

**The current discussion about
the over-complexity of the implementation
system of Cohesion policy**

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Glossary of terms

CBA	Cost Benefit Analysis
CF	Cohesion Funds
CoR	Committee of the Regions
CP	Cohesion policy
DG EMPL	Directorate-General for Employment, Social Affairs and Equal Opportunities
DG REGIO	Directorate-General for Regional Policy
EC	European Commission
EGTC	European Grouping for Territorial Cooperation
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
ETC	European Territorial Cooperation
LRA	Local and regional authorities
MA	Managing Authority
MS	Member States
NGO	Non-governmental organisation
OLAF	European Anti-Fraud Office
OP	Operational programme
PAS	political-administrative systems
RTDI	Research, Technological Development and Innovation
SME	Small and medium-sized enterprises

Introduction

The expansion of Cohesion policy (CP) in terms of funds, thematic and geographic scope is quite unique in European policies. €347bn is budgeted to be spent under a management system shared between Member States and the EC during the current 7-year period.

CP is often criticised for being overly complex, with ponderous administrative procedures and bureaucracy – for being too slow, too procedurally heavy, too rigid, and insufficiently flexible in terms of the types of projects and its ability to accept changes over time. Despite all its controls, suspicions about opaque allocation of funds and improper spending persist. Audits reports find allegedly high level of financial errors, while monitoring and evaluation efforts have not provided satisfactory indicators of impacts and results. The EC is critical about implementation in some Member States that do not comply with CP implementation rules – and do not adequately report outcomes and results, whereas MS complain about overly heavy procedures.

Both Member States and the EC criticise Cohesion Policy as being overly complex, and keep calling for its simplification. These demands have given rise to several reforms, each of which, from the first in 1994, has sought to simplify the system. Member States frequently complain that each subsequent “simplification” has in fact given rise to additional layers of complexity. Despite the broad political agreement on the need to simplify CP, there would appear to be real barriers to achieving this goal.

This paper examines simplification from several different perspectives. It begins by looking at the complex nature of a system such as Cohesion policy, then marries this analysis with research findings to finally outline some conclusions.

1 Challenges of the present implementation system

As the delivery system of CP is obviously very resistant to simplification, we first need to shortly reflect on the nature of the system(s), that should be simplified and the dichotomy between complexity and simplification.

1.1 Regional policy as complex system with non-linear features

Cohesion policy operates in several social systems with unpredictable development features¹

Cohesion policy operates in several social systems— European, national and regional ones. Social systems are different to technical systems, as they feature characteristics that are described in system theory and related fields²: The essence of these theories is that:

- Communication is the essence of social systems.
- A social system is described by the boundaries that divide it from an infinitely complex environment. The interior of the system is thus a zone of reduced complexity: Communication within a system operates by selecting only a limited amount of all the information available from outside. This reduction of complexity is enhanced by a common language, by common codes and shared values.
- Social systems tend to develop their own internal mechanism of self-regulation and stabilisation and cannot be controlled externally³. However they react to changes in their environment and have an ability to learn from them.

¹ Source: Baumfeld et al (2002)

² Cybernetics, system theory and structuralism have developed concepts to understand the dynamics and master change in other spheres (organisational and business management). The main analysis of social systems comes from Luhmann, who puts major emphasis on communication. Social systems are systems of communication (society is the most encompassing social system). A system is defined by a boundary between itself and its environment, dividing it from an infinitely complex, or (colloquially) chaotic, exterior. The interior of the system is thus a zone of reduced complexity: Communication within a system operates by selecting only a limited amount of all information available outside ("reduction of complexity"). The criterion according to which information is selected and processed is "meaning" (in German, Sinn). Furthermore, each system has a distinctive identity that is constantly reproduced in its communication and depends on what is considered meaningful and what is not. If a system fails to maintain that identity, it ceases to exist as system and dissolves back into the environment it emerged from (quoted from wikipedia).

³ This phenomenon has been first described by Varela as "autopoiesis".

- It is simply impossible to fully describe social systems. They are “non-trivial” as information on these systems - and what works to change them in a desirable direction - and what does not, is incomplete. Very little work has been carried out to date to address this problem of incomplete information and reaction to the system’s environment.
- Furthermore social systems – like regions - are recursive, in the sense that the system is shaped by the processes set up by its actors (residents, entrepreneurs, politicians, work force, pupils etc) which both utilise the resources of a territory and convert and change those resources. These actions are not just the result of pre-defined and explicit objectives, but also of their (often hidden) specific interests and motives as well as organisational, social and other rules that determine behavioural patterns.
- Thus the relationships between cause and effect (often referred to as the “black box”) are neither proportional nor predictable – every action can be both the cause and the effect of another action. Therefore circular interaction patterns replace linear cause-effect chains. Feed-back loops occur that either may amplify or diminish the effects of an interaction. Social systems – like regions or political-administrative systems– can therefore never be exhaustively analysed, understood, or fully described.
- A further complexity of social systems comes from the existence of different subsystems in different economic, institutional and cultural contexts and at different territorial levels (local, regional, national, European etc).⁴
- Timing is a crucial issue as activities and processes of change require time. The different subsystems have different time-contexts: development processes comprise chains of changes in the physical and social systems which usually require decades rather than years. Political systems rather favour and reward short term processes and seek fast visible results. Administrative processes usually demand months, or even years, depending on the number of actors involved and the degree of innovation required. Beneficiaries again might have rather short term horizons, especially in relation to the time elapsed between project application, the decision and the actual receipt of payments.

Very little analysis has so far been undertaken in terms of understanding regions as social systems – and even less to define relevant systems in which Cohesion policy operates. However, if we apply this approach, then we conclude in a preliminary and quite tentative way- that Cohesion policy operates within – at least – three different types of systems: the European Cohesion policy system with the European processes of policy generation, implementation and control,

⁴ System theory considers emphasises that each of these subsystems has a specific and – necessarily selective – repertoire of what is considered to be meaningful communication and interaction (language, values, concepts etc). Theories on social systems explain that changes in social systems are essentially self-organised.

the Member States' political-administrative systems (PAS) (with their policies, laws, etc) – sometimes with separate regional systems – and the region as a territorially defined social system. These systems are not linked, but each system provides the “environment” for the others. Thus one system cannot control the other, but only provoke reactions, as it is exogenous to the other systems. In other words: European policies cannot shape the national PAS, but only stimulate reactions to changes (e.g. if funding is earmarked for Lisbon goals this might change the involvement of individual funding schemes in ERDF, but rarely changes the overall policy objectives of the PAS). The same holds true for a regional system: changes in the PAS do not directly change the behaviour but – as it is conceived as a change in the (system) environment - creates reactions to that change. Programmes can be considered as tools trying to establish technical systems (funding, rules, monitoring) across different social systems.

