

Evaluation of the Estonia – Latvia Programme 2007-2013

Final Report

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Institute of Baltic Studies is an independent non-profit research and development centre that aims to assist the development of public policy in the Baltic Sea area by providing high-quality socio-economic analysis.



PRAXIS Center for Policy Studies is an independent non-profit think tank that aims to contribute to better public policy making process and to enhance general participation in public debate.

The current evaluation report has been prepared on the request of the Estonia – Latvia Programme 2007-2013.

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Introduction

Although the Baltic States enjoyed in mid-2000s an exceptionally rapid economic growth, substantial regional disparities remain within the individual countries. With the current financial and economic crisis, and especially with the risk of structural long-term unemployment the crisis has brought about, regional disparities are set to increase significantly. Therefore, well founded and sufficient action is needed now!

To understand what actions should be taken, we must first understand the impact and effects of what has already taken place. Thus, the objective of the current evaluation is to review the progress of the Programme and to facilitate policy learning among the management of the Estonia – Latvia Programme (ESTLAT) 2007-2013. In any work, positive feedback is definitely very satisfying. Yet, in the learning process, well founded criticism and recommendations for further improvement prove often even more valuable. This is why we have taken in the current evaluation a rather critical view. The sole intention is to offer as much input as possible both for the further fine tuning of the programme, and for the preparation for the next planning period.

There are, besides the Estonia-Latvia Programme, a number of similarly founded supra-national and national programmes operating in the target area of the current programme. Therefore, some of the observations made in relation to the ESTLAT Programme may in fact also prove relevant to other regional development and territorial co-operation programmes operating in the Programme area.

This report is divided into four chapters. In the first chapter, a brief introduction to the Programme is offered and the methodology of the current evaluation is summarised. In chapter two, the programme strategy is assessed against main external and internal factors influencing the implementation of the programme. In chapter three, important aspects of the programme operational management are reviewed. In the final chapter, the results of this evaluation are synthesised and presented according to the primary evaluation questions.

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Executive summary

The assignment

On 11 January 2010 Enterprise Estonia, acting as host organisation of the Joint Technical Secretariat of the **Estonia – Latvia Programme 2007-2013** (hereinafter referred to as the “Programme”), invited interested parties to participate in a tender of the Contractor “Evaluation of the Estonia – Latvia Programme” and submit their offers. The evaluation of the Programme is to be carried out in accordance with (EC) 1083/2006 Articles 47 and 48.

The purpose of the evaluation was to assess the effectiveness, relevance and performance of the Programme, as well as the possible need to change the Operational Programme.¹ The Terms of the Reference of the current evaluation listed the following main evaluation themes and questions:

- Q1. Are the Programme strategy and objectives being met so far?
- Q2. Are the strategy and objectives relevant and serve the needs of the Programme area in the light of the current situation, taking into account context indicators and the socio-economic context of the Programme?
- Q3. Which are the constraints (internal and/or external) that have affected the progress of the Programme? How should the Programme be adapted to these constraints?
- Q4. In terms of the functionality of the Programme indicators: do the indicator definitions cover the directions of support and priorities of the Programme? How strong is the connection between the indicators and the directions of support? How strong is the connection between the indicators and the priorities? Are target values of the indicators appropriate, taking into account the current financial commitments of the Programme?
- Q5. What are the constraints (internal and/or external) for participation of private entrepreneurs in the Programme as project partners? How could participation of private entrepreneurs be increased?

The results of this evaluation will provide knowledge for action, by helping the Joint Technical Secretariat and Programme authorities to improve methods of design, implementation, monitoring and dissemination. Improvements will be based upon a greater understanding of success (and failure) factors and the development of evidence based recommendations for the Managing Authority of the Programme and the Joint Technical Secretariat (JTS). The findings of the report will also yield a better understanding of the opinions and concerns of important stakeholders – including project applications, as well other EU regional and local stakeholders.

The evaluation methodology

The current mid-term evaluation of the Estonia – Latvia Programme assesses both the strategic and operational management levels of the Programme. The data collection for the

¹ Estonia – Latvia Programme 2007-2013, CCI No. 2007 CB 163 PO 050.

evaluation of strategic management builds predominantly on desk research on programme documentation and statistics, interviews and consultations with programme management and relevant policy makers both in Estonia and Latvia.

As a part of the evaluation of the Programme operational management a specially crafted web survey was distributed to all successful and unsuccessful applicants to the Programme. A separate web survey was also carried out among prospective applicants to identify any possible difficulties that may have occurred in the development of project ideas. In total, 554 invitations were sent out for participation in the above two surveys and 132 responses were collected. Nine interviews were also carried out with selected Programme participants to collect additional qualitative data on the progress of the implementation of individual projects during the period of April-May 2010.

During and after data collection all inputs were analysed carefully in light of the 5 primary evaluation themes identified above. The preliminary conclusions were presented to the client in the course of regular meetings held throughout the evaluation process of the Programme. The client's feedback served as a valuable input and guidance for the finalisation of the evaluation report.

Evaluation of the programme strategy

The current evaluation concludes that in terms of its daily operations the Estonia-Latvia Programme follows the Programme strategy reasonably closely. However, the Programme strategy and objectives are too broad for the limited resources available. Furthermore, the existence of a number of other territorial co-operation and regional development programmes, which address similar topics and cover similar geographical areas, makes it difficult to identify and assess the specific contribution of the Estonia-Latvia Programme to the achievement of its broad range of strategic objectives.

The indicators and targets defined for the Programme reflect on the operational performance not on the expected results and impact of the investment. In operational terms, a number of the originally set operational objectives have been already achieved, while a number of targets are likely to remain unmet even by the end of the current Programme. The achievement of the originally established operational targets should not be still an objective in itself.

The Programme needs further focussing, especially in light of the current economic crisis which has caused significant changes in the socio-economic reality of the Programme target area (by creating new or magnifying existing problems). It is, therefore, recommended that the Programme should establish job creation and export led economic growth as key horizontal priorities, which are to be followed throughout all directions of support. To make the Programme intervention as effective as possible, suitable outcome and impact indicators should also be defined to be able to benchmark the contribution of the programme to these priorities.

Evaluation of the implementation of the programme

Large shares of current project participants are small rural municipalities or NGOs, who depend very much on project based financing. They face considerable financial constraints in covering cash flow gaps within their projects making timely implementation very difficult. It is therefore very important that the implementation of projects should proceed as smoothly as possible.

Yet currently, the review and approval of project reporting tends to be very time and resource consuming. The implementation rules and corresponding reporting and approval procedures should be considerably simplified and the time required for approving reports and making payments shortened. In principle normal accounting practices and standards applied by the participants based on relevant national legislation should form the basis of Programme implementation. Also, progress review of projects should concentrate predominantly on the results of the work, which have been agreed upon during contract negotiations, while paying less attention to the specific choice of the means. This way, the Programme participants would be able to concentrate on how best to reach the main objectives of their projects and eventually better results would be achieved.

If possible, pre-financing should also be made available to projects. This would facilitate the achievement of the projects' objectives, and would put the Programme in the eyes of the prospective applicants in equal position in comparison to other funding opportunities such as the Estonia-Latvia-Russia programme, 7th Framework Programme or the Competitiveness and Innovation Programme, etc. which all provide pre-financing.

The transparency of project selection procedures should also be improved. This relates both to the further fine-tuning of the criteria used for the assessment of the quality of the project applications submitted to the Programme and to the clearer delineation of the roles that the different actors play in the evaluation process itself. Clearly formulated evaluation summary reports that reflect the consensus of experts should be prepared for each project application. These evaluation reports should serve as the basis for the final approval or rejection of the ranked lists of proposals, which are submitted by the Joint Technical Secretariat to the Monitoring Committee. The same evaluation summary reports should also be provided as feedback to successful and unsuccessful project applications.

The objective for attracting private sector actors to the programme has proved rather challenging to achieve. As a result, the majority of the budget earmarked for enterprises is still unused. However the participation of private sector actors should not be an objective in itself. It is rather more important to make sure that the projects funded by the Programme are actually contributing to the improvement of the business environment. This can take place through a myriad of different activities from training and promotion of entrepreneurship, investment promotion, etc. Meanwhile, the actual participation of the private companies in the projects would not always be necessary. Often, the participation of industry associations or similar NGOs may prove even more beneficial. It is, therefore, recommended to consolidate the separate budgets that have been allocated for public and private participation. And better benchmarks for monitoring the contribution of the programme to the private sector development should be developed.

1. Introduction to the evaluation of the Estonia-Latvia Programme

Key messages in this chapter

- As of today, 2/3 of the Programme's €35.9 million budget has been committed;
- It is, therefore, a good time to evaluate both the strategy of the current Programme in the changed socio-economic environment, and the operational progress of the Programme so far.

1.1. Introduction to the main objectives and priorities of the programme

On 21 December 2007, the European Commission approved a Cross-border Cooperation Operational Programme between Estonia and Latvia for the period 2007-13. The Programme carries on the co-operation relationship between Estonia and Latvia along the lines of European Territorial Cooperation, which started during implementation of the Estonia-Latvia-Russia INTERREG IIIA Priority North within the Baltic Sea Region INTERREG III B Neighbourhood Programme.

The overall objective of the Programme is to promote sustainable development and economic competitiveness of the Programme area through achieving an integrated and cross-border approach to economic, social and environmental development in ways, which involve and benefit local people and communities. The Programme area covers the regions of Lääne-Eesti, Lõuna-Eesti, Kurzeme, Pierīga, Rīga and Vidzeme along the Estonian-Latvian border.²

In order to reach its general objective, the Programme is divided into three priority areas. The selection of priorities was based on regional SWOT analysis, which identified poor physical accessibility, low economic competitiveness, and unattractiveness of large parts of the living and working environments of the area as the major challenges facing the Programme area. Each of the priority axes covers several directions of support (Table 1). A fourth priority area is focused on technical assistance related to projects from the other priorities.

Table 1. Priorities of the Estonia – Latvia Programme 2007-2013

Priority 1. Increased cohesion of the Programme area

- 1.1. Reducing isolation through improved internal and external connectivity of the Programme area
- 1.2. Enhancing joint management of public services and resources

Priority 2. Higher competitiveness of the Programme area

- 2.1. Facilitating business start-up and development
- 2.2. Increasing the attractiveness of the Programme area (*closed since March 2009*)
- 2.3. Enhancing employable skills and human resources

² The Operational Programme "Estonia – Latvia Programme 2007-2013. Cross-border co-operation programme under European territorial co-operation objective", CCI No. 2007 CB 163 PO 050, p 29.

Priority 3. Active, sustainable and integrated communities

3.1. Improving the environment for active and sustainable communities

(closed since March 2009)

3.2. Promoting grass-root level actions

Priority 4. Technical assistance

Programme management activities are funded from this Priority.

The Operational Programme “Estonia – Latvia Programme 2007-2013” also gives an overview of the specific objectives across all Programme priorities as well as indicators to measure the achievement of these objectives.

The European Regional Development Fund (ERDF), the Republic of Estonia and the Republic of Latvia fund the implementation of the Programme. The total ERDF budget available for commitments to projects during the period 2007 to 2013 amounts to €35 934 836, which is supplemented by public and private co-financing. Of the ERDF budget about 47% will be allocated to Priority 1, 38% to Priority 2, 9% to Priority 3, and 6% to Priority 4 (Technical Assistance). Within these budget allocations, there is also a separate budget foreseen for private partners participating in the projects. 1 million euro is earmarked in Priority 1, and 1.9 million euro in Priority 2 to fund the participation of private partners.

The range of beneficiaries of the Programme includes local and regional authorities, state organisations, public equivalent bodies and non-governmental organisations. Under Priorities 1 and 2, participation of private enterprises is also sought. The amount of Programme funding for one project can normally be from €20 000 to €2 000 000 under Priorities 1 and 2, and to €150 000 under Priority 3.³

Co-financing from the Programme under priorities 1 and 3 can be up to 85%, and under priority 2 up to 80 % of the total eligible costs in case of public, public equivalent and non-profit oriented bodies. In case of private enterprises the co-financing rate is 50%. The full description of the eligibility criteria and modus operandi of the programme is available from the Programme Manual.⁴

The following Chapter 1.2 reviews briefly the status of the implementation of the Programme. Thereafter, we turn to the assignment of the current evaluation.

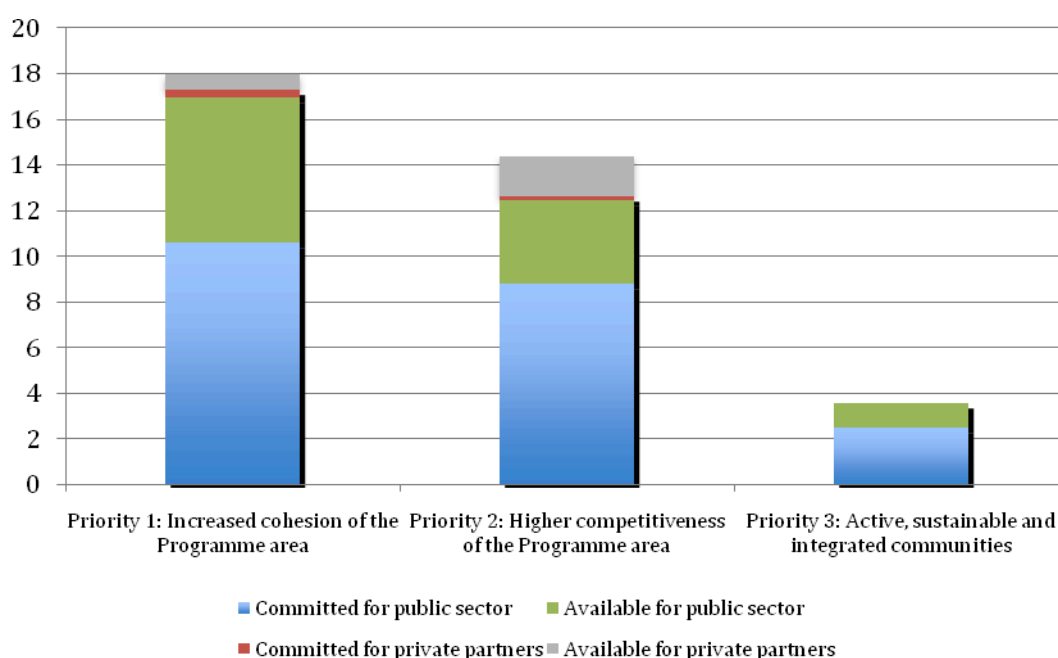
³ The Operational Programme: Estonia – Latvia Programme 2007-2013. Cross-border Co-operation Programme under European Territorial Co-operation Objective, p 58.

⁴ Programme Manual: Estonia – Latvia Programme 2007-2013. Cross-border Co-operation Programme under European Territorial Co-operation Objective, 10 March 2010, <http://www.estlat.eu>

1.2. Review of the progress of the programme

At the time of this writing, all together € 13 538 190 is available for funding future project proposals. In the Priorities 1 & 2 approximately 60% of the budget allocated for public sector actors has been already committed. Commitments of 31% and 10% of the budget foreseen for private sector participation have been made to Priorities 1 and 2 respectively. There is no dedicated budget in Priority 3 because it is not open for private sector participation. (Figure 1).

Figure 1. The Programme budget and committed resources by priorities, in € million.



Source: *Financial overview: committed funding by priorities and directions of support after MC meeting in Riga*, Joint Technical Secretariat, November 2009.

Originally, the Programme was launched with a process of continuous submission of project proposals. The first open call addressed the majority of programme priorities, except 2.2 and 3.1, allowing for a wide range of project proposals to be submitted. However, from 1 December 2009, the Programme switched to thematic calls for proposals.

By 31 March 2010, 93 total applications have been submitted to the Programme, and out of these 28 have been selected for funding, yielding an approval rate of 30%. Almost every third project was approved for funding. However, the average success rate varies between the priorities quite significantly. In priority 2.3, none of the thirteen projects have been approved, while at the same time in priority area 1.1 both of the two applications received have been selected for funding. The success rate has also been relatively high in priority 3, where priority 3.1 has had a success rate of 57%, and in priority 3.2 the success rate has been 37%. (Table 2)

Table 2. Overview of the project applications

	TOTAL		Lead partner Estonia		Lead partner Latvia		TOTAL BUDGET			Average project size	
	Applied/ approved	Success rate	Applied/ approved	Success rate	Applied/ approved	Success rate	Applied (€)	Approved (€)	%	Applied (€)	Approved (€)
Priority 1. Increased cohesion of the Programme area	26/7	27%	13/5	38%	13/2	15%	33 441 095	12 778 392	38%	1 286 196	1 825 485
Priority 1.1. Reducing isolation through improved internal and external connectivity of the Programme area	2/2	100%	1/1	100%	1/1	100%	7 946 231	7 946 231	100%	3 973 115	3 973 115
Priority 1.2. Enhancing joint management of public services and resources	24/5	21%	12/4	33%	12/1	8%	25 494 864	4 832 161	19%	1 062 286	1 208 040
Priority 2. Higher competitiveness of the Programme area	41/10	24%	18/5	28%	23/5	22%	41 515 508	10 159 025	24%	1 012 573	1 015 903
Priority 2.1. Facilitating business start-up and development	15/5	33%	9/4	44%	6/1	17%	10 235 005	2 907 837	28%	682 334	581 567
Priority 2.2. Increasing the attractiveness of the Programme area	13/5	38%	6/1	17%	7/4	57%	15 654 597	7 251 188	46%	1 204 199	1 450 207
Priority 2.3. Enhancing employable skills and human resources	13/0	0%	3/0	0%	10/0	0%	15 625 906	0	0%	1 201 993	0
Priority 3. Active, sustainable and integrated communities	26/11	42%	9/5	56%	17/6	35%	6 923 438	2 705 531	39%	266 286	245 957
3.1. Improving the environment for active and sustainable communities	7/4	57%	3/1	33%	4/3	75%	1 972 871	1 341 912	68%	281 839	335 478
3.2. Promoting grass-root level actions	19/7	37%	6/4	67%	13/3	23%	4 950 567	1 363 619	28%	260 556	227 270
TOTAL	98/28	30%	40/15	38%	53/13	25%	81 880 041	25 642 948	31%	880 430	915 819

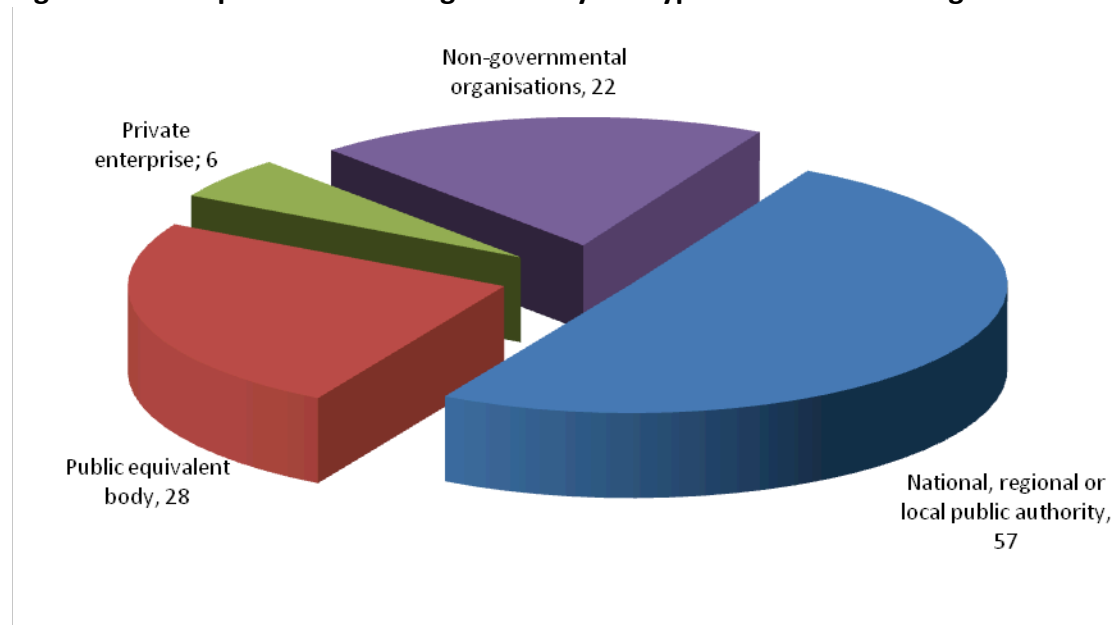
Source: Joint Technical Secretariat, authors' calculations.

