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Mid-term Evaluation of Operational Programme Regional Development 2007-2013 Executive summary of Final Report

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ADVISORY

EXECUTIVE SUMMARY

The Ministry of Regional Development and Public Works of Bulgaria engaged the Consortium formed by KPMG Bulgaria and KPMG Hungary (the Consultant) for the Mid-term Evaluation of Operational Programme Regional Development 2007-2013 (OPRD). The present report is the Final Report of the mid-term evaluation project. The duration of the contract covered the period of 30 August 2010 – 28 February 2011.

The objective of the evaluation was threefold:

- to perform a review of the compliance and **relevance** of the OPRD strategy and implementation results;
- to perform a review of the compliance of the program objectives with the results and actual development needs and to analyze the quality of **implementation** and program monitoring; and
- to analyze the **environment impact assessment** of the OP.

To achieve these objectives, the Terms of Reference (ToR) expects results of the engagement in the form of answers, conclusions and recommendations linked to 19 Main Evaluation Questions (MEQ) and their sub-questions. These MEQs covered all relevant aspects of the programme and its implementation, including issues of relevance, implementation and even environment impact assessment.

The Consultant used a wide variety of methods to meet the above objectives. The application of the methodology greatly relied on data gathered through documentation review and data requests addressed to stakeholders, and validated through questionnaire-based surveys, interviews, workshops and other meetings. The stakeholders included the Managing Authority (MA) and its regional offices engaged in the Structural Funds (SF) management and implementation system, as well as representatives of special beneficiaries of the interventions. The cut-off date for the evaluation was 31 December 2010, unless otherwise indicated.

In the following section, the Consultant presents the main conclusions and recommendations of the evaluation in the structure imposed by the 19 Main Evaluation Questions.

Progress

The OPRD is **one of the best performing** (first in contracting, third in payment) and most popular SF funded development programme in Bulgaria. The steady increase of the main financial indicators makes it very likely that all budget allocations can be turned into approved grants by the end of 2011. However, this assumption carries two important messages in terms of preparation for the next programming period. First, it appears that the programme has faced a greater demand than originally anticipated which should provide lessons for the next programming period. Second, lack of opportunities for funding municipal developments in the period of 2012-13 might have backfiring effects: potential beneficiaries might consider this period of no available fund a shortcoming, rather than a success of planning.

Another important conclusion of the evaluation is that **achieving the non-financial indicators** of the OPRD by the end of the implementation period might be at risk. The reason for this is twofold. First, not all of the targets set in 2006 are realistic by now; and second, the data set of the completed projects does not show the level of performance that was expected in terms of achievement of non-financial targets. Therefore we recommend considering a reduction of target values in line with the changes in external environment and the achievable performance levels.

The **volume of payments** carried out amounts to 12% of the total allocation. This volume is low when considered in proportion to the time elapsed. In fact, the pace of payment has constituted a major risk in terms of ensuring full absorption. The paid grant amount is likely to reach the budget allocation by 2015, taking the optimistic scenario. The recent measures of the MA have successfully accelerated absorption through the introduction of simplified and accelerated payment procedures. However, based on the current figures of progress, the relatively low rate of payment is still one of the most urgent issues. This leads to two separate recommendations, i.e. further acceleration of payment for the current implementation period, and paving the road to quicker payment in the next period of 2014-2020. The latter one can be based on a careful review of the processes directly preceding payment and the disclosure offactors potentially leading to obstacles to pay out grants. Besides, an assessment of the projects under implementation should be

conducted in order to analyse in more detail the post-contractual issues that the beneficiaries face, which might result in delays in implementation and payment (e.g. procurement regulation, on-spot checks).

For the formulation of the **annual split of financial allocation** of the programme, it is recommended to consider the planned pace of resource allocation to final beneficiaries. This should follow the high level plans of scheduling calls, institutional capacity and expected progress and absorption rates. In order to mitigate risks deriving from lack of absorption capacity, it is advisable to plan rather front-loaded programmes (i.e. making more funds available in the first years of implementation than in the final years), however, it requires prepared intervention sets, a consideration of the N+2/N+3 rule and a sound and balanced institutional system already in place which is capable of handling high demand.

Previous evaluations

The most important recommendations of **previous evaluations were taken into consideration and addressed**. The MA is advised to **further proceed with the implementation of the recommendation** related to the revision of criteria for technical and financial evaluation of project proposals in order to better reflect the specificities of the particular grant scheme and to promote objective assessment. It is also recommended to introduce some changes in the current platform of the MA webpage as regards Q&A section for the purposes of establishing a more user-friendly pattern of response to all stakeholders.