Therefore it is very important to distinguish between the technical tool “programme” and the social systems within which that tool seeks to achieve the desired change(s). Complexity within a social system cannot be changed – only technical systems can be simplified and made more efficient. Any discussion on simplification therefore needs to distinguish between the complexity of social systems and the technical tools that are used by one system to influence another. Within this approach, however, the linear cause-effect based intervention logic, that has proven to be useful in stable environments⁵, cannot be applied to social systems and the approach towards steering must be changed into one of establishing reasonable changes (Schneidewind et al 2009).

Non-linear characteristics lead to failures in steering, monitoring and evaluation

The behaviour and output of the systems are unpredictable and must be considered to be complex⁶. This non-linear behaviour of complex systems has important implications for monitoring and steering: only linear systems can be oriented by clear rules based on a good and valid set of observations⁷. Increased complexities within such a system⁸ can be addressed by better observation in order to reduce mistakes. When complex systems cannot be brought under control, this usually leads to increased control efforts. Ineffective rules are countered by intensified and enforced regulation (“more of the same”), but only

⁵ hierarchical administrations, armies, Fordist based production model with high level of standardisation.

⁶ It is worthwhile to highlight the difference between complicated and complex: an airplane is a complicated machine, as the mechanism consists of many detailed parts, but the outcome of the machine is predictable. A stock exchange is a complex system: although the parts of the system can be described, the outcome of their interactions always is unpredictable.

⁷ e.g. the reliability of a production line to produce faultless outcomes

⁸ e.g. more and more diverse parts (because of a mix of mechanic and electronic controls) of a machine needed to assemble a car

increase administrative burdens without solving the fundamental orientation problem in a complex system. However, as the complexity lies within one social system, interventions from another system merely trigger reactions (as they are exterior to the system), but not changes within another system.

Obviously the lack of success in proving verifiable results of Cohesion policy has led to discussions of the suitability of the technical input control tools. Two different logical systems – the technical tool “programme” and the social system “region” have been linked. But since the output of a system lies in complex interactions and cannot be predicted, it is not useful to prescribe the input (funding of projects) and measure the output (e.g. jobs) and deduct from that the success of a programme to intervene in regions. This results in high administrative measuring costs without increasing the efficiency of the system. Furthermore this leads to many types of undesired effects (e.g. attributing effects to a project, that are either only short term or arbitrary) (Baumfeld et al, 2002).

But Cohesion policy has followed exactly this “more of the same” path: Monitoring systems have tried to capture the most important features of regional systems, evaluation methodologies have, so far, tried to reveal causal chains of interventions – both – monitoring and evaluation – have failed to produce meaningful results. This is partly (but only partly) due to the complexity of the system in which regional policy operates, but also to a systematic underestimation of monitoring and evaluation challenges: a linear evaluation logic as suggested in all the methodological guidelines issued by the EC cannot capture significant parts of such a complex system. Communication patterns and the management of relations are very important elements in mastering complexity. Only since the ongoing reform discussion launched with the Barca Report has more emphasis been placed on these issues (with a view to investigating actual changes in the behaviour of actors, trying to capture impacts and non-linear effects).

Implementation systems have been subject to increasing controls and audits, with success in terms of accountability of expenditures, but without any proven success in delivering a proportional increase in the desired results and impacts. When giving such a harsh assessment, one supported by the current ex-post evaluation studies of the previous period and the Barca report, we also have to acknowledge that the quality of the delivery systems in terms of accountability and process management has increased significantly in many Member States (Bachtler et al 2009). But evidently the complexity of the CP has grown at an even faster pace.

1.2 Increase in complexity and variation over the past decade

Regional policy has been facing increasing complexity and variation over the past 15 years by expanding funding volumes, territories, programmes

The present system of regional policy (now: Cohesion Policy) was developed in the early 1990s⁹. The principles of programming, partnership, subsidiarity and shared management were introduced during the 1994-1999 period and have remained essentially unchanged. Regional policy faced significant changes due to EU enlargements, increasing globalisation challenges, demographic development, climate change and the financial crisis – to name but a few. Policy objectives have been gradually enlarged, and funding has grown from c. €28bn annually (1994-1999) to its current level of almost €50bn. Cohesion policy is a multi-sectoral development policy that increasingly involves local and regional levels in programming and implementation. There are at present about 440 Operational programmes submitted under ERDF, CF and ESF – and another 120 for rural development and fisheries which also operate under the shared management system. The current period also includes about 70 territorial cooperation OPs as part of the mainstream approach. Funding areas stretch from large transport infrastructures through local infrastructures to support for innovation, RTDI infrastructures, and the rehabilitation of urban areas to sustainable local development.

Greater involvement of regions

Greater involvement of the regional level in CP action is driven by both the trend towards decentralisation of political power in many countries and a growing acceptance of, if not desire for, multi-level governance approaches in many Member States. This latter trend naturally leads to an increasing involvement of non-governmental bodies. This expansion has sometimes given rise to fragmented and overly complex programme implementation and delivery systems as more and more implementing bodies and final beneficiaries have been involved.

There is evidence from the ex-post evaluation (Bachtler et al, 2009), that the involvement of partners has increased in the previous period. These changes were most striking in countries which have traditionally operated highly centralised systems (France, Greece, Ireland, Portugal, Spain). In these

⁹ The system was largely based on the 1970s concept where the objectives of regional policy were to reduce regional imbalances due to the predominance of agriculture and industries threatened by new patterns in the international division of labour as well as structural unemployment.

countries regional authorities participated in management and implementation. Horizontal partnerships also increased in some countries (e.g. Spain and UK), but management and implementation continues, however, to be largely dominated by those public bodies which co-fund many of the programmes. Local and regional authorities (LRA), social partners and other non-governmental actors are playing a greater role in consultation, but are less present across the whole programme cycle particularly in the project appraisal and selection processes.