The Latvian lead partners have submitted more project applications than their Estonian counterparts, yet the Estonian lead partners have been more successful. This has led to an equal share of approved projects between the countries. There are currently 15 approved projects out of 40 applications with Estonian lead partners (success rate of 38%), whereas Latvian led projects have been selected for financing in 13 out of 53 applications (success rate of 25%).

The Estonian lead partners have been more successful in priority 1.2 enhancing joint management of public services and resources (success rate 33% against Latvian 8%), in priority 3.2. promoting grass root level actions (67% against 23%) and priority 2.1. facilitating business start-up and development (44% against 17%). The Latvian lead partners have been more successful in the priority 2.2 projects, which are related to the attractiveness of programme area (success rate 57% against 17%) and in the priority 3.1.projects for improving the environment for active and sustainable communities (75% against 33%). Notably, both the priorities 2.2 and 3.1, which have enjoyed both quite high success rates and high proportion of the Latvian lead partners, are for now closed.

The participation in the approved projects is strongly biased towards the government sector. Almost 50% of all partners of successful projects are national, regional or local authorities. Public equivalent bodies contribute 25% and NGO-s another 20% of all project partners. Private partners account only for 6% of all Programme participants (Figure 2). In fact, there are only two projects out of 28, which include private partners.

Figure 2. Participation in the Programme by the type and number of organisations

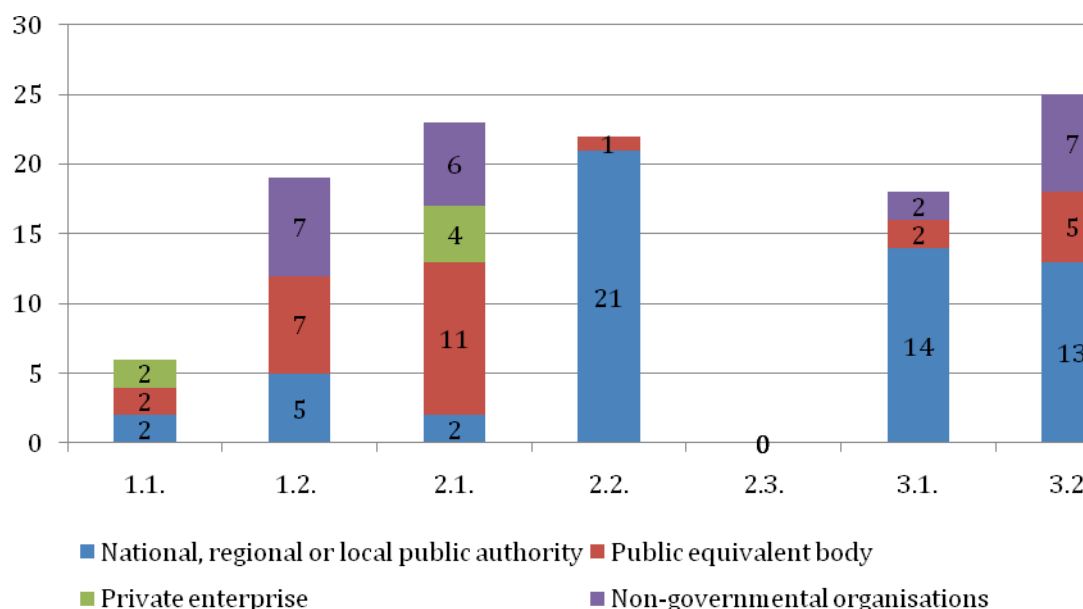


Source: Joint Technical Secretariat, authors' calculations.

Priorities 3.1 and 3.2 have been, quite expectedly, the most popular among the national and local authorities as these are specifically targeted towards advancing local communities. The high proportion of public sector actors in priority 2.2 projects is surprising, as the majority of these projects aim at advancement of tourism related activities. Under national structural

fund programmes the interest of the private sector is normally rather high for tourism promotion measures. Priority 2.1 has been the most popular among public equivalent bodies (usually involving universities and research institutions or technology parks), which again corresponds to the design and the nature of these activities (Figure 3).

Figure 3. Participation in the Programme by Priority and the type of organisation



Source: Joint Technical Secretariat, authors' calculations.

1.3. The methodology of the current evaluation

The results and impact of any public programme that operates on the basis of public calls for proposals, depend heavily on the quality of the proposals received. Therefore, very careful planning and communication of the programme strategy is key to attracting proposals that meet the objectives of the programme best. It is only when a number of proposals has been attracted that project selection mechanisms and the actual execution of projects that have been selected for funding, will start to play a role.⁵

This is why the current mid-term evaluation of the Estonia – Latvia Programme needs to assess both strategic and operational management in other words, the two management levels of the programme. We define strategic management as issues linked to programme management at the general level and operational management as issues linked to the projects submitted to the programme. In the course of the current evaluation, we follow first the programme's strategic management and, thereafter, operational management activities. In doing so, we will move from the definition of programme's strategy and objectives to actual implementation and monitoring/reporting of the project results. Table 3

⁵ For in-depth theoretical discussion of the programme evaluation essentials, see: Peter H Rossi *et al*, *Evaluation: A Systemic Approach*, Sage Publications, 2003 (7th edition).

presents the respective evaluation tasks, key evaluation questions and data collection methods.

Table 3. Evaluation process: strategic and operational management

	Strategic management	Operational management
Key evaluation themes:	<ul style="list-style-type: none"> - Are the Programme strategy and objectives met so far? - Are the strategy and objectives relevant and serve the needs of the Programme area in light of the current situation, taking into account context indicators and the socio-economic context of the Programme? - Are the Programme indicators functional and are the targets actually met? 	<ul style="list-style-type: none"> - How does preparation of project applications work? - Are the projects actually able to follow their work plans? - Which are the constraints that have affected the progress of projects, if any? How should the Programme adapt? - Which are the constraints for participation of private entrepreneurs in the Programme as project partners? How could participation of the private entrepreneurs be increased?
Inputs	<ul style="list-style-type: none"> - Programme and projects documents; - database of successful projects; - interviews with programme management and key stakeholders; - public statistical databases of economic indicators 	<ul style="list-style-type: none"> - Database of successful projects; - mid-term reports of the projects; - interviews with programme participants; - web-survey of successful, unsuccessful and potential applicants.
Data collection methods	<ul style="list-style-type: none"> - Desk-research - Interviews 	<ul style="list-style-type: none"> - Desk-research - Interviews - web-surveys
Results	Chapter 2	Chapter 3
Source: Authors.		

The data collection for the evaluation of strategic management builds predominantly on desk research on programme documentation and statistics, and interviews with programme management. In April & May 2010, 7 interviews and a number of shorter consultations were held with the Joint Technical Secretariat, current and former members of the Monitoring Committee, and other policy makers, who are in charge of regional and economic development programmes in Estonia and Latvia. In July 2010 two additional interviews were held. The list of the interviewees is available in Table 13 in the appendices.

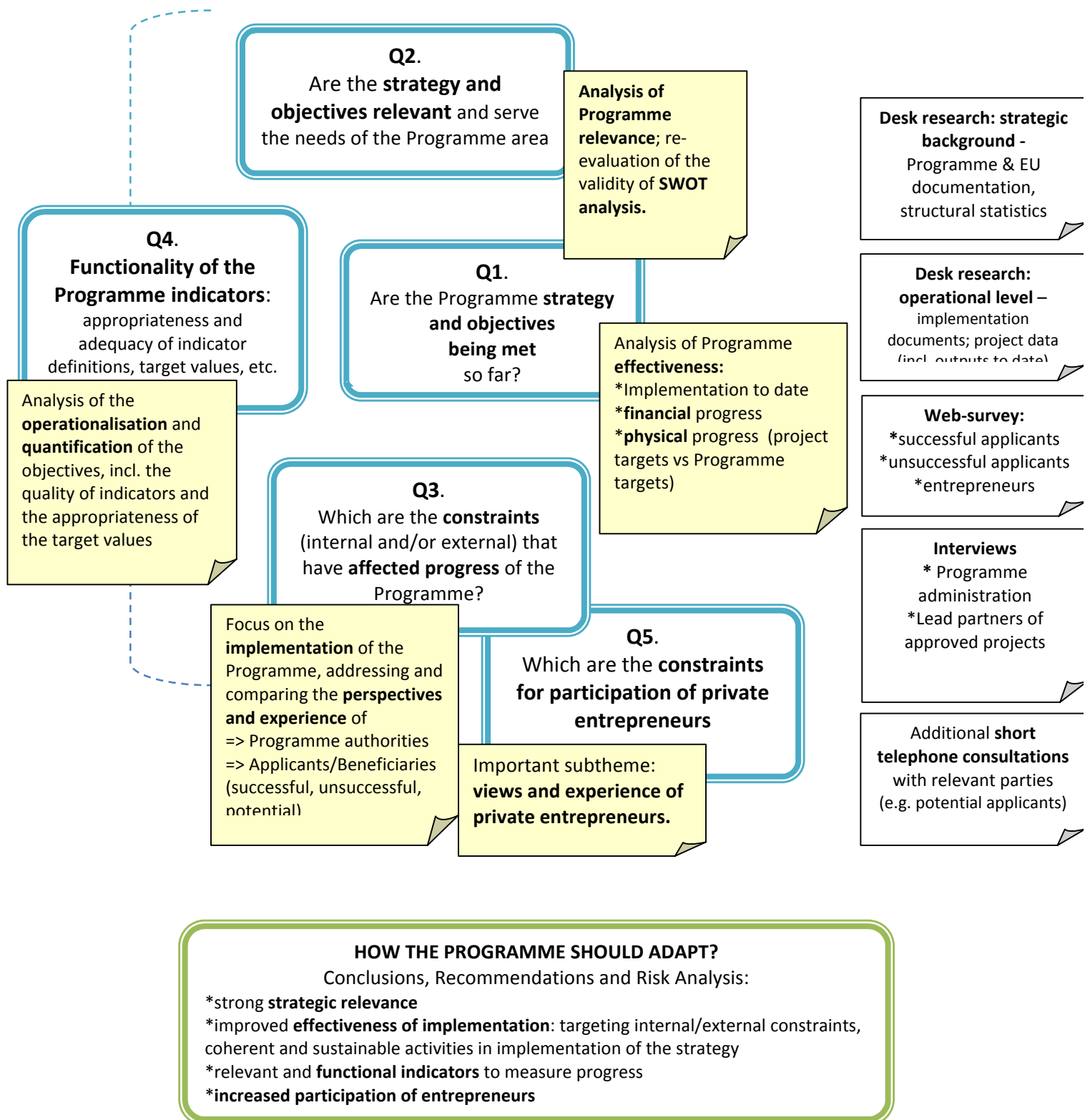
In performing project management related evaluation tasks, the main sources of the information were interviews and a special web surveys. Both web-surveys were carried out

in April 2010. A specially crafted web survey was distributed to all applicants to the Programme (both successful and unsuccessful) in order to identify quantifiable results of the funded projects as well as gather the views about other relevant issues (the questionnaire included different sections to address the issues relevant to the specific target group). All together 155 invitations were sent out and 45 responses were collected - 29% of the survey sample. During the same time, a separate, specific web survey was also carried out among prospective applicants, including private sector actors. With this survey, various people and organisations that have attended Programme information events, but have not yet submitted a project proposal, were approached to identify any possible difficulties that may have occurred in the further development of project ideas. 399 persons were invited to participate in this survey, and 87 responses were collected, i.e. 22% of the invitees responded. In addition to the web-based survey, a series of interviews were carried out with Programme participants to collect additional qualitative data on the progress of the implementation of individual projects during the period of April-May 2010. An overview of interviewees with project participants is presented in Table 14 in the appendices.

The development of the evaluation process and preliminary results were discussed internally by the evaluation team and appear now in Chapters 2 and 3 of the current report. All the preliminary conclusions were also presented to the client in the course of the regular meetings held throughout the evaluation process of the Programme. The client's feedback served as a valuable input and guidance for the planning and improving of future work. In Chapter 4 all the findings will be synthesized and conclusions, recommendations and risks for the Programme according to the key evaluation questions and themes are presented.

Figure 4 below summarises in graphical form the whole methodological approach of the current evaluation.

Figure 4. The general methodological approach of the evaluation study



Source: Authors.

2. Evaluation of the programme strategy

Key messages in this chapter

- The current Programme objectives are too broad for the limited resources available;
- With the current global economic and financial crisis the socio-economic reality of the Programme target area has changed substantially;
- Job creation and laying the groundwork for export led economic growth should become a horizontal priority of the Programme;
- Suitable outcome and impact indicators should be defined to be able to benchmark the contribution of the Programme with this regard;
- Also, the evaluation criteria and project selection procedures should be improved.

2.1. Changes to the external environment and the Programme strategy

2.1.1. The EU2020 strategy, Baltic Sea Region strategy

The Estonia – Latvia Programme 2007-2013 was designed and operates on the basis of the main European strategies and regional development guidelines, such as the Lisbon Strategy, the European Strategy for Sustainable Development, and the Community Strategic Guidelines on Cohesion Policy in Support of Growth and Jobs during 2007-2013.⁶ The programme seeks also for close synergies with the strategies for adoption of structural funds in Estonia and Latvia. Neither strategies for the adoption of the EU Structural Funds and related operational programmes, nor the regional development strategies of Estonia and Latvia have changed significantly since the adoption of the ESTLAT Programme.⁷

From the 1 July 2009, a new administrative-territorial system is in force in Latvia. With the new system, local governments were consolidated and thus have declined significantly from 525 to 118. The new administrative units are bigger and more capable. This should also be very good news to the ESTLAT Programme because it will increase the capacity of local governments which should enable them to produce better-prepared project applications. However, even with the new administrative system, numerous regional and local strategies continue to exist at the grass roots level. The ESTLAT programme document does not explicitly co-ordinate with these strategies. This can be considered a valid approach, as the ESTLAT programme with its limited budget would never be able to cater to all local needs. Instead, the ESTLAT programme should co-ordinate with major development strategies and focus on the achievement of its own objectives that derive from major real life challenges

⁶ *Lisbon Strategy – Presidency conclusions*, Lisbon European Council, 23-24 March 2000; *A sustainable Europe for a better world: A European strategy for Sustainable Development*, COM(2001) 264, European Commission, Brussels, 2001; *Community Strategic Guidelines on Cohesion Policy in Support of Growth and Jobs during 2007-2013*, COM(2005) 0299, European Commission, Brussels, 2005.

⁷ An assessment of the coherence of the strategy of the current programme with national strategic planning documents was also an important element of the ex-ante evaluation of the ESTLAT Programme. See: *National Strategic Reference Framework of Latvia 2007-2010*, Ministry of Finance of the Republic of Latvia, 2007; *National Strategic Reference Framework of Estonia 2007-2013*, Ministry of Finance of the Republic of Estonia, 2007; *Ex-ante evaluation: Estonia – Latvia cross-border cooperation programme*, Deabaltica, March 2007.

and opportunities. This is also why the current evaluation does not address possible changes that may have taken place in various municipal or other local strategies.

Since the adoption of the ESTLAT Programme, however, significant new developments have taken place at the supranational level. The Baltic Sea Region Strategy that was adopted in June 2009 and the EU2020 Strategy adopted in spring 2010 are the two most important efforts to set a general framework strategy for environmentally friendly socio-economic development in the European Union and in the Baltic Sea Region.⁸

There are however, two primary difficulties complicating the actual implementation of these strategies:

- a) both the EU2020 and the Baltic Sea Region Strategies are broad framework strategies, lacking more specific objectives and actions, which are to be set at the next planning level, and
- b) neither of these strategies have budgets attached to them.

Thus the EU2020 Strategy will serve as the basis for more specific thematic policies and strategies across the European Union. For the forthcoming planning period, all EU policies are supposed to be devised based on this strategy. National and regional governments in the EU are asked to follow and develop their own corresponding strategic plans based upon EU2020. By serving as the basis for these various strategies, it is hoped that the EU2020 will result in better co-ordination between different levels of government.

Ideally, the Baltic Sea Region Strategy could be a perfect match to the EU2020 strategy, and could take the lead in co-ordinating various supra-national activities in the region. The lesson of the Lisbon Strategy and similar earlier strategies is, however, that supra-national strategies work best if they have a strong co-ordination mechanism, which will actually secure the uptake of strategic guidelines and monitor the progress of implementation. Also, it is highly desirable that a major new strategy has a budget assigned to it. Having to both rely upon and co-ordinate with various external sources of funding, that have their own objectives, can become very challenging.⁹

Unfortunately, the Baltic Sea Region Strategy has to rely fully on external sources of funding, such as national and regional budgets, as well as the EU Structural and Cohesion funds, and a whole set of territorial co-operation programmes operating in the Baltic Sea Region (Table 4). Although, most of these programmes, including the Estonia-Latvia Programme were adopted quite recently, they are already well advanced in actual implementation.

The timing of the preparation and launch of the Baltic Sea Region Strategy has not been the most suitable. This strategy appeared simply too late to be able to have a notable influence

⁸ See: *European Union Strategy for the Baltic Sea Region*, SEC(2009) 702-703 & 712, European Commission, 10 June 2009; *Europe 2020: A strategy for smart, sustainable and inclusive growth*, COM(2010) 2020, European Commission, 3 March 2010.

⁹ The obvious difficulty is that the management structures of the above strategies do not match very well the management structures of the various territorial co-operation programmes, which operate in the region. For example, as brought out by one of the interviewees, the execution of the Baltic Sea Region Strategy would be much more easier and straightforward, if the Baltic Sea Region Programme would take an important part of the responsibility for achievement of the Baltic Sea Region Strategy.

on the planning of any of the above programmes. As the result of the lack of resources and unfortunate timing, the role of the Baltic Sea Region Strategy has been diminished to the exchange of information and “labelling” of the on-going investments that most likely would have often taken place even without a new supra-national strategy.

Table 4. European territorial co-operation programmes active in Estonia and Latvia

Programme	Budget and source
Estonia - Latvia Programme 2007-2013	€36 million (ERDF)
Estonia - Latvia - Russia Cross Border Programme within ENPI 2007-2013	€47 million (ENPI)
Baltic Sea Region Programme 2007-2013	€208 million (ERDF)
	€23 million (ENPI)
	€6 million (Norway)
Central Baltic Intereg IV A Programme 2007-2013	€102 million (ERDF)
Interreg IV C	€302 million (ERDF)
URBACT II	€68 million (ERDF)

Source: Authors based on respective programme documents.

Ideally, the Baltic Sea Region Strategy and its Action Plan would have served as guidance in defining the specific focus of the individual programmes. From this point of view, it is unfortunate that the Baltic Sea Region Strategy had not been adopted a few years earlier, such as 2005-2006. If it had been then the various territorial co-operation programmes operating in the region could have taken it as the basis for the planning of their own activities. Nevertheless, the Programme has decided to identify the links between the Baltic Sea Strategy and the projects implemented within the Programme.¹⁰

It is not part of our mandate to assess the strategies and operations of the various territorial co-operation programmes operating in the region in-depth. However, it is important to note that the ESTLAT Programme and the other territorial co-operation programmes listed above all have similar and rather broad objectives and priorities for funding (Table 16, page 66). At the same time, considering the number of participating countries, the budgets for these programmes are fairly modest.

The broad definition of objectives, which is typical for territorial co-operation programmes operating in the region, is at the operational level likely to lead to notable overlaps between different programmes. As the result, various technical criteria, e.g., the eligibility of various organisations or availability of pre-financing can easily become very significant defining elements that make the difference between individual programmes. For example, it appears on the basis of the interviews that clearest distinction between the ESTLAT & ESTLATRUS Programme is the fact that in the ESTLATRUS Programme the participation of Russian partners is mandatory. There are, indeed, some further differences of operational nature, but not significant enough to make a clear distinction between these programmes.¹¹

¹⁰ Annual Implementation Report 2009, Estonia – Latvia Programme, June 2010, p. 38.

¹¹ Estonia-Latvia-Russia Programmes offers also pre-financing. This seems to be in the context of the current very tight public sector budgets an important attraction factor of this programme. See: <http://www.estlatrus.eu>.

Similar thematic overlaps exist between the current and other programmes. The overlaps in the positioning of ESTLAT and other programmes are in turn very likely to lead to opportunistic placement of individual project proposals depending on deadlines, funding provisions and the available budget in individual programmes. Basically, the prospective proposers would apply to the programme that offers in operational terms the most suitable conditions (e.g., the nearest deadline for applications, requirements for co-funding, availability of pre-financing, etc.); and would build the consortia accordingly. While doing so, the strategic objectives of individual programmes would play only a secondary role.

