Mid-Term Review of the EEA and Norway Grants 2009-14

Final Report

Report for the FMO

29 September 2016

Centre for Strategy & Evaluation Services LLP
Westering House
17 Coombe Road
Otford, Kent TN14 5RJ
United Kingdom
E: enquiries@cses.co.uk
T: +44 (0) 1959 525122

Executive Summary

Purpose and focus of the Mid-Term Review

The main purpose of this mid-term review has been to assess the efficiency and effectiveness of the EEA Grants and Norway Grants at the current stage of implementation. In particular, the review has:

- **Assessed effectiveness** in terms of results and progress towards overall objectives; and
- **Assessed to what extent the current programme model is efficient**, given the transition to a programme model between the 2004-09 and 2009-14 periods.

The Mid-Term Review has included an initial review of evidence for all programmes in all 16 countries with which the Donors have signed MoUs for the EEA/Norway Grants. The main research effort has then been on activities within certain "priority sectors" in seven case study countries (Cyprus, Czech Republic, Estonia, Lithuania, Poland, Portugal and Romania). This sample of countries accounts for the majority of funds committed and is diverse in terms of size, geographical location, governance and socio-economic context.

Overview of the EEA Grants and Norway Grants

With the signing of the European Economic Area (EEA) agreement in 1992, a financial mechanism was established so that three of the EEA states – Iceland, Liechtenstein and Norway – could contribute to strengthening cohesion in the EEA. The EEA Grants and Norway Grants aim to reduce economic and social disparities in the EEA and to strengthen bilateral relations with 16 countries covered by the EU's Cohesion Fund: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain; these are EU Member States whose Gross National Income (GNI) per inhabitant is less than 90% of the EU average. The current Grants, covering the years 2009-14, were determined following negotiations between Iceland, Liechtenstein and Norway and the EU and were formulated in a Decision of the Council of the European Union. The EEA Grants are jointly financed by Iceland (3%), Liechtenstein (1.2%) and Norway (95.8%) and are implemented under the terms of a Regulation adopted by the EEA Financial Mechanism Committee.[1] The Norway Grants are financed entirely by Norway and are implemented under the terms of a Regulation adopted by the Norwegian Ministry of Foreign Affairs.[2]

The objectives of the EEA Grants and Norway Grants are pursued through 150 programmes that support activity in a range of programme areas (PAs), which are grouped into "priority sectors": Environmental Protection and Management, Climate Change and Renewable Energy, Civil Society, Human and Social Development, Protecting Cultural Heritage, Research and Scholarship, Carbon Capture and Storage, Green Industry Innovation, Decent Work and Tripartite Dialogue, and Justice and Home Affairs. Within each programme, support is given to projects that are either pre-defined or selected via open calls for proposals. Collectively, the projects within any programme should enable the overall objectives and intended effects of the programme to be achieved. In addition, three cross-cutting issues ("programme standards") have to be integrated into the design and implementation of programmes: good governance, sustainable development and gender equality. There are also 15 programmes providing technical assistance and bilateral funds at national level.

[1] Regulation on the implementation of the European Economic Area (EEA) Financial Mechanism 2009-2014

[2] Regulation on the implementation of the Norwegian Financial Mechanism 2009-2014

In total, nearly €1.8bn is available with the allocation to each beneficiary state taking into account population size and the extent of disparity with the rest of the EU. Poland (population 38m) is the largest recipient, receiving nearly one-third of all funds, whilst Romania (population 21m) receives just less than one-fifth. Funding has been awarded to more than 6,000 projects. Nearly half of the projects are in the priority sector of Civil Society. These are mostly small projects with an average grant award of just under €50k. In contrast, the average grant awarded to projects has been nearly €400k across the other priority sectors. Under the terms of the Regulations, beneficiary countries have the possibility to "pre-define" projects, either in the MoU or in the Annex to the programme proposal. Pre-defined projects tend not to feature within Civil Society, Research and Scholarship and Tripartite Dialogue. Across the other priority sectors, about 10% of projects have been pre-defined.

