

Final report

Mid-Term Evaluation of the European
Structural Fund Interventions in
Lower Saxony for the Objective 2
Programme 2000-2006

Summary

Ministry for Economics,
Labour and
Transportation in Lower
Saxony

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1. Introduction

The Objective 2 Programme is an important regional and structural policy funding programme for the structurally weak regions of Lower Saxony. With the financial support of the European Commission granted through the European Regional Development Fund (ERDF) and the European Social Fund (ESF) as well as national co-financing, public and private investments in the eligible areas are supported which contribute to an economic and social restructuring of the regions having structural problems. The programme is implemented in Lower Saxony according to the model of an "offensive structural adjustment". This strategy is backed on the promotion of structural change by creating and developing competitive jobs in regions having problems with structural change.

After the adoption by the European Commission on 22 March 2001, the Objective 2 Programme started with a delay. Thanks to the Lower Saxon fund officers' good experience with structural programmes in the previous funding period (1994-1999) and the good cooperation with the European Commission, the administrative and monitoring structures could be implemented swiftly. Measured against the financial implementation, the delay could almost completely be made up by the smooth start of the programme implementation and the good administrative practice.

One of the main challenges for the implementation of the Objective 2 Programme at the mid-term of the programming life-cycle is the stagnation of the overall economic growth. The economic slowdown beginning in 2001 and continuing until present in 2003 makes the programme implementation more difficult. The decrease of the overall economic demand and of the propensity to invest in business has led to a lower demand for funding and to fewer opportunities for a recovery of the labour market in the eligible areas.

The administrative authority has responded to this development by adjusting the ESF part of the programme to the current labour market policy developments in accordance with demand. The ERDF funding has been directed more towards the trade-related infrastructure and preventive flood protection. This will probably be reflected in the Land's future programme amendment applications. The deepwater port in Wilhelmshaven will be of particular importance for structural policy since as a leading investment it is to create new jobs in the disadvantaged Jade-Weser region.

The transfer of the responsibility for labour market policy from the former Ministerium für Frauen, Arbeit und Soziales (Ministry for Women, Labour and Social Matters) to the Wirtschaftsministerium (Ministry for Economics) in spring 2003 will facilitate organising the

interlinkage of economic and labour policy measures envisaged in the programme.

The Objective 2 Programme of Lower Saxony

The Objective 2 Programme is the successor of the Objective 2 and 5b Programmes of the 1994-1999 programming period. The Objective 2 funding in Lower Saxony is to support the **economic** and **social restructuring** of areas with structural problems. When pursuing this objective, the **horizontal objectives** (sustainable development, gender equality, promotion of the information society) have to be considered.

The programme is subdivided according to contents-related axes into the following six priorities.

Priority 1: Promoting the competitiveness of businesses, esp. of SMEs, RTD and ICT.

Priority 2: Promoting tourism and culture

Priority 3: Local activation and promotion of the endogenous potential

Priority 4: Urban problem areas

Priority 5: Trade-related infrastructure

Priority 6: Technical assistance (not part of the evaluation)

The objectives of the priorities were originally to be implemented in 26 measures (without the measures of the "Technical Assistance" priority). In the course of the funding period to date the number of programme measures (without the measures for "Technical Assistance") has been increased to a total of 32 as compared to the programme planning.

In 2000 approx. 2.4 million inhabitants lived in the Lower Saxon Objective 2 eligible areas. This is just about one third of the overall population of Lower Saxony. The funding for the Objective 2 Programme will be granted both for the eligible regions being funded until the end of the funding period and the regions no longer included in the eligible regions during the programming period, the so-called phasing-out regions or transitional regions.

The Objective 2 Programme is funded by the European Union with the financing instruments ERDF and ESF. In the funding period a total of **734 million €** is provided as EU structural funds. In addition to the EU funds, national, local and private funds are granted for projects of the Objective 2 Programme leading to a total funding volume of approx. 1.4 billion €.

The original funding volume earmarked for the programme focuses mainly on three priorities. The main part of 48 per cent is invested in Priority 1 (Promoting competitiveness), followed by Priority 2 (Tourism/culture - 23%) and Priority 5 (trade-related infrastructure - 20%).

Terms of Reference for the Mid-Term Evaluation

After an EU-wide call for tender, Prognos AG was commissioned with the mid-term evaluation as an external evaluator by the Ministerium für Wirtschaft, Arbeit und Verkehr (Ministry for Economics, Labour and Transport) of Lower Saxony. Within the evaluation Prognos worked together with the cooperation partners Zenit GmbH and Prof. Dr. Hahne (University of Kassel).

The mid-term evaluation shows the current status of implementation, the achievement of the objectives, the impact and the efficiency of the Objective 2 Programme at the evaluation on 31 December 2002 and takes into account the financial development of the programme until 10 June 2003. Moreover, the mid-term evaluation makes recommendations for the second half of the programme as to how the objectives of the programme can be achieved even more effectively and efficiently. The methodological basis for the mid-term evaluation was the scientific working concept agreed between the commissioning authority and the contractor.

Due to the complexity and size of the programme a multi-phase evaluation procedure was developed. The mid-term evaluation is divided into three working phases:

The preparation phase comprises the updating of the SWOT analysis as well as the evaluation of the objective, monitoring and indicator systems.

In the effectiveness analysis phase the monitoring and financial data are evaluated for each measure and the achievement of objectives, the effectiveness and efficiency of the interventions are assessed.

The examination closes with the evaluation and recommendation phase. The third phase comprises the evaluation of the performance reserve, the signal check and the recommendations.

2. Summary of the Mid-Term Evaluation

In the following the main results of the mid-term evaluation are summarized. The mid-term evaluation comprises the following assessment steps:

- updating of the SWOT analysis;
- objective, strategy and indicator analysis;
- evaluation of the implementation and monitoring system;
- results of the implementation, effectiveness and efficiency control as well as
- analysis of the performance reserve

2.1. Updating of the SWOT analysis

The framework conditions for the Objective 2 funding have changed in the course of the funding period from 2000 up to the date of the mid-term evaluation (2003). In the programming phase at the end of 1999 and the beginning of 2000 it was assumed that the economy would grow. Lower Saxony was not excluded from the economic slowdown in 2001 and 2002. A major change lies in the stagnation of economic performance. In real terms, measured in constant prices, the economic growth in Lower Saxony was still 2.5 % in 2000 and then fell to 0.2 % in 2002.¹

With regard to certain business sectors the following particularities could be observed: The low demand in the building sector has also had a slow down effect. Industrial production increased less in 2001 than in 2000. In particular, the producers of capital goods suffered from a decreasing number of orders. In contrast to that, the service industries, apart from trade and tourism, could contribute positively to the economic performance. However, these effects could not compensate the overall decline. In the following the framework conditions in detail:

¹ Cf. Arbeitskreis "Volkswirtschaftliche Gesamtrechnungen der Länder" (*Working group "Macroeconomic accounting of the Laender"*).