Implementation has become more inclusive...

While the basic principles of a shared implementation system (partnership, subsidiarity, etc) have remained stable over time, the number of actors involved in CP has grown considerably. This has increased the degree of variation within the Cohesion policy system (more Member States, higher variation in types of territories, more actors etc). CP management and implementation approaches now vary considerably across the different Member States. If institutional factors are one major element, the scale of EU funding available, how those funds mesh with national/regional development resources, and how those resources are allocated, must also be taken into account.

Complexity has increased as more and more subsystems of regional, local and sectoral institutions, administrations and NGOs have become involved in implementation. They all have to comply with the regulations, which have been more centrally determined in the past. Simultaneously, monitoring and evaluation has been strengthened in order to safeguard good programme delivery and accountability. Very little analysis has been carried out on the increase in the number of partners, of projects and the volumes spent in relation to management and administration costs and controls. It is therefore not surprising that discussion of the concept of multilevel governance has become more intense.

...but with a major emphasis on financial management and control

The increasing complexity and degrees of variation in CP systems, coupled with increased emphasis on accountability, has markedly altered the approach to financial management, control and audit since the 1990s.

Both the European Court of Auditors and the European Parliament (EP) have regularly criticised CP financial control and audit systems for inadequate implementation and high levels of financial irregularities. This has resulted in stricter procedures and a more complex verification system with its attendant increase in control bodies and personnel. All those involved in CP have

accordingly had to invest in payment verification, financial and payment control and reporting systems. There are now growing complaints that control and verification costs have become disproportional. Since the beginning of this decade significant efforts have been made to address these concerns.

High level of adaptation in the Member States...

Notwithstanding arguments over heavy administrative procedures, the ex-post evaluation of Cohesion policy from 2000 to 2006¹⁰ has shown that Member States have adapted to the increasing demands of implementation. Though Member States had varying levels of experience and different approaches, most, if not all, found CP implementation to be a demanding task, primarily because of the existence of two different set of rules.

In those Member States where CP can be described as a “junior partner” to national development policies, the required CP management systems had to be adapted to fit with existing domestic systems. In the EU 15 this continued to generate some friction, but also impacted on domestic policies and approaches.

The remarkable performance of the new Member States should be noted as they largely succeeded in overhauling their systems from the PHARE to the structural funds approach and successfully implemented policies during their first programme period. That performance is all the more remarkable given the institutional and administrative systems those states had inherited. There has been a marked trend towards replacing a bureaucratic approach with a managerial one. The tradition of compliance with established “norms” continues however to give rise to certain concerns.

...but increasing unwillingness to fulfil the demanding administrative requirements

CP implementation is easier with well organised administrative traditions, and quality public administrations. Due to the nature of CP (horizontal and vertical coordination, partnership) the administrative complexity of applying an EU-wide common set of regulatory requirements in diverse institutional and administrative contexts remained a difficult challenge. While EU 10 Member States were still very much occupied with getting their systems in place and avoiding automatic decommitment, tensions and unwillingness to accommodate and adapt domestic systems to comply with the procedures was rising in EU 15 (Bachtler et al, 2009).

¹⁰ Bachtler et al (2009)

Given that CP disburses a significant part of the EU budget, provides for a broad participation of government and non-government bodies throughout the EU, and covers a wide range of interventions, why then does it attract such a level of criticism?

2 The main shortcomings

Following on from our initial analysis it is important to stress that any discussion of shortcomings in a complex multi-level, multi-actor system can neither be light, nor comprehensive. Shortcomings for one level might be advantages for another, a simplification in one area could lead to complications in another. We will therefore apply the three distinguishing labels used in various evaluation studies:

- a) Shortcomings are often to be found in weaknesses in the delivery mechanisms of individual programmes and they may range from poor process management to a weak alignment of different subsystems. These shortcomings usually result from weaknesses of the public administration system to establish effective and efficient procedures.
- b) Some of the shortcomings encountered in the previous period resulted from EU regulations (e.g. eligibility, resource intense monitoring, late issuing of implementation regulations, pervasive audits etc) have been addressed in the current period – where the success still needs to be proven. Here the source of the shortcomings rather lies in the attempts of the EU policy system to directly influence rules of a national (or regional) PAS. Such attempts are doomed to fail, as we have shown in terms of system theory logic.
- c) Overly restrictive and pervasive audit and control mechanisms can hamper, or even thwart, the need for flexible and innovative programme approaches. The conflict between compliance and strategic management can threaten the acceptance of Cohesion policy. The importance of this factor merits separate consideration.

When analysing shortcomings it is important to distinguish between those systems which have been quickly established (EU 10+2) and more mature implementation systems that have evolved over two or three programming periods.

2.1 Weakness in delivery mechanisms¹¹

Weaknesses in delivery mechanisms were one of the major shortcomings found in the previous programme period.

During that period increased emphasis was placed on professional programme management throughout the entire programme cycle – with increased requirements in terms of programme design, project generation and selection, indicators and monitoring, reporting, evaluation, financial management and partnership.

Although the quality of programme implementation has seen an overall improvement, Member States faced serious pressures to collect, track and communicate information on the programme progress and achievements while developing the programme in a strategic manner. The resources required to comply with the requirements of strategic programme management and compliance with procedural regulations were substantially underestimated and not provided by the programmes. Managing authorities and implementing bodies only focused on this issue during the programming period as the implementation regulations were only issued long after the programmes had started. Many programme authorities faced problems in setting up procedures in an efficient and effective way. Questions often arose through all stages of the programme implementation – including a weak strategic framework, deficiencies in translating the programme priorities into good projects, lack of information for applicants, inflexible project selection and lack of project aftercare.

A great deal of attention was focused on monitoring, particularly on the development of integrated monitoring systems and physical indicators for monitoring programme progress. The utility of these systems and their outputs remains open to question. It often appeared as though these systems had been designed more to ensure regulatory compliance than as operational programme management tools.

Partnership, sometimes a novel concept, encountered difficulties because of a lack of clear role definitions, and because of the capacity and cost questions arising from greater inclusiveness.