The ESTLAT Programme document highlights that during the programming period 2007-2013, several Structural Funds programmes with a similar territorial coverage and support to similar topics will be implemented in parallel to the ESTLAT Programme. It is therefore envisaged that *“co-ordination mechanisms with all relevant programmes will be set up to exchange information and enhance complementarities and synergies, and to prevent overlapping of activities and double-financing of operations supported from different EU programmes implemented in the region. [...] The co-ordination mechanisms will guarantee that the activities financed from this Programme and the activities financed from other EU programmes and plans complement and not duplicate each other.”*¹²

The ESTLAT Programme document refers to the main themes of the Operational Programmes of the Structural and Cohesion funds, the Rural Development Plans and Fisheries Development Plans, setting the responsibility for co-ordination with the respective ministries and executive agencies to the Joint Technical Secretariat. No more specific policy measures, which are implemented as the part of the above plans, are brought out. However there are hundreds of different policy measures funded from the structural and cohesion funds in Estonia and Latvia. Furthermore, there are dozens of policy measures, which are funded from national budgets and are very relevant for the advancement of regional development.

The impact of various policy programmes in a multi-level governance system is never easy to administer. In this situation, it is an essentially impossible task, where the Joint Technical Secretariat is expected to co-ordinate European, regional, national and sub-national strategies at the level of individual project proposals. We reiterate once more that a much clearer focus of the ESTLAT programme would make both the use of the limited resources more effective, and would result in a reduced need for administrative efforts dedicated to co-ordination with other programmes at the level of individual proposals and projects.

Also, the sequencing of the planning of various related strategies and programmes needs to be right. Ideally, the broader supra-national strategies such as the Lisbon strategy, the very recently adopted EU2020 strategy and especially an updated version of the Baltic Sea Region Strategy could still form the basis for defining the focus and priorities of the future ESTLAT Programme and other programmes operating in the region. In the current planning period, major revision of the ESTLAT Programme document is no longer feasible. The remaining available resources are very limited and the revision of the programme document would prove too time consuming. Instead, focussed calls for applications could be launched.

¹² Programme document, CCI No. 2007 CB 163 PO 050, p. 36.

Having said this, we note also that the priority setting of the territorial co-operation programmes like the ESTLAT Programme cannot rely solely on various supra-national or national strategies. It is still of foremost importance to consider the priorities of the regional development strategies and real needs 'on the ground' in Estonia and Latvia. This is why we consider in the following section the changes that have taken place in the socio-economic environment since the adoption of the programme.

2.1.2. The impact of the economic crisis on regional development in Estonia and Latvia

The socio-economic and public policy context of any programme is obviously subject to continued evolution and change. This is why it is important to consider during the mid-term evaluation, if the original strategic objectives of the programme remain relevant.¹³

Obviously, the most important development was the major global financial and economic crisis that broke out in late 2008, which has changed the social and economic situation of Estonia and Latvia quite substantially.¹⁴ We review, therefore, in the following section what these changes have been, and if and how the programme has actually taken the new external environment into account. We will end the section by considering if and what further changes to the programme strategy or operations may be necessary.

In 2006-2007, i.e., at the time of the drafting of the strategy of the current programme, the Baltic States were in the middle of very rapid economic growth. Unfortunately, this growth did not bring about significantly improved regional cohesion. Estonian national average living standard caught up slightly with the living standard in Tallinn (or Harjumaa). Yet, the remotest regions, such as North-East Estonia and South-East Estonia, continued to lag significantly behind. The disposable income of a household member in these regions remained between 25-30% below the Estonian average. In Latvia, the disparities between Riga and the rest of the country actually increased. Latgale, which is the remotest region, had the greatest difficulties in keeping the pace with the rest of the country.¹⁵

¹³ We rely in the following on a broad body of economic and regional development literature, which includes the Harvard Business School's works on the competitiveness of regional and national economies, various works on the evolution of functional urban areas (city regions) and regional innovation systems that form the basis of the modern regional development thinking, as well as a wide body of earlier theoretical and empirical literature on the cross-border regional development, foreign direct investments, industrial and trade dynamics, and social cohesion in the Baltic Sea Region. For some of the more prominent sources, see the following: Michael E Porter, *The Competitive Advantage of Nations*, New York, The Free Press, 1990; Philip Cooke, Philip Cooke, Martin Heidenreich, Hans-Joachim Braczyk (eds.), *Regional Innovation Systems*, London, UCL Press 1992; Ludk Skora et al, "City regions and polycentric territorial development: concepts and practice", *Urban Research & Practice*, Volume 2, Issue 3, November 2009, pp. 233 – 239; *Potentials for polycentric development in Europe*. ESPON 1.1.1 Final report, ESPON, 2005, http://www.espon.eu/mmp/online/website/content/projects/259/648/file_1174/fr-1.1.1_revised-full.pdf.

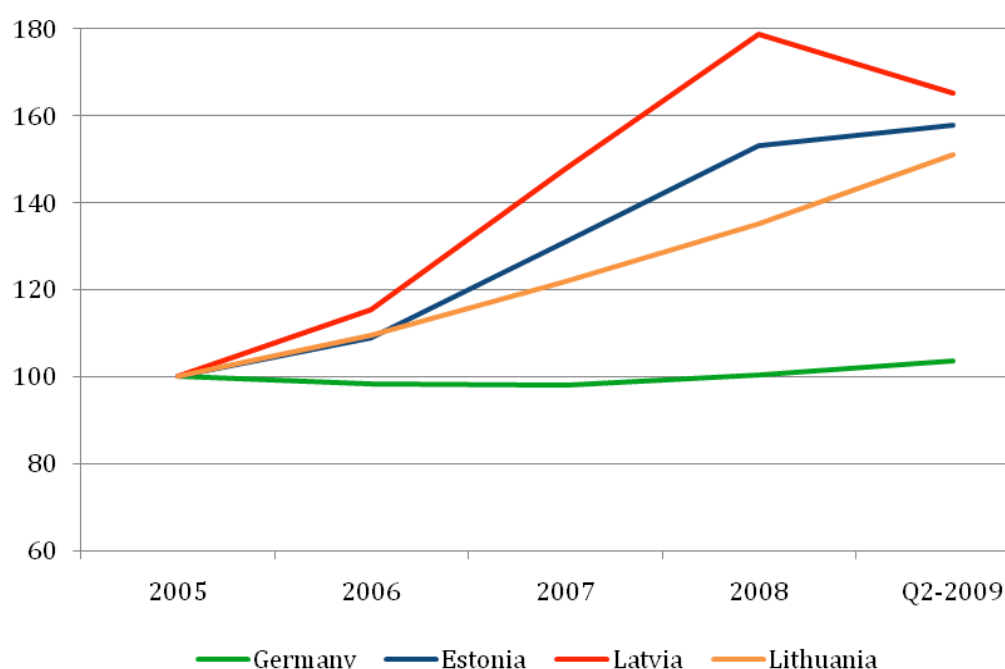
¹⁴ For more detailed discussion of the economic development in 2000-2010 in Estonia, Latvia, please see: Christian Ketels (ed.), *State of the Region Report*, Baltic Development Forum, 2010, <http://www.bdforum.org>.

¹⁵ Disposable income of a household member, 2000-2007, Statistics Estonia, <http://www.stat.ee> ; Marek Tiits (ed), *Kaupmeeste riik [The Nation of Merchants]*, Estonian Academy of Sciences, Tallinn 2007, <http://www.ibs.ee/kr>; *The evaluation of impact of the EU structural funds on regional development in Latvia*, SIA PKC, May-August 2008.

This rapid economic growth was built predominantly on the inflow of foreign capital which came at record low interest rates, triggering in the Baltic States major asset and consumption booms accompanied by large current account deficits. Those regions, which were the closest to the inflows of financial capital or were able to increase their export revenues, benefited from this process the most.

The subsequent domestically led growth triggered a very rapid growth of wages that outpaced significantly the productivity growth in the exporting industry. According to the OECD, the unit labour cost increased in 2005-2009 in the Baltic States by 50-60%, and the real effective exchange rate of these economies appreciated together with this very rapidly. As a result, the competitiveness of these economies rapidly eroded (Figure 5).

Figure 5. Unit Labour Cost in the Baltic States and Germany in 2005-2009 (Total Economy, Index OECD base year 2005=100)



Source: OECD, May 2010.

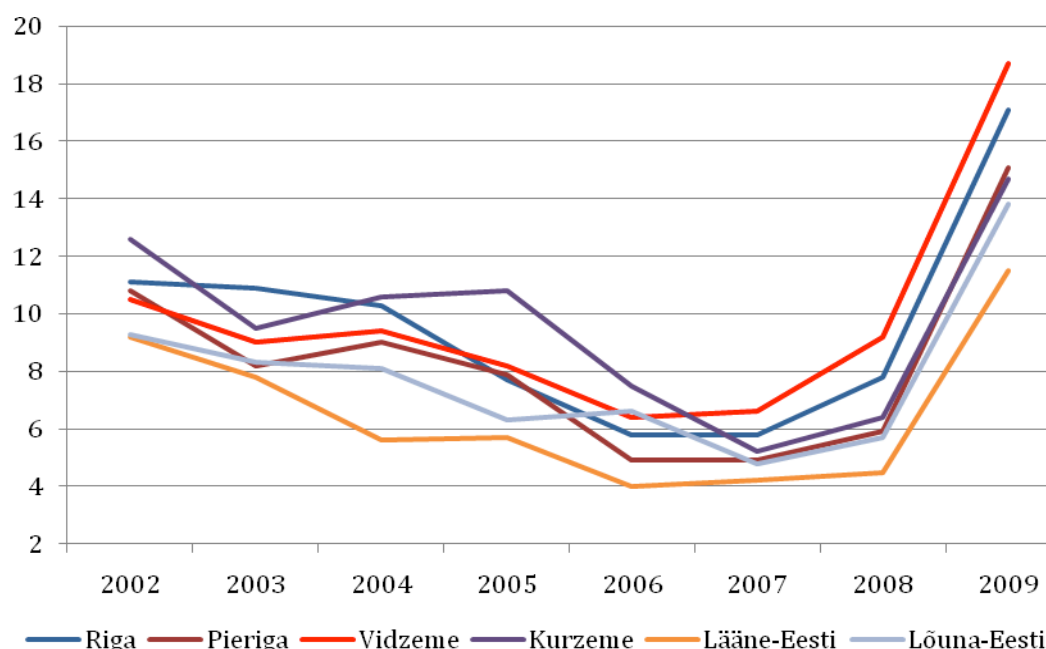
When the global financial crisis hit in Q4 2008, it led to a significant and unexpected reversal of the flows of foreign capital. The earlier inflows of finance to the Baltic States turned suddenly into outflows, while the demand on the export markets contracted simultaneously.

The earlier economic imbalances were so large that it was basically impossible to compensate for this only by increasing the productivity of existing businesses. For example, we calculated last year for Estonia that, in order to sustain the 2007 level of GDP, and to compensate fully for the previous inflow of capital, her export revenues would need to double overnight.

This reversal resulted in a significant gap between wage and productivity levels and became so large that the private sector had little choice but to heavily cut costs. In the fixed exchange rate regime, wage cuts are essentially the only way out of the situation. Yet, the

20-25% wage deflation, which was very much needed in the Baltic States, takes a lot of time to spread throughout the economy. Therefore, wage cost cutting has worked mostly through a decline in employment and rapidly increasing unemployment (Figure 6).

Figure 6. Unemployment rate in the target area of the ESTLAT Programme, %



Source: Statistics Estonia & Central Statistical Bureau of Latvia, May 2010.

The Baltic States have had throughout 2000s difficulties in closing their trade deficits. In the end of the 2008, when that the currencies of the neighbouring non-euro-based economies depreciated by 20-25%, it became even harder to compete in the export markets. This in turn led to major declines of foreign exchange income, domestic consumption and GDP.

The crisis has led to an increasing economic, regional and societal polarisation in the Baltic States. The situation is better in the capital cities and bigger regional centres, as they continue to have a bigger role in international trade and services, but also in the provision of public services. The more remote regions, which are not lucky to have strong exporting industry districts, are in deep trouble as the decline in domestic consumption and increase in unemployment has hit these parts of the countries the hardest.

The public policy response to the crisis in both Estonia and Latvia has so far primarily involved attempts at securing the stability of financial system and closing the rapidly increasing budget deficits. Understandably, with declining tax revenues and increasing social costs, the public sector had very little resources available for supporting the upgrading and productivity growth in the exporting industry. Yet, in this way, the contraction of these economies became even more rapid than it would have been otherwise.

As a result of the crisis the previous rapid economic growth has turned into a severe regression, and the collapse of domestic consumption led growth has generated very high level of unemployment. The crisis has also rapidly reduced the budget revenues of local governments, which depend both in Estonia and Latvia extensively on the personal income

tax,. Although both the individuals and public sector actors are living through difficult times, the real issue is still, how to increase the competitiveness of the enterprises operating in the target area of the ESTLAT Programme. Only this can lead to job creation and to a sustained increase of tax revenues.

The competitiveness of the exporting industry (and the clustering of local suppliers and service providers around major exporters) continues to be the main factor that determines the future levels of job creation and economic growth. Therefore, major investment into increasing the competitiveness of the exporting industries is of utmost priority both the Estonian and the Latvian economy, in order to return to the path of sustainable development. This is true both for these economies in general and for the more remote regions in particular. The only problem is that such large-scale investments do not happen by the way of the automatic convergence of costs and living standards. This is why intervention from various economic and regional development programmes is crucial.¹⁶

2.1.3. The relevance of the programme in the changed socio-economic environment

Unfortunately, the impact of regional policy intervention during the years of the economic boom both in Estonia and Latvia remained rather limited. Therefore, now that a major crisis has struck, careful re-thinking of the whole regional policy intervention logic is very much needed. This relates both to the various regional development programmes funded at the national level, but also to the various territorial co-operation programmes, including the ESTLAT Programme.

The programme document of the Estonia-Latvia Programme presented a SWOT table characterising the status of the development of the target region at the time of the preparation of the Programme in 2007. The programme vision and this SWOT analysis served as the basis for devising the programme strategy and the investment priorities. Most of the factors identified by the SWOT analysis are still valid today. However, the events of the past three years require important modifications in several areas. Table 5 presents a modified version of the original SWOT analysis, which will serve as the basis of this section's evaluation of the relevance of the ESTLAT strategy.

~~Strikethrough text~~ highlights the aspects of earlier analysis, which are no longer valid; and **bold text** identifies aspects of the analysis that have proven to be even more important than originally anticipated.

¹⁶ The above thinking is in fact very well known from the classical development economics developed by Paul Rosenstein-Rodan, Ragnar Nurkse and others more than the half of the century ago. Nurkse resumed in his theoretical excursion that a gold standard as the basis for exchange rates, or currency union such as eurozone, can only function if the exchange rate regime comes together with strong co-ordination of employment and economic development policies. See: Ragnar Nurkse, "Domestic and International Equilibrium", in: Seymour Edwin Harris (ed.), *The New Economics: Keynes' Influence on Theory and Public Policy*, New York: A. A. Knopf 1947, pp. 264-292.

Table 5. SWOT analysis of the target area of the ESTLAT Programme

<p>Strengths</p> <ol style="list-style-type: none"> 1. Common historical background and traditions with cultural variety 2. Similar background, socio-economic structure, development level and problems in most sectors 3. Region with above average economic growth levels of EU25 4. Economic activity (mainly SMEs) based on local resources (timber, food, natural resources) 5. Higher education and science potential 6. Good logistic location as regard to important transport routes 7. Region increasingly covered with access to modern communication technologies 8. Clean and diverse natural environment, attractive coastal landscape 9. Tourism potential and a functioning basic tourism infrastructure 10. Developed network of recreation and health services 11. Increasingly stronger civil society 12. Unique twin-city Valga/Valka situated on the Estonian-Latvian border 	<p>Weaknesses</p> <ol style="list-style-type: none"> 1. Actual and perceived peripherality and poor socio-economic development level of the region in the European Union 2. Sparsely populated rural areas and ageing population 3. Low level of entrepreneurship and poor competitiveness of businesses at the EU market 4. Mismatch of demand and supply in the labour market and low labour productivity (1/3 of the EU15 average) 5. Large share of economically inactive inhabitants among labour force 6. Poor connection between vocational education system and labour market demands 7. Insufficient cross-border transport network and poor inner connectivity of the region 8. Poor technical condition of transport infrastructure 9. Uneven development of ICT sector and e-services 10. Uneven attainability of services and consumer products in rural areas 11. Low environmental awareness among population 12. Isolation and marginalisation of local communities and inactive village life
<p>Opportunities</p> <ol style="list-style-type: none"> 1. Schengen Agreement's entry into force 2. Scope for generating new business initiatives; wider promotion of entrepreneurship 3. Development of niche markets and adding value to and diversifying local products and services; developing sectors with higher growth potential 4. Inclusion of marginalised groups and economically inactive people in the regional economy 5. Enhancing the link between education and labour market 6. More active involvement of the higher education and science potential in the development of the Region 7. Increasing inner and outer connectivity of the region by creating new transportation links and improving transport infrastructure 8. Potential of advanced ICT applications for e-learning, tele-working, e-business and marketing 9. Increased importance of the principles of sustainable development and environment protection 10. Joint development and marketing of the region as a single tourism destination for both foreign and domestic tourists both for tourism and investment 11. Increasing the potential of rural areas as attractive living and working environments 12. Increase in local initiative and action among people, NGOs and local communities 	<p>Threats</p> <ol style="list-style-type: none"> 1. Remaining a relatively poor and unattractive province in the periphery of the European Union 2. Growing disparities between rural and urban areas; remaining large areas of rural deprivation 3. Continuing negative population growth and out-migration of labour force to centres and abroad; rural depopulation 4. Slowing down of economic growth 5. Concentration of economic activity in low value added sectors and inward-looking attitude of indigenous SMEs; reduced survival rate of SMEs 6. Traditional sectors facing intense competition from the European Union 7. Marginalisation of people with low education/re-training attainment; little targeted action to increase the employability of low-skilled and economically inactive people 8. Concentration of social infrastructure and public services into the regional centres 9. Climate changes and constant increase in the prices of primary energy 10. Increase in environmental damage and pollution and deterioration in the condition of the Gulf of Riga 11. Seasonal nature of tourism and increasing wild tourism 12. Erosion of community identity and social cohesion; increasing poverty and exclusion

Source: Programme document; authors' modification.

As already discussed above, the most important changes to the socio-economic situation of the Programme target area relate to the economic crisis, which has brought about a risk of very high long-term unemployment. This in turn can cause a whole set of additional risks and social problems, including marginalisation and exodus of people. At the same time, the basic problems of low productivity and competitiveness remain to be major long-term challenges.

To encourage much-needed private investments, employment, economic development and regional development policies will have to play an even greater role in both Estonia and in Latvia. The current crisis calls also for much more co-ordinated policy development and execution at all levels of governance from sub-national and national to the supranational level in the Baltic Sea Region.

The above SWOT analysis lists, rightly so, a rather broad set of different aspects, which needed to be taken into account when formulating the Programme strategy. Yet, one has to remember that the Programme has only a relatively limited €35 million budget available. Accordingly, the Programme cannot really have a significant impact on too many areas. The very wide scope is indeed both the main strength as well as a risk factor of the Programme.

Therefore, the Programme would benefit from a very clear definition of the programme intervention logic describing the functional relationship between the public intervention and the expected impact the Programme on the actual development of the target area. One possibility of describing the Programme logic would be the following.

Simplified description of the Programme logic

The target area of the ESTLAT Programme suffers from serious regional and social disparities. Therefore, in order to achieve a greater regional cohesion in the region, major new public or private investments are needed, which would lead to substantial job creation – especially in relation to major exporting activities.

The financial means of the Programme are limited. Therefore, the programme seeks, predominantly, to initiate various small- and medium-scale projects, which will prepare for and attract a subsequent major public or private investment. The Programme welcomes in particular projects that attract a major export oriented greenfield investments or catalyse the development of the networks of various local companies, who can act as suppliers to bigger internationally connected players.

The projects supported by the Programme may undertake, depending on the specific case, a wide variety of different activities described in the Programme document. The directions of support include education and (re)training, start-up development, enhancing joint management of public services, small-scale infrastructure investments, promotion of grass-root activities, etc.