SWOT analysis

The OPRD was programmed at a time when general socio-economic situation was characterised by growth and small regional disparities. In that period, the **SWOT analysis was consistent with the priorities**, and represented a solid background for OPRD strategy. Later, budget restrictions and alterations of sector policies (health strategy, industrial zones, gas connections) resulted in amendments of OPRD measures and launching of some new schemes. The global economic crisis had both positive and negative consequences on OPRD. In order for the original SWOT analysis to be compliant with the current and future (up to 2015) socio-economic environment, as well as for preserving OPRD strategy's relevance, a **few minor amendments and reformulations in SWOT are required** as specified in the report.

Continuous relevance

There are several external factors that have emerged after the formulation of the OPRD and have significantly affected the continuous relevance of programme rational and strategy. These factors are mixed in nature, with either positive or negative impact, or both. Political factors (e.g. national and municipal elections in 2006, 2008 and 2009, entailing changes of the government priorities) generally appear to have had a positive impact on OPRD.

However, there are negative impacts as well, such as lack of consistency in policy implementation (healthcare) and practical problems in applying the Public Procurement Act. Changes in sector strategies (national industrial zones support) have had a positive impact, allowing OPRD to reallocate some of its financial resources to more exigent measures. **The new operations and amendments in OPRD correspond to the new targets which resulted from the new factors. With a few exceptions, the rest of the targets identified during the programming period continue to be relevant.**

It is a significant step towards **a more focused and more demand-driven regional policy** that integrated urban development plans are being elaborated with OPRD support. This approach should be continued in the programming of next OPRD. Clear objectives and priorities and well-focused instruments should be set in the next programming period, taking into consideration the regional disparities and specific needs.

Consistency of objectives

The high level objectives of OPRD are still fundamentally valid, relevant and compatible with the rationale and strategy of the programme. In the current programming period it was necessary that the OPRD was focusing on removing obstacles (e.g. prevention against natural disasters – fire prevention, landslides and flood prevention). In the next programming period, it is recommended to shift the scope of the regional OP rather to **active promotion of dynamic development of the regions**. We also have to note that there are exceptions for active interventions, such as JESSICA, tourism development or urban transport development.

In general, **OPRD and the Rural Development Programme (RDP) are complementary**. This is largely due to an established mechanism for avoiding overlaps and double financing. Consistency and complementarity between OPRD and RDP should continue for the remaining implementation period and also the next one. In order to achieve this, it is recommended to use a **continuous and active monitoring system**, also to regularly and systematically check potential overlap of the programmes or an unintentional diversion of

applicants to one of the programmes. It is also advised to introduce a **checkpoint** corresponding to this issue in the planning process of the new regional development schemes. As OPRD and RDP territorial demarcations are based on statistical data, a **revision of the categorisation of rural municipalities** should be considered after performing the national census, planned for 2011.

The effectiveness of interventions – and OPRD as a whole – would be served by the **assessment of the consistency in the planning phase**. As a potential tool for this assessment, a checkpoint should be introduced in the mechanism of designing or changing future interventions.

Programming

The approach to the next programming period is recommended to be slightly shifted from the current one. The OP should have a **more integrated view and approach to regional development**, setting clear objectives and priorities on what interventions to include in the programme. These priorities should be carefully followed, even at the cost of completely dropping interventions that do not fit into the policy of the next OPRD. Sector interventions (e.g. gas, healthcare, ICT, housing) could be reconsidered in terms of suitability and capability of achieving objectives; while some of them could be supported as part of other strategic interventions or as separately funded programmes.

In planning for the next programming period it is necessary to identify the regions that will act as engines for the country's development in the coming years. The **"growth poles" approach** should also be analyzed against its definition and the way it was implemented so far. Targeting the development of the agglomeration areas, envisaging integrated activities in the urban centres and using an integrated approach for planning of areas should be considered.

Regional interventions should be strongly considered in terms of establishing the means of achieving growth and competitiveness, both in regions where priority is given to "competitiveness" and in regions where priority is given to "cohesion". A **regional quota system** could be considered as regards budget allocations.

It is important that the preparation for the next programming period is established on a solid basis, consisting of a **stable national policy and strategy background**. This obviously requires national policies and strategies to be created and/or updated, in accordance with the results gained in the current implementation period 2007-13. Integrated urban development plans could successfully be used for design of interventions.

