to be followed in such a change of culture in the Commission and Directorates-General:

- a change of roles, away from detailed administrative control and monitoring to strategic management and strategic controlling, including positive and negative sanctions;
- further development and strengthening of the enabling, mediating and catalyst function of the Directorates-General in dealings with the Member States;
- making it possible for a “seamless service” to be provided to the “customers” of the structural policy, in the sense of a “system house” of structural policy services with the principle of “one face to the customer” based on “individual solutions”;
- the provision of services by the Directorates-General in accordance with “defined business processes” instead of the frequently prevalent ad hoc character of many structural policy activities.

5.4 Prospects for the reorganisation of the Directorates-General

The change of culture in the European institutions needs to be underpinned by more advanced arrangements for the structural and procedural organisation of the Directorates-General and the further development of their policy regarding depth of service. Against the background of the relevant experience referred to above, we cite by way of example a few key phrases to feature in the organisational development of the Directorates-General:

- transition from highly specialised and highly segmented functions to a more product-oriented process organisation; and at the same time
- a multifunctional “project-based management” imposed upon the highly specific division of tasks; and, hand in hand with this, an appropriate

- change of staff profile, away from functional specialists with a strong emphasis on division of tasks towards “general managers” of the structural policy, with increased scope for decision-making in dealings with the customer;
- focusing the depth of services provided by the Directorates-General on policy and administrative aspects of high strategic relevance, specific to the three strategic resources mentioned above, with simultaneous strengthening of the “smart buyer” role and the further development of a differentiated “supply base”.

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