¹¹ Bachtler et al (2009)

Strong compliance orientation and lack of strategic management

Ex-post evaluation revealed that a high level of priority had been accorded to compliance with regulations and correct systems of expenditure. This is understandable in the EU 10's first programming period. It would seem that not much attention was paid to strategic programme management in these countries 2004-2006. This gave rise to often overly complex and time-consuming administration. Monitoring was not generally perceived or employed as a management tool. This was also, although to a more limited degree, valid in old Member States. Often MS were unwilling or unable to fully exploit the potential of programme management, implementation and evaluation tools provided by CP (Bachtler et al 2009).

If CP is to achieve its goals, then management and implementation must also concern themselves with meeting policy objectives and directing scarce resources towards projects capable of delivering maximum policy returns.

Shortcomings in monitoring and indicators

Greater priority was accorded to collecting, collating and communicating information on programmes as they were implemented. The better defined role of the Monitoring Committee facilitated this as did the clearer requirements for physical and financial indicators. The Commission provided more guidance, and the greater use of IT systems also contributed.

Monitoring systems were established or improved: New IT systems were introduced, or existing ones were upgraded. A more standard approach to monitoring physical indicators was also adopted in several countries. More integrated monitoring systems appeared at the national level in other countries.

Although all these elements boosted monitoring, it would appear that some managing authorities and implementing bodies are not yet aware of how important and useful monitoring can be. Some of the indicator systems were too rigid and/or inflexible. IT systems suffered from their normal teething problems and occasionally from design faults. These problems were sometimes exacerbated by insufficient, or inadequately trained, personnel.

Inadequate human resources were of particular importance in setting, collecting and interpreting indicators and targets. External evaluators were deployed in several Member States. Monitoring systems had to be adapted during the programme period, sometimes producing more relevant indicators. These adaptations sometimes resulted from mid-term evaluations.

EU10 Member States had problems with administrative capacity and organisational structures.

Given the time pressure and some of their inherited handicaps in administrative culture, the EU10 performed remarkably well in their first abbreviated programming period. Appropriate CP organisational structures had to be established. Demarcation lines were not always clear, and some communication difficulties arose given the relative absence of partnership system experience. Scale helped resolve such difficulties more quickly in the smaller Member States.

Some of the newly established systems proved overly complex, which sometimes gave rise to duplication of efforts and hampered compliance with the demanding EU regulations. The systemic challenge of achieving alignment between existing national rules and EU ones added a further level of complication.

There were real problems of administrative capacity. Pre-accession training and experience was confined to a relatively small number of senior staff¹² with new personnel “cutting their teeth” as they implemented programmes. These problems were encountered to varying degrees at all levels. Little human resource provision had been made either in terms of recruitment and training.

There was a significant shortage of evaluation suppliers and this also manifested itself in the quality of some evaluation studies. Extensive efforts were made throughout the period to remedy this situation through advisory services, evaluation seminars and training programmes.

¹² And, as already noted, had not applied to Cyprus and Malta which instead benefited instead from the provisions of Council Regulation (EC) No 555/2000.

Deficits in correctly applying public procurement

Public procurement has also given rise to major problems: in several countries the EU rules were often transposed into national laws in either a very complicated or even incorrect way. Furthermore a lack of knowledge how to apply the public procurement law and how to distinguish procurement from subsidy procedures was often found to be lacking in some public administrations. Often regional administrations lacked sufficient training in the application of these regulations. This either leads to mistakes and errors in spending – or to overly complex procedures (e.g. when public procurement and subsidy rules are both applied for projects) (Mendez, 2009)

2.2 Inadequacy of EU-rules

Much has been written about the adequacy, or inadequacy, of EU rules. We will therefore concentrate on those elements under debate in the current period, as some previous criticisms have been accepted.

Lack of pre-financing places significant pressures on beneficiaries

The abolition of pre-financing for the 2000-2006 programming period gave rise to certain financial management problems. The availability of pre-financing in some countries, or where claims could be submitted while projects were under way, or systems where expenditures were only reimbursed on completion such as in the Czech Republic made a big difference for applicants.

Automatic decommitment n+2

While this has enhanced programme organisation and management, it also has given rise to what may prove to be a counter-productive impact. Applicants may tend to only put forward those “safer” projects which are fully compatible with this constraint. More adventurous and possibly more effective projects may not even be put forward.

Major projects and revenue generating projects face difficulty in administrative management

The quality of CBA and environmental assessment gave rise to certain problems, notably with income-generating projects. Even a small difference between existing national requirements and EU ones can significantly slow procedures. Lengthy decision making processes can also impact negatively. There is a lack of clarity over details in income-generating projects at the

operational level. The link to public procurement is also often either weak, or unclear.

The possibility for earlier reimbursement of costs of major projects introduced through the economic recovery plan is seen with some scepticism by many Member States, as this defers the risk of non-approval to the MA and to a later stage (this is certainly a case of non-simplification!).

Delays and overlaps in procedures

Procedures set up between the different systems – EU, Member States, beneficiaries – often require negotiations and revision before they lead to approval. This always has been time consuming – and – as timing is synchronized between all programmes - usually poses capacity problems in the European Commission throughout programme implementation and closure and with Member States and regional administrations during setting up programmes while the previous ones are still very labour intensive due to the closing procedures. Inevitably this leads to delays and hampers smooth implementation and adds to absorption strains.

The most recent examples of this are the delays in the ongoing period. These mainly result from the drafting, submission and approval of the reports on the management and control systems, where approval is the precondition for releasing intermediate payments by the EC¹³. Up to June 2009 commitment rates in the programmes have often reached 40% to 50%, but only a few programmes have reached payments beyond the advance payments. This causes further delays in starting projects and strains on absorption for later periods. Another example is the suspension of payments due to ongoing audits. Such suspensions may take quite long. As the outcome of the audit could lead to financial corrections, managing authorities then often face difficulties in finding replacement projects.

A further shortcoming resulting in substantial strain on administrative systems is the overlap of different programme periods. During 2007-2009 programmes had to close the 2000 to 2006 programmes while running the new ones in parallel. Two different sets of rules have to be applied during this overlap period. Due to the significant changes in the period, this adds further complications and administrative burdens to implementation. (Mendez et al 2009)

¹³ Each programme must produce a description of the management and control systems, that has to be accompanied by a compliance assessment from an independent audit authority in the Member State. Any payment to the programme beyond the advance is only made by the EC after approval of the management and control systems. If a programme authority fails to conclude the process of submitting a verified report and to receive this approval by December 2009 the advance payment is irrevocably forfeited.