Successful projects are to demonstrate a clear cross-border dimension benefiting significantly both Estonia and Latvia, and a clear prospective for creating hundreds of new jobs.

Thus, the Programme would retain the possibility of funding a fairly broad set of different activities, but the expected outcomes of the projects are defined much more clearly. If Programme logic, similar to the above, would be adopted, this would need to be communicated very clearly to the potential applicants. Also the Programme strategic management and project selection activities would need to be adapted accordingly.

2.2. Evaluation of the Programme strategic management

2.2.1. Procedures for the evaluation of the proposals and project selection

The Programme Manual foresees the evaluation of project proposals as a two-stage selection procedure. First, the proposals are checked against the technical criteria and, if needed, the proposers are offered a possibility for amendments. Subsequently, the proposals, which fulfil the technical eligibility criteria, are passed for quality assessment. The quality assessment, which is based on the quality criteria, is carried out by the Secretariat with assistance from thematic experts. As a result, a ranking list is to be prepared, which is to be submitted to the Monitoring Committee for final decision-making.

We have learned from the interviews with the Secretariat and the members of the Monitoring Committee that this procedure is indeed followed. The Secretariat has been thoroughly assessed proposals with the assistance of thematic experts. There is, however, no single evaluation summary report prepared for each proposal. Instead, both the assessment of the thematic experts and the Secretariat's assessment are sent to the Monitoring Committee. The proposals arrive to the Monitoring Committee in designated batches – for approval or rejection –, but within 'approval' group no internal ranking is indicated between the individual proposals. The members of the Monitoring Committee provide their own views as to the merits of each of the proposals. When doing so, they take also into account their respective national policies and strategies. The Monitoring Committee discusses and makes decisions on each individual proposal.

The task of the Monitoring Committee is - according to the to article 65 of the Council Regulation No 1083/2006 - to approve the criteria for project selection and to review the progress made in this relation. Further to this, the article 19 of the Council Regulation No 1080/2006 stipulates that in addition to the tasks referred to in the regulation 1083/2006, "the Monitoring Committee or a steering committee reporting to it shall be responsible for selecting operations."

The Monitoring Committee is thereby in a delicate position. It is responsible for defining the goals and procedures, selecting operations, and reviewing its own progress in the implementation of the Programme strategy. Therefore the roles of the Monitoring Committee, the Secretariat and any thematic experts involved in the evaluation should be described in the Programme Manual in details.

Normally, in well established public programmes, the expert opinion of independent thematic experts serves as the sole basis for assessing the quality of the individual proposals according to the pre-defined evaluation criteria. Typically the Secretariat is expected to

facilitate the evaluation process and the consolidation of the individual expert opinions, but the Secretariat as an institution is not itself involved in the evaluation process itself. The Monitoring Committee deals normally the strategic guidance and oversight of the implementation of the Programme. The Monitoring Committee would approve the evaluation results, but it would not involve itself into assessment of the quality of individual proposals or other operational tasks. Instead, the Monitoring Committee would concentrate on strategic management, making sure the expected results of the projects will lead eventually to achievement of the Programme objectives.

In the ESTLAT Programme, although independent thematic experts have been involved in the assessment of proposals the Monitoring Committee has been discussing the individual project applications in-depth, making funding decisions on each of these. There are a number of different reasons for this. First of all, it is always a very challenging task to prepare a well-reasoned ranking list of applications, when there are a relatively small number of proposals addressing a wide variety of different activities. It appears also that the combination of the current evaluation criteria with a broad definition of the programme objectives and activities has not worked very well.

The interviews have also revealed that the Programme operations continue to suffer from difficulties in project selection. Even though the Monitoring Committee is intimately involved in project selection, the transparency in project selection process remains low. No sufficiently detailed evaluation summary reports exist, which would allow the applicants to see why a specific project was successful or unsuccessful.

It is the weakness of the Programme strategic management that has also complicated the Programme operational management, including project selection. Therefore, the current Programme needs further focussing (possibly even on the call by call basis) of the Programme activities, and further fine-tuning of the project evaluation procedures and criteria. It would be also advisable trust the evaluation of individual project applications and to independent thematic experts, who would present to the Monitoring Committee their consensus view on individual projects. While doing so, the Monitoring Committee would be still responsible for the review of the correctness of the evaluation procedure and approval of the evaluation results, as stipulated in the Council regulation. This would allow the Monitoring Committee to focus on strategic management of the Programme and would make the work of the Committee more effective.

The authors of the current evaluation report have taken note of the fact that the Monitoring Committee is necessarily not in favour limiting its direct involvement in the evaluation of individual project applications. Either way, during the project evaluation for each of the individual project applications detailed evaluation summary reports need to be developed. These reports should summarise the results of the evaluation by each evaluation criteria and collectively for the whole application.¹⁷

¹⁷ For an example of well developed rules for project evaluation and selection see, e.g., *Rules for submission of proposals and the related evaluation, selection and award procedures*, European Commission, COM(2008)4617, August 2008, ftp://ftp.cordis.europa.eu/pub/fp7/docs/fp7-evrules_en.pdf.

The criteria, which are used for the assessment of the quality of the proposals, are divided into three main groups. 40% of the total score comes from the assessment of the proposal against the Programme context, 40% from the composition of project and partnership, and 20% from the budget and finances. In each of these three groups, a number of individual criteria with their own individual weights have been defined. Table 6 presents the full spectrum of evaluation criteria with the respective weights attached to them.

Table 6. The weights of the individual quality criteria used in the evaluation of proposals

	Evaluation criteria	Weight		Combined weight	Theme
		of group	in group		
Programme	1. Project objectives	40%	15%	6%	Quality of project idea
	2. Cross-border nature		45%	18%	Cross-border nature
	3. Clear mutual benefits		20%	8%	Cross-border nature
	4. Sustainable development		20%	8%	Quality of project idea
Project	5. Project objectives	40%	15%	6%	Quality of management
	6. Project activities		25%	10%	Quality of management
	7. Time-table		10%	4%	Quality of management
	8. Composition of partnership		20%	8%	Cross-border nature
	9. Management procedures		10%	4%	Quality of management
	10. Dissemination plan		10%	4%	Quality of project idea
	11. Sustainability of project results		10%	4%	Quality of project idea
Budget	12. Cost efficiency	20%	25%	5%	Cost effectiveness
	13. Budget planning		45%	9%	Quality of management
	14. Budget balance EE/LV		20%	4%	Quality of management
	15. Budget planning		10%	2%	Quality of management

Source: Programme manual; authors' analysis.

The immediate observation derived from the review of the evaluation rules is that the considerable number of different criteria makes the whole evaluation logic difficult to comprehend and follow. There are a substantial number of criteria, most of which carry less than 5% weight in the whole evaluation process. This makes the evaluation process itself complex, and the communication of the evaluation results becomes rather complicated as well.

There is also a large amount of repetition across the three broad categories of evaluation criteria (relevance to Programme objectives, quality of the project idea and assessment of budget). Overall, the quality of project management contributes 39%, cross-border nature 34%, the quality of project idea 22% and the assessment of the cost effectiveness of the project 5% of the total score.

In the future, simplification of the evaluation criteria should be sought and the weights of the criteria could be reconsidered. Most notably, the quality of the project idea, cost effectiveness and sustainability of the planned activities should carry a significantly greater weight. The more technical aspects, which can be improved during the contract negotiation, could carry a smaller weight. All together 4 to 5 evaluation criteria would be enough to

appropriately assess a project application. Within each of these 5 general criteria, a number of important factors from the original evaluation guidelines would still be taken into consideration. Table 7 presents an example of how this could be accomplished.

Table 7. Example of possible future evaluation criteria

Criteria	Key evaluation questions
- Quality of project idea (weight 30%)	What is the expected impact of the project to the achievement of the Programme objectives, especially the Programme horizontal priorities (jobs & export led growth)?
- Cross-border nature (weight 20%)	Does the project have a strong cross-border dimension, which makes it particularly suitable for the ESTLAT Programme rather than any other source of funding?
- Sustainability (weight 15%)	Will the project activities or the impact of it continue after the project has ended? Does the project carry a chance of a significant follow-up investment or continuation of activities with funding provided from other sources?
- Quality of management (weight 15%)	Is the proposed project management plan realistic? Are the participating organisations sustainable and capable of carrying the proposed work out?
- Cost effectiveness (weight 10%)	Is the proposed budget realistic and cost effective for the achievement of the proposed results? Should the target levels be increased or the budget cut? Where specifically?

Source: Authors.

The above is just an example. To take it into actual use, a more detailed evaluation guideline would need to be defined, which would describe various aspects, which experts are asked to take into account when assessing the specific project applications. Also, the range of the scores to be assigned to each criteria would need to be defined.

Furthermore, establishment of minimum thresholds could be considered for each of the criteria. If a proposal would fail to achieve a minimum threshold in one of the criteria, it would be rejected without further evaluation. For example, if the project applications were to be evaluated with scores between 1 (weak) and 5 (excellent), then the cross-border nature of the project could have a minimum threshold of 4. This would mean that even project applications which are otherwise excellent would be rejected if they do not meet the basic expectation of the cross-border nature. All rejected applications would obviously have the possibility to revise the application and resubmit an improved proposal.

To execute this alternative approach, a system for assessment of applications could be put into place, where independent experts first give to the Secretariat their individual assessment of applications. After this, experts would be convened to discuss the scores they have given to the individual projects, and would prepare for all applications their consensual evaluation summary records. As a result, all project applications would have by the end of the evaluation 1-page summary records, which contain for each criteria both the numeric scores and short explanations of how these specific scores have been reached.

The above evaluation summary records would serve both as the basis for the Secretariat for the preparation of the ranking lists of the projects to be selected for funding as well as the basic feedback to the applicants. The Secretariat would use, in case of successful projects, the expert opinion contained in the evaluation summary record also as the basis for the contract negotiation.

2.2.2. The definition and the use of performance indicators

The Programme document defines two levels of indicators:

- **The adequacy of the Programme strategy** is to be monitored by the following context indicators: cross-border transport connection links, geographical coverage with internet access, share of waste recycling, area of protected territories, change in GDP per capita, number of enterprises per inhabitants, number of visitors in the Programme area, employment rate, population density, number of non-governmental organizations.¹⁸

The above indicators are according to the Programme document to “reflect the general trends in the region and are monitored to guarantee that the programme strategy remains adequate”. The above indicators are indeed designed to serve only as context. The Programme provides no expected target levels of these indicators. Furthermore, the Programme document states explicitly that these indicators are not to be used for measuring the success of the Programme.¹⁹

As described above, the socio-economic situation of the region has changed since the adoption of the programme significantly. Yet, the Annual Implementation Report 2009 includes no discussion of any of the above indicators. We conclude therefore that these indicators are really not used in the strategic management of the ESTLAT Programme.

- **Additionally, for each of the Priorities 1-4 a set of indicators has been defined.** For example: number of projects creating new or improving existing cross-border transport connection links, number of projects promoting entrepreneurial spirit and skills, number of projects improving services for the communities, etc.

The above indicators reflect certain intentions for balancing the investment of the current Programme between different priorities, and have also clearly defined target levels. Yet, there is still a weakness that comes from the very nature of the indicators defined for the Priorities 1-4. They reflect the operational objectives and outputs, e.g., number of projects funded, rather than the expected results and impact these projects are expected to have.

¹⁸ Programme document, CCI No. 2007 CB 163 PO 050, p.30.

¹⁹ Ibid.

Thereby, at the very basic level, all the priorities of the programme are covered with a set of indicators. The connections between the above indicators and directions of support are not brought out explicitly in the programme document, but they are not difficult to detect. Table 8 summarises the connections between the indicators, priorities and directions of support.

Table 8. Connections between the indicators, priorities and directions of support

Indicator	Direction of support
Priority 1.	
N of projects creating new or improving existing cross-border transport connection links	1.1
N of projects improving access to ICT networks or services	1.1
N of projects developing joint use of infrastructure	1.1
N of projects developing collaboration in the field of public services	1.2
N of projects finding joint solutions to similar environmental problems	1.2
N of persons participating in joint education or training activities (at least 50% female)	1.1, 1.2
Priority 2.	
N of projects promoting entrepreneurial spirit and skills	2.1, 2.3
N of projects supporting the development of economic activities with higher value added	2.1
N of projects encouraging the development of cross-border trade	2.1, 2.2
N of co-operation projects between enterprises and research or education institutions	2.1
N of new or improved joint tourism products or services	2.2
N of projects developing joint use of infrastructure	2.2, 2.3
N of entrepreneurs benefiting from the projects aimed at improving the business environment	2.1
N of people participating in joint education or training activities (at least 50% female)	2.1, 2.2, 2.3
Priority 3.	
N of projects improving services for the communities	3.1
N of projects increasing the activity of local communities	3.1
N of rural municipalities involved in project implementation	3.1
N of non-governmental organisations involved in project implementation	3.2
N of participants benefiting from joint social and cultural activities	3.2
N of people participating in joint education or training activities (at least 50% female)	3.1, 3.2

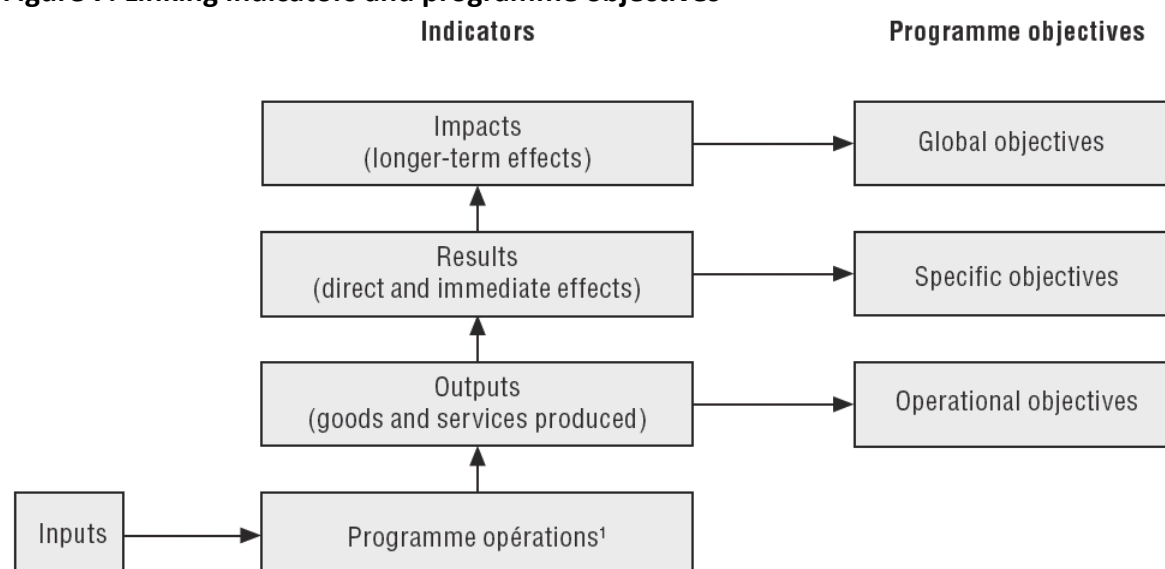
Source: Authors.

In most cases, a specific indicator is connected to one or two directions of support. The only notable exception is the *number of persons participating in joint education and training activities*, which can be connected to all priorities and directions of support. Reasonably strong connections can also be established between the indicators and directions of support, while indicators respect also the balance between directions of support fairly well.

Having said this, major methodological issues have been identified in relation to the definition and the actual use of the Programme performance indicators. Most notably, the current indicators reflect programme operations, but they are not appropriate for characterising the outcomes and impact that the ESTLAT Programme seeks to have on development in its target area (Figure 7). For example, if the programme supports joint training activities then the outcome of these could be characterised by a number of persons who have passed a course or have attained specific knowledge. The broader impact could be

here for example an increase of the gross value added per hour in the enterprises operating in the target area.

Figure 7. Linking indicators and programme objectives



Source: *Governing Regional Development Policy: The Use of Performance Indicators*, OECD, Paris, 2009, p. 35.

We reiterate therefore the conclusions of the ex-ante evaluation of the ESTLAT Programme. *"To be able to assess the impact of the programme, it is essential to develop a coherent system of indicators. Impact and result indicators with defined baseline and time bound quantified targets should be defined and included in the Programming document."*²⁰

The weakness of the indicator system is also visible in the actual strategic management of the programme. The Secretariat has indeed been following the operational benchmarks that have been defined for Priorities 1-3, and the Annual Implementation Report approved by the Monitoring Committee covers these benchmarks comprehensively. Still, apparently the current benchmarking system has not proved to be particular helpful in the actual implementation of the Programme. As shown below, currently 14 of the 20 indicators (70%) have not yet been met; if the level of grant requests continue at the current rate, the Programme will run out of funds before 8 of the indicators (40%) are met (Table 9).

²⁰ *Ex-ante evaluation: Estonia – Latvia cross-border cooperation programme*, Deabaltica, March 2007.

Table 9. Programme progress measured with respect to programme indicators

Indicator	Target level	Outcome by 31 March 2010	%	Evaluation on the outcome by the end of programme period
Priority 1.				
Number of projects creating new or improving existing cross-border transport connection links	10	2	20	Not likely to be met
Number of projects improving access to ICT networks or services	10	1	10	Not likely to be met
Number of projects developing joint use of infrastructure	5	2	40	Likely to be met
Number of projects developing collaboration in the field of public services	5	4	80	Likely to be met
Number of projects finding joint solutions to similar environmental problems	10	4	40	Not likely to be met
Number of persons participating in joint education or training activities (at least 50% female)	300	892	297	Target fulfilled
Funds available / committed	€17 967 418	€10 933 445	61	
Priority 2.				
Number of projects promoting entrepreneurial spirit and skills	15	8	53	Not likely to be met
Number of projects supporting the development of economic activities with higher value added	20	6	30	Not likely to be met
Number of projects encouraging the development of cross-border trade	10	4	40	Likely to be met
Number of co-operation projects between enterprises and research or education institutions	10	4	40	Likely to be met
Number of new or improved joint tourism products or services	20	5	25	Not likely to be met
Number of projects developing joint use of infrastructure	10	5	50	Likely to be met
Number of entrepreneurs benefiting from the projects aimed at improving the business environment	300	416	139	Target fulfilled
Number of people participating in joint education or training activities (at least 50% female)	1,400	1835	131	Target fulfilled
Funds available / committed	€14 373 934	€8 963 069	62	
Priority 3.				
Number of projects improving services for the communities	10	15	150	Target fulfilled
Number of projects increasing the activity of local communities	10	15	150	Target fulfilled
Number of rural municipalities involved in project implementation	80	36	45	Not likely to be met
Number of non-governmental organisations involved in project implementation	40	18	45	Not likely to be met
Number of participants benefiting from joint social and cultural activities	40,000	20185	50	Likely to be met
Number of people participating in joint education or training activities (at least 50% female)	300	893	298	Target fulfilled
Funds available / committed	€3 593 484	€2 500 213	70	

Source: Authors.

Table 10 presents rough calculation of the possible number of future projects the Programme would be able to fund, if the average size of the approved projects remains unaltered.

Table 10. Forecast of number of projects to be financed during the remaining programme period

	Priority 1	Priority 2	Priority 3
Funds available	€7 033 973	€5 410 865	€1 093 271
Average size of the approved projects	€1 825 485	€1 015 903	€245 957
Expected number of projects	4	5	4

Source: Joint Technical Secretariat, authors' calculations.

One should bear still in mind, when considering the above table that the €4 million average size of the transport infrastructure projects funded from priority 1.1 has been four times larger than the average funding for all Programme projects. At the same time, the average size of the priority 3 projects has been only ¼ of the programme average. Therefore, the future funding capability of the programme will depend heavily on the choice of the priorities for any forthcoming thematic calls for proposals.

The current evaluation concludes the strategic assessment of the Programme with the realisation that some of the operational benchmarks are likely to remain unmet. This does not indicate necessarily for a major failure in the implementation of the Programme, as methodological problems have been detected with indicators themselves. The current Programme performance indicators do not simply reflect on the impact the Programme has actually had.

It is still very much advisable that the specific objectives and benchmarks of the current Programme are rethought in light of the current economic crisis. A set of outcome and impact indicators should be developed, which would characterise the effect of the current programme on the most burning real-life priorities, such as job creation and contribution to the export-led economic growth. Accordingly, some of the possible outcome and impact indicators may include, for example, the number of jobs created or additional private (or public) export oriented investment attracted to the region.²¹

²¹ Both for theoretical discussion and practical examples on the use of indicators, see also: *Governing Regional Development Policy: The Use of Performance Indicators*, OECD, Paris, 2009.

