

## EXECUTIVE SUMMARY

### Objectives and scope of the evaluation

One of the parts of the 2014–2020 EU Structural Funds operational programmes ex-ante evaluation is the evaluation of the effectiveness of the 2007 – 2013 m. EU structural funds administration system. The goal of the ex-ante evaluation is to improve the quality of planning, management and implementation of the EU structural assistance. In the tender documents for the purchase of the ex-ante evaluation services, there are three evaluation tasks:

1. To assess Lithuania's experience in administering EU structural assistance during the periods of 2004–2006 and 2007–2013 and to propose recommendations for a more effective administration of the operational programmes during the upcoming 2014 – 2020 EU programming period;
2. To carry out the ex-ante evaluation of the 2014–2020 EU structural assistance operational programmes;
3. To carry out the strategic environmental impact assessment of the 2014–2020 EU structural assistance operational programmes.

This report is an outcome of the completion of the first evaluation task. The final EU structural assistance administration system's evaluation report presents the results of the evaluation of the EU structural funds administration system's effectiveness in accordance with the technical specification's questions from 9.1.1. to 9.1.8.

This evaluation covers the entire EU structural assistance administration system in Lithuania and its principal components:

1. Institutional structure – institutions that are involved in the administration process (Managing authority, 1<sup>st</sup> and 2<sup>nd</sup> level Intermediate Bodies, Audit Institution, Monitoring Committee of the Operational Programme, etc.), their functions and inter-cooperation;
2. Processes and procedures that are being followed during the administration process (it is important to clearly understand the definition of each process and procedure and to ensure continuous optimization and improvement);
3. Measures (instruments) that are designed for the maintenance and simplification of the processes and procedures (e.g. various IT solutions, standards, guidelines, templates, etc.);
4. Human resources – qualitative and quantitative capacities, possessed by the institutional actors, who are participating in the administration process (the adequacy and sufficiency of the administrative capacities).

### Methods of the evaluation

Lithuanian authorities need a well-functioning EU structural assistance administrative system in order to achieve the goals and objectives that are set in the operational programmes. Coherent planning of the public interventions and the development of a favourable social and economic environment are also important factors.

Although there is no unified standard or an ideal model for measuring the effectiveness of an EU structural assistance administration system, the main efficiency requirements are the following: (1) compliance with the rules and requirements, (2) sufficient absorption rate and (3) the proportionality of the incurred costs.

In this evaluation, the effectiveness of the EU structural funds administration system is assessed by analysing such aspects as administrative costs, administrative burden for the project applicants and project implementers, administrative burden reduction measures, simplification options, administrative capacity building of various institutions and beneficiaries, best foreign practice and other various factors that have influence on the effectiveness of the EU structural funds administration system. This evaluation encompasses both – the project and the programme - levels of the EU structural assistance management.

The evaluation questions (from 9.1.1. to 9.1.8), which are listed in the technical specification, were answered during the conducted evaluation. Data collection and the preparation of answers to these evaluation questions was conducted by applying the methods, which are listed in the Table 1.

