 

# Mid-term evaluation of Operational Programme 2014 – 2020 in Estonia

## Executive Summary

The mid-term evaluation for the European Union Operational Programme for Cohesion Policy Funding 2014-2020 was conducted during the period of November 2018 thru April 2019 and encompasses operational programme activities for the period 01.01.2014 – 31.12.2018. The mid-term evaluation included all confirmed amended operational programme priority axes approved by the European Commission in December 2018, and all of the measures and activities thereof. The assessment of the operational programme’s relevance, effectiveness, impact and sustainability is provided at the prioritised axes level, except for the assessment of project selection criteria, which was carried out at the activities level, and information on completed projects was also reviewed.

During the course of the evaluation, an assessment was given to the operational programme’s

* relevance, i.e. how relevant are the operational programme’s objectives, the measures and activities, including *the project selection criteria,* i.e. to what degree does the project selection criteria support the meeting of the operational programme’s objectives and *partner consultation*, i.e. to what degree are partners included in the period of preparation as well as implementation of the operational programme;
* effectiveness, i.e. to what extent are set objectives realised;
* impact, i.e. what is the impact of the operational programme on the fulfilment of Estonia’s strategic objectives, and;
* sustainability, i.e. how sustainable are the achieved objectives and activities

Quantitative as well as qualitative methods were used to provide an assessment of the implementation of the operational programme. The operational programme’s financial indicators, output indicators and result indicators as at 31.12.2018 were collected in the form of quantitative data, on the basis of which an assessment was provided at the activities level on the results of the effectiveness of the implementation of activities using the traffic light method. The obtained data was compared to operational programme-wide result indicators, on the basis of which it was possible to provide an assessment of the degree to which the operational programme has helped with the fulfilment of strategic objectives. Two surveys of partners and implementing agencies, three workshops with experts, seven focus groups with partners, implementing agencies and final beneficiaries, and 25 interviews with various implementing system parties, were carried out for the purposes of interpreting and validating quantitative data. Four sectoral expert groups participated in the assessment: an economic workgroup, an education and research and development workgroup, a social and work policy workgroup, and an environmental workgroup. Also included in the assessment were experts in the fields of transportation, energy and regional development.

The objectives and expected results of using specific EU funding are described, according to the sectors being financed, in the Operational Programme for EU Cohesion Policy 2014 – 2020. EU funds are invested, first and foremost, in making developmental leaps and carrying out structural reforms, with investments being focused on finding comprehensive solutions to a limited number of problems with a substantial impact, without throwing money at a large number of small impact investments, and financing sustainable investments (which do not create an additional burden on the state budget; fixed costs are not financed). The total volume of the operational programme is €4.6b for the period 2014 – 2020, financed through EU funding as well as co-financing from the Estonian state and support recipients. Sectorally the operational programme is divided between 11 sectors, with the most support going to social protection and health (19% of the total volume of the operational programme), entrepreneurship and innovation (15%), transportation and education (13%) and research (11%). Sectors are divided between 12 priority axes, to which two priority axes are added through technical assistance, with the running costs associated with the implementation of the operational programme being covered.

**As at 31.12.2018, €1.5b, or 32% of the €4.6b of the European Union Operational Programme for Cohesion Policy Funding 2014-2020, has been paid out.** In summary, priority axes have been effective in terms of the fulfilling of financial indicators and an average of 103% of the target milestones for 2018 has been achieved. The majority of priority axes fulfilled the financial indicators set for them in 2018. The achievement levels for financial indicators for five priority axes remained below the set objective, although they were quite close (see drawing below). The lower than expected performance of target milestones may be due to several factors – the most common of which is the later opening of the measure and the slower start of activities, low application activity or lower than expected demand. In the case of activities where public procurements had to be carried out or state aid rules applied, delays may have occurred due to the time spent on interpreting the rules. At the same time, eight priority sectors fulfilled or exceeded the objectives set for them in 2018. The biggest over implementation was in priority axis 9 ‘Development of Sustainable City Districts’, where the objectives were fulfilled to the extent of 275%. The over performance of objectives was helped, for the most part, by the higher than expected demand and interest in activities, or the incorrect planning of reference levels (target milestones were set too low). The implementation of activities has also been affected by external factors such as administrative reform, which affected the implementation of all priority axes and caused delays in the starting of activities, the low capacity of local governments to apply for grants and implement projects, as well as the rise of construction prices on the construction market. Even so, in the big picture, the implementation of the operational programme is moving according to plan and, according to experts, by 2023 the target milestones in all priority axes will, in all likelihood, be able to be met.