- **Economic situation and unemployment:** According to the Annual Economic Report 2003 by the *Bundesministerium für Wirtschaft und Arbeit* (BMWA - Federal Ministry for Economics and Labour) the framework conditions for Germany, and also for Lower Saxony, are difficult. Due to the unexpectedly unfavourable start in 2003 the economic dynamics in 2003, expressed in the annual growth of the GDP, will probably be as low as approx. 1 percent. For the labour market this means that the number of unemployed might increase to an annual average of 4.2 million throughout Germany in comparison to 2002. In January 2003 the figure reached 4.62 million – the record level within the last five years. For Lower Saxony and the eligible regions this means that the number of unemployed will not decrease in 2003.

- **Public finances:** The tight situation of public budgets limits the range of activities of the public sector. With regard to the budget, there is the threat of an imbalance both on the revenue and the expenditure side. The municipalities have in particular been affected by the slump of trade tax revenues since 2001. After a decrease of the net revenues from trade tax of approx. 10 percent in 2002 another decrease of - 3.5 percent can be expected for the West German municipalities in 2003.² The trend towards decreases in long-term investment of the municipalities will thus be continued. The municipalities of Lower Saxony have reached a historical bottom with regard to investment rates. The tight public funds involve a limitation of the financial range, the prioritising of public tasks and few public investment opportunities. In some regions of Lower Saxony the financial problems overlap with structural economic problems. So in some municipalities and regions the pressure from structural policy to make public investments is enormous while the financial possibilities do not allow for them. With **aggravated budgetary situation** the co-financing possibilities for the structural fund policy are becoming ever more limited in Lower Saxony. The Federal Government's announcement to terminate the joint task "The improvement of the regional economic structure" in 2004 makes the situation even more difficult.

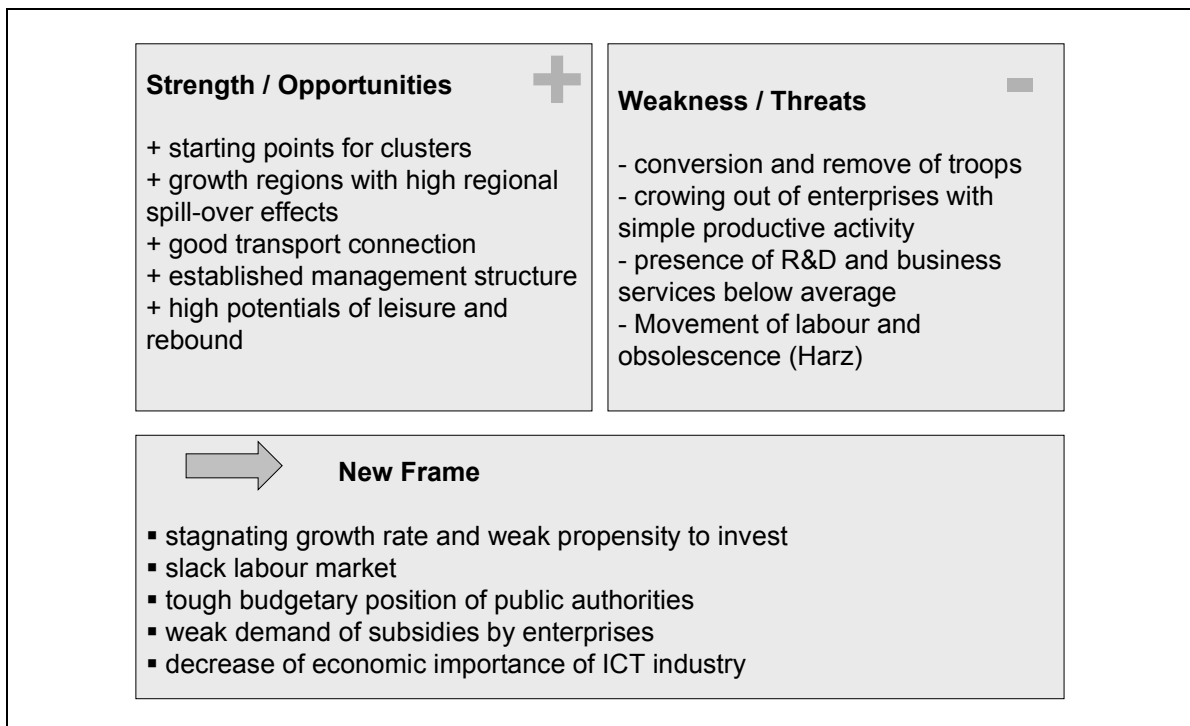
- **Propensity to invest in business:** The weak economy in the years 2002 and 2003 also influences companies. The economic slowdown is reflected in less start-ups, an increase of bankruptcies and less readiness and ability for innovation. The economic slowdown has led to a general decrease in the

² Deutscher Städte- und Gemeindebund, Finanzprognose zur kommunalen Haushaltslage im Jahr 2003, November 2002. (*Association of German Towns and Municipalities, Financial Forecast on the budget situation of local administration in 2003*)

propensity to invest. The consequences can be noted in the applications for funding. The companies' demand for funding has remained at a low level and has led to a low outflow of funds.

- **Labour administration:** The proposals of the "Hartz Commission" and their partial legislative implementation have fundamentally changed the framework conditions for the labour market policy. These alterations refer to a change of strategy or model from an "active" to an "activating" labour market policy. The change of model is based on a individualisation of labour market policy instruments, amongst others through the "profiling" of participants and the development of individual promotion plans, as well as on a labour market policy orientated towards specific demands of companies and sectors. The changes of the funding structures have fundamental impacts on the financing and qualification measures of the training institutes. With the introduction of "training vouchers" and the freedom of choice for the person who wants to qualify further, the labour administration and the training institutes lack planning and financing certainty in comparison to the previous planning of offers.

Figure 1: Results of the SWOT-analysis



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The worsened framework conditions since the beginning of the present funding period or since the planning of the programme

make the successful implementation of the Objective 2 Programme in Lower Saxony more difficult. Adjustments with regard to the financial priorities can be justified by that.