**Table 1. Evaluation questions and applied methods**

Evaluation question	Applied methods
QUESTION 9.1.1. What are the main factors that influence the effectiveness and the quality of the EU structural assistance programmes' administration process?	<ul style="list-style-type: none"> <li>• Qualitative analysis of the primary and secondary sources</li> <li>• Cross-analysis of other evaluation questions' data</li> </ul>
QUESTION 9.1.2. What is the effectiveness of the 2007-2013 operational programmes administration system (at the system level and at the 2 <sup>nd</sup> level Intermediate Bodies' level)? What measures could be applied in order to improve the effectiveness of the EU structural assistance administration process and how it could be measured?	<ul style="list-style-type: none"> <li>• Qualitative analysis of the primary and secondary sources</li> <li>• Monitoring data analysis</li> <li>• Focus group discussions</li> <li>• Interviews</li> <li>• Project applicants' and project implementers' survey</li> </ul>
QUESTION 9.1.3. What is the administrative burden for the project applicants and what is the administrative burden for project implementers? How this administrative burden could be reduced in the future (separately identifying the means that are applicable during the 2007–2013 and the 2014–2020 programming periods)?	<ul style="list-style-type: none"> <li>• 2<sup>nd</sup> level Intermediate Bodies' evaluation analogy</li> <li>• Analysis of secondary sources</li> <li>• Project applicants' and project implementers' survey</li> <li>• Indicators' indirect impact analysis</li> <li>• Eight case studies of the different 2007 - 2013 EU structural assistance measures</li> </ul>
QUESTION 9.1.4. How the information systems could be used in order (1) to reduce the administrative burden and (2) to increase the effectiveness of the administration process of the 2014 – 2020 EU structural assistance operational programmes? To what extent it is necessary to ensure the data exchange via electronic means between the beneficiaries and the intermediate bodies? What measures and actions are necessary in order to implement the proposed changes?	<ul style="list-style-type: none"> <li>• Qualitative analysis of the primary and secondary sources</li> <li>• Focus group discussions</li> <li>• Interviews</li> <li>• Project applicants' and project implementers' survey</li> <li>• Additional interviews with the project implementers</li> </ul>
QUESTION 9.1.5. What simplifications were implemented during the 2007-2013 EU structural assistance period? Were they effective? How?	<ul style="list-style-type: none"> <li>• Qualitative analysis of the primary and secondary sources</li> <li>• Focus group discussions</li> <li>• Interviews</li> <li>• Cross-analysis of other evaluation questions' data</li> </ul>
QUESTION 9.1.6. What are the differences, advantages and disadvantages of the administrative systems of the 2004–2006 and 2007–2013 EU assistance programming periods? What lessons could be learned from the experience of 2004–2006 and 2007–2013 EU structural assistance periods'? What practices (used in Lithuania and in foreign countries) are worthwhile to consider, when developing the administration system for the 2014–2020 EU structural assistance (institutional structure, functions, principles, and procedures)?	<ul style="list-style-type: none"> <li>• Qualitative analysis of the primary and secondary sources</li> <li>• Interviews</li> <li>• Cross-analysis of other evaluation questions' data</li> </ul>
QUESTION 9.1.7. How the administrative system of the EU structural funds' operational programmes could be improved during the period of 2014-2020? (Propositions	<ul style="list-style-type: none"> <li>• Cross-analysis of other evaluation questions' data</li> <li>• Expert panels and result analysis</li> </ul>

must cover such areas as the institutional structure, the administrative principals and procedures).	
QUESTION 9.1.8. How the administrative capacities of the institutions and the beneficiaries could be improved? (Propositions must be based on the analysis of the current situation, the new administrative demands that stem from the 2014–2020 operational programmes; propositions also must assess the overlapping of the two programming periods).	

## Results of the evaluation and the recommendations for the 2014 – 2020 EU structural assistance programming period

This section presents the main findings and insights of the evaluation. In order to improve the administrative system of the EU structural assistance and to increase its operating efficiency, this section offers recommendations for the 2014 – 2020 EU structural assistance programming period. The results and recommendations are grouped into five lots. Firstly, we present the insights on the institutional system and its structure, functioning and collaboration between different actors. Secondly, we introduce the administrative improvements or necessary changes that are related to the main administration principals. Thirdly, we present the results of the evaluation and the recommendations, concerning the improvement of the basic administrative procedures. Fourthly, we explore the possible IT solutions that could be useful in reducing administrative costs and burden. In the fifth lot, we present the main insights and recommendations, regarding better regulation and the learning process of the participants of the administration system.

### I. Institutional system: structure and cooperation

During the development of the administrative system for the 2007-2013 EU structural assistance programming period, the acquired administrative experience of the 2004 - 2006 programming period, was extensively used. In addition, institutional actors improved a number of legal acts, which regulate the administration of the EU structural funds.

This evaluation showed that a) the 2007 - 2013 EU structural assistance administrative system operates properly and efficiently; b) for the effective implementation of the public policy interventions, the administrative capacities are as important as the thorough understanding of these public policies; the administrative capacity building process is time consuming. For the programming period of 2014-2020 it is recommended to ensure the continuity of the administrative system of the EU structural assistance and to retain the administrative capacities and competencies of the management and control system institutions.