The MA should consider the following practices: implementation of global grants, intensified direct award, no division of beneficiaries by ownership, strong regional offices which run the projects at regional level, preparation of good mature projects and adequate monitoring. Greater flexibility and proactive approach as regards to n+3/n+2 rule requirements is also advised. Establishment of active Intermediate Bodies with extended programme management and administrative functions should also be considered for the next period.

Indicator system

The indicator system is generally compliant with the systems used in other similar OPs. However, the number of indicators is too high and the complexity of the indicator system does not support the easy measurement of progress. Therefore, the Consultant recommends the application of **less, but better defined indicators**, that are easier to collect and monitor; and the preparation of specific guidelines for measuring and calculation of indicators in the form of a **handbook**.

The impact indicator of the OPRD "jobs created" does not properly reflect the character of OPRD. OPRD is not a programme directly promoting employment or competitiveness, therefore this impact indicator does not fulfil its role of reflecting the progress of the OPRD towards the attainment of its objectives in one figure. Therefore, the Consultant recommends the **introduction of a new impact indicator** for the next programming period, which is better aligned to the character of OPRD. A few examples might be "GDP growth per capita of the region (%)"; "GDP growth per capita of the region (BGN)"; "GDP per capita of the region as a percentage of national average (%)"; or "Satisfaction of effected population with urban and environmental developments (%)".

Given the fact that – except for the development of educational infrastructure and technical assistance – **indicator based progress is lagging behind the interim target values** for 2009, it is unlikely that the preset target values will be achieved especially after the years of the financial downturn. □ Therefore, the MA should reconsider defining new target values for the indicators that are more realistic to achieve. As there are some uncertainties related to the monitoring of indicators values, the MA **should double-check and verify inserted indicator values** in terms of number, unit and type.

Lead time

The average total lead time was 118 working days with OPRD applications – which is close to the international benchmark. This figure is in between the respective figure for Romania (where the process is longer) and Hungary (where the process takes significantly less time). Therefore, it is recommended to make an **extended comparison** of the OPRD lead time data with the respective data of CEE countries' regional OPs and other Bulgarian OPs. This would help identifying the weaknesses of the application process and taking steps for change, also considering national and international practices.

Although OPRD calls have gone through development regarding lead time the MA should make further steps in the **fine-tuning of application process**. This is important in order to meet the deadlines set in relevant legislation and to enable short payment periods, serving the interest of all stakeholders. It is also advisable to conduct a comprehensive assessment of the application process in order to disclose specific bottlenecks. By the time when the majority of applications will be processed (by the second half of 2011), it is recommended to conduct an **in-depth review** of the reasons of delays in the application process. Moreover, it is recommended to introduce a **system for measuring and monitoring lead times** in the institutional system.

Horizontal issues

Horizontal issues **have been considered appropriately and according to the character** of the OPRD interventions, both in the programming and in the implementation phase. In order to fully address the issue of horizontal themes the Consultant recommends the application of an approach that includes the consequent use of horizontal objectives, project selection criteria, indicators, monitoring and reporting considerations. For the next programming period, the MA should consider whether setting horizontal objectives at Programme level is required and whether objectives of the newly designed or updated schemes require the inclusion of horizontal issues related award criteria.

As for programming, the schemes launched in the second half of 2009 contain horizontal criteria as admissibility criteria at scheme level. However, there is no relevant practice identified to **monitor horizontal issues** in the implementation phase. The MA should introduce compulsory monitoring of horizontal issues related indicators at the on-the-spot checks. It is also advised to include the current value of horizontal indicators for all schemes in the Annual Report and to dedicate a separate section to horizontal issues in the Annual Report.

Capacity and capability

International experience shows that policy making, management of the programme and routine administration generally require different approaches and **separate organisations**. Having management and administration in one organisation carries the risk of emerging conflicts in the long run. Therefore, for the next period, the Consultant suggests that management and administration functions are separated in two or more organizations, i.e. the MA responsible for policy issues while the IB(s) responsible for administration and management of projects.

As implementation of the current period and programming of the next period will run in parallel, **a significant burden** is likely to be placed on the MA in terms of capacity. The increasing number of contracts in implementation necessitates the use of external technical expertise under TA to assess the quality of physical implementation during the on-the-spot checks.

The Consultant suggests that the **technical capability of regional departments** should be enhanced through trainings mainly in the area of procurement, financial control and monitoring procedures, use of UMIS and legal requirements related to construction works; while the pool of technical experts should also be launched, financed under technical assistance.

Efficiency

The assessment of the efficiency was hindered by the **lack of key efficiency indicators** at scheme level or other preset target values. At project level, assessment of efficiency was only possible for three of the reported indicators (students benefiting from improved educational infrastructure, km of rehabilitated road and population benefiting from small scale investments).

