THESIS SUMMARY

Gabriella Győriné Szabó

CONDITIONS AND CHALLENGES OF USING THE COHESION FUNDS „A LA” QUALITY SPENDING
to the Ph.D. dissertation

Theme leader:
Ákos Kengyel Dr. habil, Ph.D.
university docens

Budapest, 2016
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Absorption, efficiency and effectiveness of utilization are primary concepts in the European Union's development policy. These indicators qualify the operation of this policy, at both EU and Member State level. Quantitative and qualitative indicators of resource utilization came into the forefront, both upon the closure of the 2007-2013 programming period and with the legislative foundations of the new 2014-2020 planning period. As a consequence of the economic crisis we have seen a change of emphasis towards efficiency, also called, as a new synonym, quality spending. This is also corroborated by the fact that it was the first time when the financing envelope for cohesion resources, which already could not be considered significant, decreased. In real terms, at aggregated Member State level, 8% less funds are available in the new programming period, compared to the 2007-2013 period which already came to its closure. My research aims to facilitate the efficient utilization of the Cohesion Funds with proposals at the domestic and Commission institutional system levels, and to identify the intervention steps leading to efficiency, in both the planning and implementation phases in Member States.

Based on the international and domestic research environment, it can be established that the concept of efficiency is not uniform, nor defined either at EU or Member State levels; it is treated jointly with effectiveness and sometimes it is even overlapped with absorption. This latter is true and to be examined to the extent that, due to the absorption deficit, the efficiency of the aid is zero. My thesis goes beyond the existing statements, in that I reply to this theoretical question with a comparison displaying nearly all Member States, namely what is meant under efficient utilization in the individual Member States; how it is measured; what evaluation tests are performed; and what role the examination and the measurement of this concept receives in it.

My research focuses, as far as possible, on the measurement of efficiency, although the literature so far has not shown such focus.

- The volume of the literature and the topic excludes joint handling with other concepts; this could lead to generalizations and superficial examinations.
- The literature of impact assessments and efficiency based approaches is very broad; they appear in numerous fora and platforms; although they do not dwarf the volume of the efficiency issue. The examination of the methodologies and solutions of the latter unjustly receives less attention; however, the issue created by its deficiency goes beyond the effectiveness and efficiency deficits.
Also based on international and domestic research, it can be stated as an axiom that the efficiency of the utilization is influenced by the manner of establishment and operation of the institutional system regulating, managing and implementing the utilization of the cohesion funds. In numerous research works, quality operation is made dependent on the enforcement of two principles, determining the Community as a whole, subsidiarity and partnership.

In my hypothesis I state and I prove in my work that developments defined by subsidiarity and partnership are more efficient than solutions and outcomes lacking these. The enforcement of these two principles is determined by the institutional system and the legislative environment created as its antecedent, both at EU and Member State level, thus my first hypothesis is:

H1: The legislative system defining the structure and operation of the institutional system can determine efficiency issues.

To demonstrate this, I examine the legislative framework for the utilization of the European Structural and Investment Funds (hereinafter: ESI funds) for the 2014-2020 programming period and the 25 month conciliation process that led to it, which also integrated the Member State and Commission criteria in the focus of quality spending.

During my synthetizing work to compensate for the lack of the efficiency concept, by examining the evaluation practices of individual Member States, we can see that their monitoring activity appears both at the level of institutional operation and at the program/project creation/selection. Project level examinations almost exclusively cover efficiency issues and aggregated impact mechanisms. In my opinion however, the examination of efficiency is a real need at project level, where the following need to be examined:

- why the implementation of a development, irrespective of its infrastructural or soft nature, suffers from delays (delays in implementation close to the end of the programming period carries absorption risks, and the uneven work waves occurring during implementation cause institutional capacity issues);
- how the resource needs occur during the actual implementation compared to the planned cost needs;
- what auxiliary costs the development was burdened with (the examination of their existence and extent (can) reflect(s) on the operational issues of the institutional
system and the excessive or inadequate establishment of the legislative preconditions;
- what additional activities were implemented on a mandatory or optional basis beyond the planned content.

Efficiency criteria appear in the program level evaluations, including the predictability, flexibility, future-oriented planning, monitoring and evaluation during the process, and expectations of territorial synergy from the institution. Therefore, in my thesis, I consider it particularly important to integrate the institutional system related aspect.