According to the above findings, the actions required within the structural policy in Lower Saxony remain basically identical; however, the programme implementation is taking place in a **clearly worse environment**. The general strategic direction of the Objective 2 Programme with its model of an offensive structural adjustment is not much influenced by the modified framework conditions. The updating of the SWOT analysis shows that the Objective 2 Programme will have to meet **new challenges** and tasks in the future. These include the conversion of land use within the closure of German army sites, the creation of logistical infrastructures, new forms of financing as well as a closer interlinkage of economic and labour market promotion.

2.2. The Analysis of Objectives, Strategies and Indicators

In the mid-term evaluation the objective system, the intervention strategy and the monitoring and indicator system were examined with regard to their logic, validity and applicability. The analysis showed that up to now the programme strategy has met demand and has contributed to achieving the objectives. The analysis of consistency and objectives shows that the Lower Saxon Objective 2 Programme is compatible both with itself (inner consistency) and also with other federal and Land policy programmes (outer consistency). Fundamental conflicts of objectives between the Objective 2 Programme and the objectives of other programmes could not be identified. However, general or global conflicts of objectives such as the lack of complete compatibility between the global objectives of "economic growth" and "environmental protection" remain unsolved.

The evaluation of the monitoring and indicator systems shows that the ESF and ERDF monitoring systems gather the required output, results and effectiveness data within their possibilities. Whereas the ESF monitoring with the digital registration of project and participant data via the master data file procedure is based on an exemplary and differentiated evaluation concept, in the ERDF monitoring individual indicators, e.g. the changes in the amount of sewage sludge, had to be integrated at a later point. The indicators demanded in the programme complement are gathered completely, immediately and appropriately with the master data file

procedure. Apart from individual improvement possibilities and adjustments (online survey, improvement of feedback control, record of results for "soft measures") the evaluators consider the indicators and system to be advanced and well-developed.

From the evaluator's point of view, the examination of the contribution of the horizontal objectives is carried out selectively. The project-related indicator system of the ERDF is limited to individual indicators, such as the women rate, which do not allow an assessment of the horizontal objectives in their entirety. To improve the ascertaining of horizontal objectives we would suggest introducing a test of significance as regards the ERDF monitoring. With such a test of significance the contribution of the funded projects to the horizontal objectives at measure and project level could be ascertained with a simplified evaluation scale (negative, neutral, slightly positive, very positive).

The environmental effects of the structural interventions are to be ascertained in the environmental monitoring. In the annual implementation reports two sustainability indicators (area use and water quality of above-ground waters) are mentioned, which, however, do not provide comprehensive information. There was no sufficient basis for the evaluation of environmental impacts at project and measure level. The introduction of a test of significance could provide an improved basis for the environmental impacts of the measures and projects within the ascertainment of the horizontal objective "sustainable development".

2.3. Evaluation of the Implementation and Monitoring System

The Implementation and Monitoring System is a system of administrative structures and procedures comprising programme management, application, granting and payment, control as well as documentation and public relations. The administrative structures for the implementation of the programme have been implemented swiftly during the first half of the funding period. In the starting phase the implementation of the programme was impaired by the delayed adoption of the programme in March 2001. There was tailback of applications or enquiries about funding. Moreover, there were difficulties with the comprehension and interpretation of the complex funding regulations. This applies in particular to Art. 29.4 (income-generating investments). Later amendments to the law often caused a lot of administrative work for the granting authorities. However, by meetings with the involved authorities

accompanying the programme (so-called "jour fixe") these adjustment difficulties have been overcome.

The organisational division of labour between the administrative authority and the paying authority at the Ministry of Economics, the coordinators at the individual specialised ministries (i.e. agriculture, science etc.) and the granting authorities (usually the district governments) has proven successful. The granting authorities are usually the four district governments of Brunswick, Hanover, Lüneburg and Weser-Ems. For some specific measures other granting authorities might be involved in the funding process. The Ministry of Economics reserves an internal right of decision for some individual measures and tasks of political significance for the Land. The processes of application, granting, payment and control are carried out within the legal provisions. The public relations and information measures are used and applied within the existing possibilities. The granting of projects follows the criteria of the funding guidelines and the measure sheets. The granting and decision procedures differ depending on the measures and the organisational responsibilities, the type and frequency of decisions as well as the target group of final beneficiaries. In the application and granting procedure a simplified differentiation can be made between concept and planning-related particular case decisions with high strategic significance and standardised funding process decisions of high frequency.

In analysing the data-technical monitoring and implementation systems differences between the ESF and ERDF interventions became obvious. The management of the ESF interventions is already based on a modern and well-developed decentralized database system which combines granting, financial and impact data. The management of the ERDF interventions still has to be optimised. The new Fördis database will introduce major improvements such as bringing together in one database granting, financial and impact data not yet networked to date.

2.4. Results of the Implementation, Effectiveness and Efficiency Control

The implementation, effectiveness and efficiency control is based on the available programme monitoring data as reported in the implementation reports for 2001 and 2002, as well as financial data of the paying authorities. The evaluator did not gather data by himself. Prognos controlled the projects covered by the ERDF programme monitoring with their impact indicators and identified that about 80 percent are ascertained. The financial data, by contrast, are ascertained immediately and completely. Due to the so-called "time-lag problems" as regards the impact development of interventions – in particular the infrastructure measures – the developed effectiveness and efficiency ratios at the mid-term evaluation indicate only the direction. The ex post evaluation will later evaluate the effectiveness and efficiency of the programme more reliably.

Notes on Methodology and Definitions of Terms

In the mid-term evaluation, a number of terms, ratios and rates are used in analysing the effectiveness.

The **rate of committed funds** is the relation of the earmarked EU funds or, respectively EU funds granted up to 31 December 2002 (by notice of grant) to the available EU funds for the measure or the priority.

The **rate of paid out funds** is the proportion of the paid out, eligible funds to the earmarked funds (with notice of grant).

The **effectiveness** of a measure is examined by the degree of **achievement of objectives**. In assessing the achievement of objectives as regards the effectiveness indicators (e.g. jobs), the actual figures as per 31 December 2002 are related to the target figures for the year 2006.

The **efficiency control** is based on a comparison of the relation between funds and impact as planned for the entire programme life-cycle with the relation between funds and impact reached as per 31 December 2002. The efficiency control is a comparison of target with actual figures of efficiency ratios (e.g. funds in € per created job).