2.3 Accountability and strategic management¹⁴

The criticisms from the Court of Auditors and the European Parliament of persistent “high levels” of irregularities in CP financial control are a serious administrative and political question. Neither body has, however, defined what it means by a “high level”. There are also considerable differences of opinion as to the nature and form of the identified irregularities.

The Court of Auditors distinguishes errors in eligibility¹⁵, occurrence¹⁶, accuracy¹⁷, multiple error¹⁸ and compliance error¹⁹. The first four concern incorrect reimbursements, compliance errors do not affect reimbursement. Most errors are more related to mistakes than to fraud, although it can sometimes be hard to differentiate between them.

The Commission argues that the Court’s methodology overestimates the level of errors and that most of these would have been detected by Member State control systems. The Court maintains that the Commission’s systems are not as effective as they could be.

The 2007 report was based on audits of 180 projects and 16 operational programmes. 46% were error free.

In response to this report the EC published an action plan in 2008 to improve the supervision of the MS financial management, control and audit systems. This plan seeks to improve coordination between the authorities responsible for different aspects of financial control and audit. DG REGIO, DG EMPL and the Court have reached an agreement on the content of their audit work (on the key requirements on Member States’ activities and the methods to be used in assessing these requirements) as well as on avoiding the repetition of an audit by another authority. CP and OLAF also now share a common approach. Further efforts are being made to build an internal control framework in DG REGIO and DG EMPL and coordinate the work with the MS.

The EC now places greater emphasis on analysing errors, and drawing lessons to make sure they are not repeated.

¹⁴ Source: Davies et al (2008).

¹⁵ Expenses do not comply with eligibility rules.

¹⁶ Costs are not supported by an invoice.

¹⁷ Incorrect amount.

¹⁸ A combination of two or three of the types mentioned before.

¹⁹ Mistakes in contracting and failures to meet publicity requirements.

Significant increase in administrative burden

Administrative overheads and burdens have significantly increased following pressure on the Commission and Member States to improve management and auditing systems.²⁰ CP interventions must also comply with national procedures and regulations and EU funds are often controlled several times by different audit bodies.

The most recent simplification only affects a fraction of programmes

Recent steps to alleviate administrative burdens where Member States are not required to have an audit strategy for programmes of less than €750m with a co-financing rate of less than 40% have had a limited impact as few programmes match these criteria.

²⁰ In DG REGIO alone the number of staff working on audit has increased from 30 to almost 60 during the previous decade.

3 Solutions found so far in improving the implementation system

Each Member State has struggled to improve the implementation system, either by integrating rules and applying them – if they are deemed useful – or by focusing on compliance orientation when these are not fully accepted and integrated. However, as we have shown in the first chapter, communication is the essence of social systems. So we will look into that subject from both sides – the communication and the systems.

Improvement in systems and evaluation

Improvements in the operation of delivery systems were achieved during previous periods. They have been stimulated through the new rules introduced in 2000 and 2007. For the previous period the ex-post evaluations have found validated information on improvements in strategic planning, evaluation and implementation, the results of the changes introduced in 2007 have yet to be seriously assessed.

3.1 Improvement of strategic planning and implementation in EU 15

In preparing the 2000-2006 period EU15 countries – many of which were on their second, third and occasionally fourth programmes – invested in strategic planning based on a more profound analysis of development potentials, needs, and lessons to be learned from previous experiences both domestically and from other Member States. Pre-programme consultations were expanded and greater use was made of expert inputs. Improvements were also achieved across most fields relevant for programme delivery, from partnership working over development of administrative capacities to greater involvement of regional authorities, indicators systems and monitoring tools.

A more systematic approach to evaluation in EU 15

The 2000-2006 period also showed a more systematic approach to evaluation in these Member States. Evaluation studies above and beyond those required by regulations were commissioned. Mid-term evaluations were used to develop lessons at the national level in Finland, France, Spain, Sweden, and the UK. New or reinforced evaluation units and partnership based steering committees organised evaluation research and placed greater emphasis on capacity building,

most notably in Greece, Italy, Spain and the UK. Networks of evaluation experts, specialist bodies and expert panels were also harnessed.

Some improvements in EU 10 over the 2004 to 2006 period

This truncated first programming period was marked by significant improvements in CP management and implementation. This came partly from on-going national reforms and partly from lessons learned from experience. Some of the key elements included:

- increased guidance on explaining project criteria and procedures;
- the simplification and upgrading of procedures such as adjusted selection systems, rationalised processing of payments, improved indicator systems, and development of monitoring systems;
- improvements in personnel management, more training and more focused training and in some instances improvements in salary packages and career structures;
- addressing concerns related to possible decommitment deadlines;
- greater application of better and more reliable IT systems; and
- better cooperation and cooperation between ministries and other public agencies.

All these improvements contributed to better productivity and accelerated processing times. The emergence of coherent selection criteria was also facilitated, as was better and more systematic data collection and reporting.

Most systems encountered difficulties in their start-up and initial operating periods. In general these difficulties were identified and analysed, and reforms or modifications were introduced. These operational systems provided the basis for approaching the 2007-2013 programming period with greater confidence.

Organisational stability, not least in the retention of key staff, is one key element here. The attribution of sufficient administrative resources, including suitably trained and supported human resources, is another.

There are of course islands of difficulties scattered across this sea of reactive and relatively successful adaptation and “on-the-job” learning. These difficulties often trace their roots to shortcomings in terms of overall strategies, the persistence of an over-bureaucratic administrative culture and the continuing need to enhance capacities in certain Member States and regions.

An appropriate balance must be found between the costs and the benefits of controls. A very preliminary result of a study²¹ found that the cost of controls amounted to an average of 3.5% of ERDF payments. There were however wide variations between Member States (0.5% to 12%), variations that reflect differences in administrative structures, salaries, and the intensities of checks (Bachtler et al 2009).

Steps towards a simplification of rules and clearer division of responsibilities in the shared management system

The current period has set out with some new rules targeted at a clearer division of responsibilities between the EC and Member States. Criticism of Member States and EU officials on the proportionality have been particularly addressed. The main elements include the improvement of the EC's own system of financial audit and control, efforts to enhance coordination between audit authorities at different levels and the emphasis of the responsibilities of Member States for setting rules of implementation and control. A second set of changes in rules has been introduced in response to the economic crisis²².