It is recommended that the **MA should introduce a system capable of acting as baseline for the assessment of efficiency** by following a number of specific steps, as suggested by the Consultant in the report.

Impact of OPRD

It is too early to draw very profound conclusions on the potential impact of the OPRD. The two bases for such assessment are the final progress reports of the completed projects and the current indicator values.

Given the current number of completed projects (altogether 81), it is **very early to draw conclusions** on impacts of the projects. According to previous MA expectation, this figure was to reach 100-150 by the end of 2010. Unfortunately, this is still lower, hence only a preliminary assessment could be conducted as part of the present evaluation report.

Current indicator values show, that – with the exception of educational infrastructure and TA projects – **indicator values are not likely to be achieved by the end of the implementation period**. The reason for this is twofold: first, with the change of the external environment (and above all, the financial crisis) some of the original objectives have become unrealistic. Second, projects implemented so far have not been capable of presenting the expected indicators. As for completed projects, their current number (84) does not allow thorough assessment of values.

Impact of the crisis

As a result of the global economic crisis, **OPRD became the main source of funding investments for the municipalities**. The major changes in the external environment are reflected in OPRD as new or modified measures or were either ceased or cancelled. However, these changes have not entailed changes in the overall and specific objectives of the Programme.

The achievement of the indicators affected by the economic crisis is relevant only for employment indicators at national level. The new jobs created under certain OPRD projects can be viewed as a minor compensation of the national increase in unemployment rate. Increased competition among suppliers has made beneficiaries more active and ambitious in absorption of funds. However, it is unfavourable at policy level that in line with the global experience, some of the inter-regional and intra-regional disparities have increased as an effect of the crisis.

The management and implementation system provided various solutions to the crisis: financial re-allocations were made within the OP, and new approaches, such as FLAG financial instrument and JESSICA initiative have been introduced. Given the current, well-progressed status of the OPRD, there might be a need for drawing in funds from other OP interventions with less absorption capacity.

It is recommended that JESSICA initiative and JASPERS technical assistance are further used and developed as efficient instruments addressing the negative effects of the financial crisis.

Management and control

The management and control system of OPRD designed and operated by the MA is fundamentally effective and is adequate in promoting the achievement of the OPRD objectives and mitigating the relevant risks. Minor adjustments and simplifications in the setup of the monitoring and control processes might be required for improvement of the effectiveness and efficiency of OP implementation.

Although the MA utilizes a management information system designed to keep track of the performance of the OP, UMIS does not support a function capable of monitoring the performance of the OP indicators and the aggregation of values at the level of OP. The MA is recommended to launch such a module, and to provide to beneficiaries with **clear guidelines on the calculation and reporting of performance indicator values**. The MA should also conduct, where possible, verifications of their actual achievement as part of the on-site visits of the projects, including delegation of relevant powers to the Regional Offices.

Acceleration of payment is key to ensuring absorption by the end of the implementation period. It appears that the burden imposed by administrative processes (e.g. public procurement checks, payment request verification) significantly hinders payment, thus the channelling of money into the Bulgarian economy. There exists a need for more rigorous risk assessment and proportioning the system of checks and balances to the risks faced. A related issue concerns the tendency to 'gold-plate', i.e. the system requiring 100% control coverage and duplication of the financial verification on regional level and headquarters. The MA might consider **delegating the performance of payment request verification entirely to the Regional Offices** which would further accelerate the reimbursement approval process.

Scheduling of calls

Scheduling of the calls is generally in line with the real launching and end dates, with two notable types of delays. First, the very first calls were launched as late as November 2007, demonstrating that a period of 10 months was spent without call launches. Second, there are many instances when calls have been launched

with considerable delay despite best efforts. These delays, however, did not seem to have had significant impact on progress. The experience of the current period has shown that **short calls with specified deadlines** were more effective than the ones with rolling submission. To maintain the fluency of scheduling of calls, the MA should continue the current practice: to launch schemes to an intensive and short period with specified deadline. Furthermore, the MA is recommended to design and introduce a **'demand planning'-system** to manage the timing of launching calls for proposals, thus forestalling excessive peaks in the receipt and processing of applications.

There are a few measures where the call is still open, although all budget allocations have already been contracted. In order to promote the transparency of the system of calls, the Consultant recommends **closing schemes** in which the entire budget has already been contracted.

Project selection

Project selection criteria show a good level of consistency with the call objectives. However, in some cases specific objectives are not strongly supported through project selection criteria. The Consultant suggests that the project selection criteria should be reformulated in a way that promotes the selection of projects that are consistent with the **specific objectives** of the schemes.