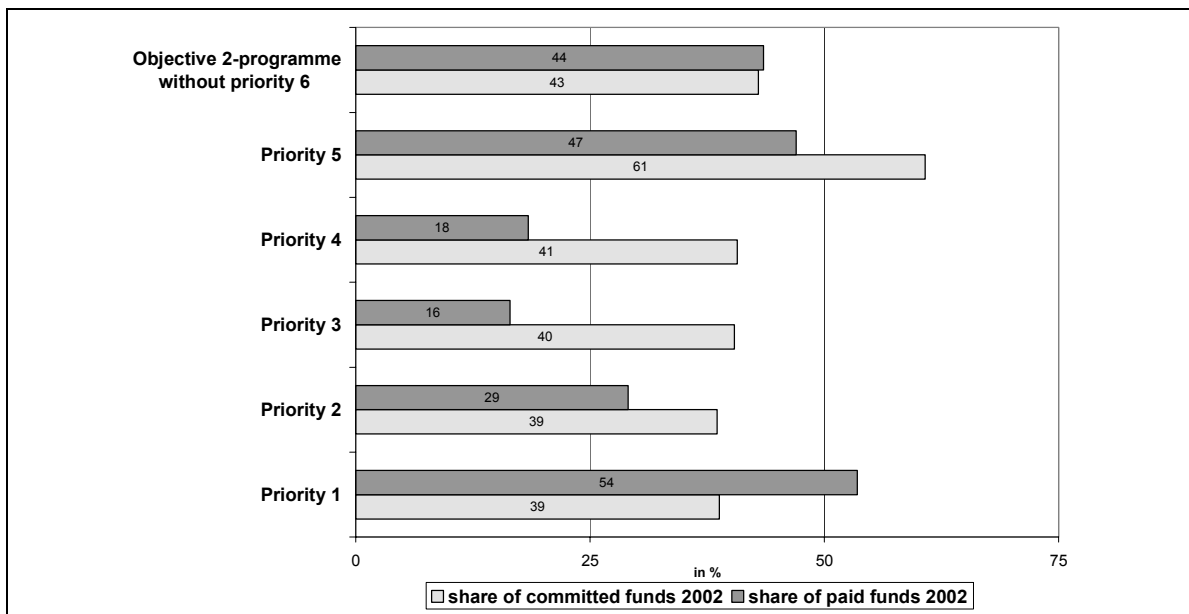
The evaluation system applied in the mid-term evaluation continues to consequently follow the way taken in the programme planning for quantifying objectives as an instrument of the programme management. It is examined whether the planned objectives are achieved. Nonetheless, the quantified and

measured indicators fail to ascertain the entire effectiveness of the measures and projects.

The Financial Implementation of the Programme

On 31 December 2002, ERDF funds of € 286 million and ESF funds of € 12 million were committed. The rate of committed funds of the Objective 2 programme (without technical assistance) being at 43 percent is relatively high. The committed funds are especially high in the transitional regions. In the first and second quarter of 2002, the rate of committed funds was increased to 47 percent, so that the total of committed EU funds amounts to € 324 million.

Figure 2: Financial implementation by priorities



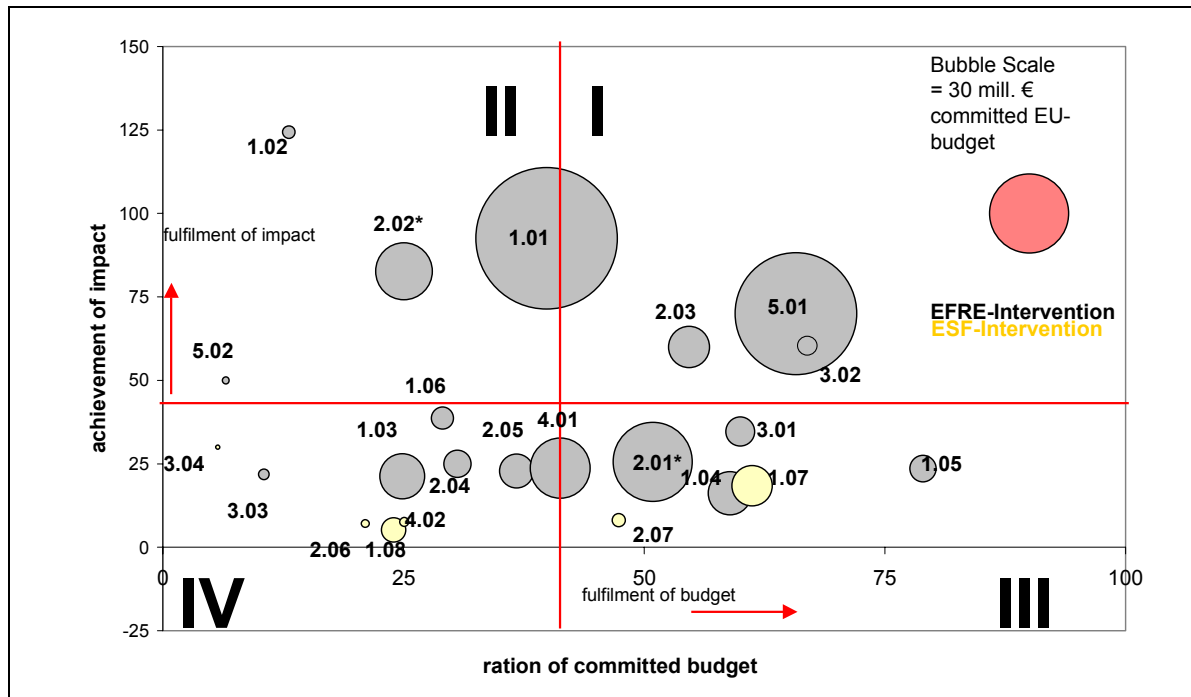
Prognos AG 2003 according to MW (status 31.12.2002)

The priorities and the measures differ considerably in the rates of committed funds. Priority 5 (rate of committed funds of 61 percent) is among the most advanced interventions with measure 5.1 (66 percent) and 5.04 (77 percent). The ESF interventions 1.09 and 3.04, the infrastructure measure 5.02 and 5.03 as well as the interventions 3.03 (local agenda processes) have to make up as regards the financial implementation. The rates of committed funds are below 15 percent in the above measures. In measure 5.03 (goods transport centres) no funds have been granted at the date of the mid-term evaluation. The following matrix diagram shows the status of implementation of the measures based on the committed funds and the material achievement of objectives.

We have in particular to highlight measures of the first category which stand out due to a strikingly high commitment of funds as

well as a quantifiable effectiveness above average. Measures 2.03 and 5.01 are among the successful interventions.