On the basis of the above I set my further hypotheses as follows:

H2a: Adequate subsidiarity and legitimate partnership implemented in the operation and operational structure of the institutional system improves utilization efficiency.
H2b: The presence of adequate subsidiarity and legitimate partnership in project planning, project generation and project selection improves utilization efficiency.
H2c: The application of adequate subsidiarity and legitimate partnership in project implementation improves utilization efficiency.

While for hypotheses H2a and H2b the institutional approach prevails, statement H2c is then primarily evaluated from the beneficiary's/recipient's point of view. The time horizon of the evaluation is the entire spectrum of our EU membership from 2004, which allows for the presentation of changes that took place in the meantime, providing a relevant (from the standpoint of our topic) and hitherto absent summary of the review of the utilization in Hungary from the efficiency point of view.

II Methods used

I defined the methods used for my research as follows:

- **My desk research** covers the studies of domestic and international research institutions, legislation, impact assessments, the analysis of my information requests addressed to the DG Regio of the European Commission and the evaluation of the guidance notes (with special emphasis on the Evaluation Guideline of the European
Commission). This desk research contributes to the verification of both hypotheses; furthermore, I highlight Member State good practices that can be adapted in EU and domestic institutional regulations, and I formulate proposals.

- **My program-level case study**, the institutional case for EU level recognized good practice, under implementation since 2004, currently under the name Széchenyi 2020 Customer Service (Széchenyi 2020 Ügyfélszolgálat) reflects to each subsection in the second hypothesis.

- **The project level descriptions** come from the practice of more than a decade long programming period of domestic implementation, from which I draw general proposals that can be adapted to the institutional level, in addition to using it to prove the second hypothesis. This is where the complexity of and difficulties in measuring the hallmark concepts in the implementation phase become visible.

- A priority cornerstone of my research is the first adaptation of a German and Czech Member State measurement exercise in Hungary, during which I perform a **micro-economic contrafactual comparative study** at program and project level, contributing to the verification of each subsection of both hypotheses. The strength of my research is that the "preliminary" project selection in 2007 took place in the actual environment, i.e. that can be called natural on the basis of the definition in the literature; and the subsequent examination of data in 2016 also takes place in the actual environment, in the actual regulatory and operational environment of the institutional system, with actual regional actors, alongside a legitimate decision-making mechanism. The uniqueness of this examination lies in that it is not a classic comparison of facts, although its subject is identical in the two points in time subject to review. It can be stated that the examination of efficiency is a real requirement at project level, where the following need to be examined:
  - why the implementation of a development, irrespective of its infrastructural or soft nature, suffers from delays (delays in implementation close to the end of the programming period carries absorption risks);
  - how the resource needs occur in actuality compared to the planned cost needs;
what auxiliary costs the development was burdened with (the examination of their existence and extent (can) reflect(s) on the operational issues of the institutional system and the excessive or inadequate establishment of the legislative preconditions); 

what additional activities were implemented on a mandatory or optional basis beyond the planned content.

I do not examine in my research the use of the Regional Development Fund's resources (despite its integration in the Joint Strategic Framework during the 2014-2020 period) or the Community initiative, because their literature and methodological background are very different to that of the cohesion funds. Furthermore, I have no overview of their practical background, while I have work experience in the utilization of two of these three funds (my jobs at the Management Authority of the Regional programs and at the Intermediate Body of the Northern Great Plain Regional Development Agency), and project management experience at three types of users (SME, civil organizations, educational institutions).

III. The results of this thesis

1. As a result of this analytical-synthesis work on the institutional and regulatory environment in the second part, the H1 hypothesis is verified, *i.e. the legislative system determining the setup and the operation of the institutional system predetermines efficiency issues*. The new expectations set in the 2014-2020 cohesion development policy seem to serve quality spending; at the same time, the inflexible and excessive thematic and financial expectations, and the alignment of the programming documents with the Member State development environment posed a challenge to the institutional system with which individual actors are capable of dealing only in a manner that leaves hardly any time for actual content planning and rethinking. The initially efficiency focused EU legislative changes as presented in my thesis resulted not only in delays but strong bottlenecks in the Member States' institutional and programming tasks. The allocation requirements pro rata to the resources embodied in the thematic concentration, and the commitments for the so-called EU2020 objectives, as well as the individual regulatory system of the individual operative programs, posed a nearly four dimensional matrix system challenge to Member States, which at the same time faced compliance with the absorption and content commitments in the n+1 year of the 2007-2013
programming period (in 2014), and the delayed and even more concentrated and binding requirements of the new period, which in many cases were not finalized during the program development.