3. Evaluation of the implementation of the programme

Key messages in this chapter

- Broad coverage of programme allows for a large variety of projects, and the participants appreciate very much the possibilities the Programme offers for various cross-border partnerships;
- However, the fragmentation of efforts weakens the impact is actually able to have on the coherent development at the regional level;
- The Joint Technical Secretariat should become a focal point for all project related communications; the review of the projects' progress should be made faster and it should focus on the achievements of the expected results rather than process;
- A number of weaker participants face cash flow difficulties, therefore the availability of limited pre-financing would facilitate significantly the achievement of the projects' objectives.

3.1. Project preparatory phase

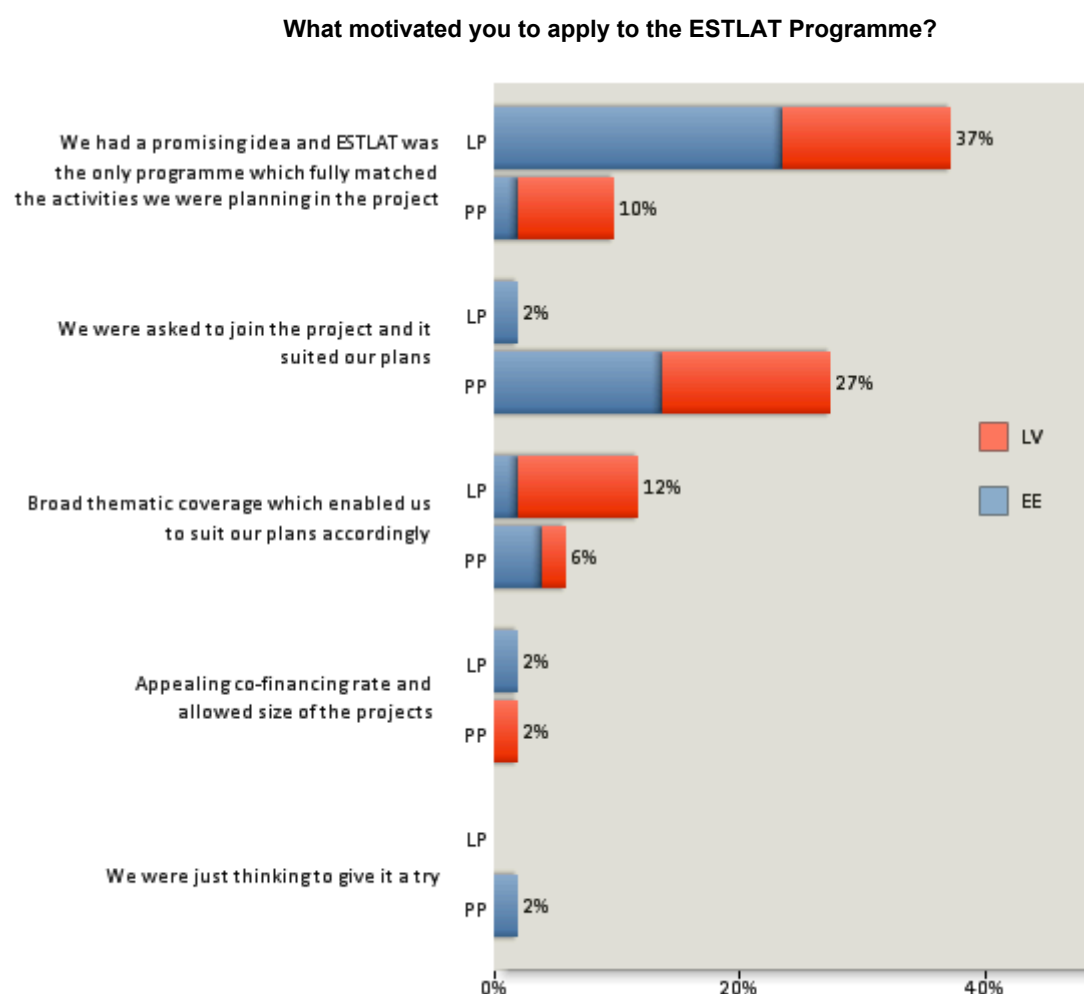
3.1.1. Project idea and the initiation of project application

Typically, the preparation of project applications has started at least 3 to 6 months before the actual submission of the project application. In most cases, the already existing project idea was made to fit into the ESTLAT priorities and the programme itself did not give considerable input into the generation of new initiatives and ideas.

Over a third of all lead partners had a specific project idea which fit the priorities of the Programme. While almost no Estonian lead partners cited the broad coverage of Programme as a motivation, 12% of the Latvian Lead partners did so. This hints at the possibility that Latvian applicants see ESTLAT more as an additional funding source to cover local needs. We have no means for checking this, but it may still very well be that the reasons for the relatively lower success rate of the Latvian lead partners are related to this idea.

The most common reason for joining projects was simply because partners were asked and it happened to suit their plans. However, the second most frequent reason indicated was that they had a promising idea of their own, which implies that they would have had a high degree of ownership of the project and active participation in project design. (Figure 8)

Figure 8. Motivation for applying to the Programme



Legend: LP = lead partners, PP = project partners.

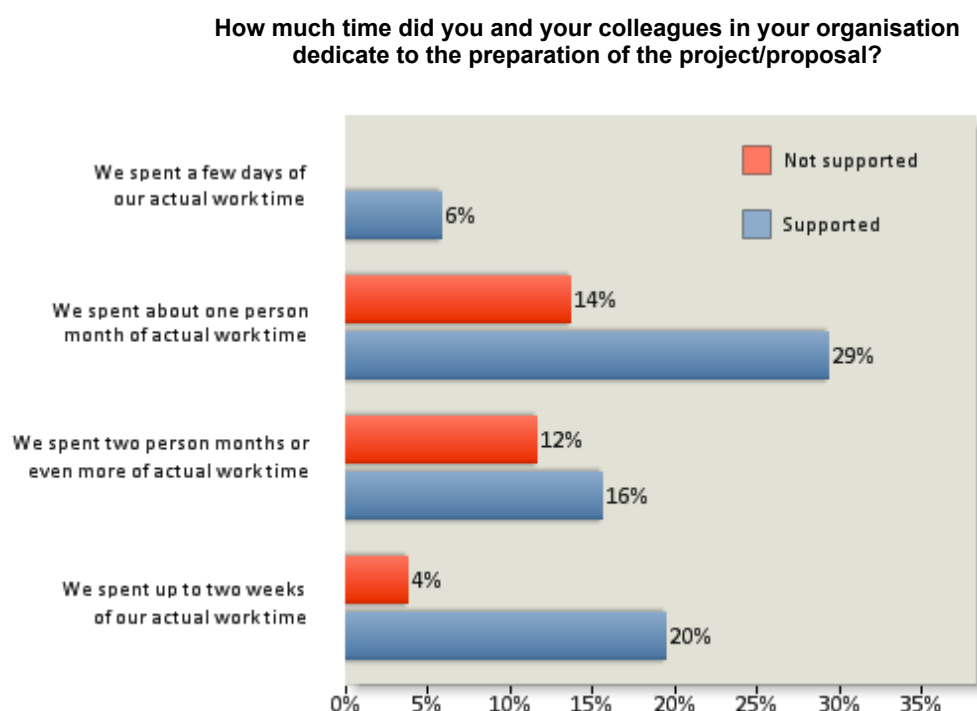
Source: web survey.

The general trend suggested from these responses is that the ESTLAT Programme has had no significant effect on the design of the project ideas. In most cases, the Programme just happens to be suitable for a particular project idea. As a result, interviewees did not have any significant difficulties in adjusting their ideas into the frameworks of the Programme. This seems to confirm the view that the programme scope of the ESTLAT Programme is too wide for the resources available. As a result, although projects contribute well to the local development agendas, the impact of the Programme to the greater cohesion of the target area is bound to be rather limited.

43% of the respondents spent about one person month to actually prepare their proposal and 28% spent more than two months. However, there is no evidence of a correlation between time allocated to the preparation and the success of the application (Figure 9). In fact, based upon success rates, it appears that for the interviewees the optimal allocation of time for writing the application was a month. However, this is primarily in cases in which the project idea and partnership are prepared in advance because it was mentioned often that

for the investment projects the technical documentation must be prepared well in advance as one month is not sufficient for this.

Figure 9. Indication of project application preparation time

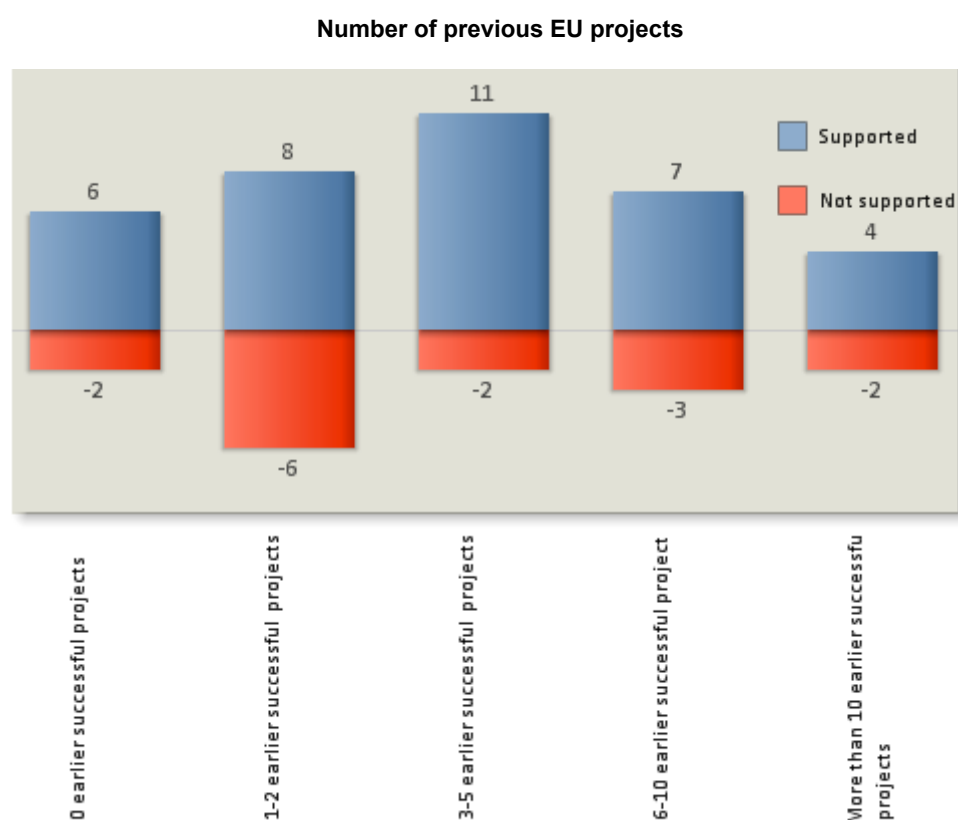


Source: web survey.

The majority of project applicants have had previous experience with EU funded projects, especially with territorial co-operation (INTERREG) projects. Interviewees confirmed that the previous experience of their own or of their project partners has helped them better understand the technical requirements and the application form of the ESTLAT programme.

However, the results of the survey (Figure 10) do not provide any evidence on a correlation of success rate with previous expertise. In fact, the success rate has been the highest for project partners who had only modest earlier experience (3-5 successful projects) or no previous EU projects at all (success rates 84 and 75% respectively). However, this does not assess the experience of consultants used to write applications, which as is discussed further below, was instrumental in the success of some applicants.

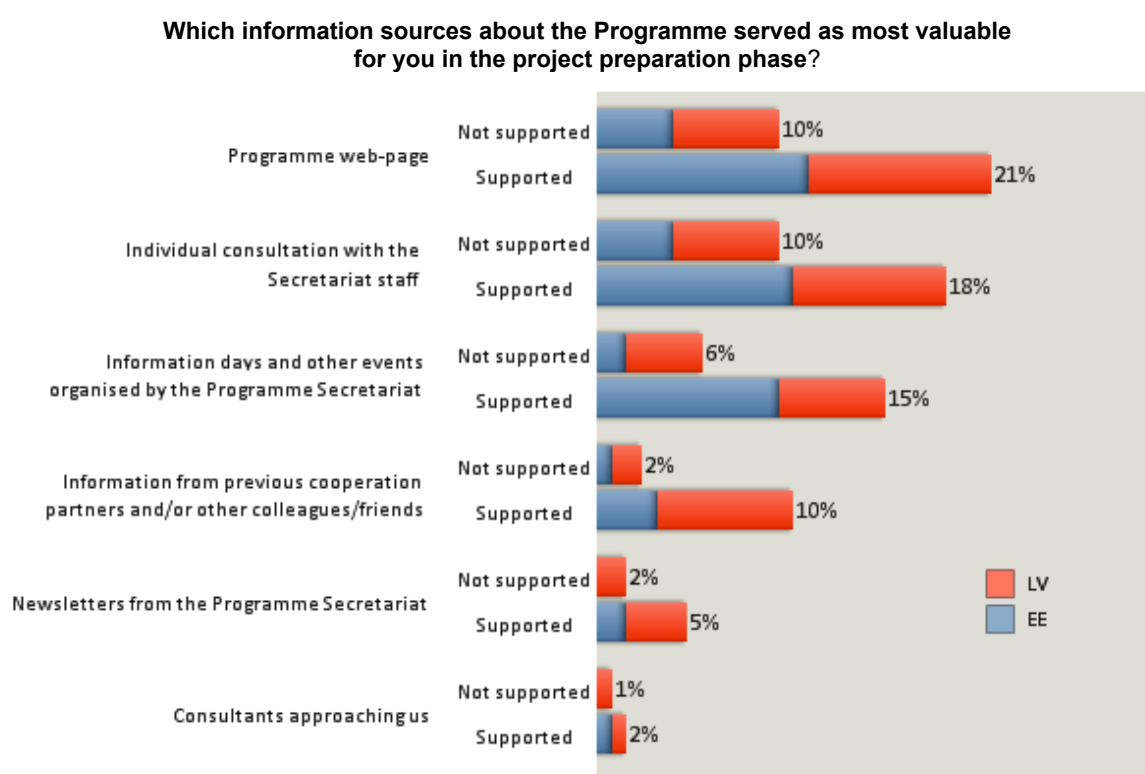
Figure 10. Previous expertise of the project applicants in EU funded projects



Source: web survey.

During the project preparation phase the sources of information most useful to applicants were the programme web page (31% of respondents), individual consultations with the Secretariat (28%) and information days (21%). Latvian applicants were much more likely to actively seek out various indirect information sources, e.g., consultations with colleagues and previous cooperation partners. In most of the cases, the lead partner carried out the communication with the Joint Technical Secretariat, and other project partners did not have direct contact with the Secretariat. (Figure 11)

Figure 11. Evaluation of the information sources by the respondents



Source: web survey.

The services of the Joint Technical Secretariat were found to be very useful in the preparation of project applications, and the respondents of the survey were in general 'satisfied' or 'very satisfied' with these (Figure 12). Not surprisingly, participants of successful projects were more likely to be satisfied with the services of the Secretariat. Unsuccessful applicants indicated they would like to receive more assistance in identifying possible future partners and to receive more detailed feedback on the reasons for rejection of proposals which is described in more detail below. Both successful and unsuccessful participants would prefer more guidance on the preparation of project applications. Technical problems cited most often relate to the budget forms and difficulty in fitting all the required information into the limited fields of the application form.

The Secretariat has already revised the application form to make the character limits of the text fields more flexible. Thus, better focused and thereby more effective techniques should be sought to bring together interested project applicants. This may, for example, include organisation or participation in various thematic events on the topics, where the Programme seeks to have more and better project applications.

Figure 12. Evaluation of the services offered the design and guidance by Secretariat

Please evaluate the activities and services offered by the Programme Secretariat			
Question	Project Status	Not supported	Supported
Advising potential applicants of the programme in the project preparation phase		3,4	3,5
Distribution of information about the programme		3,5	3,4
Giving feedback, information and advice to applicants during the application processing (before funding decisions are made)		3,4	3,4
Providing assistance and advice to financed projects and operations regarding the implementation of activities and financial administration		3,8	3,2
Organising partner search seminars and other relevant events for (potential) beneficiaries (consider organisation and quality, frequency, their effectiveness)		2,9	3,4
Clarity of the Programme website (easy to use)		3,4	3,1
The main Programme documents serve as important guidance tools for the potential beneficiaries		3,2	3,2
Helping to facilitate contacts between potential applicants (incl. partner search database)		2,7	3,0
Project application has been set up reasonably and its fulfilment is well guided		2,8	2,7
Feedback about negative funding decision (clarity of the argument)		2,4	3,0

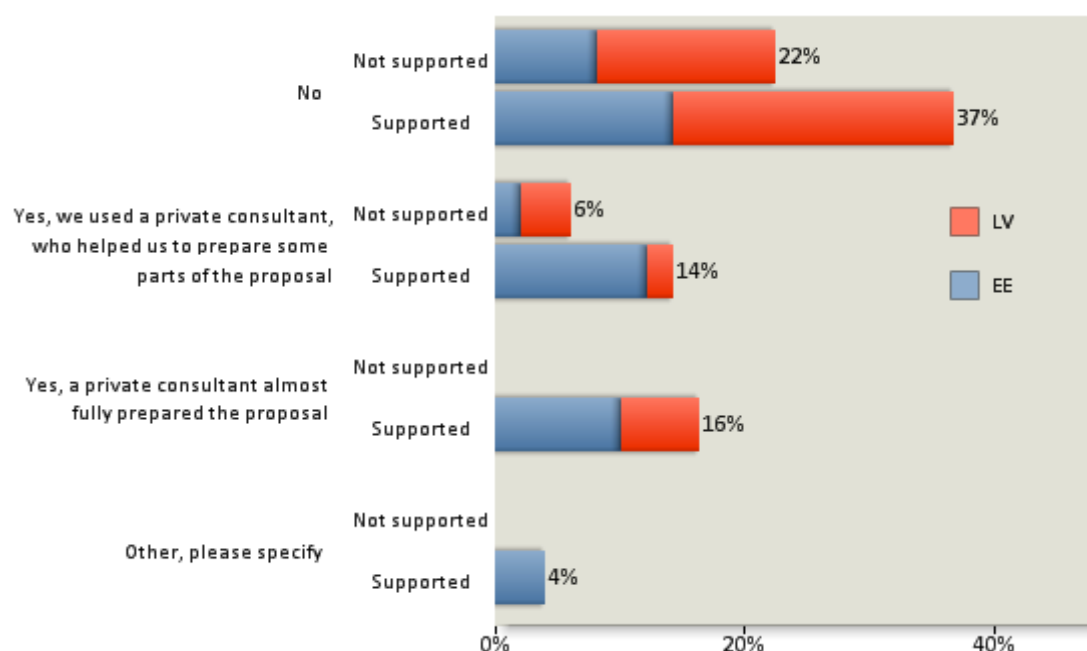
Legend: 1 = not satisfied, 2 = fairly satisfied, 3 = satisfied, 4 = very satisfied.

Source: web survey.

Although it was mentioned during the interviews that the application form was difficult to understand, the majority of applicants did not use the assistance of a private consultant. The reason for not involving consultants was, according to interviewees, either a lack of funds or a lack of trust in consultants' expertise. To try and overcome financial issues, many projects hired consultants to assist in the preparation of the project for free on the condition that they would be hired to provide project management if the proposal was financed. This is relevant because the results of the survey indicate that use of a consultant was an important factor in application success (Figure 13). In fact, all of the projects that were fully prepared by a consultant were awarded and in cases in which a consultant partly assisted in the preparation of a project, the proposal the success rate was still high at 77%. However, when no consultants were used success rates drop down to 43%.

Figure 13. The use of consultants in the preparation of project applications

Did you use a private consultant or any other external support in preparing the proposal?



Source: web survey.