Beneficiaries were generally satisfied with the design and management of the programmes and the support of the MA. They also found the requirements of project selection and general information provided understandable and appropriate.

Up till now there has been no difficulty in contracting the budget of the OPRD. In order to further increase effectiveness during the planning of the next programming period, the MA should select projects that are in line with the policy objectives to a greater extent through **stricter eligibility criteria and more precise targeting** (based on preliminary assessments). This also relieves the institutional system from the burden of evaluating applications that have passed the light eligibility criteria, but whose technical and financial content is not sufficient to be supported.

Generally, less emphasis is placed on eligibility criteria than project selection criteria. The filtering function of the eligibility criteria in respect of project selection and portfolio compositions is typically limited to regulatory compliance and legal issues without leading to the technical or financial filtering of applications. The MA is recommended to ensure that the administrative requirements pertaining to management and implementation are generally proportional to the potential risk, through a **classification of interventions** according to their total budgets, complexity, risk of project implementation and sustainability (e.g. simple, normal and complex project categories). A re-design of the project selection mechanism and bid selection criteria in such a way that they match the classification of interventions is also advisable.

Partnership

MA considers partnership an important principle that needs to be consistently addressed in order to meet requirement of the Structural Funds.

The involvement of social partners was extensive in the programming phase. In the implementation phase, the **partnership process has been less extensive**, mainly taking the form of the regular Monitoring Committee meetings, the recently organised open days and the active usage of other means of communication. Inter-municipal, local and regional partnerships have been promoted in only a small percentage of the schemes, while public-private partnership is missing at this stage of implementation. In general, **OPRD beneficiaries are satisfied with the partnering** model followed by the MA.

It is recommended that the public-private partnership approach is analysed in terms of its suitability and then further utilised and developed, where relevant. MA is also advised to build up solid relationship with the responsible environmental bodies to ensure compliance with EU sustainable development policy. Strengthening the process of partnering with OPRD beneficiaries, and particularly with newly introduced direct beneficiaries who need reinforced support in project development and implementation is also key. The local and regional partnership between beneficiaries with common needs and constraints needs to be reconsidered in the process of designing aid schemes, seeking the best possible approach to achieving integrated results.

Information and publicity

As a general conclusion, information and publicity activities do not appear to constitute an obstacle to the successful implementation of OPRD. Both the awareness raising and the dissemination of information components support well the activities covered in OPRD.

In order to acquire a clear and up-to-date understanding on the current status of the implementation of communication activities related to OPRD, the Consultant suggests the **monitoring of indicators** defined in the Communication Plan and the presentation of their status in the Annual Reports.

The Consultant also recommends the identification and presentation of successful **'model projects'** within the OPRD, with the objective of public disclosure in the EU and Bulgaria. Such a document would serve the purpose of both the orientation of prospective beneficiaries (i.e. what the MA considers successful) and communication purposes, when it comes to reporting about tangible results of the OPRD (national or EU level meetings, presentations).

Additionality

In the intervention areas covered by OPRD, **Structural Funds have become the main source for municipal investment activities.**

It is recommended that priority is given to strategic projects that are complementing the on-going implementation of national policies and/or municipal development initiatives, financed by national sources. Where such complementing projects are financed by OPRD, a verification mechanism (including measurable, achievable and objective indicators) should be put in place, in order to guarantee compliance with the additionality principle.

Environment impact assessment

The environmental requirements laid down in OPRD are generally taken into account with some exceptions. The environmental impact of all completed projects (81) for the period 2007 – 2010 is positive.

In general, the proposed amendments of OPRD will have a **positive effect** compared to the original version of OPRD. However, the amendment of OPRD in relation to environment impact assessment of the new measures requires a coordinated effort of the MA and the Ministry of Environment and Water (MOEW), and particularly the opinion of the latter.

Some of the **measures, envisaged in the Environment Assessment Opinion (EAO) are still relevant** and the implementation of measures is generally adequate. All relevant measures envisaged in the EAO should be implemented, where applicable in the respective projects. An environment expert should be involved in the consultation process of the applicable measures for the schemes and projects.

The assessment of data collection of environment related indicators is limited by the fact, that **not many indicators have been reported so far.** This is partially due to the issue, that no specific approach was defined to review the progress of the environmental indicators and that such indicators are basically measurable only after project completion. There are no implemented or finalized projects related to some of the indicators as stipulated in the EAO, either. All relevant indicators laid down in the EAO and the proposed amendments in the Final Report on Environmental Impact Assessment should be duly collected and reported.