Even though financial objectives have been fulfilled in large part in terms of priority axes, or are very close to the objective, then in terms of output and result indicators the achievement levels for target milestones differ considerably and the fulfilment of output indicators may not always mean the fulfilment of a substantive objective. For example, in the case of priority axis 4 ‘Growth capable entrepreneurship and T&A in support thereof', the financial objective has been fulfilled (101%), although the *result indicator ‘share (% of GDP)* of TA expenditures in private sector research and development activity will remain unachieved in 2023 (2012: 1.26%; 2018: 0.6%; goal 2023: 2%). Also unfulfilled will be the result indicator ‘*share of GDP created* *outside of Harju County and Tartu County out of Estonia’s GDP,* which also shows a downward trend (2012: 29.7%; 2018: 25,8%; goal 2023: 30%).Therefore, the meeting of target milestones for financial and output indicators does not automatically mean real changes and the achievement of objectives: societal processes are quite a bit more complicated and a lot more time is required in order to change existing trends. Similar to the periphery of the European area and especially Eastern Europe, the EU's policies have helped with transnational convergence, but have also grown national social and regional differences – large city regions have, regardless of the EU’s source documents placing value on unity, received more benefit than expansive hinterlands emptying of residents.

Support received from EU Structural and Invest Funds has clearly contributed to the achievement of all priority axes objectives: the support has a direct effect on increasing employment, improving the health of the population, development of the living environment, and implementing other objectives. The impact of structural funds is long-term and manifests itself in changes at different levels. The impact of EU Structural and Investment Funds is particularly evident in the effect of several priority axes in their interplay with each other and amplifying each other’s results. For example, the combined effect of axis 1 ‘Education Corresponding to the Needs of Society and Good Preparation for Participating in the Job Market,’ and 3 ‘Improving Access to the Job Market and Preventing People from Falling Out of the Job Market', or the combined effect of axis 7 'Water Protection' and 8 'Green Infrastructure and Readiness for Emergency Situations’.

**The operational programme has had a significant impact on the achievement of Estonia’s most important strategic objectives.** The biggest is the contribution to the achieving of strategies that are directly connected to the operational programme – ‘Estonia 2020’, ‘Europe 2020’, and ‘The Baltic Sea Strategy’ – and the objectives related to sustainable development. A significant positive impact was also identified in the realisation of ‘Regional Development Strategy’ objectives and 'State Based Recommendations’.

Regarding Estonia’s development needs, in 2014 the partnership agreement highlighted the unfavourable structure and low capitalisation of the economy and admitted that Estonia's current sources of growth have been depleted and are being depleted. The main weaknesses of Estonia's economy that were highlighted are narrow, cost-advantage based export base, low innovation capacity and the lack of local impact by T&A; as well as the low resource efficiency of the economy and high energy intensity. All of these aspects pointed to a structural development gap in Estonia’s economy. Broadly speaking, if one were to look, this is also the situation today, apart from the reserved share of expenditures by the private sector or public sector on development activity. At the same time we determined that **support from the EU contributes, to an important extent, to structural changes in the form of an economy with greater knowledge intensity and lower resource intensity, although the effect of corresponding investments has not yet materialised.**

The state of Estonia's social economy has, in comparison with the time of development of the operational programme, changed somewhat. What is positive is that the economy and employment have, on the basis of strong domestic and foreign demand, grown quickly. If Europe’s economy were to enter a down trend within the next few years, it would, in turn, bring about a reduction in the sales and export volumes of Estonian companies and employment. Since the operational programme’s sectoral objectives and activities are also relevant today, then the **there is no need for major changes in order to fulfil the objectives of the operational programme.**

**Even so, the balance of regional development remains a major challenge.** As a whole, regional differences remain significant and a noticeable pivot to more even territorial development has not taken place.Based on the newest scientific literature, as a result of the application of EU Structural and Investment Funds a convergence has taken place between European, and especially Eastern Europe countries, although domestic social and regional differences have grown: expansive, marginalised hinterlands that are being emptied of their populations have developed. Estonia’s challenges outside of Harju and Tartu counties have been stalled by and the structural change (i.e. low added value) in entrepreneurship which created little alternative employment, and a lack of investments (lack of capital) and the resulting emigration of the last 25 years, which has, in turn, resulted in a cumulative reduction in the volume of services, availability and employment.

The drawing presents disbursed grants (EU grants, state co-financing as well as the grant recipient's co-financing) by counties within the framework of the 2014 – 2020 operational programme, as at 31.12.2018 (excluding nationwide intercounty projects). The investment gap between Harju County and the other counties can be clearly seen on the drawing – nearly 50% of EU grants are directed towards Harju and Tartu counties, while the majority of the remaining counties must accept an investment volume that is less than 5%.



Supporting regional development is more effective when entrepreneurship, infrastructure and living environment investments comprise a logical while and if local governments have the opportunity and ability when shaping policy to participate and lead development processes.So far, decisions concerning regionally important education and infrastructure investments have been made by public authorities, often over the heads of locals. Ministries require motivated and competent partners in place to implement policies. The professionalism of local government officials has grown as a result of administrative-territorial reform, although senior executives have, for the most part, remained the same. Local governments continue to be too small and there is a great deal of uncertainty in several problematic local governments which were subject to (forced) mergers, as a result of which there is a lack of willingness on the part of councils when it comes to the management of economic development, especially the initiation and co-financing of joint projects 2018. In 2018 the institution of county governors, which had thus far coordinated county cooperation, was abolished, which is why the starting up of an updated county development organisation is critical right now. Seeing as local government joint funding is a difficult process, then within the context of the existing administrative situation the solution for the strengthening of regional cooperation is ensuring the implementation of a joint programme based investment measure for major regional urban centres of substantial volume and their functional hinterlands (by county in Estonia), in place of the current numerous sectoral application based measures rather intended to motivate competition between local governments. In Europe joint funding measures intended to promote cooperation are often used and generally reduce the ‘foreign money’ effect of over-sized developments, even though it is definitely necessary to ensure strategic consulting in order to preclude so-called white elephants.

