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POLITICAL AND ADMINISTRATIVE BARRIERS OF IMPLEMENTATION OF COHESION POLICY IN SLOVAKIA

Abstract:

We can observe an increase assessment of cohesion policy. It is linked with the growing amount of support spend on this policy as well as need for greater efficiency in the use of these resources due to the crisis in government spending . Evaluations are dedicated to a large number of areas a including assessing the impact of aid, its effectiveness at reducing regional disparities or procedural aspects of implementation of the support. Only a limited number of studies is devoted to political and administrative burdens and their influence on cohesion policy. That impact is difficult to measure, although it greatly affects the ability of cohesion policy to achieve its objectives. The most significant problems should be considered e.g. the way the procurement of evaluation is done, methods of making the criteria for project evaluation and their control or non-publication of results and poor feedback for applicants. The article also analyzes the factors affecting the speed of the whole evaluation process, where the most significant factor seems election and not the number of projects or their content.

Keywords:

structural funds, cohesion policy, political influence, Slovakia

JEL Classification: R58, E61, H00

Introduction

Cohesion policy is one of the most important policies of European Union . More than 350b EUR was allocated during last programming period 2007 – 2013. This could have very high impact on development of supported regions, but it must be spend efficiently and effectively. Many studies try to analyze what are the best aims and measures to be supported (e.g. Bradley 2005 or Rodriguez-Pose a Fratesi (2004). However, not only aims, but also the way how they implemented could have strong influence of success of cohesion policy. We will concentrate on two issues in this article and that's administrative and political barriers that limits effective and efficient implementation of cohesion policy.

Almost all major studies dealing with possible reform of Cohesion policy (ERPC, 2011) state that administrative and procedural complexity poses one of major problems in functioning support. Practice shows that as much as defining priorities correctly is to determine the mechanism of aid properly. According to the European Court of Auditors at least 12% reimbursed expenditure in structural funds projects throughout the European Union in 2006 should not have been reimbursed. In 2006, more than 30% of the projects examined had defects of a financial nature (European Court of Auditors, 2007), and these trends have remained the same throughout the programming period. The estimated error of expenditure from the EU budget as a whole in 2012 reached 4.8%, while regional policy errors were found in 49% of cases. The largest part (29%) were incorrect procedures in public procurement and 21% were errors relating to ineligibility activities of the applicant or expenses (EDA, 2013). Most of incorrect or irregular expenditure were not made intentionally, but precisely because of constant changes in rules or inattention arising from the very high administrative cost of implementation. Since absent relevant performance indicators, the error rate becomes a central focus of public debate (Barca, 2009) and to the forefront so they get a mere technical processes in the development and implementation of this support.

Administrative and political costs of EU support

Many studies tries to deal with an issue of the effectiveness of the steering mechanism and the way how to improve it (eg. EPRC, 2011; Batterbury 2002). There is so high number of institutions involved in the implementation of EU support that instead of support or institutional capacity building for regional development, now we can now talk more about institutional overload (Ferry 2005). However, while the analysis of outputs and outcomes of the EU support has been done in many studies, studies dealing with administrative and political costs associated with implementation support are very limited (Davies and Polverari 2011). Administrative restrictions and extensive control "everyone checks every" was highlighted in Poland case done by Dabrowski (2008). Significant and unnecessary administrative burdens can be found on the evaluation of the use of Structural Funds in also in Hungary (Nagy 2008). He found that around 7.5% of the total volume of resources were used to project administration support. Wostner (2008) identified costs the management and monitoring of projects estimated at more than 60 billion. EUR within the programming period 2007 – 2013. Any reduction in administrative costs by 5% would mean an additional 3 billion EUR for the new projects underdeveloped regions. Wostner (2008b) pointed out that for small projects is the same administrative burden as for large, increasing the unit price of the control of these

projects. These numbers are significant enough that the administrative side of projects should get sufficient attention.

Given that the form of regional policy is also a political agreement of 27 Member States, the European Commission and the European Parliament, it is not surprising that it is strongly influenced by politics at all levels (Gaffey, 2011). It also affects the actual evaluation of policies. Polverari and Bachtler (2004) for example, found that evaluation has not a great impact on political decision, rather it is used to justify these decisions. Although in some countries (eg. Sweden) a scientific evaluation of the effects has a positive influence on the formation of future regional policy instruments. For politicians it is easier to track the performance indicators that focus on immediate results, because the project developers must fulfill them, otherwise they will be forced to return the support. But it may not automatically mean a positive impact on regional development. However, this examination politically inconvenient, because it speaks about the ability of project developers or a provider of resources to properly set the whole support system. A large part of the problems associated with measuring effectiveness is also related to the availability of relevant data and poorly structured assessment methodology (Gaffey, 2011). Batterbury (2006) for example, found that the collection of data often there is no real verification of the truthfulness, changes within the data processing procedures for monitoring and different interpretations of what is meant by the various measurable indicators.