A first feed-back sought by the IQ-Net (Mendez, 2009) on these changes shows a largely positive response – with some ambiguity (some of the measures taken work well in one systemic context, but much less so in another, as it has been shown for the possibilities to de-reimburse major projects before approval of the EC, see chapter 2). The following positive trends have been highlighted:

- The most positive development has been the eligibility of overheads costs at a flat rate basis for all funds, as this can be interpreted as a trend from auditing of accounts to efficiency control. However, in this case some programme authorities also doubted the simplification effect, as this approach requires another Commission approval on the calculation of overhead costs.
- Financial engineering schemes seem to be a good step towards simplification of procedures, as they separate ERDF re-imbusement from actual expenditures on individual projects. Of course they only can be applied in some contexts (especially SME, innovation), but they have the

²¹ DG REGIO (2008): Regional governance in the context of globalisation; quoted by Davies et al (2008)

²² Measures to respond to the economic crisis comprise legislative measures, such as additional advance payments, earlier reimbursement for major projects, increased state aid ceilings, options to declare overhead costs as paid expenditures on a flat rate basis, acceptance of in-kind procedures to financial engineering funds and an inclusion of some energy costs for housing in all Member States. A second set of measures includes a front-loading of EC co-financing in 2009, the request to change programmes to accelerate spending and the extension of the previous period by 6 months to the end of 2009 (see Mendez, 2009).

potential to be enlarged to cover further interventions (such as small infrastructures).

- Global grants are another – though not new – example of how to achieve better delivery. There is an example, where a grouping of municipalities is collectively managing significant parts of the regional OP through a global grant (Mendez, 2009). To what extent such an approach has been applied in other programmes still needs to be investigated. The use of EGTC offers another option to improve such an approach.
- Deferring the definition of eligibility of costs to the Member States seems to work well, except for the case of ETC-programmes, where the complications have increased, as now different eligibility rules apply within one programme (another example of the problems apparent simplifications can cause).

3.2 Improvement of communication

The Community Initiatives have been the main arena for experimenting with communication at the European or transnational level: LEADER has set up a European Observatory and several Member States established national observatories to facilitate exchanges of experiences. In EQUAL each development partnership had to include a transnational exchange element. INTERACT and URBACT were established to systematically initiate a dialogue between managing authorities and other stakeholders of INTERREG and URBAN programmes. Except for INTERACT all these initiatives have been mainstreamed and have largely lost their specific European communication tools. Very little relevant evaluation is available about the impact of such communication tools. This is mainly due to the fact, that they operate in a framework which normally monitors physical outputs, and where the impact of improved communication can hardly be measured by such standard tools. Mainstream programmes have seen very little emphasis placed on communication related to the delivery mechanism. A series of best practice conferences in structural policies has tackled the issue of implementation – and found quite substantial interest in the Member States – but has not been continued in the recent past.

4 Conclusions and possible solutions

Our primary conclusion is that CP delivery needs not simplification, but major improvements. There is a high degree of complexity in the different systems, a complexity that is desired and has been introduced on purpose (partnership, increased thematic scope, higher involvement of regions etc). Frictions occur where one system tries to influence the other. We rather conclude that each of the systems – the European, the national ones and the regional – need improvement – as well as the rules applied for the technical tool “operational programme”.

We have identified several different types of shortcomings in the delivery system.

Firstly, Cohesion policy delivery operates in different complex systems – but the methods of the delivery system how to address these complexities are far from being adequate. One possibility for improving the system is through clearing interfaces and linkages, i.e. defining clear rules that are appropriate and proportional to the size and type of measures, by having clear rules for cooperation and interaction and by clearly distinguishing the partnership principle between strategic programme development (involving a wider set of stakeholders) and programme implementation (with only a limited number of involved institutions). Rules should be adequate to achieve desired output of the programme stimulating the self-regulation of a system, instead of trying to apply the same set of rules in every system (if you make final beneficiaries to administrators you probably fail to get innovative and stimulating projects).

Secondly, several of the rules issued by the EC obviously hamper smooth implementation and where small changes could make a big difference to the programme management.

Thirdly, the approach towards and emphasis on accountability creates an insoluble conflict with the strategic management priority. In this respect preferences need to be established in order to progress with the quality of implementation.

The present programme period has devolved many of the tasks related to eligibility, audit and control to the Member States. Most probably there are limits to further simplification within the present system. It would be very useful to have a first evaluation on the impact of the new rules in relation to improving programme delivery.

The CoR represents LRA that perform many tasks in Cohesion policy: managing authorities, implementing or delegated bodies, final beneficiaries. It is very often at the regional and local level where administrative capacities are stretched when it comes to dealing with the burden of delivering programmes. There is significant potential for LRA to be more, and more efficiently, involved and for the capacities to be much better utilised. The CoR should therefore get seriously involved in the debate about delivery systems, one that should go well beyond considerations of just “simplifying delivery”. The following suggestions illustrate some possible lines of argument.

4.1 Providing adequate responses to the complexity of the delivery system

CP is implemented in the framework of European, national and regional policies and tries to involve a number of sectoral policies (from the national PAS – as we have argued above). Thus it necessarily is complicated – as horizontal and vertical integration and the inclusion of many partners is a core task of programmes. As Barca argues, there is significant under-investment in monitoring and evaluation, an argument that also refers to programme management. As programmes have to deal with many institutions, have to align procedures, define clear rules and train all involved actors in the application and verify the correctness of that application, sufficient resources are needed for that. Still, many programmes – and especially ETC programmes, where complexity is even higher as at least two national PAS have to be matched - are significantly under-staffed and lack sufficient resources to perform strategic management AND proper implementation. No wonder responsible authorities rather prefer to comply with the rules and neglect strategic management tasks. However, even if more resources are devoted to monitoring and management, any simplification will fail, if the governance of the system is not adapted to the complexity of the systems. Therefore successful work demands that its specificities be taken into account, notably the limits in respect to information, steering and control. A prerequisite for improving the delivery system is determining where, what and how to improve – where simplification might be one of several possible improvements – but not the ultimate purpose.