When assessing selection criteria, it was concluded that **the large majority of criteria applied in the selection of projects are in accordance with the general selection criteria approved by the monitoring commission** (except for the project’s contribution to themes). For the most part general selection criteria are relied upon when setting selection criteria and these are adjusted based on the nature of the specific activity. An exception is topics having an impact across the project, the use of which as evaluation criteria is rather uncommon. A suggestion is that the use of this criteria in general evaluation criteria should be provided for more specifically, in order to further promote the financing of projects contributing to themes found throughout. In addition, when evaluating selection criteria it was observed that in the case of the individual activities the rating scales or thresholds were set too low, while at the same there were activities in the case of which the selection criteria had not been explained in sufficient detail or where there were conflicts in the evaluation levels.

In terms of selection methodology, the terms and conditions for the awarding of a grant includes selection methodologies which, in most cases, have been specified in the selection methodology of the final beneficiary, which are generally also published on the homepages of final beneficiaries. The analysis showed **that selection methodology may, based on the specific nature of an action, differ significantly** (above all, in terms of various final beneficiaries), even though it is, for the most part, still in accordance with the general selection methodology. In the case of providing a grant to the implementing agency, the general selection methodology is worded in very general terms, including only covering the approval of the project and the transferring of the money. Since in the case of the awarding of a grant to an implementing agency an agreement on specific actions takes place on the basis of annual or multiannual action plans then, as a result of the evaluation, a proposal was made to supplement selection methodology with the obligation to also verify the accordance with general selection methodology when preparing the action plans.

**Room for improvement in the inclusion of partners in the implementation of the operational programme.** During the course of the evaluation it was determined that the framework for participation of the European Union (Article 5 of the Code of Conduct Principles of Partnership of Good Practice) and Estonia (Good Practice of Engagement) were predominantly followed when it comes to organising partner consultations. The forms of inclusion have been diverse and partners have been satisfied with the plurality of opportunities for participation, although they consider the lack of consideration given to the proposals from partners to be a problem, insufficient feedback on the reasons why input from partners could not be taken into consideration and deadlines that were too short for providing feedback on frequently voluminous discussion material. Partners feel the need to clearly understand what can be changed in each step, what the restrictions are, and how their input affected the final decision. Deeper areas of concern are the lack of institutional capability of NGOs to voice their opinions, the inconsistencies of inclusion, and the lack of transparency in places (for example, in the work of sectoral committees) and the feelings of partners that what has been agreed upon between partners as the result of thorough inclusion processes may, due to the reaching of the political decision-making phase, be side-lined. It is recommended that an early agreement be reached with partners regarding the timetable for inclusion and channels that are suitable for the partners; in order to explain to partners the goals and limitations of each process of engagement, to provide feedback in clear language to proposals, and to plan grant measures for the new financing period to raise the organisational capacity of NGO umbrella organisations. Since it is the assessment of partners that the majority of problems not only involve inclusion in the context of structural instruments, but the general inclusion practice of the state, solutions, as a whole, should also be developed predominantly at the level of the state’s inclusion policy.

**Additional funds from the performance fund are to be directed to activities which prevent problems and create added value, such as TA and innovation in entrepreneurship, education and regional development.** Based on the results of 31.12.208, the performance reserve will be distributed, comprising 6% (EUR 210 million) of the volume of structural funding, which has thus far not been distributed (co-financing by the state and the grant recipients will be added). The performance reserve will be distributed on the basis of the intermediate goals set for the performance framework indicators for 2018 (performance framework includes 15 financial indicators and 40 output indicators) based on the priority axes and the fund. The Government of the Republic decides on the use of the performance reserve within the framework of the 2019 state budget strategy process according to priority axes and funds (31.05.2019) and the final decision is made by the European Commission along with the approval of the amendments to the operational programme.

As at 31 December 2018, all activities that are part of the performance framework have fulfilled their objectives and qualify for performance reserve funds. Keeping an eye on operational programme objectives and principles, it is reasonable to direct additional funds to those activities where, after the intermediate goals set for the performance framework 2018 were met, there is also demand for additional funds, in order to ensure absorption capacity and sustainability the activity is also supported in the next financing period. Therefore, it is recommended that, first and foremost, additional funds be directed to the development of T&A and innovation in entrepreneurship, education and regional development, since these are all directed towards the economy and creating added value for society and have a long-term impact. In addition, there is a need for additional investments in social inclusion activities (first and foremost services and labour market services directed towards disabled persons and children (including their parents), as well as the development of an information society (development of base infrastructure for services), transportation investments (increasing the share of those using public transport and riding bicycles), governance of the state and the environmental sector.