Bilateral co-operation is integral to the operation of the grants and takes place at programme level and at project level. Donor Programme Partners (DPPs) are public entities in the donor states or intergovernmental organisations that advise on the preparation and/or implementation of a programme. The Norwegian Embassies or Consulates in the beneficiary states also support programme management. Donor project partners are organisations in the donor states or border states or inter-governmental bodies that contribute to the implementation of projects.[3]

Effectiveness of the Grants

Overall effectiveness

There has been considerable delay in the allocation of funds and in the disbursement of allocated funds. Indeed, by May 2016, only 68% of allocated funds had been disbursed (€1.1bn). Levels of disbursement vary widely between beneficiary states. They are particularly low in Hungary, in part due to the difficulties faced in governance of the Grants in that country and also in Malta because of delays in gaining planning permission for projects involving infrastructure developments.

The most important factor influencing the achievement of programme objectives has been the severe delays in setting up the programmes. Many projects did not start until 2014 or even later and most have not been completed. Most of the desired effects have therefore not yet been achieved and many will only be achieved towards the end of the implementation period, i.e. towards April 2017. Given that, there remain significant risks of under-achievement, although such risks have been significantly reduced by extensions to project timescales. At this stage in the programme period, it is not realistic to launch new projects, particularly any which involve physical investments. However, through monitoring, it may be possible to identify projects that are likely to underspend as well as projects that have the potential to expand their activities. This may create opportunities to reallocate funds and thus increase the potential for achievement of intended effects.

Given the short time available for implementation, it is unlikely that any further delays (e.g. due to delays in procurement or carrying out of construction works or new suspensions in payments) would be made good in the short time available. Moreover, since so much expenditure is "back-loaded" to the end of the implementation period, there is a risk of underspends of EEA Grants and Norway Grants funding beyond what would usually be expected in any grant funding programme. In the next period, the risks of underspend will be greatly reduced if programmes can be approved at an earlier stage, if current programme management arrangements continue to improve and if the implementation period is extended from five to seven years. However, careful monitoring will still be required in order to identify any potential underspends and reduce the risk of back-loading.

[3] This Mid-Term Review did not give extensive consideration to the effectiveness of bilateral co-operation, as this forms the subject of a separate study commissioned by the FMO. However, the report does include some findings about bilateral co-operation that were highlighted by the research.

If most projects are successfully implemented on time, there remains the potential for most or perhaps all of the intended effects to be achieved. Indeed, POs and DPPs generally remain confident that this will happen, now that programme management arrangements have been established (i.e. staff, procedures and processes in place to oversee calls for projects, selection, contracting, monitoring, payments, etc.) and most funding allocated.

One major factor that has substantially increased the potential to fulfil programme objectives and achieve the desired effects has been the possibility to allow extensions of the timescales for completing projects. For many projects, the timescale for implementation has been doubled by such extensions. Linked to this, one of the major factors that influences achievement of effects are the potential for delays in procurement and contracting, particularly in the case of infrastructure investments. In the case of physical developments, such delays compound the risks that already exist due to factors such as the adverse weather or the need to gain planning permission.

There is evidence of progress towards most of the targets for aggregated results by priority sector. Some have already been exceeded, whilst others have been achieved to the level of 50% or more. Achievement to date against output and outcome indicators is generally highest for “soft” interventions, such as training, capacity building and strategy development, as well as numbers of people benefitting from new services. Achievement against targets relating to physical investments or commercial viability of new products and processes will tend to arise towards the end of the implementation period.

The nature of many activities means that they will produce long-term impacts without further intervention. These include, amongst other things, investments in the energy efficiency of buildings (particularly in Bulgaria and Poland), which will ensure permanent reductions in emissions of greenhouse gases. Achievement of other intended long-term impacts will usually require additional intervention. This will be in two forms. First, there is a need for new policy frameworks, strategies, action plans and so on to be adopted and acted on by national government and other relevant stakeholders. Second, the various preparatory works, feasibility studies, pilot projects, etc. need to be followed by additional substantial investments from EU Structural Funds or national funding.