The idea that 1<sup>st</sup> level Intermediate Bodies should maintain their key role in the EU structural assistance administrative system derives from fact that these actors have a strong knowledge about the public policy they are responsible for: 1<sup>st</sup> level Intermediate Bodies take part in shaping the national strategy in those public policy sectors. They are responsible for the allocation of the financial resources to those sectors as well. As a result, the structural assistance resources could be managed more effectively; the national priorities could be achieved, coordinating the interventions that are financed by the state budget and by the EU structural assistance. However, during the period of 2007-2013 the EU structural assistance measures were not always assigned to those 1<sup>st</sup> level Intermediate Bodies, who had competency in the given public policy area.

It was also found, that during the period of 2007-2013 the effectiveness of the new institutional actors of the management and control system – i.e. global grants administering entities – significantly differs. The effective and thorough planning of interventions and the provision of the competent human resources have a substantial influence on the effectiveness of such institutions.

Considering that, during the period of 2014-2020, Lithuania plans on preparing and implementing only one EU structural assistance operational programme, it is recommended to adopt the same principal administrative scheme that was used during the 2007-2013 period, i.e. a scheme, where the Managing Authority directly delegates functions to the 1<sup>st</sup> level Intermediate Bodies. When considering the possibility of involving other institutions into the administration process of the EU structural assistance, it is recommended to:

- include those ministries and (or) other institutions, whose sectorial interventions are going to be financed from the 2014-2020 EU structural assistance (e.g. Ministry of Culture);
- when considering the possibility of implementation of the global grant schemes, ITI or simplification initiatives for the period of 2014-2020, the Managing Authority's functions must be delegated only in the case of a thoroughly thought-through intervention. The intervention must be designed only after a detailed consideration about its future administration possibilities and the administrative capacities of the 2<sup>nd</sup> level intermediate bodies or global grant administering entities.

The 2<sup>nd</sup> level Intermediate Bodies' capacities must be further fully employed during the period of 2014-2020. It is also important to further strengthen these institutions by providing them knowledge and competencies of those public policy areas, which EU structural assistance interventions they are administering. This could be achieved by:

- close collaboration of the 2<sup>nd</sup> Intermediate Bodies and the 1<sup>st</sup> level Intermediate Bodies, especially their units, which are responsible for the state policy in specific public policy areas, which are being financed by the EU structural funding;
- 2<sup>nd</sup> level Intermediate Bodies' inter-collaboration and cooperation with other state agencies and institutions, which have the required sectorial knowledge;
- more intensely using the services of the external experts.

Analysis showed that in practice the EU structural assistance administration system retained a three level structure from the 2004 – 2006 programming period. Despite the fact that during the years 2007 – 2013, delegation of the Managing Authority's functions became clearer, the administration system can still be characterised by a close functional connection between the 1<sup>st</sup> and the 2<sup>nd</sup> level Intermediate Bodies.

In the legislation that regulates the EU structural assistance administration process there are no explicit regulations, regarding the accountability relations between of the 1<sup>st</sup> and the 2<sup>nd</sup> level intermediate bodies. The potential measures of influence (e.g. sanctions or encouragements) are not regulated either. During the evaluation it was noted, that in those cases, when 2<sup>nd</sup> level intermediate bodies are not directly accountable to the 1<sup>st</sup> level intermediate bodies, some strains may occur between the two institutions and the 1<sup>st</sup> level intermediate body may not be willing to delegate its functions to the 2<sup>nd</sup> level intermediate body.

For this reason, it is recommended to ensure a clearer delegation of functions and accountability (systematic monitoring of delegated functions, analysis of the administrative costs and burden, regular reporting) when establishing the administrative procedures for the 2014-2020 EU programming period. This would create an opportunity for:

- an active delegation of functions to the 2<sup>nd</sup> level Intermediate Bodies, i.e. encouraging a wide usage of the bilateral project financing and administration agreements (simultaneously, the 2<sup>nd</sup> level intermediate bodies could be obliged to coordinate with the 1<sup>st</sup> level Intermediate Bodies the essential changes that are being made);
- reducing the occurrence of the duplication instances, e.g. by simplifying the funding disbursement procedure (this would include the minimisation of the extent to which control procedures are undertaken by the 1<sup>st</sup> level intermediate bodies).