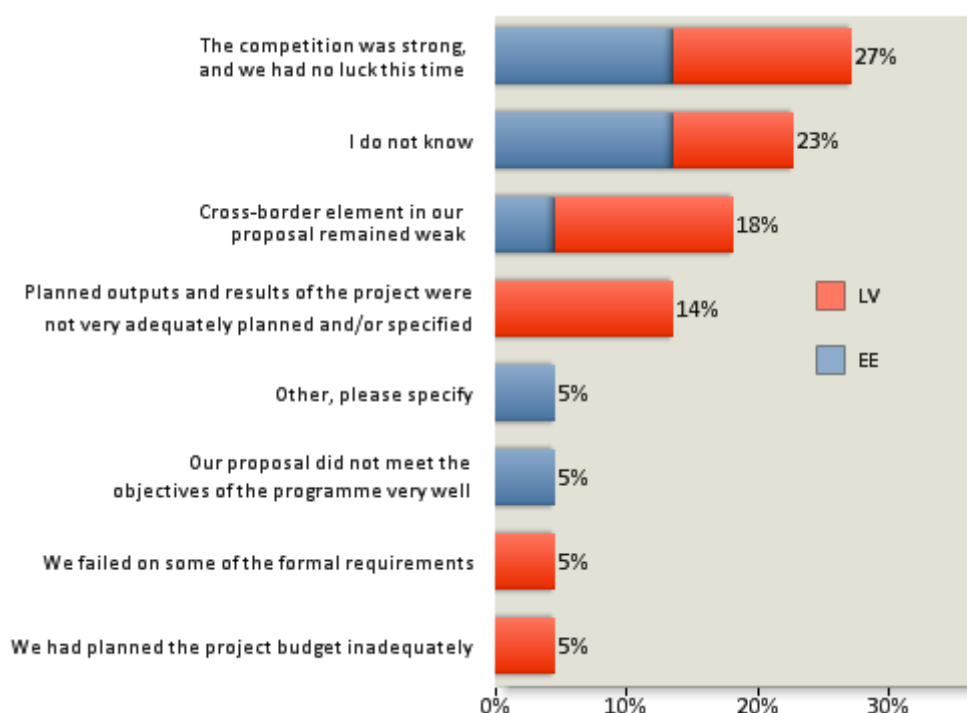
3.2.2. Application and selection process

Although the Programme sets clear evaluation criteria with the specific scores, no ranking lists of the proposals are actually presented by the Joint Technical Secretariat to the Monitoring Committee, nor do the project applicants receive detailed evaluation summary reports. Project applicants receive only a short summary of strengths and weaknesses of their proposal. A number of respondents mentioned that even the feedback that was received was unclear and contained only general comments. As a result, 23% of the respondents of the survey indicated that they do not know why their proposal was rejected (Figure 14).

This insufficient transparency of the evaluation process makes it harder for applicants to use feedback to improve future proposals. One way to address this would be to provide more detailed feedback that contains an assessment of the project by each of the evaluation criteria – including the final score and a sufficiently detailed explanation.

Figure 14. Feedback on the reasons of rejection of project applications

What do you think were the main reasons, why your project was not chosen for co-funding by the Programme?



Source: web survey.

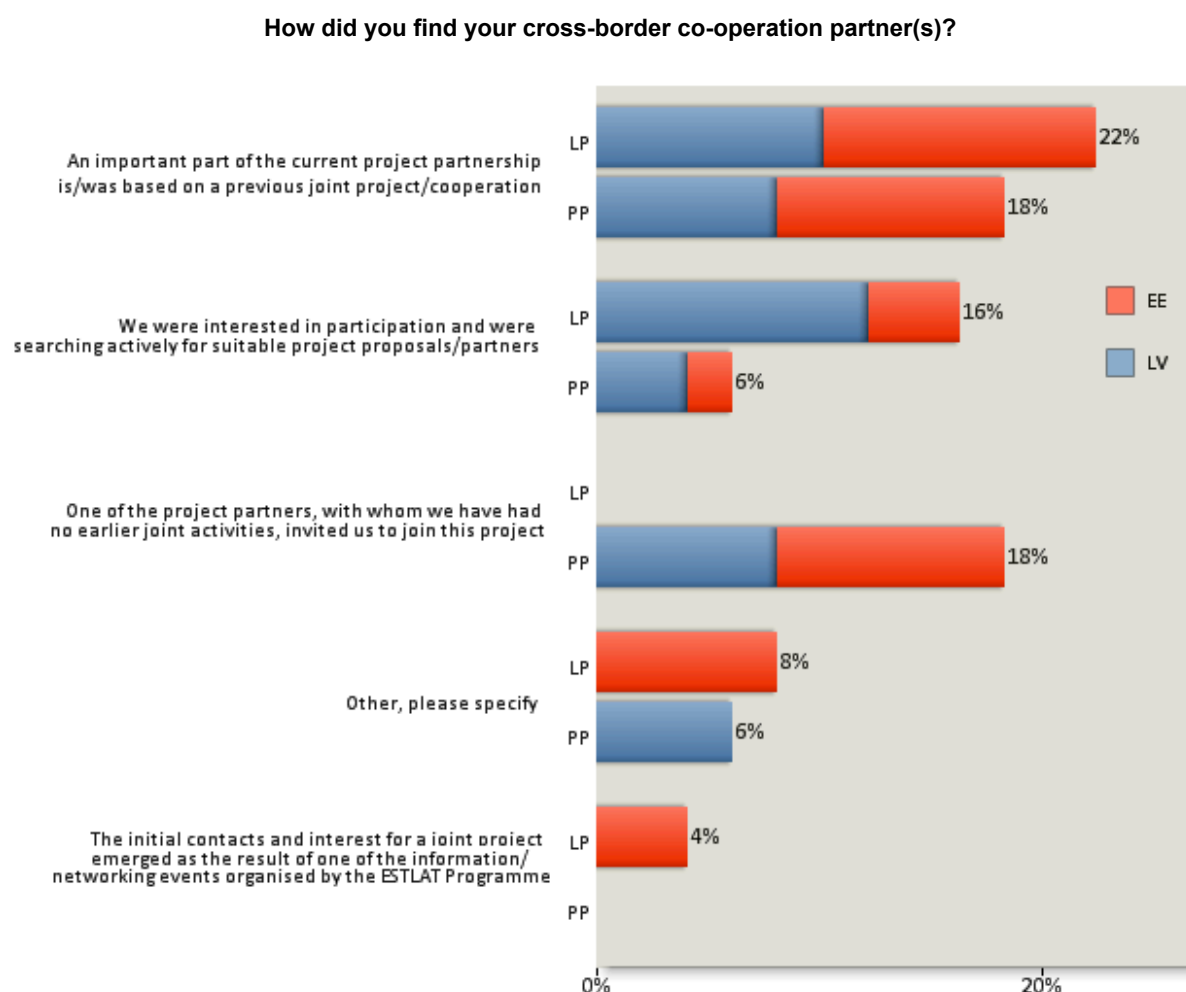
3.3. Building partnerships

3.3.1. Main channels of the partner search

The eligibility criteria for project partnerships are detailed in the programme manual as one of the key conditions of the ESTLAT programme. By doing so, ESTLAT has contributed clearly to the strengthening of existing ties and to the increase of mutual co-operation between targeted regions.

Project partnerships are primarily built upon existing contacts and or as the result of a well-targeted partner search. Latvian partners have been more proactive in searching for new partners (8 responses against 3). Partners are usually engaged in the very early stages of project preparation and they participate actively in joint implementation of project actions. Additionally, interviews with project participants brought out common interests and shared values as critical factors for successful partnerships. This presumes, however, previous contacts with the future partners as well as sufficiently long period of preparation of the project idea. This can be valuable in establishing sustainable partnerships that last beyond the life-time of the specific project. (Figure 15)

Figure 15. Established earlier contacts are the main source of new partnerships in the Programme



Legend: LP = lead partners, PP = project partners.

Source: web survey.

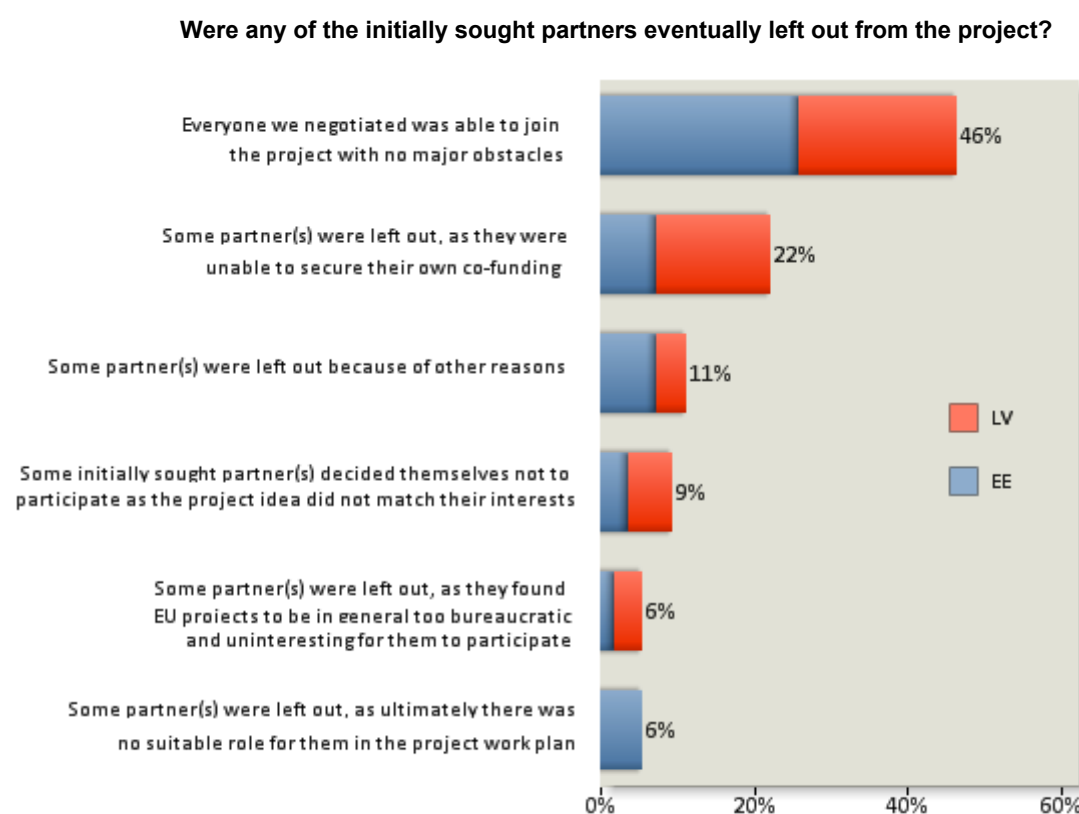
Related to the desire for longevity of collaborative relationships is the idea that partnerships within the project are highly valued by the respondents. Most of the interviewees pointed out the importance of close relations between the partners for the improvement of project management and achievement of results. Cross-border activities and partnership requirements are also identified as a unique characteristic of the Programme as compared to other financing schemes.

An encouraging sign in terms of building partnerships is that all respondents expect their partnership to last beyond the project lifetime, although 17% of the respondents did indicate that financial constraints could set potential limits to collaboration.

3.3.2 Main factors hindering from the participation in the Programme

Almost half (46%) of respondents to the survey indicated that all envisaged partners were able to join the project as planned. At the same time, in the 22% of cases some partner(s) were left out because of an inability to provide sufficient co-funding. (Figure 16)

Figure 16. Lack of own co-funding is the main factor that has not allowed to participate in the Programme



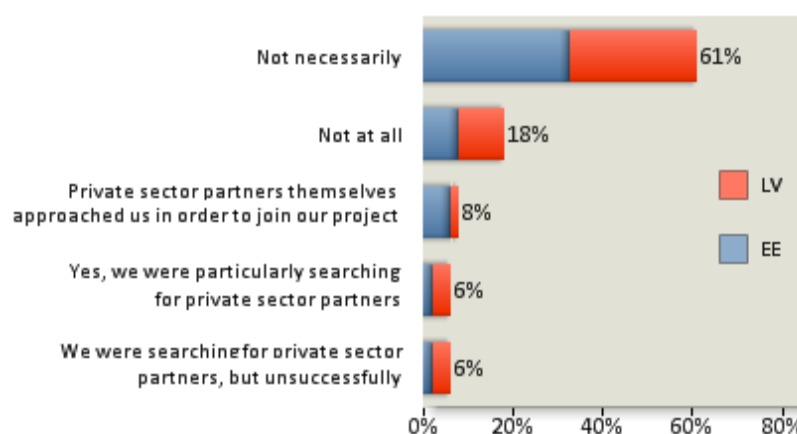
Source: web survey.

It is also interesting to see that the current Programme participants see the involvement of the private sector actors to be necessary. Among the current survey respondents, private partners were actively searched for in only 3 cases. This indicates the generally very low interest among the Programme participants to engage private partners (Figure 17 below).

Further to the above, the high co-financing requirement and pragmatic behaviour of private enterprises are likely to be the other reasons for the limited participation of the private sector actors. For-profit firms do not generally undertake projects that request for substantial own investment and focus on community value but are remote from their core business. So a simple lack of motivation, both from the side of the current participants and from the side of the private sector, is one of the most significant factors holding back the private sector participation. Therefore, it is foremost about fine-tuning the descriptions of the programme priorities and the evaluation criteria, so that the impact of individual project applications to the advancement of the business environment in the target area would be brought out more clearly.

Figure 17. Most of the current Programme applicants lack motivation for the involvement of private partners

Was involving partners from the private sector necessary for your project?



Source: web survey.

Also, one of the possibilities for increasing the involvement of private sector actors would be to involve them as project stakeholders or associated partners. In this case, co-funding is not required from the private sector partners, but their direct costs will also not be reimbursed. This enables the engagement of private partners in project advisory committees, consultations or piloting activities, where they can provide useful input and can benefit from access to new information or technologies.

Another, perhaps even more viable option would be to seek out greater participation from industry associations, chambers of commerce and the like. The later option would be even more viable, as this would allow potentially for much greater impact on a broader group of private sector actors.

As is illustrated in Figure 18, the process of securing own co- financing for the project has been indeed one of the most problematic parts of the preparation of the project application. This does not affect only SMEs, but a large number of cases project partners simply do not have or have very limited access to credit lines, especially for small municipalities or NGO-s. In some cases decision makers and project implementers are different (legal) persons (e.g. NGO-s supported by municipalities, different departments of regional/local authorities etc). This may lead to a situation where project implementers want to join a project but must first convince decision makers (who face multiple demands) to commit to co-financing.

Non-financial constraints are mainly related to the mismatch between project idea and programme objectives, lack of cooperation partners and limited human resources. The fact that some actors have found it difficult to find suitable priority areas within the Programme, is not necessarily a bad thing at all, as the current evaluation advocates for even greater focussing of the Programme. Other possible hindrances, such as language issues, internal barriers and lack of cooperation interest are not seen to be significant barriers to participation in the Programme for any type of applicant.

Figure 18. Barriers to the participation in the Programme

What are the main reasons that have prevented you from applying funding from the ESTLAT Programme?				
	Organisation	Commercial enterprise	National, regional or local government	Other
Language barrier		1,7	1,5	2,1
It is hard/not possible to get support for our intended investments (e.g. infrastructure, equipment etc.)		2,5	2,7	2,5
Lack of time / human resources to write a project		2,4	2,3	2,3
Lack of cooperation partners		2,3	2,3	2,7
Lack of project writing skills		2,0	2,0	2,0
Programme administrative requirements prevent us from participation		2,0	1,5	2,3
Lack of time / human resources to implement a project		2,0	2,3	2,1
Our internal administrative procedures do not support participation		1,3	1,3	1,5
Programme does not provide pre-financing		2,6	2,7	3,2
Programme thematic directions do not match our needs		2,5	2,3	2,2
Lack of our own co-financing		2,3	2,5	3,1
We have other resources for funding which are easier to get		2,3	1,9	2,0
We are not interested in cross-border cooperation		1,5	1,0	1,4
Due to the current situation/ regulations our company /organisation is not allowed to take any financial commitments		1,6	2,2	1,9

Legend: 1 = not important at all, 2 = slightly important, 3 = fairly important 4 = very important.

Source: web survey.

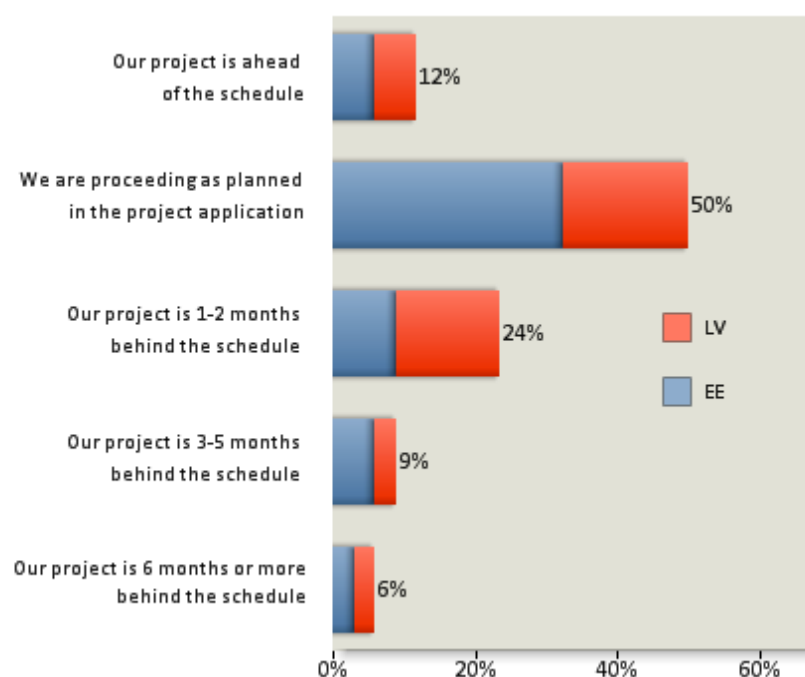
3.4. Project progress

3.4.1. Physical progress of projects

The majority (62%) of respondents indicated as the response to the survey that their project activities have progressed as planned, or even better. Furthermore, 79% consider their progress towards project goals very good, and believe that they will be able to reach all planned results and objectives. Several interviewees have also cited the existence of important positive spill-over effects, which were during the preparation of project application initially not foreseen. These include strong socialisation and the building up of individual networks among partners and beneficiaries during the project.

Figure 19. Project implementers assessment of project progress

Could you please estimate how far the project is in the implementation, as compared to the initially planned timetable?



Source: web survey.

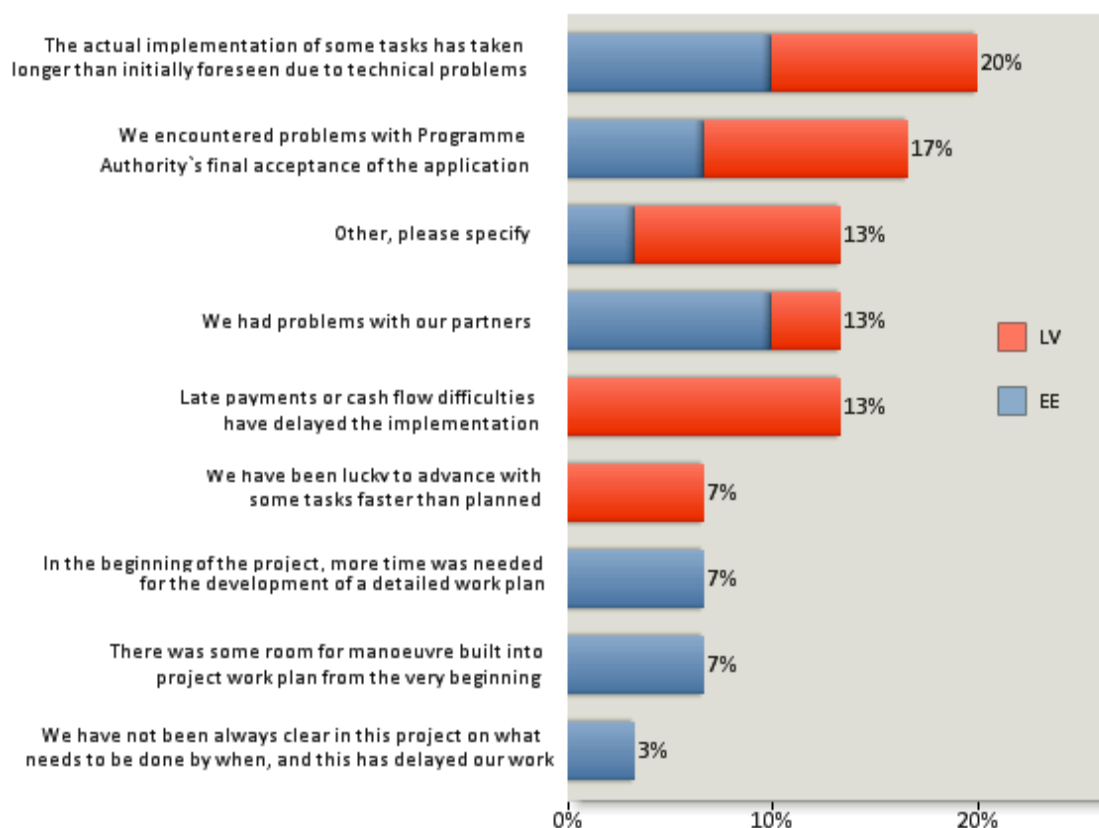
The changed economic conditions seem not to have had an effect on project progress as severely as one might suspect. Some of the interviewees indicated that the importance of project objectives and activities has even increased in the course of the current economic crisis. This is a very good sign of the relevance of the project activities.

