

Final evaluation report

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SUMMARY

The report reflects evaluation results of the Grant Scheme (GS) guidelines and project assessment process compliance with Single Programming Document (SPD) and Programme Complement (PC) standards for implementation of GS "Support to investment in business development in specially supported territories".

Taking into account the fact that the GS was not created anew but on a basis of a formerly implemented national programme, the evaluation process confirms its successful transformation to GS. In general, the GS description, GS guidelines and assessment process formally complies with SPD and PC standards. However, a special attention should be paid to some particular issues identified as critical during the evaluation process. Negligence of these could result in leaving a negative impact on GS effectiveness. Some shortcomings were identified in GS guidelines, assessment process and in the assessment results of some supported and not-supported project applications.

The most important issue is the necessity to identify in the GS guidelines or even better on the SPD and PC level the specific causes of problems for the Specially Supported Territories (SST). Solving of the above mentioned issues would require adjustment of GS goals, indicators and specific criteria for project assessment. At the moment the GS goals and indicators, although orientated towards SST problem-solving, can be characterized as quite general; thus creating a problem to identify the ability of each project application to deal with each specific SST cause of problems.

1. Introduction to the situation

The relevant GS undergoing the evaluation is a direct descendant of a national programme "Business development in specially supported territories" formerly administered by the SRDA (State Regional Development Agency), having been transformed into GS with the consent of the EC. At the beginning of the evaluation process the GS is managed by the SRDA. All projects considered for support as on 14 July 2005 (41 in total) were assessed during the evaluation process. At the moment of commencing the GS evaluation, three of the supported projects had already been granted the GS financing. The GS project application deadline has been reached at the moment of the evaluation implementation, as the submitted and already accepted projects had already reached the limits of the financial resources. The majority of the submitted projects have been assessed, financing has been granted for some of them, some are undergoing the process of assessment. GS evaluation was carried out for all the accepted projects at moment of commencing the evaluation process and randomly for some rejected projects. During the evaluation process full support and all the required information was provided by the Customer to the Executor. The SRDA being the managing institution of the evaluated GS was represented by a single contact person who provided professional support to the evaluation experts, largely facilitating their job.

2. Key findings and conclusions

GS compliance with the SPD and PC

GS is directed towards solving of SST problems as identified by SPD and PC, but does not demonstrate any preventive activities against causes of problems of SST. E.g.: the project can create some new jobs in the particular SST, but would not resolve the structural territorial underdevelopment problems for which the lack of jobs is a result not the cause of the problem.

During the evaluation period it has been established that there is no mention in the SPD of SRDA as the implementation institution (chapter 4.2.2. (Development of the business infrastructure), but it has been indicated in the PC, Activity 2.2 (Development of the business infrastructure), as sub-activity implementation institution. According to the explanations provided by the EU funding department of the Ministry of Finance, the situation is a result of the document drafting order and the knowledge and information available during the drafting process, as well the SPD foot-note about the indicative reference to the implementing institution. Thus, by including SRDA in the PC as sub-activity implementation institution, it was not required to make amendments to the SPD.

Compliance of GS goal activities and objectives with SPD & PC

GS goal assessment has no specific quantitative indicators to evaluate the GS project direct summarised impact on the following envisaged GS goals:

- Increase of income and living standards of the SST population
- Rapid development guarantee for small and medium size enterprises
- Promotion of new technologies being implemented
- Increased competitiveness of small and medium enterprises
- Promotion of production with high added value

The above general definition of GS goals does not ensure the most effective results. Without specific quantitative indicators it is impossible to evaluate the extent to which the projects will reach the envisaged goals within the GS framework. Thus it is impossible to identify the overall effectiveness of the GS framework projects without setting a specific measurable indicator for reaching the goals.

GS description provides only the following quantitative indicators for establishing the actual effectiveness of GS implementation:

- Number of the signed agreements of financing
- Created and/or retained jobs
- Allocated private co-financing

The above does not precisely comply with the indicators characterising goals, results and influence directly relevant to GS as precisely specified by PC which are as follows:

- the number of the supported enterprises;
- the number of the supported projects for investments in SST infrastructures;
- the number of supported projects for investments in modernising the manufacturing and ensuring quality and market standards;
- the number of supported projects for investments in formation of the shared infrastructure
- the number of supported projects for investments in creation of partially publicly available infrastructure;
- amount of private investments in the SST infrastructure;
- increase of private investment amount in infrastructure;
- increase of productivity of the enterprises having received the aid;
- the number of newly created or retained jobs in the period of 5 years

Without setting the indicators characterising goals, results and influence directly relevant to GS in compliance with PC, the following problems could arise during GS implementation and monitoring:

- No complete information available from the GS regarding the indicators specified in the PC, limited by lack of the effectiveness evaluation data for Activity 2.2
- The evaluation criteria of GS are prepared with an aim of reaching the GS goals. By not including the PC indicators in the GS description, reaching the indicators during the assessment process of the GS projects loses the priority, which could result in support for projects not contributing to achievement of the relevant indicators.