## **II. System level changes (principles of the administration process)**

Analysis showed that during the period of 2007-2013 the overall level of control was well balanced, considering that (1) the administrative costs of the 2<sup>nd</sup> level Intermediate Bodies were low; (2) in the Annual Report of National Audit Office of Lithuania it is stated, that the expected error rate reached only 1,17 per cent of the total expenditure, that was declared to the European Commission and therefore, it did not surpass the 2 per cent limit; (3) by the end of 2012, 60 per cent of the recommendations from the 2011 audit report were fully or partially implemented.

One of the results of this evaluation constitutes a correlation between the administrative costs of the operational programme's measure and the average size of the project that it finances: the larger the average size of the project, the lower the administrative costs of the operational programmes' measure.

The administrative costs of the large-scale project dominated measures are lower because (1) during the administration process of such measures, there is a lower number of administrative procedures that must be applied (procedures, such as the assessment of the project applications, the verification of the payment claims, the on-the-spot checks, etc.) and (2) the administration requirements for a specific project do not vary depending on the size of the project. Consequently, the administrative system of the EU structural assistance is oriented towards the administration of the medium and large-scale projects; the requirements for projects and their administration are not differentiated according to the parameters of the projects.

During the EU programming period of 2014-2020, the increase in effectiveness and reliability of the administrative system of the EU structural funds should be associated with:

1. The differentiation of the project requirements, considering the size of the project and the type of the costs that are incurred during the project, i.e. the application of the principle of proportionality:
  - during the programming period of 2007-2013, cost and benefit analysis was conducted for all projects, independent of their value; during the period of 2014-2020, it is recommended to apply this instrument only to high value, large-scale projects;
  - during the period of 2014-2020, the justification practice of the costs that are declared in the payment claims must be revisited – in the case of expenses, which are complex and detailed (e.g. salaries, travel expenses), simplification possibilities must be considered;
  - during the period of 2014-2020, the requirements for the project applicants and project implementers which operate in the small-scale dominated investment areas could be simplified through the standardised interventions, the simpler submission of applications (e.g. less complex form of application) or a wide use of cost simplification measures (e.g. standard unit costs, flat rates). The requirements for large-scale, e.g. infrastructure, projects could be moderated by simplifying the accountability requirements for the indirect and (or) overhead expenses.
2. In the "soft" project dominated (ESF) investment areas, the complexity of projects could also be reduced. The results of the evaluation showed that the current administrative system incurs

similar administrative costs when administering either small-scale or large scale-projects. It is recommended to reduce the administrative costs of the “soft” and small-scale project administration by:

- standardising interventions and limiting the variety of eligible costs and project activities;
  - more extensively applying simplification practices; in order to maximize the benefit of applying those simplification practices, it is necessary to implement measures that are based only on simplified costs (especially in the small – scale project dominated measures). In some cases, there could be some preconditions for the projects, e. g. preparation and accreditation of a study programme.
3. cost simplifications could also be applied for the financing of the indirect or overhead expenses in infrastructure development projects, financed by the ERDF and the CF. This would reduce the complexity of the projects and allow the project implementers and the 2<sup>nd</sup> level Intermediate Bodies to concentrate on essential aspects of the project implementation and the reduction of the administrative burden;
  4. application of the simplified cost practices must be consistent. In order for them to have an actual effect, simplification opportunities must be introduced to the project applicants and the project implementers.

### **III. Development of the basic administrative procedures**

During the 2007-2013 EU structural assistance programming period, two new project planning practices - state project planning and regional project planning - were introduced. In order to assess the administrative practices, an in-depth analysis was carried out of both project planning procedures. The information about the main challenges and the areas for improvement was acquired by applying a variety of methods. This section provides the main results and recommendations for the 2014-2020 programming period.

The participants of the management and control system noted that the state project planning has proven to be a very successful practice. This type of project selection process allows allocating limited financial resources to the achievement of the national strategic objectives. In addition, the state project planning process could be used to implement system level reforms. The main challenges during the 2007-2013 programming period were:

1. The principal of proportionality is not applied in the state project planning process, i.e. the cost and benefit analysis is being applied to both – small-scale and large-scale – projects.
2. The state project planning process is inconsistent because the cost and benefit analysis is applied only during the project application’s evaluation process.
3. The state project planning process is not based on the strategic planning.