Figure 3: Development of impact and financial implementation by measures



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Regional Differences in Distribution of Projects and Funds

The implementation and effectiveness control for each region shows that the demand and distribution of the granted Objective 2 funds were uneven within the regions. In the first half of the programme, for example, ERDF funds of about € 180 million or, respectively, 60 percent of the programme volume have been earmarked in the Northwest of the Land. Most part of the ERDF funds, in absolute terms, have been committed in the rural districts of Emsland, Leer and Cuxhaven as well as the towns of Emden and, in the East, Wolfsburg which are both not part of the Land. The high concentration of funds is caused by the funding of medium and large-scale business and tourist infrastructure projects in the above regions. The high funds concentrations have given growth clear impetus in some of the above regions which even account for a maximum of 1.3 percent of the annual regional gross value added (base year 1998).

In general, it can be ascertained that the transitional regions have exhausted the manageable funding quota to a high degree while the eligible regions have still relatively high quotas available for the second half of the programme. In the transitional regions, the

appropriations are almost completely earmarked in some measures in mid-2003. Thus the financial scope of action under the Objective 2 programme is nearly exhausted in the transitional regions.

Results and Impacts at High Level

The mid-term evaluation of the Objective 2 programme can be quantified, despite certain gaps in the ascertainment of monitoring data (ERDF ascertainment degree of 80 percent) as well as all methodical problems, for example time lags in the development of impacts. The impact reached to date has to be considered as positive compared to the set objectives. In the period between 2001 and 2002, about 1,300 projects have been adopted. In measure 5.01 (business infrastructure), 192 enterprises could be located in the business zones. In the funded business zones, about 840 new jobs have been created and approx. 4,700 jobs have been preserved by locating enterprises. The other ERDF measures could preserve about 2,220 jobs which would have been lost without the Objective 2 funding. The funded projects triggered an additional investment volume of about € 450 million for creating or preserving jobs. Thus € 1 of the ERDF funds triggered job-creating investments of € 1.6 million.

As the figure below shows, the majority of the measures reach 20 percent to 70 percent of the objectives envisaged by 2006 and are thus well on the way to achieving the objectives for the overall programme life-cycle. As regards the measures showing below-average values of achieved objectives, there are essentially two causes. In the case of some measures having high committed funds, in particular infrastructure measures, it cannot be expected that the achievement of objectives is higher at the mid-term evaluation due to the long planning and realization periods. Measures having low committed funds and below-average effectiveness have to be examined as to how the financial and contents-related priorities, the funding conditions and the objectives have to be adjusted, so that the measures contribute to a better achievement of the objectives within the second programme half. In line with a list of all relevant indicators used for the measures and their evaluation in the signal check, the measures with the category "modify" and "stop" have to be examined as to their optimisation.

Figure 4: Results of the signal-check

Measure	committed funds		effectiveness		efficiency		Signal-Check	
	value	sign	value	sign	value	sign		
1.01	88,4	o	92,5	o	232,1	++	++	go
1.02	30,5	--	289,6	++	950,5	++	++	go
1.03	52,8	-	45,2	--	85,5	o	---	modify
1.04	137,1	+	1613,9	++	53,4	-	++	go
1.05	183,8	++	54,9	-	29,9	--	-	go
1.06	67,6	-	90,1	o	133,2	+	o	go
1.07	142,9	+	42,9	--	77,3	o	-	go
1.08	55,9	-	50,0	--	289,7	++	-	go
1.09	11,3	--	k.A.		k.A.		--	modify
2.01*	118,5	o					o	go
2.02*	58,3	-					-	modify
2.03	127,2	+	428,3	++	336,6	++	+++++	go
2.04	71,2	-	58,2	-	81,7	o	--	modify
2.05	85,6	o	53,2	-	62,2	-	--	modify
2.06	48,9	--	16,5	--	56,6	-	----	modify
2.07	110,2	o	140,6	+	470,1	++	+++	go
3.01	139,6	+	80,7	o	57,8	-	o	go
3.02	148,2	+	139,7	+	88,8	o	++	go
3.03	20,3	--	42,3	--	208,1	++	--	modify
3.04	13,3	--	69,8	-			---	modify
4.01	96,1	o	45,9	--	57,4	-	---	modify
4.02	58,5	-	17,6	--	59,0	-	----	modify
5.01	153,4	++	148,7	+	106,4	o	+++	go
5.02	15,2	--	k.A.		k.A.		--	modify
5.03	0,0	--	0,0	--			----	stop
5.04	147,4	+	k.A.		k.A.		+	go

Prognos AG 2003. Note: values are standardised (100 % are actually 43 % of total value).

It can be stated that the Objective 2 programme achieved a high level of reached target groups in the promotion of individual enterprises under Priority 1. 96 percent of the funded enterprises are SMEs having less than 250 employees. A further indication for the adequateness of the objectives for the promotion of individual enterprises is the fact that funding projects have been adopted for 94 percent of the enterprises. Several funding projects have been adopted for 6 percent, which is within a reasonable limit.

A total of 4,321 participants have been funded in qualification measures by the ESF measures. Based on the envisaged total of 18,580 participants by 2006, the achievement of objectives is at 23 percent at the mid-term evaluation. About 53 percent of the funded participants are women. The high preventive degree of the ESF interventions is proven by the rate of 84 percent of the employees among the participants who are threatened by unemployment. In the second half of the programme, it should be allowed to reinforce the inclusion of unemployed, in particular long-term unemployed, in the qualification measure.

The promotion of the culture-related businesses within the Objective 2 programme has been found positive. The cultural interventions which are marked by a high demand for funds could link the interfaces existing between tourism and business in rural regions suffering from structural disadvantages.

A material objective of the structural policy programme is the reduction of regional disparities and the adjustment of regions with structural disadvantages to the level of the Land. As the SWOT analysis shows, there have been processes to make up this in individual eligible regions. The economic development in some Western eligible regions, for example, has clearly been more dynamic than in Lower Saxony as a whole. One of several factors explaining this could be the EU interventions. In this context, the interventions of the funding period of 1994 to 1999 should have a greater influence at the mid-term evaluation than the intervention of the current period. As regards the regional economy, the ERDF interventions including the job-creating investments in all rural districts of the eligible regions and phasing out regions in the period 2001-2002 have reached an annual promotional impetus of 0.45 percent of the gross value added (base year 1998). In regions where the promotional impetus accounts for above-average rates of the gross value added (i.a. Wolfsburg 1.2 percent, and Celle 1.3 percent), it can be stated that the interventions gave a significant impetus to growth.