The indicator mentioned in GS description, the number of the signed agreements of financing – at least 40, could be comparative but not identically relevant the indicator as mentioned in the PC; the number of supported enterprises- 50 – meets the requirements as set by PC by 90%. A conclusion can be drawn that one of five activities of the measure at the moment of assessment can ensure implementation of one sole indicator outcome by 90% of the whole measure. Thus, the goal set by the PC – the number of supported enterprises, for the Activity 2.2 – has been set with precaution. Too precautionous setting of goals can become an obstacle to objective conception of the results of the Activity 2.2, since the result effectiveness assessment according to this indicator may be much too positive.

GS guidelines

GS guidelines do not provide definitions for many essential and ambiguous notions: retained jobs, new technologies and production with high added value. As there are no definitions provided in the GS guidelines for the above notions, variety of interpretation can be expected both from the project applicants as well as the assessment committee. E.g., new technology can be interpreted by the

project submitted as a new, unique technology in a particular branch, but as well as a new technology in its enterprise. The retained jobs can be considered as those retained in the enterprise as a result of the project, or as well the number of all of such jobs as it was before and after the implementation of the project. The latter interpretation provides a possibility to increase the positive results in the chapter "Newly created and/or retained jobs" thus not giving an impartial overview of the indicators' actual results.

As to the definition of applicant's partner, it is not clearly stated in the GS guidelines whether or not the enterprise crediting the other enterprise that receives support, is allowed to become a partner. The incomplete definition in theory allows considering any crediting establishment located in the SST as a partner. It also creates unequal competition for the project applicants in the assessment process (e.g. in case a project applicant is credited by the bank, but the other one is credited by the partner, the latter receives a better assessment due to the fact that its application includes a partner who actually is its creditor).

Assessment process

During the GS implementation period the assessment procedure was amended (in accordance with MRDLG order of 13 November 2004 No 2-02/223). It includes the sub-section on procurement assessment in the instructions on "The procedure of how to prepare the assessment of project application quality and compliance with procurement procedure for the grant scheme "Support to investment in business development in specially supported territories".

Such amendments during the implementation period of the GS could create different legal issue related risks in the context of the Administrative Procedure Law. It would be necessary to profoundly appraise and prevent the above risks.

Administrative criteria for the project assessment

There is no consistency between GS guidelines available for entrepreneurs setting out 15 administrative assessment criteria, and the SRDA internal normative regulations PPN-PAI-PRO0-4, prescribing the procedure of project application registration and administrative compliance assessment for the grant scheme "Interest rate subsidies" and "Support to investment in business development in specially supported territories". The normative regulations provide much more detailed criteria than the GS guidelines. Thus the potential project applicant is not able to receive complete information on the criteria for his/her assessment. The situation is not in compliance with the Administrative Procedure Law, as the applicant is receiving incomplete information on the demands to meet and assessment criteria.

Specific and quality criteria

In accordance with the Inter-institutional project assessment commission meeting protocol No 2 of 21 January 2005, after the first commission meeting on 7 January 2005 when amendments were

accepted to the quality criteria assessment interpretation with the order of MRDLG No 2-02/19 of 18 January 2005. A Kuznieks, Deputy State Secretary of MRDLG made the following comments on the situation: "*The quality and specific assessment criteria and their methodology were elaborated approximately half a year before commencing implementation of GS. Having assessed the initially received project applications, members of the assessment commission pointed out the difficulty to apply the existing methodology to the assessment process of the submitted project applications, as a result amendments were made only to the methodology of the qualitative and specific criteria of the project assessment.* Thus according to the Executors' opinion, the projects having been assessed according to the initial interpretation of the quality and specific criteria may have received a different assessment than the projects assessed according to the amended assessment interpretation.

Project application form

The Project application form lacks clear and unambiguous requirement to include the following indicators:

- the enterprise is new or already existent
- the number and gender ratio of the owners of the project applicants;
- the size of the enterprise (micro, small, medium),
- the amount of the partner's financing in the supported project;
- amount of the allocated private investments in the enterprise.

As the project application form does not envisage specific entries for the above information, the project applicants provide the above information irregularly and at different places in the application, depending on the applicant's knowledge and experience. The lack of the above easily identified information complicates the project assessment and data aggregation process, as well as extends the whole assessment process.