In order to further improve the state project planning procedure consistent and the state project selection process, it is recommended:

- to apply the principle of proportionality (i.e. to apply cost and benefit analysis only for the large-scale investments);
- to apply the cost and benefit analysis before the approval of the preliminary list of the state planned projects (or a similar document); also the 2<sup>nd</sup> level Intermediate Bodies have to be involved during the conduction of the cost and benefit analysis of the project;
- to waive the opinion that particular project must be included in the strategic planning document (or in its action plan), because this requirement (1) creates administrative burden, (2) is time consuming and (3) limits the cost and benefit analysis. Instead, in the preliminary list of the state planned projects (or a similar document), it could be sufficient to clearly indicate the national

strategic planning documents, that constitute the basis for offering a particular investment; the results of the cost and benefit analysis could be presented as well.

- to increase the flexibility of the procedure, presuming that the preliminary list of the state planned projects (or a similar document) is not finite and it can encompass the “reserve” or additional projects.

During the programming period of 2007-2013, the second novelty – regional project planning – was implemented. Some key challenges were encountered during the implementation process:

1. There is a lack of coordination between the regions and the central government, which was caused by the passive attitude of the national regional policy coordinator and the lack of previous experience in the regional project planning practice.
2. During the process of regional project implementation, there was an inconsistency between the potentially eligible projects (and their costs) for financing and the investment needs of the municipalities. It was caused by the insufficient cooperation between the compilers of the project financing conditions document and the potential project applicants.
3. Several interventions that were implemented with the help of the regional project planning procedure were ill-fitted. This happened due to the lack of experience when implementing regional planning procedures and the gaps in the government strategic planning.

It is recommended to maintain the regional project planning procedure during the programming period of 2014-2020, because it will strengthen the cooperation between central and local governments and enhance the capacities of local governments. The actions, that could be taken in order to improve the procedure, are:

- to adopt a more integrated approach when planning the investments in one particular region; it is important to reduce the fragmentation and the diversity of the investment areas (including the differentiation of the regions according to the issues that are relevant to a very specific, small area). During the period of 2007-2013, the funding needs of local governments were not adequately reflected at the state level; there were some cases when assistance was provided without taking into account any region-specific factors or the real need for funding. What is more, singling out certain integral costs of the infrastructure projects must be avoided during the upcoming programming period.
- to establish a close cooperation between central and local governments when preparing the documentation that specifies the rules and requirements for the EU structural assistance.

#### **IV. Usage of the information systems for the reduction of the administrative costs and the administrative burden**

During this evaluation an analysis of the usage of information systems during the 2007-2013 EU structural assistance programming period was conducted. There are three main aspects, which could be developed during the 2014-2020 EU structural assistance programming period:

- extension of the possibilities of an active electronic data exchange;
- development of the additional functionalities of the EU structural assistance information management and supervision system and a closer integration between the individual project management stages;
- deeper integration between the EU structural assistance information management and supervision system and the other state registries or databases and the establishment of a closer inter-

connection between the EU structural assistance information management and supervision system and the inner project management systems of the 2nd level intermediate bodies.

The requirement for an extension of the possibilities for an active electronic data exchange derives from the European Commission's draft regulation, which establishes that Member States must ensure that beneficiaries (project implementers) are given the opportunity to provide all the necessary project information for the 2<sup>nd</sup> level Intermediate Bodies via electronic data exchange systems. Once provided, the same information must not be required again. Extended use of electronic data exchange could include – the electronic submission of the project application, the payment claims, and all of the related documentation, the correspondence between the 2<sup>nd</sup> level intermediate bodies, project implementers and ministries and (or) other state institutions, regarding project modifications and other project implementation issues. Such an electronic data exchange possibility allows managing and storing all of the project related documentation in a centralised manner. This could facilitate the communication and the project management process and to ensure a better audit trail, an easier access to data and documents for controlling authorities (especially audit institution).

The development of the EU structural assistance information management and supervision system's additional functionalities and a closer integration between the individual project management stages, could ensure that the project management information will be used more efficiently. Project management and other separate administrative functions are often affected by general aspects of the project – e.g. the overall project risk level, identified inconsistencies, irregularities or other findings that are relevant to all of the other phases of the project administration cycle. Given the fact that the project is often administered not by one, but several persons, and the employee turnover in 2<sup>nd</sup> level Intermediate Bodies is rather high, it is important to ensure that the main project information is recorded in a centralised and accessible manner. One other improvement could be the creation of the project procurement monitoring module in the EU structural assistance information management and supervision system. This could ensure a more efficient project procurement planning and control. Better double financing prevention is also considered to be one of the most important aspects, which should be implemented with the help of the EU structural assistance information management and supervision system.