The main sources of delays in implementation have been either of a technical nature (20% of respondents), or related to financing issues (26%)²², especially within Latvian projects. Some of the interviewees noted also that if they were attempting to start the project in the current economic climate, they would find it much harder to secure own-funding and credit lines, which are needed for the project cash flow management.

²² Within the category "Others", all open responses referred to problems with financing.

Figure 20. Overview of the factors affecting the project implementation progress

What have been the factors leading to the change of the project schedule?



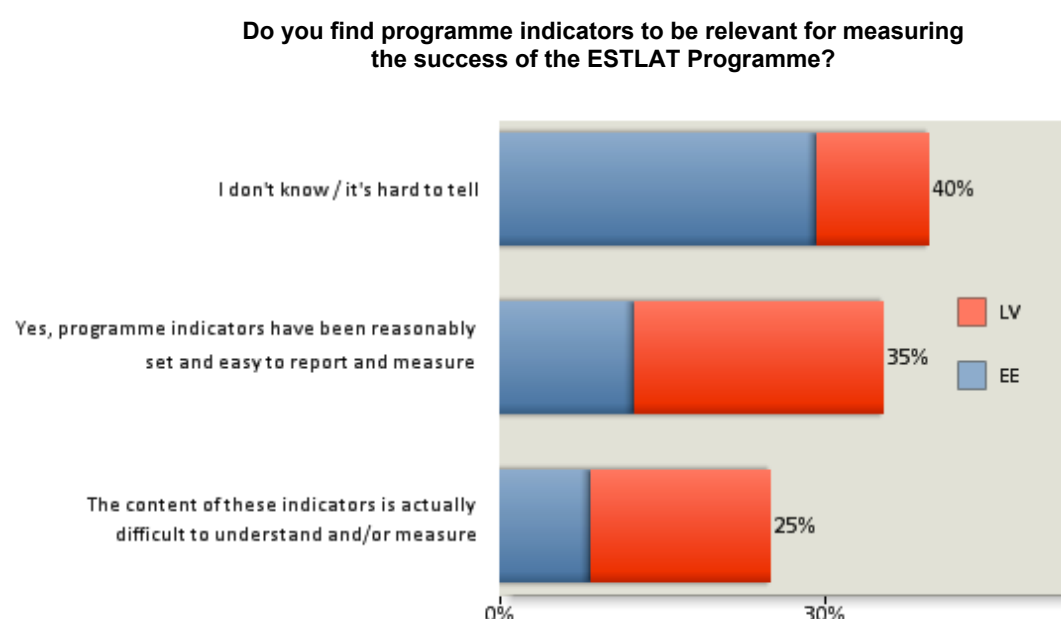
Source: web survey.

Approximately half of the projects have initiated changes to the allocation of funds between work packages or reporting periods. The main reasons for this were either a change of the project partnership or a decrease of the procurement costs in comparison to the initial plan. In the latter case projects were rather disappointed that they were not able to use the resources that had become available for the benefit of the project, for example to undertake additional activities that were left out of the proposal initially. This is regrettable because such management practice does not motivate projects necessarily to manage as efficiently and effectively as possible, but rather to spend all funds available. Theoretically, the impact of the ESTLAT programme would be greater if projects had more freedom to determine their internal resource allocation as long as the targets set in the contract were being met or exceeded.

3.4.2. Monitoring of the project progress and the use of indicators

Awareness of the Programme indicators appears to be rather low. Only 35% of respondents find the indicators easy to understand and measure. 40% of respondents find it hard to evaluate the usefulness of the indicators and 25% of respondents indicate problems with interpreting or measuring indicators (Figure 21)

Figure 21. The relevance of the Programme indicators



Source: web survey.

The actual use of the Programme indicators in the process of project management is rather limited. The interviewees found the current indicators to not to be adequate for measuring qualitative outcomes of the project. Therefore, currently, if at all, the Programme indicators are collected only for reporting purposes. However, different feedback systems and surveys to identify the satisfaction of beneficiaries were only used occasionally.

Overall, there is a clear need for rethinking the design of indicators, so that the indicators would become in order to turn them into an effective management and monitoring instrument. This has, however, to start from the further focussing of the programme, as discussed above. If the expected outcome and impact of the programme would be specified more clearly, then the indicators and benchmarking system could build on this rather logically.

3.4.3. Reporting and reimbursement procedures

The projects operating in the ESTLAT programme are, according to the feedback from surveys and interviews, generally dissatisfied with required reporting and reimbursement procedures. Two dominant issues prevail when analysing the factors affecting the project process. 51% of respondents indicate that auditing procedures are too complicated and time consuming, and are not in proportion with the mainstream activities of the projects.

Furthermore, the current reporting requirements do not differentiate between the mainstream activities that lead to the project outcomes, and project management activities that serve as a means to an end. There have been cases, where projects have had to explain in the course of the review of their reports, why there has been more or less project management meetings than initially planned, although the mainstream activities are carried out according to the initial plans and project results are achieved within the planned

timeframe and budget. In order to reduce the reporting burden, the programme control guidelines should focus on critical activities and results, and allow more flexibility as to the selection of the means to achieving the project objectives.

For example, the programme manual indicates that the respective national public procurement law is to be respected by the projects as they proceed. However, requirements of first level control have been considerably stricter than the formal requirements of the programme. In some cases, comparative price quotations have been requested for all purchases, in order to prove the cost efficiency of the project operations. Such a requirement is in itself clearly inefficient, as the time and effort dedicated for fulfilling this requirement in case of small-scale purchases greatly exceed the benefits. Instead of the above, if tight control of the purchasing and acquisition activities in projects is sought, the Programme might consider introducing on-site random financial controls.

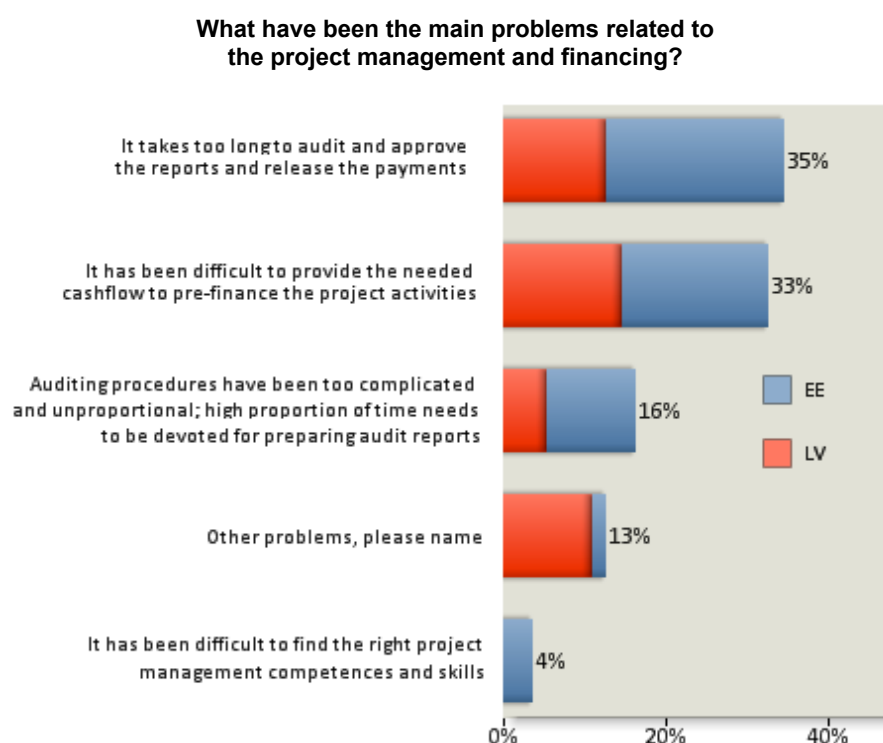
Interviewees indicated also that the report processing timeframe is biased towards the controllers: deadlines for project implementers are clearly set but the timeframe for controllers is rather flexible. Controllers have up to three months for reviewing reports. This may lead in some cases to situations in which there is no feedback on the status of reports during these three months. Also, the speed of processing partner reports appears to be not fully comparable between the two countries involved. The projects have an impression that the Latvian first level controls are processing reports faster, while the Estonian controls are sometimes perhaps overly demanding on the reporting requirements.

Contrastingly, the first level controls in Estonia and Latvia do not report themselves any major difficulties in relation to the eligibility of reported project costs. If needed, the controls approach projects for additional documents, but normally all costs get approved. In Latvia, only on one occasion, about € 100 of travel costs have been deemed ineligible. In Estonia, no figures are readily available, but the general opinion provided by the FLC is also favourable. Although the controls are thorough and time consuming, but no misuse of resources is reported.

The delays in the review of reports contribute, in turn, to the accumulation of financial difficulties the projects face. These problems affect pre-financing and smooth cash flow management from the one side and guaranteeing the project partner's financing from the other side (Figure 22 below). Currently the average need for pre-financing is about 6 months, and it has been shortened compared to the very beginning of the Programme, as auditing procedures efficiency have been increased. Project managers have still indicated that in some cases the lag between submitting project related costs and actual reimbursement might take up to one year.

As credit lines are one of the most crucial problems of the projects, it serves the interest of the Programme to provide as efficient reporting systems as possible in order to ensure that the financial lag would be as minimal as possible. Therefore the optimisation of the controlling procedures could increase the attractiveness and effectiveness of the programme. Additionally, it is also recommended to consider possibilities for introducing of a partial pre-financing of the projects.

Figure 22. Difficulties in the implementation of projects



Source: web survey.

The ESTLAT programme uses a two-tier reporting system, where partners submit their individual partner reports to the first level controllers at respective local control institutions. When these reports have been approved, the lead partner submits the full progress report to the Joint Technical Secretariat. The above allocation of responsibilities is confusing for the projects. The whole reporting system would be much clearer if the projects would have one contact point for all project reporting – the Joint Technical Secretariat. Once the reports are submitted for the approval, the further document flow and processing should take place within the programme management system. This would allow for increasing the efficiency of information flow as well as improve the consistency of feedback and advice given to the different projects and project partners. The review of the project progress would also become much faster if the partner reports (focussing on finances) and the collective project progress report were submitted together at the same time, as these reports can be reviewed in parallel.

The introduction of a single contact point system, suggested above, would help to harmonise the reporting requirements between the controls in Estonia and Latvia. Also, the programme should introduce a more detailed guideline with specific deadlines for the review of reports. This should be made public to current and future project participants. As part of streamlining the system for the review of reports, a basic (web based) customer relationship management system should be established. This would allow the Secretariat to monitor the progress of document and workflow that takes place during the review of reports.²³

²³ The introduction of such a CRM would not be too demanding, as there are a number of such software systems available at the market and they are not very demanding. See, e.g., SugarCRM or similar.

3.4.4. Impact of the programme activities

Evaluation of the Programme's expected impact is constrained by the fact that none of the projects has been completed. In fact, for the time of the current evaluation 11 projects out of 28 had submitted their first progress report, and only 5 projects have submitted the second progress report. Thereby, majority of the projects are still in relatively early phases of implementation and no full results have been received yet. Characteristically to a mid-term evaluation, therefore, only the expected impact of the programme activities can be discussed.

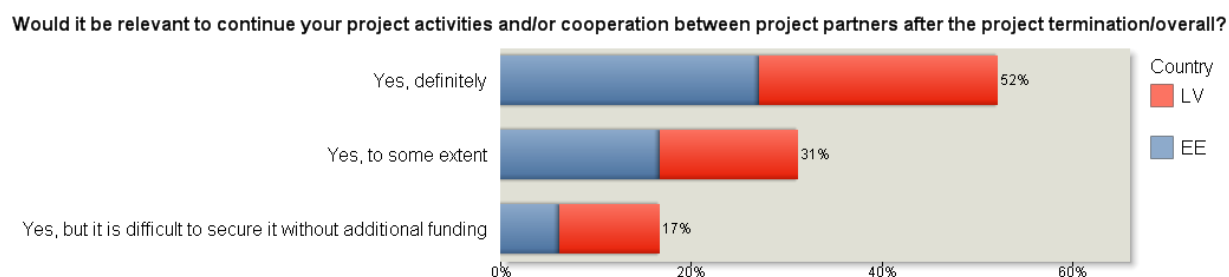
The most obvious added value of any cross border co-operation projects is an enhanced exchange of information, mutual learning, increased networking as well as strengthening the links between different actors involved. However, one would expect that a solid regional development programme would deliver more. The interviewees characterised the expected impact of their projects in terms of improved living environment, increased number of visitors, dissemination of new technologies and skills, expanding distribution networks and marketing cooperation, and an increase in local revenues. Most of them added also that the full impact of project activities is going to be visible only some time after the end of the project. The expected impact is, however, unlikely to reach beyond the projects or local communities concerned. Any broader impact on the regional development and cohesion remains in the most cases minuscule.

The activities funded by the current Programme have a clear element of additionality. 64% of survey respondents indicated that they would not have been able to carry out their projects without the support of the Programme. The rest of the respondents indicated that the rejection of their project by the ESTLAT Programme may have led to a delay or reduction of the scale of project activities, but that the project would have been implemented anyway.

There is still some further room for increasing the cost efficiency of the Programme intervention. When the applicants were asked how they would have dealt with a possible 30% budget cut proposed during the contract negotiations, a quarter of the respondents indicated that they would re-think the project plan but would still be able to meet the original objectives. At the same time, 31% of the supported projects responded that they would not have been able to do so. Interviews with policy-makers brought also out that the average budget of projects in the current Programme is significantly larger than in earlier similar programmes, while the results and impact of projects are largely comparable to these funded by the precursors of the ESTLAT Programme. Therefore, a more thorough evaluation of project applications and more careful contract negotiation would be desirable. This would enable an increase in the cost efficiency of the Programme.

The willingness to continue with activities beyond the lifespan of ESTLAT funding is rather high. 52% of respondents find it relevant to continue with project related activities after the end of the current project, and 31% find it relevant to some extent. It is not, however, always very clear where the funding for the follow-up activities will come from.

Figure 23. Interest for continuation of the project activities beyond the lifespan of the project



Source: web survey.

Among respondents, 25% of the project applications are likely to lead to larger infrastructures projects funded from the structural funds at the national level, and 15% of projects applicants seek follow-up funding from sources other than the EU. The rest of the projects are still not very likely to continue in the same composition of partnership. In this sense, the sustainability of the exact partnerships established in the current Programme is not very high, but this is a common characteristic for all EU funded programmes. A substantial proportion of participants are likely to return to one program or another, but these will be with different partners.

Based upon all of these factors, overall, the Programme has had mixed success. As has been demonstrated elsewhere in this evaluation, the Programme has indeed funded various cross-border activities within the target area. Some of the participants have had earlier experience with similar programmes; some are newcomers. Some come from earlier joint projects, and some are new. For some of the activities the ESTLAT funding has been truly instrumental, but others would have been implemented (perhaps later) also without it.

It is indeed the very fact of enhanced co-operation itself that has been the greatest impact of this programme. A number of activities, which are of great importance at the local level, continue to be carried out. However the contribution to increased cohesion in the target area is much more difficult to pinpoint. There are currently only 28 projects with average size of €0.9 million. In this light, the impact of the Programme would be even greater on the development of the whole target area, if a larger proportion of participants would treat their ESTLAT project as a launch pad for a bigger project to follow.

The impact of the Programme would also have been more visible if the Programme document and/or individual calls for proposals were defined with more specific targets for the actual development of the target area. It is therefore advisable that in the future a greater share of the budget be allocated for more focussed activities (flagship initiatives), while modest funding would continue to be available for various bottom-up initiatives.

4. Summary and conclusions

In Table 11, the main findings of the evaluation of the Estonia-Latvia Programme 2007-2013 are summarised according to the 5 evaluation questions presented in the executive summary of this report. For each finding, relevant recommendations for action are proposed. Thereafter, results of a risk analysis exercise are presented to allow for prioritisation of the actions to be taken on the basis of the following recommendations.

The key findings are that the Programme strategy is too broad for the resources available, and that the Programme performance indicators should be rethought to reflect not only on activities but also on the impact of thereof. At the Programme operations level, possible improvements to the project selection procedures and to the review of project progress reports are the main themes.

Table 11. Main findings and recommendations resulting from the evaluation of the Estonia-Latvia Programme 2007-2013

<i>Findings</i>	<i>Recommendations</i>
Q1: Are the programme strategy and objectives being met so far?	
<p>1. In terms of the Programme day-to-day operations, the strategy is followed. However, effectiveness of programme strategy execution cannot be monitored properly, because there are no proper outcome or impact indicators.</p>	<ul style="list-style-type: none"> - The Programme intervention logic, the objectives and expected impact should be described in the Programme document in greater detail. The description of the functional linkages between the programme activities and target indicators will allow both the Programme staff and the prospective applicants to have an even better understanding of the intentions, and the effectiveness of the Programme activities will increase. - The general development indicators, such as GDP, employment, etc., are influenced by many other factors and developments other than the current Programme. Therefore, the choice of more specific targets would be very much welcome.
<p>2. There are a number of similar, fairly broadly defined territorial co-operation and other regional development programmes operating in Estonia and Latvia. This makes the co-ordination of activities difficult and it is even more difficult to see what the actual impact of the ESTLAT Programmes has been.</p>	<ul style="list-style-type: none"> - Ideally, in preparation for the next planning period, the Baltic Sea Region strategy and its Action Plan should be updated. A more focussed supra-national strategy like this would, in turn, facilitate greater focussing of the individual programmes. As a result, all major strategic objectives would be properly addressed, while there would be less of a risk of overlap between individual programmes. - Alternatively, some of the programmes, which have very similar territorial coverage, could be merged; and in the next planning period a smaller number of programmes could be launched.

<p>3. Some of the targets set for the specific priorities and directions of support have already been exceeded, even though some benchmarks are not likely to be met by the end of the Programme.</p>	<ul style="list-style-type: none"> - The current Programme indicators are not fully reliable, for strategic management of the Programme. It is recommended to re-consider the validity of the Programme objectives in the current socio-economic environment, and focus on the areas where there is the greatest need for improvement in terms of actual regional development. See Q2 & Q4 below.
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Q2: Are the strategy and objectives relevant and serve the needs of the Programme area in the light of the current situation, taking into account context indicators and socio-economic context of the Programme?

<p>4. The rapid economic growth experienced in recent years did not close the gap between the living standards in the different regions in Estonia and Latvia. The current economic crisis is likely to widen the regional disparities even further.</p>	<ul style="list-style-type: none"> - Prioritise activities that lead to the job creation, the increase of export revenues and the attraction of new (foreign direct) investments into the Programme area. Various activities, which are closely related to the job creation and the development of supply networks around major export activities should be the highest priority in all directions of support.
<p>5. The Programme strategy is too broad; there are too many and too wide priorities for the limited budget available.</p>	<ul style="list-style-type: none"> - In the next planning period, allocate a major part of the Programme budget to a limited number of specific priorities or high-impact 'flagship initiatives'. Only a minor part of the Programme budget should be left for various bottom-up initiatives in pre-defined areas.
<p>6. In some priority areas, e.g., transport infrastructure, the meaningful minimum size of a project is rather high in comparison to the total budget of the Programme. Therefore, a rather high share of the Programme's limited budget is allocated to a very small number of projects.</p>	<ul style="list-style-type: none"> - In case of large-scale intensive investment projects, such as in the field of transport infrastructure, only feasibility studies, preparation of detailed investment plans or similar activities should be funded. While doing so, the possibility of securing follow-up funding from other sources, such as structural or cohesion funds, should be an important criteria in project selection. This way the impact of the funding from the ESTLAT Programme would be maximised.

Q3: Which are the constraints (internal and/or external) that have affected progress of the Programme? How the Programme should adapt?