Practical assessment of the project applications

In many cases of the reviewed projects, the assessment period has greatly exceeded the deadline set by appendix 2 of the order No 9 of MRDLG of 9 July 2004. Amongst the inspected projects were the projects No 78, 51 and 77. For all of them the assessment period exceeded the assessment deadline of 11 weeks as set by appendix 2.

SRDA experts have enforced stronger requirements as to the procurement procedure than stipulated by the Cabinet Regulations No 603 "Regulations on procurement procedures and their application procedure for the customer financed projects".

With relevance to the project 77, SRDA justifies its activities by referring to correspondence with PMB (Procurement Monitoring Bureau). A Bauere, director of SRDA: "We have had correspondence with the Procurement Monitoring Bureau as a result of which the relevant project applicant was requested to implement the applicable procurement procedure." After acquainting oneself with the PMB letter No 1-3.2/2886 of 30 November 2004, the Executor came to the conclusion that, as indicated in the letter, the institution in charge (SRDA in this case) had the rights to make the decision themselves, since in this case the requirements of the Cabinet Regulations 603 "Regulations on procurement procedures and their application procedure for customer financed projects" are not applicable. According to this, there should have been an administrative order passed by the SRDA, available to the project applicants for information, in case the SRDA wanted to apply specific requirements to the procurement procedure assessment.

3. Recommendations

The prepared recommendations offer proposals for the work with GS guidelines, project application assessment criteria, project application documentation and project assessment process.

GS guidelines

1. In order to justify the necessity of a separate SST development support instrument (GS) in the future, in the preparation stage of the SPD and PC it is recommended to identify the causes for SST problems. E.g.: the cause for high unemployment rate may be lack of qualification of the employees, social apathy or actual shortage of jobs, each of them having their own specific reasons. **To meet precisely the objectives of SPD and PC (cohesion of regional differences), the goals and support of the relevant GS should be focused towards the causes of problems directly affecting the SST underdevelopment. This should be considered as the most important recommendation, the implementation of which could mean conceptual changes in the GS content.**
2. To set quality and measurable indicators for the goals, outcomes, results and influence (which demonstrate solving of SST problem-causes), achievement of which would ensure objective reflection of the GS effectiveness. The set quantitative measurable indicators should be justified by the amount of the available financing and SPD defined problem solving options.
3. When defining the indicators for GS goals, objectives and results, precisely include all indicators relevant to GS as set by the PC.
4. To prepare the GS guidelines and assessment criteria in accordance with the indicators for the set objectives, outcome, results and influence, in order to ensure successful implementation.

5. To set and incorporate in the guidelines clear and unambiguous definitions for the following notions- "partnership", "retained jobs", "new technologies", "sectors with high added value", "infrastructure".
6. Necessity to supplement the monitoring indicator with the indicators included in the regional development index, in order to ensure the possibility of precise evaluation of GS impact on the territory development index during the period of the scheme's implementation.

Project application assessment criteria

1. In order for the applicants to get fully acquainted with the assessment criteria, to include in the GS guidelines a complete list of administrative assessment criteria according to which the applicant will be assessed.
2. In order to avoid the possibility of accepting the project with "0" point score as to the compliance with SPD, PC or any other important criteria, the recommendation is to implement a division in the specific and quality criteria, introducing criteria of compliance and selection. *Compliance criteria* should require a positive assessment of the project application not according to the point scoring system but using the yes/no assessment system. *Selection criteria* should assess the project's effectiveness in the aspect of reaching the GS goals. E.g., if the goal of the GS is the creation and/or retaining of jobs, the compliance criterion should assess whether or not the submitted project envisages creation or retaining of jobs. Assessment of the expected number of jobs as envisaged by the relevant project (selection criterion) will help to assess the project's effectiveness in the GS goal reaching process as compared to other project applications.
3. The recommendation is to include in the specific assessment criteria the following new selection criterion - "*What is the input of the relevant project in solving the specific causes of problems in the relevant SST?*"

Documentation of the project application

In order to ensure easy access to assessment data and EU monitoring data, the recommendation is to allocate separate columns for the project applicants to enter clear and unambiguous following information:

- the enterprise is new or already existent;
- the number and gender structure of the owners of the project applicants;
- the size of the enterprise (micro, small, medium);
- the number of newly created jobs and employees;
- the number of retained jobs;
- the amount of the partner's financing in the supported project;

- the estimated amount of private financing in the supported project;
- The estimated amount of private investment in the enterprise (The total amount of private investments allocated to the enterprise as a result of the GS project).

Assessment process of GS projects

To carry out legal assessment of the GS implementation process compliance with the Administrative Procedure Law, identifying and preventing any shortcomings. Considering that amendments in interpretation of the assessment criteria were implemented during the process of project submission period, the possible outcome should be considered and analysed in case of necessity to re-assess some of the projects.