2. In addition to the content obligations, the more definite reporting also appears in the new programming period, and its priority area is quality spending, despite this concept lacking uniform definition and measurement at EU or Member State level. *As a summary of the Member State measurement exercises, and on the basis of the results of the efficiency focused literature, this thesis paper also rectified the definition development*, which is identifiable both at the project and program level.

The project level definition can be summarized as follows:

Efficient means utilization implementing the correct objective, with the best nominal cost and scheduling, in an appropriate institutional system. The parameters of the appropriate institutional system are complied with alongside the following conditions:

1. subsidiarity
2. partnership/customer friendly approach (integrated feedback)
3. flexibility
4. predictability
5. transparency
6. permanence
7. minimized rent-seeking and information monopoly

Numerous Member State examples of program level efficiency are not established due to the lack of EU regulation, despite this being an expectation in all Member States during the resource utilization. On the basis of the synthesis of the Member State assessment practice, the utilization of the cohesion resources can be considered efficient at program level by complying with the following conditions:

*Efficiency is hallmarked by the following program-level criteria:*
1. predictability
2. flexibility
3. future oriented planning
4. monitoring and evaluation during the process
5. territorial synergy
6. feedback opportunity

It is important to note that the efficiency criteria set at project level need to be ensured at the level of the programs and vice versa: the enforcement of project-level efficiency is a required but not sufficient pre-condition for program-level efficiency.

3. The illustrative case study in the Part Three of this thesis paper and the minor case studies, as well as the contrafactual comparative study detailed in Part Four, verify all three parts of the second hypothesis, namely an appropriate partnership and the necessary and sufficient level of subsidiarity are both essential for efficient resource utilization, and efficiency issues can arise from the regulation of the institutional system's setup and operation.

The literature specifies the Irish "knowledge transfer" as one of the best practices, and a similar one was established in Poland under the "Know-How Fund" name. In both Member States, the essence of the method is to create a knowledge and experience transfer chain that facilitates the regular, transparent and quick receipt of aid and successful implementation, by linking the institutional side with the actors involved in the implementation. In Hungary, the regional consultant network established during the period of the first National Development Plan played/plays the above function; as Small Region Consultant Network in the 2007-2013 period, then as part of the institutional system as the recently started Széchenyi Program Office. This thesis paper analyses the effect and conditions of the organization's operation on efficiency against the two principles of legitimate partnership and adequate subsidiarity. It can be established that (and it accordingly contributed to the verification of the hypotheses) that the maintenance of the non-profit consultative program is justified only if it serves the initial objectives, as confirmed by the literature, with a stronger regional embeddedness, even as part of the
District Government One Stop Shops, lending a stronger information, monitoring and feedback input to the programs of the 2014-2020 period. Also, the fact that the widespread tendering consultant sector undertakes these tasks almost completely cannot be ignored either. In their case, however, the for-profit nature can never be ignored, of which the information monopoly and rent-seeking are often a corollary, as well as distortion in the project content caused by a performance fee commensurate with the aid awarded.

In the second part of my thesis paper, I presented the German Member State micro-economic contrafactual study, the measurement practice of which was applied by Italy and the Czech Republic in the 2007-13 period, the former in the ERDF-financed ROPs; the Czech Republic in the sectoral programs of ESF supporting human resources (Potluka, Bruha [2014] and Valenza et al [2011]). I carry out the domestic adaptations of these in the contrafactual research constituting Part Four of this thesis paper, although my method is specifically Difference in difference (hereinafter: DID method), because it compares the output under the primary procedure (remaining at plan level, but with actual project content) with the actual output, the result of the open project selection procedure. Comparing it with the open tender call system rather than with the solution using the resources of the 2007 human development resources performed at regional level, i.e. representing adequate subsidiarity and legitimate partnership, the following findings can be made on the basis of the efficiency criteria:

- for project identities (very few cases): 2 to 3 years of delays, higher project volume (not if it was in the second half of the period, included with the originally estimated costs), caused by the ancillary costs in the institutional system and the more extensive technical content

- the more extensive technical content was caused by the possibility of higher aid intensities and the higher maximum aid amounts rather than because it was necessary

- the territorial synergies expected at program level were seriously compromised, altering the entire picture of the implementation: in addition to a nearly acceptable outcome in one third of the settlements, it showed a significant number of outlying resource allocations, identified in both directions, at the same time as nearly identical plan/fact absorptions in both regions
transparency was enforced to a lesser extent in the project selection performed via open tender procedures; this could have increased the risk of information monopoly and rent-seeking, as a consequence of the heterogeneous consultancy services market

- the former finding also applies to partnership/iterativity.