The efficiency control as per the mid-term evaluation indicates that the interventions have largely been implemented in an efficient way. A comparison of the reached funds/effectiveness ratios (e.g. funds per created job in €) with the planned funds/effectiveness relations of the SPD for the year 2006 reveals that most measures are within an envisaged limit of efficiency. 8 of 19 measures for which efficiency ratios (target/actual degree of efficiency > 100 percent) could be established already exceed the envisaged level of efficiency as per the mid-term evaluation.

2.5. Analysis of the Performance Reserve

According to the regulations for the distribution of funds under the performance reserve, these funds have to be used for especially successful priorities or measures. For the Objective 2 programme, the performance reserve is at 4 percent of the structural funds, thus amounting to € 29 million. The indicators used for the evaluation of the effectiveness of the programme are set out in the SPD. The assessment related to the performance reserve is differentiated between three evaluation criteria:

Efficiency criteria of output and result indicators to quantify the amount of the measure and the direct benefit.

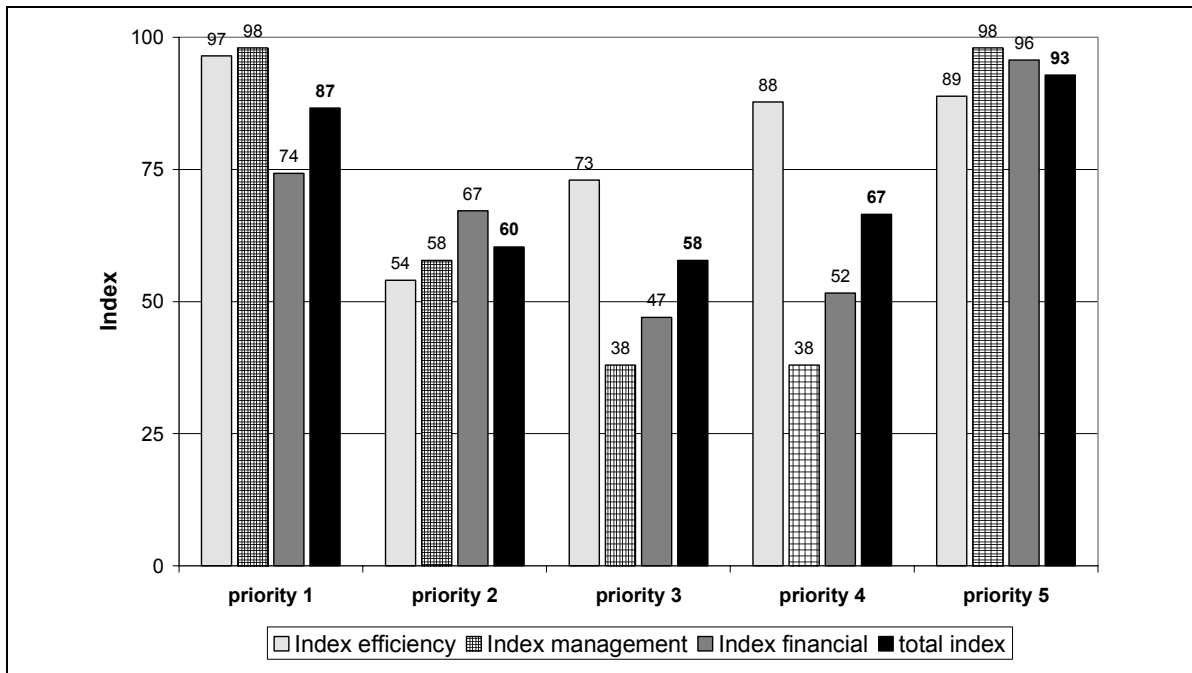
Management criteria to evaluate the process of the implementation system in the phases of programme monitoring, control and selection procedure.

Financial criteria in form of the outflow of funds and the mobilisation of the private sector (leverage of the expenditures).

The assessment related to the performance reserve has been conducted for the priorities using the three evaluation criteria based on a scoring model (point system using a scale from 1 to 100).

In summary, it has to be stated that the Objective 2 programme of Lower Saxony with its 5 priorities has achieved a **relatively high efficiency** as per 31 December 2002 based on the set evaluation criteria. Priorities 1 and 5 (index value of 87 and 93 points, base = 100) are among the programme priorities with an above-average efficiency. While the efficiency of Priority 5 will continue in the second half of the programme due to a future high demand for funds (i.a. additional need for conversion) in the trade-related infrastructure, the future absorptive capacity and efficiency of Priority 1 is uncertain due to the economic downturn.

Figure 5: Performance by priorities



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3. Recommended Actions

The following chapter summarises the actions recommended in the mid-term evaluation. The recommendations are to be understood in such a way that they, in the evaluator's view, will even more improve the achievement of the programme objectives in the second half of the programme and will optimise the implementation.

Strategic Orientation of the Programme

- In the evaluator's view, the interventions should be made in connection with regional aspects in a sectoral and thematic way. The core idea is that such focussing on regional growth priorities will result in a higher impact of the used funds. We think that a funding strategy oriented more - but not exclusively - at the fields of competence or priorities of the individual eligible regions will improve the achievement of the programme objectives. This would take the recent findings from the economic promotion for the Objective 2 programme into consideration, according to which networks, fields of competence and clusters are considered as central element of an economic promotion directed at the future. Such focussing is required in times of increasingly limited public budgets for reason of effectiveness and efficiency. However, this must not result in the exclusion of regions having a low potential of development from the development and promotion of priorities. Accompanying measures of promoting local and regional networks must take effect for this to a smaller extent.

- In the evaluator's view, there is need for action in the exhaustion of the maximum funding rates for the promotion of individual enterprises. The previous funding practice shows that the funding rates for enterprises are granted very restrictively within the discretion of the funding directive. The granted funds are broadly distributed to individual enterprises for economical reasons and for reasons of the objective to reach as many enterprises as possible by the funding. Thus many enterprises only receive a relatively moderate investment grant. The evaluator would recommend to examine this strategy and to grant higher funding rates in parts of the Land. Granting funds according to the principle of broad distribution causes a relatively high administrative expenditure measured against the volume of the funds and has a moderate steering effect.

- In particular in regions having an especially structural disadvantage, the maximum funding rates must be exhausted. Among these are, besides the structurally weak regions of the Land (i.a. Ostfriesland, Wilhelmshaven), the regions at the

border to the former GDR which is at a disadvantage due to a strong difference in funding as compared to the East German Objective 1 regions in Thuringia and Saxony-Anhalt. The increased exhaustion of the funding rates in the above regions could contribute to triggering stronger promotional impetus at certain locations and to compensate a funding difference or a structural disadvantage.