A special issue is the problem of corruption (Batterbury, 2002). This factor significantly affect the choice of supported projects, thereby significantly affect the nature of the sample examined, and thus the subsequent effects that causes the program compared to the control groups. Local governments have been affected by interest groups. This can lead to a redirection of received public funds for other priorities, regardless of their growth potential. The political aspect of the presence of interest groups is shown for example in studies that municipalities with mayors from the ruling parties are successful in obtaining grants and funds. (Kemmerling and Bodenstein 2006; Kemmerling and Stephan 2002).

Another problem of the evaluation is "paradox of good choice". Examiners preferred projects, which appear to be the best itself, but these projects are often viable without that support. Governments tend to avoid criticism for inefficient use of public resources and therefore selected projects without risk of failure that could probably be easily implemented without support (Lach 2002). Instead of this would be necessary to pay more attention to projects that really need this support. An example is a study by Cannone (2012), who pointed to the example of Italian companies that support is rather those whose financial situation would allow also get support from commercial sources. Conversely, companies that ask often, because their situation is more problematic and less venture capital available, are often being denied. The actual efficiency may conflict with established policy objectives by supporting the best projects leads to the attainment of a high perceived effectiveness, although the actual efficiency is due to side effects limited. This is not only the case of projects, but also regions. EU support has tendency to support stronger regions where implementation of support will be much more smoother (Dellmuth 2011).

The rigid mode of operation favoring the financial aspect of implementation then often leads to a culture of "non-risk" support when you deny to support of the innovative (and hence partially problematic) ideas and support projects that are fully desired lines of rules (Maraitte, 2006).

Strict application of the principles of financial management at the expense of efficiency in turn leads to a large formal orientation to make things right compared to doing the right things. This is partly related to the preference for quantity over quality in projects. Projects are primarily evaluated according to the values achieved in measurable indicators, which are for all operational programs set quantitatively. In the evaluation process examiners should formally take into account the quality, but at this stage it is just the quality declared, not achieved. In the implementation phase, when we are talking about the real quality of the output, it is still dominated by quantitative assessment through performance indicators. This leads to answers to the question "what was spent and on what?" and not question "what works?" in the evaluation of the support (Morton, 2009).

Administrative actions indirectly impact on several key aspects such as institutional capacity building for development. For example, low transparency of project evaluation regarding content of project in Slovakia. Applicants are informed of all formal aspects during project evaluation and usually these data are also published, but they are not published specific assessment that would have shown the requesting entity where there were major problems with their application. Missing information on number of points achieved in the evaluation as well as comment on what were the main problems of the project. This greatly restricts one of the essential functions of the support - strengthen the institutional capacity towards improved management skills for development.

Aim and methodology of research

The aim of our research was to look more closely on another important factor related to administrative and political influence – time of the approval. This is not only a problem of the Slovak Republic. In other countries, the average duration of a similar type to obtain a grant of about 10 months (Wostner, 2008b). In the survey conducted in this study was the time delay indicated a serious problem (7,5 points on a scale from 1 to 10).

We try to analyze time delays in the approval of the projects. Demand-oriented projects operate on the basis of calls for applications for support. In the cases examined by us there is a precise deadline by which applicants must submit projects. Consequently, these projects go through a formal peer review, and this process should take a maximum of 100 days. After the final approval of the aid applicant is invited to sign the contract and may then carry out the project (MDVaRR, 2012).

We examined the calls within 4 operational programs, which have the most fixed deadline calls - operational programs Education, Research and Development, Environment and Competitiveness and Economic Growth. Total 128 calls were announced and completed during the years 2008-2013 within these programs. For each call there are official reports on their evaluation. Together 10,189 projects were submitted, an average of about 79 projects per call.

The impact of policy on the implementation of structural funds in the Slovak Republic we tried to identify an indirect way. We examined the length of the evaluation process for demand-driven projects in the programming period 2007 – 2013 during election periods and during other periods without elections. Slovak Republic had at this time two elections for the national parliament, in both cases there was a change of government. In our research, we analyzed

how the changes of government occurred at length evaluation of applications for grant assistance from the Structural Funds.

In order to identify the impact of elections on the duration of the project evaluations, we performed regression analysis, which examined the effects of various factors on the length of the project assessment variables in the analysis are shown in Table 2. We identified four key factors that might influence the length of the evaluation. The first is the number of projects proposals, based on the assumption that a higher number of projects leads to increased time demands for evaluation. The second factor is the total amount of support for the call, where we assumed that the greater amount of funding means bigger and thus more difficult projects and more time is needed for their evaluation. Another factor was the type of support, where we distinguish between investment projects supported by the ERDF and "soft" projects financed by the ESF. Influence the election was measured as a binary variable, depending on whether the call at the time of evaluation were conducted elections to the national parliament or not.