- in the light of the outcomes, project and program-level issues were the consequence of the lack of adequate subsidiarity

- undertaking own contributions: in 2007 everybody contributed the mandatory 10%, and significant overcommitments could be seen by settlements with big tax power, with a view to ensure the provident utilization of the settlement's funding envelope. By using the up to 100% aid intensities and higher aid amounts, their own contributions nearly disappeared from the program

- Scheduling: a minimum of two years delay can be demonstrated in general, but there was a grant contract signed in 2014, e.g. for health centers (n+1!); this implies serious absorption risks

- extreme plan/fact project volumes: the fear of fragmentation of the institutional system was indeed avoided by the actual project selection, but so was the best specific expenditure. In the additional funds also awarded, the small project volume and partiality were also issues (ÉAOP - delivering accessibility, and KEOP – energy)

- only nearly one quarter of developments considered the most needed by local decision makers were implemented

In view of the above I can see the verification of my hypotheses, by the domestic adaptation of the international methodology.

The new institutional proposals made in the thesis paper and the measurement methods proposed for adaptation appear both at the level of the Commission and the Member States, primarily in Hungary (these are applied in a comparative manner in my contrafactual analysis). The most important finding of this thesis paper is that a more extensive and conscious application of these two examined principles (i.e. the adequate
level of subsidiarity and legitimate partnership) is required during the entire programming, and the implied shifts in emphasis in tasks and competences both between the EU and the Member States and the Member States and sub-national levels. After the itemized recording of proposals it is apparent that the human resource need for their implementation is huge; at the same time, in my opinion, it would not mean an additional human resource need in the institutional system, but only shifts in emphasis. It is particularly true due to the capacity release due to digitalization and e-tendering.

4. The methods used to verify the hypotheses also highlight that operative conciliation between Member States on the merit is not only justified during the establishment of funding envelopes but also during the years of implementation. This cooperation can take place in the interpretation of the Community implementation regulations and in the effective and stronger representation of interests, leading to fewer infringement procedures. The possible further research topic lays down the possibilities of exploring these forms of cooperation, and the necessity of concentrated and coordinated efficiency assessments as revealed in the international practice for domestic adaptation. This latter is not only in order to comply with EU requirements, but (even more) with a view to a review driven by an internal demand. Consultations on the lessons learned during the implementation and the interpretation of the implementing regulations and joint representation at the Commission could be a possible cooperation area for the Visegrad countries (V4), flourishing again.

The examination of the criterion under the auspices of efficiency where other means could have brought a better outcome is also listed in the EVALSED methodological recommendations, operating with the acknowledgement of the DG Regio of the European Commission, as presented in Part Two. I dealt with this issue in the contrafactual comparison presented in Part Four. As a conclusion of this examination, it can be stated at a program level that more efficient and maybe more effective territorial development could have been achieved by the project selection tool developed, with regional cooperation remaining at the planned level. To assess this latter, aggregated indicator data would have been needed in connection with the implemented developments, although it can be also examined whether they indeed were the most appropriate indicators for the purpose. In order to ensure publicity, of primary importance for the EU, instead of the increasingly big information tables and sometimes exaggerated events, it is better if developments speak for themselves, because they are based on rational local
needs, non-wasteful implementation and ideas created alongside forward looking thinking, that does not remain just plans. There is one more argument for the local planning and dedicated funding envelopes: the responsibility for decisions cannot be switched to others, to an unpredictable institutional implementation, to possibly rent-seeking consultants, and development policy Government departments. The essence of local governance is implemented with all its positive and negative consequences, but subject to accountability by the local public.

In this thesis paper, my intention was to provide a complex answer to a complex question, via the desk research and analysis that brought the above results, the introduction of the characteristics of the institutional system and the thematic case studies of the decade of domestic use and the empirical research work of the contrafactual comparative analysis. The actual and long-term benefit of this thesis paper are the proposal that can be applied by the country in its future development policy, institutional setup, regulation, measurement and monitoring, in addition to rectifying this gap in the literature, the extension of the literature and laying down further research areas. The objective is to apply the motto of the British National Audit Office in the best way:

„Our mission: to help the nation to spend wisely (NAO [2009]).”
IV. Main references


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V. Author’s publications related to the theme

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