There is considerable difference in the progress made by different countries and different programmes in implementing activities and achieving the desired effects. However, it does appear that the biggest differences in programmes’ progress tend to arise between countries rather than within the same country; more progress has been made in those countries where programmes made a relatively early start and management arrangements have been more efficient. As shown below, programme implementation has been most advanced in Estonia and Poland and most delayed in the Czech Republic, Lithuania and Romania (albeit with some exceptions). Moreover, it does not appear that any programme areas are inherently more difficult to implement than others (except where the focus is mostly on physical investments, where there are more risks of delay and where the outputs tend to arise only towards the end of the programme period).

The analysis of the case study countries and case study programmes highlights the differences in progress made, achievements to date and the likelihood of achieving intended effects:

- Cyprus: although the MoU was one of the last to be signed, the programmes were approved more quickly than in most other countries. A high proportion of the net allocation of funds has been disbursed (80%). Only 4 of 28 eligible projects have required an extension. Some projects have faced delays, but are generally making good progress. There has been good achievement of “soft” outputs (e.g. training) and physical investments are expected to be successfully completed by the end of the period.

- Czech Republic: the programmes made a late start, with the first one not approved until February 2013 and the last one approved in January 2014. Implementation has been delayed with very few projects starting before 2015, although disbursement of the net allocation of funds (80%) is above the average for all countries (67%). There had been limited achievement against most targets by the end of 2015, although there were exceptions: the gender equality (CZ12) and Schengen programmes (CZ14) had achieved most or all of their output targets by end 2015. Achievement of targets in other programmes will mostly arise only towards the end of the period, with 71% of eligible projects requiring extensions. The late implementation of projects implies a higher risk of some targets not being achieved within the programme timescale, although the extensions obviously reduce that risk. In a few cases, targets will not be achieved as projects relevant to those targets have not been selected. The key project within the children and youth at risk programme (CZ04) has been discontinued, meaning that the overall impact of this programme will be much less than intended.

- Estonia: the process of agreeing the MoU and preparing the programmes took less time than in most of the beneficiary states. A very high percentage of the net allocation of funds has been disbursed (91%) compared to the average for all beneficiary states (67%). Within the case study programmes, most projects started in 2013, 2014 or very early in 2015. Only 5% of eligible projects have requested extensions. There is good progress across all the case study programmes, with high achievement against many/most output targets by the end of the 2015 and the potential for most or all targets to be achieved by the end of the period.

- Lithuania: although the MoU was signed and the programmes approved relatively early in comparison to other countries, delays in implementing projects were reported across most case study programmes. Where outputs have been achieved by the end of 2015, these were mostly for soft interventions, such as training (e.g. LT05, LT13, LT14). All but one of the 142 eligible projects had requested extensions. These extensions are essential to the fulfilment of targets, particularly those for investments in physical investments and equipment, which will only arise towards the end of the period. Although POs were generally confident that most programme objectives and targets would be achieved, the late implementation clearly increases the risks of under achievement.

- Poland: the process of agreeing the MoU and preparing some of the programmes took less time than in most countries. Within the case study programmes, most projects started in 2013 or 2014, except for the green industry innovation programme, where projects did not start until 2015 and PL04 where a third of projects did not start until 2015. By the end of 2015, there was high achievement across the case study programmes, with many or most output targets achieved. Some 59% of eligible projects have been extended (compared to the average of 63% across all countries). This will be essential to the achievement of some targets, particularly those related to physical investments which will mostly arise towards the end of the period, e.g. for example, physical investments in the energy efficiency of public buildings (PL04).

- Portugal: although Portugal was one of the last countries to complete the MoU negotiation process and have a first programme approved, the process of gaining programme approval was shorter than in other countries. As a result, the launch of the first project was in line with other countries. The programmes have also been relatively efficient in disbursing funds with 80% disbursed (compared to the average of 67%). This has been helped by allocating a high proportion of funds to large projects and pre-defined projects. Progress varies widely across the case study programmes. By the end of 2015, there was high achievement against targets within the climate change (PT04) and gender equality (PT07) programmes. There was limited achievement by end 2015 against targets within the marine and coastal management (PT02) and public health (PT06) programmes. Within the renewable energy programme, all targets had been met for capacity-building but achievement of the other targets were dependent on successful completion of the geothermal energy plant in Terceira, which had faced some delays but was expected to be brought to a successful conclusion.