- In view of the financial weakness of the public sector, it should be considered to admit an essentially higher co-financing with private funds than before.
- The ERDF interventions and the ESF interventions should jointly be oriented at the significant priorities of the Land's eligible regions as regards region, sector and content to intensify the ERDF and ESF funding and to create synergies for reciprocal reinforcements.

Programme Planning and Management

- All in all, the Objective 2 programme of Lower Saxony is very satisfactory. Some measures even show a very high effectiveness. The signal check, however, revealed that in 11 measures it has to be considered to start initiatives for improving the funding and implementation conditions (examination of orientation at target groups, adjustment of the funding modalities, optimisation of the granting procedure, examination of the data of achievement of objectives, if required). In this respect, detailed evaluations and extensive examinations of coordinators and implementation bodies could be required, in conjunction with an inquiry of selected final beneficiaries.
- The deficits in measure 5.03 (goods transport centres) of the category "Attention-modify" are caused by a lack of committed funds. In measure 5.03 the content-related direction has to be arranged in such a way that funds can actually be used to the benefit of the logistic infrastructure. In the evaluator's view, it would be recommendable to extend the eligible elements required for funding.
- Within the scope of the discussions with the implementing actors at ministry and district government level, it has become clear that the majority has a need for the continuation of the "Jour-fix roundtables". These "jour-fix roundtables" could intensify and improve the exchange of information between the stakeholders of the funds.
- The management of the Objective 2 programme of Lower Saxony and its measures has very strongly been determined by the changed framework conditions and the related financial

constraints. This development is proven by the application for amendment and the shifting of funds between the priorities and the measures. For the second programme phase, it would be desirable to create management concepts having a longer planning certainty which are more based on structural policy needs, besides the financial aspects, and are arranged in such a way that they are oriented at impacts in the sense of the highest possible efficiency.

Monitoring / Indicator System

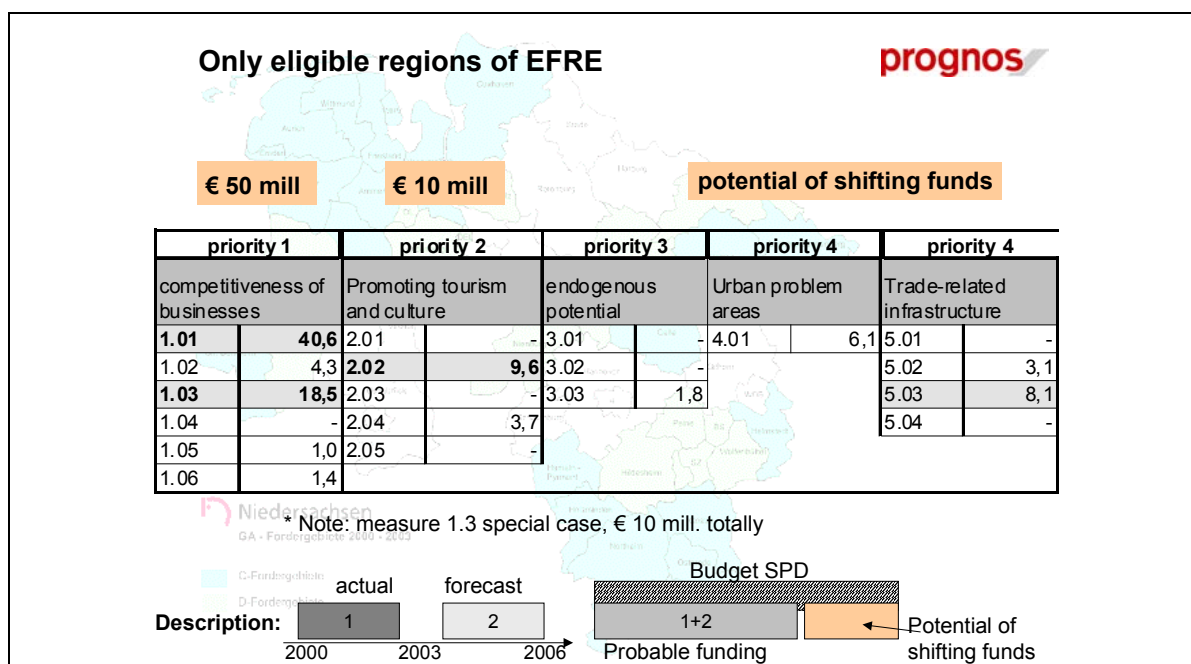
- The data evaluated by the Evaluator reveal a need for optimisation of the ERDF monitoring system. There are possible improvements in a digital collection and online mailing of the report files as well as the introduction of a short instruction of the final beneficiary or "manuals". A "manual" may help to convey elementary terms and definitions and to avoid misunderstandings of the final beneficiary. Moreover, the implementation report 2003 ff. should include a feedback control and assessment of the representativity to enable a realistic evaluation of the impact. The indicators and the determination of realistic objectives (e.g. 5.04) should be completed in parallel to this step.
- The contribution of the individual projects to the three horizontal objectives should be inquired in an extended form, at least once at the filing of the application for the project. The evaluator would suggest introducing a test of significance for the ERDF interventions by which the contribution of planned or funded projects to achieving the objectives should be examined through a simple evaluation grid.

Identification of Shifting Potentials

- The task of the mid-term evaluation is to analyse the financial programme implementation. Within the Objective 2 programme, there is a potential of shifting funds of € 50 million to € 60 million in financial terms or terms of demand. This shifting potential is based on the fact that the propensity to invest in business in the years 2002 and 2003 has diminished in Priority 1, together with the economic upturn. At the same time, in Priority 5, there was a clearly higher demand for business infrastructure than expected.
- The potential of shifting funds of the eligible region (without transitional region) was established by an evaluation of the funds committed to date and the forecast of the commitments expected by the end of 2006. The forecast is based on the assumption that the implemented funds will develop in the period between mid-2003 and the end of 2006 in the same way as did the implemented funds in the period between 2000 and

mid-2003. The assumption of a continuous outflow of funds thus leaves a sufficient future margin for a medium-term economic upturn in Germany as well as an increase in the demand for funds in the funding measures for individual enterprises. It is only useful to shift funds on the basis of this method of computation where significant potentials for making shifts are given (more than € 5 million). We refrain from giving recommendation for making shifts in measures with low shifting potentials (less than € 5 million) due to the forecast uncertainty which tends to increase.