Deeper integration between the EU structural assistance information management and supervision system and the other state registries and databases and the establishment of a closer inter-connection between the EU structural assistance information management and supervision system and the inner project management systems of the 2nd level intermediate bodies could reduce the administrative burden that is shouldered by the project applicants, project implementers and the institutions themselves. The inter-connection could facilitate the administrative work and ensure a smoother and less time-intensive administrative process. Currently the EU structural assistance information management and supervision system is poorly integrated with other state institutions databases (only several registries are used). It would be of great importance to establish a connection with the registries of the State Tax Inspectorate, the Centre of Registries and State Social Insurance Fund Board. Directly obtaining information from public authorities' databases could be an alternative for the official request of the information from the project applicants and the project implementers. As a result, this improvement could reduce the administrative burden.

## **V. Improved regulation and capacity building**

During the programming period of the 2007-2013, the number of legislation, regulating the EU structural assistance administration process, significantly increased. On the one hand, this means that regulation has become more comprehensive. On the other hand, such abundance of the requirements and norms

presents a great challenge to the management and control system institutions, project applicants and project implementers. The existing situation can be improved by:

1. significantly simplifying the annex of the operational programme (leaving only the information, reflecting financial allocations to the areas of intervention and other general information), because a frequent change of it leads to additional administrative costs;
2. improving several characteristics of the legislation, that is relevant for the applicants and project implementers:
  - user-friendliness: there is a substantial amount of legislation alternations while the informational internet site ([www.esparama.lt](http://www.esparama.lt)) does not provide unified, up-to-date versions of legislative documents (there are many out-dated versions and their alterations); the sets of documents that are intended for the applicants and project implementers are not comprehensive enough. For the period of 2014-2020, it is recommended to provide unified and up-to-date versions of legislative documents and to improve the quality of the information that is being provided for the applicants and the project implementers.
  - comprehensiveness: to ensure that the project financing conditions documents provide the detailed information not only about the submitting and the selection processes of the project applications, but also about all of the conditions of the project implementation, the reporting requirements and possible sanctions, etc.
  - consistency: if the terms and conditions (for the specific area of intervention) have been already published, they could be amended only in exceptional cases.

Already existing experiences and competencies must be fully exploited in order to strengthen the administrative capacities of the management and control system's institutions and their human resources. One of the methods that could help strengthening the administrative systems' capacity-building is the internal learning. For the period of 2014 – 2020, it is recommended to promote the sharing of the best practices between the institutions of the management and control system. It could be achieved by creating a information-sharing tool or by organizing inter-institutional meetings and training, etc.

Also, the administrative capacities of the 2<sup>nd</sup> level Intermediate Bodies that were accumulated during the 2007-2013 EU structural assistance period could be used more extensively during the period of 2014-2020. Since the ministries and (or) other state institutions set the sector-specific investment guidelines, the 2<sup>nd</sup> level Intermediate Bodies could prepare the detailed proposals concerning the technical aspects of the interventions – possible financing schemes (taking into account the need to ensure a simple administration of interventions and to minimize the administrative burden), detailed requirements for the structure of the project budget and requirements for the eligible costs (including the possibility of simplifications), etc.

During the period of 2007-2013, Public Procurement Office (PPO) got involved in the EU structural assistance administrative process. However, an effect of PPO's involvement is equivocal. After the involvement of the PPO, the 2<sup>nd</sup> level intermediate bodies have observed an increased amount of timely PPO responses concerning specific project's procurement issues. However, the 2<sup>nd</sup> level Intermediate Bodies are still missing the methodological support and the preventative actions of the PPO. There is no consensus between PPO and the management and control system institutions about the performance objectives, that must be achieved by the PPO, as a result of its' involvement in the EU structural assistance administration process. During the period of 2014-2020, it is recommended to clearly specify the objectives and pursued results that PPO should achieve, while administering the EU structural funds.

Based on the best foreign country practice, it is recommended that other competent national institutions would also be involved in providing methodological support for the management and control system institutions throughout the entire cycle of programme and project management.