- Romania: the programmes faced a late start, as the MoU was one of the last to be signed and only the two programmes managed by non-state bodies (i.e. the NGO and green industry innovation programmes) were approved before late May 2013. The percentage of the net allocation of funds (75%) that has been disbursed is above the average for all countries (67%). Most programmes have faced delays, although there are exceptions. In most of the case study programmes (environmental protection and management (RO02, RO03, RO04), renewable energy (RO06), children and youth at risk and initiatives to reduce inequalities (RO10), gender equality (RO11), domestic and gender-based violence (RO20), very few projects started before 2015 and achievement against targets in those programmes was thus quite limited by the end of 2015. The climate change (RO07), public health (RO19) and green industry (RO17) programmes had made better progress, with all projects starting in 2014 and good achievement against targets by the end of 2015. Projects within three of the justice and home affairs programmes had all started in 2014 and made good progress by the end of 2015, particularly against targets for "soft" activities, such as training. Overall, 98% of all eligible projects have requested extensions and many of the most important effects, particularly those relating to physical investments, will only be achieved at the end of the funding period. The delayed implementation of programmes thus increases the risk of under-achievement and underspend for the country as a whole.

Potential for impact

Regarding the potential to reduce disparities, the Grants deliver short-term economic benefits in localities hosting projects (very often in poorer territories) through the expenditure of funds and the consequent multiplier effects. Beyond that, the Grants offer the potential to deliver long-term economic benefit as a by-product of improvements in environmental protection, energy efficiency, public health, etc., i.e. through a healthier population, lower energy bills, reduced costs of dealing with pollution, attraction of tourists, etc. They also contribute to reducing social disparities where disadvantaged groups are specifically targeted by activities.

The potential for impact is perhaps greater in those programmes that have a specific focus rather than attempting to address the full breadth of issues within a programme area. Having such a focus means that the selected projects can constitute a "critical mass" of interventions that generate tangible and visible impact. The alignment of programmes with national policy objectives means that activities are more strategic and more likely to be sustained beyond the life of the funding. Where activities are less aligned with national policy objectives, they can still offer the potential to stimulate innovative projects with positive effects but the risk is that they do not generate wider and sustained impact.

There has been a substantial increase in bilateral co-operation compared to the previous period. Nearly two-thirds (92) of the 150 programmes feature Donor Programme Partners (DPPs), whereas this role did not exist under the project-based approach of the previous period. The main exception is the 17 civil society programmes, none of which feature DPPs. The consensus amongst stakeholders is that DPPs have had a positive impact on the design and implementation of programmes. More than 1,600 projects have donor project partners, representing about 25% of all projects, a much higher total and proportion than in the previous period, although there has been a shortage of potential partners in the donor states. In fact, donor project partners feature in more than 40% of projects outside the civil society programmes, where only 10% of projects involve a donor project partner.

Efficiency

On average, it has taken more than three years to negotiate Memoranda of Understanding, agree and approve programmes and launch the first projects. This has delayed the commenced of projects in all the beneficiary states and meant that implementation has been condensed into the final few years of the programme period.

The programme-based approach has improved the efficiency and the potential effectiveness of the Grants compared to the previous period. It has also enabled the Grants to be targeted in a more strategic way. The programmes are generally considered to be strategic, focused, customised to the needs and priorities of each country and in line with national policy.

The programme-based approach has allowed the FMO to focus on strategic issues and avoid the administrative burden associated with directly overseeing a large number of projects. Balanced against this benefit, is the fact that establishing programme management arrangements has proved problematic and/or time-consuming in the beneficiary states and has required more bodies to be involved in managing the Grants.