If Cohesion policy shall be used as a tool to shape and influence socio-economic development in regions it needs to take account of improving its technical capacity to deal with complex systems.

A new governance model for CP

As we have shown neither intensified audit and control nor simplification have been able to substantially improve the functioning of CP. Taking into account the challenges of complexity we have presented in the first chapter, we can draw the following basic conclusions in relation to a new model²³:

- Take account of the different sub-systems and understand the various logics and constraints (what might be a simplification of procedures for the programme management, could result in excessive burdens for beneficiaries etc).
- Respect the autonomy of different partners and beneficiaries: The attempts to directly influence their behaviour will result in very high level of bureaucracy. Rather commit beneficiaries to results; favour models to search the best by competition and provide funds more on a flat rate basis, tied to results and not to actual amounts spent on a project.
- Influence the context and define desirable behaviour rather than input (in costs) and output (jobs).

This has significant implications for the CP delivery mechanism:

- **Programming** should move from a static to a dynamic process: Instead of heavily investing in programming at the beginning of a period much lighter programmes should be drawn up, that take into account learning, experiences, and change in context during implementation. Thus the strict separation between planning and implementation should be replaced by a more dynamic process, where “prescriptive strategies” might be replaced by new emerging strategies (“strategy as an ongoing process”). Such an approach facilitates continuous learning across the entire programme system.
- **Implementation** should respect the different “languages” and logical frameworks of each of the involved systems. The tool between the EC and the national PAS is the programmes, whereas the tools between the PAS (national or regional) and the beneficiaries are the projects. The vertical interfaces should define the outcome of the operations – and rely on the control mechanism within each system to achieve these outcomes.
- programme should be the **instrument used between the EC and the Member States** (and regions – if appropriate) to define expected contributions to community objectives, other community policies to be integrated, financial engagement and procedures, monitoring rules and the

²³ Source: Baumfeld et al: 2003.

definition of services to be provided by the PAS to the EC (reporting, participation in learning events....).

- The EC should have specific tasks in coordinating with other services, in establishing clear rules and coercive measures in case of fraud and mismanagement and set up networking activities – as it is been done in the OMC.
- The PAS should translate these objectives into much more simplified rules and targets – e.g. by expanding open competition to as many fields as is reasonable and possible, by providing global grants and other financial engineering instruments (revolving funds, venture capital) as well as and contracts with lump sums on the basis of public procurement–relating more to results achieved rather than to control of expenditures.
- This would result in final beneficiaries not being directly linked into the delivery chain and becoming burdened by the complicated administrative procedures, but rather being responsible for delivering results while dealing with a much simpler administrative framework.
- Cohesion policy should become more accessible to local communities and institutions operating at the local level. This would pose LRA with the challenge of improving accessibility to funds in their regions by trying to align procedures between funds and programmes, simplifying access – e.g. by establishing “one-stop-shops” for European policies. The CoR should support such an approach.
- Monitoring should focus on programme results and outcomes on the one hand – in order to ensure accountability – but it should also be expanded to cover process monitoring in order to adequately address the complexity of social systems. Selected parts of the implementation process should be monitored with a focus on interaction and relationships between the different systems, establishing early information on eminent relevant changes in the environment (i.e. the other system) and provide contextual information to facilitate correct interpretation (Baumfeld et al, 2002).
- Cohesion policy should move from the principle of external control to collective learning – see chapter 3.3.3 in Baumfeld and the reflections of involved actors. Such learning must encompass a social system (e.g. a region) and involve different perspectives (external views, views of the relevant actors), and focus on processes that can be changed by learning, be iterative (successive reflection loops) and be separated from auditing.
- However, selective inter-linkages to audit need to be built in to tackle irregularities (mostly these are caused by opaque rules or a lack of knowledge of rules) and especially fraud.
- The utility of good practices and case studies needs to be better integrated in these learning processes (who can use what type of information for learning).

- Any further reform process needs to be based on a thorough investigation of the interactions between the different systems and an assessment of the present situation by the major institutions involved – including representatives of the final beneficiaries and an inter-institutional dialogue with a major involvement of the CoR.

Progress in implementing Cohesion Policy needs to be embedded in a wider public administration reform geared towards New Public Management

Improvement is not necessary just at the interfaces, but also within the systems. Both the capacity and the ability to undertake a policy management approach towards effective CP implementations demand certain essential ingredients. At a very minimum an efficient public administration system and adequate human resources are vital. Although shortcomings here can be more obvious in the EU10+2, the problem is by no means confined to these Member States alone.

Many principles of Cohesion policy implementation are directly related to good governance and sound and efficient public administration. All EU 15 administrations have gone through almost continuous public sector reforms since the 1970s, when “managerialism” started to replace the dominant classic public administration approach. This public management²⁴ in turn started to give place to the notion of public governance²⁵ from around 2000 onwards. In EU 10+2 these processes are taking place at a much faster rate. Without entering too much into the discussion of public sector reform, it should be stressed that Cohesion policy management strongly pursues the approach of new public management – with an emphasis on the value for money principle and management by objectives, whereas more recent trends of new governance rather favour performance budgeting and governing by networks.

Thus for EU 10+2 the future effectiveness of Cohesion policy implementation will largely depend on the completion of broader public administration reforms and on the achievement of a more stable political and institutional setting. But for all Cohesion policy programmes the approach towards new public governance where direct control and hierarchy of “the old administrative systems” are replaced by network governance and partnership approach pose significant challenges. Thus European policies should actively promote standards of good governance in administrations (like the capacity building

²⁴ New public management was the prevailing concept for public administration reform from 1970 to the late 1990s. Principles like “value for money”, management by objectives, a focus on processes divided into actions were prevailing.

²⁵ New Public Governance rather fosters a performance budgeting approach, still focuses on processes, but with a rather systemic approach considering shaping factors and actors. The modern civil servant is seen as “public manager”.

objective for ESF eligible under Objective 1), and particularly support regional and local institutions in building and developing capacities to participate in Cohesion Policy implementation.

Leadership, cooperation and learning at all levels are the most needed skills

To master this, command and hierarchy needs to be replaced by leadership – which requires interpersonal skills from programme managers: Leadership is necessary to integrate conflicts of interests, diverging interests of various partners and develop the programme – together with all partners – in a most proactive forward-thinking way. Training and staff development need to be geared more towards cooperation, the integration of different perspectives, developing visions and strategies for a programme and taking responsibility for strategic management.