Figure 6: Identification of the potential of shifting funds until 2006



Prognos AG 2003, own calculation based on the financial status 28.07.2003. The potential of shifting funds in priority 1 counts about € 50 mill. based on € 10 mill. (1.03 special case) and € 40 mill (1.01). Additionally shifting funds of about € 10 mill. in priority 2 (2.02). Furthermore unused budgets in measure 5.03 of € 8.1 mill. whereof about € 3.1 mill. are reserved for a planned cargo transport centre.

- The evaluation shows that Priority 1 has overcapacities amounting to the total of about € 50 million. The overcapacities cover measure 1.01 with about € 40 million and measure 1.03 with about € 10 million.³ Moreover, in other priorities, we have identified further overcapacities in measures 2.02 and 5.03 based on the selected calculation method.

³ In measure 1.03, the volume of funds to be shifted which has technically been ascertained to amount to € 18.5 million cannot be considered as shifting potential in full. Measure 1.03 plays a special role due to its division in several sub-measures. The low implementation level of this measure is essentially based on a low demand in the environmental engineering area. There is a potential of shifting funds in the sub-measure of environmental engineering amounting to € 10 million.

- For the assessment of the ascertained potentials of shifting funds, the financial arguments must not be of exclusive importance. Strategic issues and issues relating to the achievement of the programme objectives must be taken into account. All envisaged shifts of funds must be suitable
 1. for still achieving the programme objectives and
 2. for being prepared for or responding to changes in the socio-economic framework .

- The possible shift of funds of about € 50 million from Priority 1 results in an adjustment of the strategy of the Objective 2 programme to a significant extent. The planned shift of funds deviates to the extent of about 7 to 8 percent from the previous programme strategy of the privileged direct economic promotion (Priority 1) – measured against the financial appropriation - with supporting indirect economic and infrastructure promotion (priority 5). This strategic adjustment is in line with the economic policy objectives of the Land government of Lower Saxony. The objective of the Land government is to continuously develop the locations of industry, technology and services and to secure the competitiveness of the structurally weak regions. The indirect economic promotion by investments in infrastructures will be attached increased importance for reasons of basic regulatory policy.

- In the evaluator's view, any shift of funds has to be examined against the two requirements mentioned above. The funds management of Lower Saxony concretely has several projects at hand which could adsorb the funds from Priority 5. The projects envisaged for funding should be in particular suitable to contribute to the programme objectives and to the achievement of the structural policy effects.

Assessment of Large-Scale Infrastructure Projects in Lower Saxony

Within the concept of setting priorities of Land-wide importance giving impetus, there are plans for several leading investment projects in the four priority regions. This concerns i.a. the avionic cluster in Brunswick as centre of competence in research and sciences related to air transport as well as an ethylene pipeline in the Jade-Weser region. The deepwater port (Jade-Weser Port) is a central leading investment of highest importance for the Land's policy among the Lower Saxon large-scale infrastructure projects which are assessed as to their importance for the structural policy in the mid-term evaluation.

The deepwater port in Wilhelmshaven (Jade-Weser Port) is a novel and modern port and logistic infrastructure for large-sized container ships. The competitiveness of the region and the

logistics-related enterprises can clearly be improved by this deepwater port. The Jade-Weser Port is a leading investment within the economic policy of the Land of Lower Saxony at a location which is in particular eligible for structural policy funding. The evaluator considers the deepwater port as a useful structural policy project which has a key position in the development of the region under the economic and labour market policy.

There are several good reasons for the realisation of the Jade-Weser Port using funds of the Objective 2 programme. Among these reasons are: The need for structural policy action for the Wilhelmshaven region. Wilhelmshaven is one of the structurally weakest regions of the Land of Lower Saxony and of Western Germany – together with the districts of Friesland, Wittmund and Wesermarsch. The region is marked by a reduction of the employment level, high unemployment and threatening closures of German army sites.

Moreover, it is expected that the deepwater port will have high direct and indirect job impacts to the extent of 1,900 to 3,800 jobs. The leading investment in the port and the development of a maritime cluster will decisively reduce the structural deficits in the Jade-Weser region by giving a new growth impetus.

Even in the light of the assessment of the opportunity cost, the envisaged commitment of ERDF funds of € 50 million for the deepwater port is justifiable. The commitment of ERDF funds of € 50 million for the deepwater port would lead to similar high employment impacts as in measure 1.01, provided that the funds can be earmarked for this. In measure 1.01, the employment effects would be within the scope of the impacts ascertained to date at the level of about 1,800 preserved and 2,400 created jobs using similar funds. In comparison with the promotion of individual enterprises in measure 1.01, the promotion of the deepwater port has the central advantage that the effects of the port would benefit a region with an urgent need for structural policy action.

A concentration of 7 to 8 percent of the ERDF funds on a single large-scale project exceeds the extent of the previous projects funded under the Objective 2 programme. This concentration of funds is justified and reasonable within the scope of setting priorities on four regional leading infrastructure investment. This concentration appears justifiable under the structural policy due to the political importance of the project for the Land, the inclusion of the deepwater port into an overall concept of promoting four material, regional leading infrastructure investments in the Lower Saxon eligible regions and due to the urgent need for structural policy action in the Jade-Weser region. Nevertheless, this assessment by the evaluator does not anticipate a weighing up of concrete projects. This requires a separate assessment of alternative projects.

4. Prospects

The mid-term evaluation shows that in the first half of the funding period 2000-2006 the Objective 2 programme had a high impact in the eligible regions of Lower Saxony. Already in the first half of the programme, the interventions have contributed to an efficient achievement of objectives and impact development. The second half of the programme will have to achieve the successes and performance of the first programme half and to use the available resources in a way which especially meets the needs, contributes to the achievement of objectives and is efficient. A stronger focussing and selection in choosing the project application, e.g. by setting regional priorities for leading investments and by giving stronger promotional impetus for special structural policy needs (exhaustion of maximum rates in especially disadvantaged regions) could contribute to increasing the programme impact and efficiency in the second programme half. In particular before the Enlargement of the European Union and the reduction of the German quota of structural interventions after 2006, the funds of the programme must be used in the second programme half in a well-thought way in line with the objectives. In the light of tight public budgets and reductions in the Land's budget, the use of private funds for co-financing and developing alternative funding models will increasingly become important. The evaluator has shown possibilities and ways in his recommendations how the Objective 2 programme can meet these requirements in the second programme half.