Each beneficiary country has adopted its own model of programme management. Whilst these should be and have been customised to the circumstances of each country, there is usually merit in aligning or co-ordinating programme management of the EEA Grants and Norway Grants with that of the EU Structural Funds. Similarly, there is merit in making use of the management arrangements and processes used for EU Structural Funds (with appropriate customisation to the requirements of the EEA Regulation), as these are familiar to programme management bodies and applicants alike. The benefits of such an approach are multiple: the processes have been accepted by EU bodies, they are established by or compliant with the national law of the beneficiary states, they are understood by applicants, and staff of the NFPs or POs are experienced in applying them.

The programme management arrangements of some countries have given the donors cause for concern, resulting in temporary suspensions of payments (e.g. in Bulgaria, Greece, Hungary). Whilst necessary to ensure accountability in the use of donor funds, such suspensions inevitability reduce the time available for implementation with the risk that intended effects might not be achieved in some countries, e.g. Hungary.

In countries receiving small amounts of funding, it is efficient for the NFP to perform the role of PO, as this can reduce the costs of programme management. However, the evidence suggests that it may be beneficial to separate these roles in other countries, depending on the governance context of each country. There is otherwise an increased risk that programme management becomes unnecessarily centralised and, where the NFP/PO lack sufficient capacity to perform all roles, inefficient with a consequent impact on timeliness of programme implementation. There is also the risk that programme management becomes overly focused on compliance rather than performance against programme objectives, since the bodies with the necessary policy expertise (e.g. Ministries or DPPs) are less directly involved. Indeed, a Ministry of Finance will typically be less able than other Ministries to address risks related to achievement of programme objectives, for example, through monitoring changes in legislation or engaging relevant stakeholders. Linked to that, there is also the risk that synergies and operational links to the EU Structural Funds programmes are weakened if the NFP/PO is not also responsible for those programmes.

The EEA Grants and Norway Grants do not by themselves prescribe a specific approach to programme standards (good governance, sustainable development and gender equality). Instead, the approach taken to adherence with programme standards and the extent of adherence depends largely on the legislative framework and governance arrangements of the beneficiary states. Working in their own contexts, POs have promoted adherence through formal processes and procedures at programme level, criteria used to select projects, ongoing monitoring, engagement of stakeholders and information and advice given to projects.

Additionality has been ensured by the specification of some programme areas that are not usually supported by EU Structural Funds, by support for organisations that would typically struggle to access EU funds (particularly small NGOs) and by focusing EEA Grants and Norway Grants on areas and types of activities that are not well served by relevant Structural Funds programmes of each beneficiary state. Investments made by the Grants can also be seen as additional as they come at a time of significant reductions in public expenditure by some beneficiary states due to the continuing financial crisis.

Pre-defined projects have been an efficient way to allocate funds in certain circumstances, particularly in countries receiving relatively small allocations of funds where it would not be worthwhile to operate open calls. They are often large projects of strategic significance and where there may only be one organisation with the capacity and/or authority to intervene. Pre-defining such projects can allow an early start to be made for complex interventions that require lengthy procurement, planning, risk assessment, etc. They are also useful where the funds address very specific issues and where there is only one organisation with the capacity or authority to intervene However, it has still been necessary to extend the timescale for 72% of pre-defined projects because such projects tend to be larger and more complex than other projects.

Open calls can be more beneficial than pre-defined projects where there is sufficient funding to justify them and where there is the potential for competition between applicants. They can offer equal access to funding for all potential applicants and more transparency in decision-making. They allow the possibility for strong but "unexpected" projects to emerge, as well as projects that are strategic and/or in line with national priorities.

National requirements on public procurement can help provide transparency and equal treatment of potential contractors. At the same time, public procurement processes can prove time-consuming and adversely affect timescales of implementation, particularly where programmes operate more than one public procurement process.

Simplifications and other support measures have served to improve the "service" offered by POs to applicants and project promoters. Indeed, there is a high level of satisfaction amongst project promoters in most countries regarding processes for application, reporting and claims, as well as regarding advice and guidance provided by POs.