Table 1. Key factos influencing time of project approval using the regression analysis

Factor	Values
Type of support	0 if financed from European social fund (non investment projects), 1 if financed from European regional Development Fund (investment projects)
Financial allocation of call	Total amount of funds allocated for that call
Elections	0 if elections were not held during evaluation process 1 if elections occur during evaluation process
Number of applications	Total number of project's proposals in the call

Source: own elaborations

Results

Generally, the time for approval of the project is quite long. This is specially problem in calls oriented to quickly changing enviroment as e.g. calls to suppot innovations. In case of several calls time to evaluate last nearly a year, and in some cases it was almost two years. It is very negative impact on innovation activities in the regions. Many new technologies have erase during that time, but the companies are still forced to comply with project proposal and thereby purchase not the latest technology, or even refuse signing the contract on the ground that they were forced to acquire the technology earlier and thus it would constitute unauthorized expenses. The average length of project assessment from deadline for submission closing of projects and selection committees was the Operational program Competitiveness and Economic Growth was 196 days and you need to add about 2 months of the call annoucement and another two months between the evaluation and the actual signing of the contract.

Table 2. Examples of time of approval for different calls

Number of call	Date of announcement	Date of project selection	Estimated time of contract signature
DOP–SIA–2010/1.2.1/01	04. 05. 2010	17. 02. 2011	January 2012
KaHR-111SP-1001	25.1.2010	25.7.2011	September 2011
DOP–SIA–2009/4.1.3/01	15.06.2009	20.01.2010	April - June 2010
KaHR – 111DM – 0901	15. 6. 2009	15.03. 2010	May 2010
KaHR-31DM-0902	20.8.2009	08.06.2010	January 2011
KaHR-21 DM-0901	4.5.2009	24.3.2010	May 2010
KaHR–13SP-1001	26.4.2010	8. 12. 2011	March 2012
KaHR – 111SP – 1001	25.1.2010	27.07. 2011	Oktober 2011

Source: Reports from evaluation of calls (www.siea.sk, www.sia.gov.sk)

A typical example of an administrative failure which adversely affect the overall effect is a challenge to support businesses in the most backward regions of Banska Bystrica, Kosice and Presov aimed at creating new jobs. These challenges have been declared 9.7.2010 (DOP - SIA - 2010 / 1.2 / REGBB, REGKE, REGPO). A year later (14.11.2011) Social Implementation Agency issued a statement that they canceled this call. The announced reason was corruption in the evaluation process. The result of this support both from the perspective of the company, which was eligible for support was that after waiting to start activities (if they create jobs sooner, he would not be recognized as result of project) and the expenses occurred in the preparation of the project the company did not get an objective evaluation. The logical solution would be new evaluation, not cancellation. This solution only penalize applicants with good projects and significantly reduce not only the effectiveness of support, but overly negatively affect both the perception of this support as well as additional economic activity of the regions.

The results of regression analysis are in Table 3. There are two statistically significant variables – elections and number of applications.

Table 3. Results of regression analysis related to length of project's approval

	Coefficients	Standard Error	t Stat	P-value
Number of applications	0,121338	0,051716	2,346236	0,020563
Type of fund	14,38447	12,12607	1,186243	0,237813
Elections	73,60844	14,08509	5,225985	7,18E-07
Financial allocation of fund	-5,8E-08	4,1E-08	-1,41008	0,16104

Source: Own calculations

It shows that election period lead to significant delays in the process of approval of the projects. On average, it took 73 longer than in the situation of „normal“ period. Also the higher

number of application lead to longer evaluation process. For reduction of time dealys, there are several possible improvements. For example, there is nothing like „reserve list“ of projects, which could lead to reduce number of new calls. This could help specially in calls where demand overwhelm support possibilities.

Conclusions

We tried to show that administrative and political aspects of support are playing very important role in the efficiency and effectiveness of whole EU support. Reduction of administrative burden could lead to grater impacts of the projects. We only mentioned few examples in Slovakia, but the problems could be found in many other administrative aspects as e.g. issue of very high indirect costs, more concentration of finance instead of content of projects or question of flexibility in the project's changes.

It is essential to properly configure the system indicators. The aim of the selection indicators should focus on the impact of interventions and their quality, not on the frequency outputs. In accordance with the recommendations of Barca and McCann (2011), the selection of indicators should be preceded by intense public debate, which would provide a clear link between indicators and policies.

Better change management is needed in the project implementation. If no changes are vitally necessary for the better functioning of the project, they need to be done cumulatively over a longer period of time and subsequently enough to communicate to the final beneficiaries. Into this category we could also include the non-existent project pipelines, which would, especially in the public sector help to save financial resources. For example, schools and cities must now submit the same project several times in a row, if unsuccessful, although each project obtains enough points are not supported just due to lack of resources in the call. This would lead to a reduction of delays in project implementation.

One of the open questions is a system project selection. Experience shows that the "eligible" projects (projects where the support gets everyone who comply with conditions) have significantly lower administrative costs. Their great advantage is also considerably lower threat of corruption. In the case of selection of a number of projects in the private sector, it is favoring large enterprises in developed regions that have better resources and information for project preparation.

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