Introduce governance checks in the ongoing evaluation and reduce the complexity of a programme

The institutional capacity of national and regional government authorities requires greater attention from both the Commission and national governments. Member States tend to follow a very broad approach of trying to involve as many policies and institutions as possible, even if the programmes concerned are of an extremely limited size. But as complexity increases with the number of institutions involved, some reflection on the number of institutions, the number of aid schemes involved, the work flows, regular communication related to project selection and approval, the transparency of procedures, should be verified and analysed within each of the programmes and potential for simplifications identified. It seems that a substantial part of the complexity arises from programme and implementation design and simplification needs to be reflected also within a programme, and not just in relation to European rules and regulations.

The EC and Member States should make a joint effort to develop and disseminate evaluation techniques, tackling complexity of systems at an adequate level

At present evaluation focuses mainly on evidence oriented evaluation related to one programme and tries to reveal causal chains, detect programme impacts and relevant measures that work. Evaluation often is conceived as “enriched” monitoring and control exercise, as a tool to legitimate and verify the success of a programme.

However, complex systems cannot be captured by this approach. We suggest using evaluation more as a tool for better understanding the dynamics of implementation, of what works and what does not work in order to improve and refine the delivery system. Evaluation should also try to explore the processes that shape the interactions between the systems in order to understand what happens e.g. to the system of a political-administrative system in a region that needs to apply EU Cohesion policy rules and impose them on the final beneficiaries (this might bring strategies of compliance orientation and circumvention to the surface. If explored with an open mind, methods could be investigated, that lead to better results).

In methodological terms Cohesion policy should invest in learning from other disciplines (e.g. development policy) and experimental design to capture relevant features of complexity (e.g. interactions, changes in behaviour). There are types of evaluations, known as “realistic evaluation”, which try to use policy or programme theories to understand what happens inside the black boxes of a programme targeted at socio-economic development and focus on those mechanisms that produce the outcomes – whether they are directly influenced by the programme or not. Another approach to evaluation would be to explore complexity, starting from the fact that policymaking is dynamic and interactive and outcomes are emerging and quite unpredictable. The core of such an approach would be to focus on specific problems (e.g. environmental hazards, unemployment) and identify the multi-level governance approaches of various institutions in tackling such problems, understanding the dynamics and the limits of the inter-linkages and identifying the most appropriate mechanisms available to a programme which would allow it to positively tackle the problem. Of course such experimental evaluations should not completely replace programme evaluation, but could contribute to a more comprehensive approach towards interventions in complex systems.

4.2 Revising the approach from financial accountability to policy outcomes and simplification of rules

The highest potential for improvement of the delivery systems lies in further improvements of the financial management and audit processes.

The 2000-2006 period saw significant changes to CP strategic management approaches in many Member States, not least in terms of better-quality strategic planning, partnership and evaluation. Much greater attention was also given to financial absorption capacities and audits. As we have seen there can be a very fine line between emphasis on audit and control and the creation of a risk-averse culture where only “safe” programmes are proposed.

Defining the tolerable risk of error

If Cohesion policy is to be successful then the question of what level of “tolerable risk” in terms of programme errors is acceptable needs to be addressed. The very nature of CP with its long lead time, stretched delivery conduits, large numbers of stakeholders, all involved in designing/funding/implementing complex multi-annual projects implies a high risk of errors. If there is no political will to accept that a certain level projects or approaches may fail, however appropriately administered, then CP will stultify with fewer and fewer innovative and trail-blazing initiatives.

The current 2% allowance for material errors in terms of financial controls for the overall EU budget was questioned by the Court of Auditors in 2004. The Court’s basic question was whether or not this level was appropriate across all areas of EU activities. Definitions of errors should therefore be developed clearly distinguishing between different types of projects (infrastructure, SME, networks etc). This concept should also take into account the costs of managing and controlling the required level of verification as well as the actual amount of tolerable errors.

Simplify financial rules by using standard cost models and lump sums

A major source for reducing errors is a simplification in the financial procedures. There is a very limited benefit in terms of achieving good programme results by controlling each and every invoice – no matter how small it is – for each and every project. Accountability should rather be based on project outcomes – and not solely on correct spending and invoicing. In this respect there still is a wide scope for simplification, mainly by introducing a

much more comprehensive approach towards standard unit costs and lump sums as well as global grants.

Delivery in territorial cooperation programmes need to be revisited

For territorial cooperation the same set of rules applies as for mainstream programmes. However, at this level, different national (or national and regional) systems should be integrated – where different rules and different competences of programme partners may collide. This works only to a very limited degree and causes significant administrative burdens. The issue of delivery of territorial programmes should be addressed specifically – fostering solutions like the EGTC.

Decouple payments to Member States from verified expenditures of final beneficiaries

One suggestion for simplification has recently been raised by the EC (2009), when suggesting that reimbursement from the EC to the programmes should be based on payment declarations made by Member States and not on the declaration of expenditures incurred by beneficiaries. This would increase the incentive for strong national controls and provide the basis for a regular clearance of account procedures. This should also reduce the long periods of overlap between the previous programme and the new one (at present 3 years).

Compliance of systems should replace the compliance with regulations

Member States and programme management already need to declare the management and implementation systems in detail. However, the EC should provide an assessment of the reliability of the systems and then base the depth of control performed by EC auditing bodies on this ranking. In this way Member States would have an incentive to establish more reliable systems (based on the governance check mentioned above), thus reducing the overall administrative burden.

Disbursement of funds should be based on the verification of outcomes and results

The major change suggested by Barca is a move from an input oriented system to a result and output based mechanism. In this way the emphasis on verification of correct spending (input) would be replaced by a verification of the results achieved by projects. This has to be strictly separated from impacts – as impacts cannot be directly influenced by beneficiaries. Impacts have to be monitored and investigated at the level of social systems – subsystems of the social system,

especially territories (where programmes and other public interventions overlap).

Simplification of procedures is not, and must not be seen to be, an end in itself. It is rather a means to an end – the more efficient use of resources to achieve better Cohesion policy results. Decision makers may need to be reminded of this political goal, and have their attention drawn to other methods, including enhanced communication, which also have a significant contribution to make.

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