NFPs are explicitly required by the Regulations to assess risks to implementation and take any necessary actions, including verifying documents that are submitted to the donors. Risks are therefore routinely reported on an annual basis at national level in annual strategic reports and at programme level in annual programme reports. Actions taken vary by country and by programme, but common actions include additional or enhanced monitoring, extension of eligibility period for projects, support for project promoters to improve the compliance with contractual requirements, support related to public procurement and facilitating contacts with potential donor project partners. Whilst it is difficult to establish a direct correlation between the effectiveness of risk assessment and the performance of programmes, it is clear that some countries have been able to mitigate the risks of delayed implementation more successfully than others (as evidenced by the analysis of "overall effectiveness" above).

There is strong case for extending the programme period from 5 to 7 years, given the time taken to negotiate, approve and set-up programmes and given the fact that nearly two-thirds of projects within eligible programmes have required extensions. There is also a strong case for reducing the number of programmes, given the time taken to negotiate and approve programmes and the "fixed cost" associated with programme management and administration. In some cases, a reduction in the number of programmes should also be associated with a tighter focus.

Response to the OAG Report

Progress has been made in establishing the results-based management approach in the beneficiary states. NFPs and POs are virtually unanimous in reporting that they understand it and have made considerable efforts to apply it. Indeed, many have made adjustments to their programmes on the basis of (lack of) progress against objectives. At the same time, some areas remain problematic or under-developed, e.g. use of credible and workable indicators.

Safeguarding donor control requirements and ensuring achievement of results has been facilitated by aligning programme management arrangements of the Grants with those of the EU Structural Funds in some countries. They have also been facilitated by the change in the role of the FMO, i.e. monitoring at programme level rather than project level and also providing more advice and guidance, including on sector issues. Involvement of DPPs has also helped promote the fulfilment of donor priorities.

The programme-based approach implies a “fixed cost” for management and administration, which limits the potential for further savings on administration-related and technical assistance funds, particularly in countries receiving small amounts of funding. Most NFPs and POs report that technical assistance funds allowed under the Regulation are sufficient and some have made savings. However, the extension of the timescale for implementation inevitably limits the potential for such savings as costs are incurred over a longer period.

Recommendations

Recommendations of the Mid-Term Review	
Focus and objectives of the EEA Grants	
1.	Strengthen the logic for intervening in different policy fields in order to increase the focus on stimulating economic growth and improve competitiveness.
2.	Focus programmes on more specific themes in order to create a “critical mass” of projects that can produce tangible impact on those themes.
3.	Fund projects that perform a strategic role in each programme, e.g. by supporting policy and strategy development, capacity-building, information and awareness-raising, etc.
4.	Merge some programme areas.
5.	Consider transnational programmes and projects that can address challenges of transnational nature.
Design and structure of programmes	
6.	Retain the programme-based approach.
7.	Increase the programming period from five to seven years.
8.	Consider the advantages and disadvantages in operating programmes over the same time-scale as EU programmes.
9.	Reduce the number of programmes in the next period, provided that specific themes can be prioritised by open calls and by pre-defined projects.
10.	Retain the possibility of pre-defined projects.
11.	Ensure an appropriate balance between pre-defined projects and open calls.
Programme management requirements	

12. Consider revising the EEA Grants and Norway Grants Regulations so that their requirements are more closely aligned with those of EU Structural Funds.

13. Consider the circumstances under the same body can act as NFP and PO for the same programme(s).

14. Align national management and administrative processes for the EEA Grants and Norway Grants with those used for the EU Structural Funds as far as possible.

15. Expand the role of DPPs to include communicating information in their home country and attracting donor project partners in respect of all programmes in given programme areas.

16. Allow funding in the next period for projects approved in the current period but which were not completed before the deadline for eligibility of expenditure (with those projects being pre-defined).

Support for programme management

17. Provide more in-depth support for the NFPs and POs in the process of developing programme.

18. Expand the opportunities for NFPs and POs to receive training, exchange experience and network at European level.

19. Explore ways to reduce delays and administrative burden associated with public procurement processes.

20. Introduce electronic submission of project applications in all countries and programmes.

21. Undertake research into the extent to which programmes effects have been mainstreamed into national policy and practice and/or have stimulated additional investments by EU or national funding.