<p>7. The current financial and economic crisis has weakened the cash flow positions and co-funding possibilities of prospective Programme participants.</p>	<ul style="list-style-type: none"> - Speed up the Programme's review of project progress reports and financial controls. - If possible, introduce partial pre-financing of projects that have been selected for funding.
<p>8. Projects that have used the possibility of consultations with the Secretariat and/or have employed external consultants have been notably more successful.</p>	<ul style="list-style-type: none"> - Continue to promote the value of consultations with the Joint Technical Secretariat (JTS) prior to the submission of proposals. - Consider the possibility of simplifying and/or standardising application forms in collaboration with other territorial co-operation programmes.

<p>9. The project selection process is not transparent and there are too many evaluation criteria. Evaluation results of proposals are poorly communicated to the applicants.</p>	<ul style="list-style-type: none"> - Introduce the possibility of partial reimbursement of the costs related to the preparation of the application, such as costs of external consultants providing support for preparing the application, travel costs related to the project preparation meetings, etc. - Significantly decrease the number of evaluation criteria. Assess the quality of project applications against the description of the priorities outlined in the Programme document. Judge projects primarily by their expected impact in 1) achieving programme priorities, 2) composition of partnership, 3) sustainability of investment and 4) quality of management. While doing so, the job creation and future export revenue growth should serve as horizontal priorities spanning all priorities and directions of support. - Introduce evaluation summary reports, which will include sufficiently detailed assessments of the quality of applications by each evaluation criteria. This will increase the transparency of the Programme operations and will enable applicants to increase the quality of their future proposals. - Introduce in the Programme Manual a clearer division of tasks between the various actors involved in the evaluation process. As the result of the evaluation for each of the project applications an evaluation summary report should be formed, where the assessment would be recorded in sufficient detail by each of the evaluation criteria and in summary.
<p>10. The requirements of the tender procedures, which the projects are asked to follow, are too tight, while the regulation does not lead necessarily to the most cost effective use of resources.</p>	<ul style="list-style-type: none"> - Rely on Estonian and Latvian national public procurement legislation. If a tighter regulation is absolutely necessary, only then introduce uniform minimum standards for various purchasing and acquisition activities in projects. - Replace the comprehensive inspection of competitive offers for small-scale procurement with random financial controls, which take place on-site on short notice. Make this practice well known to all projects. - Allow the projects more flexibility in the reallocation of financial resources between the cost categories and partners, provided that the specific targets set in the contract, will be met. If a certain public procurement or other activity has ended with lower costs than planned, projects should have the opportunity to use the respective resources for other tasks.

11. The review of the project progress and financial reports are administratively demanding, and focus too much on technical management details rather than the achievement of the contractually agreed upon final results. The delays preceding the reimbursement of costs are too long (averaging 6 months)	<ul style="list-style-type: none"> - Assign to all projects a JTS staff member who will act as a 'single contact point' for all reporting procedures, and will manage further document flow between the JTS and various levels of control. - Collect both the partner reports (finances) and project progress reports in one package, so that different levels of control can work in parallel. - Allow for more flexibility in project management activities. Focus on the achievement of project objectives, while paying less attention to the means to an end, e.g., the number of project management meetings held, etc. - Introduce an online customer relationship management system to facilitate and monitor the progress of the review of reports; introduce reasonably short deadlines for feedback to the projects.
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Q4: Functionality of the Programme indicators: do the indicator definitions cover the directions of support and priorities of the Programme? How strong is connection between the indicators and the directions of support? How strong is connection between the indicators and the priorities?

12. Both the connection between indicators and priorities, and the connection between indicators and directions of support are reasonably strong.	<ul style="list-style-type: none"> - Although at a basic formal level connections exist, a number of methodological issues have been detected in relation to the very definition of the individual indicators. See below.
13. Major methodological weaknesses have been identified in relation to the Programme indicators. The current strategy level indicators are of too general nature for assessment of the specific impact of the ESTLAT Programme.	<ul style="list-style-type: none"> - It is advisable that in the course of updating the current Programme strategy, or defining a strategy for a follow-up programme, more specific objectives would be defined following the SMART (smart, measurable, achievable, relevant, time-bound) principle. The respective outcome and impact indicators should be selected so that a clearly identifiable linkage would exist between benchmarks and the investment from the current Programme.²⁴
14. The performance indicators set for priorities 1-4 are purely output oriented. They reflect on the process rather than the outcome and broader impact.	<ul style="list-style-type: none"> - The programme performance indicators will need to be redesigned to meet the proposed new narrower focus, and to measure outputs and impact of the projects rather than process or involvement of different constituencies. - Satisfaction surveys should be administered among programme beneficiaries to assess the impact the programme has had and to gather information on future needs.

²⁴ The following OECD guidelines may prove particularly helpful in defining appropriate performance indicators: *Governing Regional Development Policy: The Use of Performance Indicators*, OECD, Paris, 2009.

Q5: Which are the constraints (internal and/or external) for participation of private entrepreneurs in the Programme as project partners? How could participation of private entrepreneurs be increased?

<p>15. The participation of private sector actors in the Programme remains low and a significant share of the respective budget remains unused. The low interest of the current programme participants for involving private sector actors and the low interest from the part of the private sector have both inhibited participation.</p>	<ul style="list-style-type: none"> - The participation of private sector actors should not be an objective in itself. Instead the objective should be to select projects that benefit the business environment in the Programme area, and are thereby beneficial to the private sector. - Improve the exchange of information and co-operation with chambers of commerce and industry, industry associations, and development agencies in Estonia and Latvia, who could promote participation in the ESTLAT programme and represent the interests of the private sector, while participating themselves in the programme. - To maximise the impact of Programme activities, seek non-financial partnerships between projects and the private sector. The Programme would not provide funding or require reporting or direct financial contribution from private sector actors.
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Source: Authors.


In Table 12 below, the above findings are clustered around main risks the Programme is likely to face, and the possible impact of the realisation of the individual risks to the achievement of the objectives of the Programme are estimated. The codes (in parentheses) attached to various elements of the risk assessment matrix link these elements with the main findings contained in Table 11.


The greatest risks to the impact of the Programme derives from the broad strategy it has and from the weakening of the financial position of smaller local governments and NGOs, which are the main participants of the programme, in the course of the economic crisis.

The effectiveness and impact of the activities of the ESTLAT Programme would be much greater, if the programme focus would be narrower. For the coming years, the contribution to job creation and export led economic growth should become the horizontal priorities throughout all Programme activities. With this regard, a more specific set of measurable, timely and achievable targets should be set. Otherwise, there is a substantial risk that the impact of the Programme will remain limited in terms of the actual regional development in the Programme target area.

A speeding up of controlling procedures would alleviate the cash flow and resource constraints of project participants. The Programme operational management should focus on controlling the achievement of the project objectives, which have been agreed to during contract negotiations, while allowing for more flexibility in actual execution. Faster processing of the project progress reports would minimise the risk of underperformance or even possible project failures caused by cash flow difficulties. If possible, partial pre-financing from the Programme for awarded projects, would prove be even more valuable.

Table 12. Risk analysis matrix

 Impact	Contingency risks <ul style="list-style-type: none"> - Inability of the Programme to take into account changes in the socio-economic environment (4). - Inability of the Programme to improve the operational procedures (9, 10, 11). - Inefficient use of resources at the level of projects (10, 11). 	Major risks <ul style="list-style-type: none"> - The programme strategy too broad for the limited resources available, the impact of the intervention on actual regional development remains low (1, 4, 5, 6). - Weakening of the financial position of the current and future participants of the Programme at the time of economic crisis leads to difficulties in cash-flow management and securing co-funding (7, 8, 11).
	Minor risks <ul style="list-style-type: none"> - Duplication of efforts with other territorial co-operation programmes operating in Estonia and Latvia (2). 	High incidence risks <ul style="list-style-type: none"> - Insufficient transparency of project selection leads to a decline of the attractiveness of the Programme (9). - Some of the original targets will not be achieved, e.g. in relation to the participation of private sector actors. The impact of the risk is limited by the methodological problems with current indicators themselves (3, 12, 13, 14, 15).



Probability

Source: Authors.

Although some of the original benchmarks are very likely to remain unmet, the achievement of the remaining targets should not still be an objective in itself, as methodological problems have been identified in relation to the Programme indicators. The benchmarking system would need to be revised by introducing outcome and impact indicators, which reflect on the main priorities of the Programme. Also, the transparency of the project selection system needs to be improved.

The risk of possible duplication of efforts with other territorial co-operation programmes is not high, despite the broad set of the programme objectives and activities. This is primarily due to the limited resources of the programme. However, in the next planning period, the possibility of a merger with a similar programme (e.g., the Estonia-Latvia-Russia Programme) should be considered. A bigger programme would attract in each call for proposals more

project applications. This would allow for more straightforward selection of the very best projects, while avoiding possible duplication of efforts.

Finally, the Programme rates very highly on its willingness to meet the changes in the external environment as well as to continue to improve its operations. The active engagement of the Joint Technical Secretariat as well as the open discussions held in the course of the interviews with policy-makers in Estonia and Latvia offers reason to be optimistic in this regard.

Appendices

Table 13. Interviews with the Programme management and other policy-makers

- Peeter Unt, Head of the Joint Technical Secretariat, Estonia-Latvia Programme
- Kadri Jushkin, Regional Development Department, Ministry of Interior, Estonia
- Arina Andreičika, Ministry of Regional Development and Local Government, Latvia
- Kristiāns Godiņš, Kurzeme Planning region Administration, Latvia
- Madis Kaldmäe, Kaire Ööbik and Natalja Zinovjeva, Regional Development Department, Ministry of Interior, Estonia
- Unda Ozoliņa, Head of the Joint Technical Secretariat, Estonia-Latvia-Russia Programme
- Artis Grinbergs, Director of State Strategic Planning Dept., Ministry of Regional Development and Local Government, Latvia
- Maris Elerts, Deputy Director, Investment and Development Agency of Latvia
- Olegs Baranovs, Director of Economic Policy Department, Ministry of Economics, Latvia

Ege Ello from the Estonian Ministry of Interior, Karin Kõrda and Mari Lahtmets from the Estonian Ministry of Finance, Merilin Truuväärt from Ernst & Young Baltic Ltd., and Anne Jürgenson from the PRAXIS Center for Policy Studies served also as very valuable sources of information for the current report.

Source: Authors.

Table 14. Interviews with project participants²⁵

Priority 1.2.

- **Elaborating joint tools for environmental education as efficient mean of management of protected areas (Back to nature)**
Lead Partner: Kersti Sõgel, Foundation Tartu Environmental Education Centre (EE)
- **Development of Latvian-Estonian network for demonstration of environmentally friendly farming practices (Demo Farm)**
Lead partner: Andrejs Briedis, Latvian Rural Advisory and Training Centre (LV)

Priority 2.1.

- **Increasing competitiveness of Estonian and Latvian food industry based on new and improved local fruit and berry product development (GoodFruit)**
Lead partner: Ave Kikas & Uko Bleive, Estonian University of Life Sciences (EE)
- **Sustainable use of local natural resources and cultural heritage for business development in Setomaa and Ape regions (Buy Local)**
Lead partner: Margus Timmo & Silja Lehtpuu, The Union of Setomaa Rural Municipalities (EE)

Priority 2.2.

- **Go cycling through Vidzeme and Southern Estonia (VisoEst by Bike)**
Lead partner: Raitis Sijats, Vidzeme Tourism Association (LV)
- **Towards the Blue Flag on Baltic beaches (Beach Hopping)**
Lead partner: Kaspars Vingris, Saulkrasti Municipality Council (LV)

Priority 3.1.

- **Activating vital and healthy community by promoting winter sports in Aluksne-Haanja Uplands**
Lead partner: Juri Gotmans, Haanja Rural Municipality (EE)

Priority 3.2.

- **Continuous cultural cooperation on the Estonian-Latvian border-area (Cultural Cooperation for Intermediates)**
Lead partner: Maija Rozite, Vecclaicene Municipality (LV)
- **Development of Cross-Border Choir Singing Culture (Singing Neighbours)**
Lead partner: Siiri Konksi, Võru Parish Government (EE)

Source: Authors.

²⁵ In the selection of the interviewees, the following principles were followed:

- If possible, all priority areas are represented by at least one project; if there are more than 5 projects approved in a priority area, two interviewees are selected to the sample;
- The interview sample is to be well balanced, as compared to the actual participation of Estonian and Latvian partners in approved projects, and it should cover a variety of different organisational forms;
- The interview sample is to include well advanced projects as well as projects that lag behind the schedule.

Table 15. List of projects funded by the Programme

Priority	Project short name	Number of partners	Lead partner's country of origin	Public co-financing (€)	Private co-financing (€)	ERDF funding (€)	Total project budget (€)	Project duration in months
1.1.	Reconstruction of road Karksi–Nuia – Seda river	2	EE	913 373	0	5 175 778	6 089 151	18
1.1.	BayLink	4	LV	185 256	311 019	1 360 805	1 857 080	12
1.2.	Back to nature	5	EE	97 899	0	554 760	652 659	24
1.2.	Cultural heritage	3	EE	142 124	0	805 371	947 495	24
1.2.	DEMO FARM	3	LV	133 283	0	755 271	888 554	24
1.2.	Active Through Passive	6	EE	n/a	n/a	n/a	n/a	18
1.2.	VV JRC	2	EE	351 518	0	1 991 935	2 343 453	18
2.1.	BUYLOCAL	2	EE	72 125	0	408 708	480 833	24
2.1.	GoodFruit	6	EE	94 500	185 000	720 500	1 000 000	24
2.1.	Protolab Network	3	EE	161 250	0	913 750	1 075 000	24
2.1.	SIB NET	6	LV	n/a	n/a	n/a	n/a	24
2.1.	Boost Biobusiness	6	EE	52 801	0	299 203	352 004	18
2.2.	Beach Hopping	6	LV	287 098	0	1 626 891	1 913 989	24
2.2.	IAVV	2	EE	347 729	0	1 970 465	2 318 194	24
2.2.	One vacation - two countries	3	LV	125 981	0	713 895	839 876	24
2.2.	VisoEst by bike	11	LV	255 471	0	1 447 668	1 703 139	18
2.2.	Active tourism - attractive feature of Madona and Põlva	2	LV	71 399	0	404 592	475 990	17
3.1.	Connecting Stende and Võhma	2	LV	48 647	0	275 665	324 312	21
3.1.	Aluksne-Haanja Uplands (AHU)	2	EE	50 715	0	287 385	338 100	12
3.1.	SportBorder	3	LV	50 400	0	285 600	336 000	30
3.1.	Cross-border ball	5	LV	51 525	0	291 975	343 500	12
3.2.	Cultural Cooperation for Intermediates	5	LV	51 525	0	291 975	343 500	15
3.2.	Fire Safe	5	LV	44 429	0	251 762	296 191	18
3.2.	SDF	2	EE	18 931	0	107 277	126 208	21
3.2.	Singing Neighbours	5	EE	49 515	0	280 585	330 100	20
3.2.	Easy Together	2	EE	7 490		42 441	49 930	22
3.2.	TOLERANCE	3	EE	n/a	n/a	n/a	n/a	20
3.2.	Still active	9	LV	32 654	0	185 037	217 690	18

Source: Joint Technical Secretariat.

Table 16. Funding priorities of selected European Territorial Co-operation programmes operating in Estonia and Latvia

Programme	Target area	Funding priorities	Applicants
Estonia - Latvia Cross-border Cooperation Programme 2007-1013	Estonia: Hiiu, Jõgeva, Lääne, Põlva, Pärnu, Saare, Tartu, Valga, Viljandi and Võru counties Latvia: Kurzeme, Vidzeme, Rīga, Pierīga	Priority 1. Increased cohesion of the Programme area 1.1 Reducing isolation through improved internal and external connectivity of the Programme area 1.2 Enhancing joint management of public services and resources Priority 2. Higher competitiveness of the Programme area 2.1 Facilitating business start-up and development 2.2 Increasing the attractiveness of the Programme area (<i>currently closed</i>) 2.3 Enhancing employable skills and human resources Priority 3. Active, sustainable and integrated communities 3.1. Improving the environment for active and sustainable communities (<i>currently closed</i>) 3.2 Promoting grass-root level actions	Public authorities from national, regional and local levels and public equivalent bodies; Non-governmental organizations; Private enterprises
Estonia-Latvia-Russia CBC Programme with ENPI 2007-2013	Latvia: Latgale, Vidzeme; adjoining areas: Riga City and Pieriga Estonia: Kirde-Eesti, Lõuna-Eesti, Kesk-Eesti; adjoining area: Põhja-Eesti Russia: Leningrad region, Pskov region, St.-Petersburg City	Priority 1. Socio-economic development 1.1. Fostering of socio-economic development and encouraging business and entrepreneurship; 1.2. Transport, logistics and communication solutions; 1.3. Tourism development. Priority 2. Common challenges 2.1. Joint actions aimed at protection of environment and natural resources; 2.2. Preservation and promotion of cultural and historical heritage and support of local traditional skills; 2.3. Improvement of energy efficiency and promotion of renewable energy sources. Priority 3. Promotion of people to people cooperation 3.1. Development of local initiative, increasing administrative capacities of local and regional authorities; 3.2. Cooperation in spheres of culture, sport, education, social and health.	Public authorities from national, regional and local levels and public equivalent bodies; Non-governmental organizations; Private enterprises

Central Baltic INTERREG IV A Programme 2007-2013	<p>Estonia: Järvamaa, Lääne-Virumaa, Raplamaa, Ida-Virumaa, Hiiumaa, Läänemaa, Pärnumaa, Saaremaa, Harjumaa, Jõgevamaa, Põlvamaa, Tartumaa, Valgamaa, Viljandimaa, Võrumaa</p> <p>Finland: Itä-Uusimaa, Etelä-Karjala, Kanta-Häme, Kymenlaakso, Päijät-Häme, Uusimaa, Varsinais-Suomi Åland</p> <p>Latvia: Kurzeme, Pierīga, Rīga, Vidzeme, Zemgale</p> <p>Sweden: Gotlands län, Gävleborg län, Östergötlands län, Södermanlands län, Stockholms län, Uppsala län, Västmanlands län, Örebro län</p>	<p>Priority 1. Safe and healthy environment Central Baltic: Environmental awareness rising and expertise; Supporting sustainable spatial planning and environmental management Southern Finland – Estonia: Maintaining and improving the condition of the natural environment; Taking responsibility for our physical environment Archipelago and Islands: Sustainable infrastructure; Rising environmental awareness</p> <p>Priority 2. Economically competitive and innovative region Central Baltic: Supporting innovation and improving competitiveness; Improving internal and external connectivity; Optimising the potential of labour market Southern Finland – Estonia: Improving connections within the programme area; Creating and supporting innovative and competitive environments; Meeting the challenges of the labour market Archipelago and Islands: Sustainable tourism; Knowledge based economy; Developing archipelago and island specific economic activities; Supporting accessibility and information about the archipelago and islands.</p> <p>Priority 3. Attractive and dynamic societies Central Baltic: Improving living conditions and social inclusion; Increasing cultural exchange. Southern Finland – Estonia: Social security and wellbeing of different groups in society; Stimulating and preserving our heritage and culture. Archipelago and Islands: Social and demographic issues, especially young people.</p>	<p>Local and regional authorities</p> <p>State organisations</p> <p>Organisations established for general interest needs and Non-governmental organisations fulfilling certain conditions</p> <p>Private enterprises (NB! Only in the Southern Finland – Estonia Sub-programme)</p>
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<p>Baltic Sea Region Programme 2007-2013</p>	<p>EU: Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland, Sweden</p> <p>Non EU: Belarus, Norway and north-west Russia</p>	<p>Priority 1. Fostering innovations 1.1. Providing support for innovation sources 1.2. Facilitating the technology transfer and diffusion of knowledge across the BSR 1.3. Strengthening the social capacity in generation and absorption of new knowledge</p> <p>Priority 2. Internal and external accessibility 2.1. Promotion of transport and ICT measures enhancing accessibility and sustainable socio-economic growth 2.1. Actions stimulating further integration within existing transnational development zones and creation of new ones</p> <p>Priority 3. Baltic Sea as a common resource 3.1. Water management with special attention to challenges caused by increasing economic activities and climate changes 3.2. Economic management of open sea areas and sustainable use of marine resources 3.3. Enhanced maritime safety 3.4. Integrated development of off-shore and coastal areas</p> <p>Priority 4. Attractive & competitive cities and regions 4.1. Strengthening metropolitan regions, cities and urban areas as engines of economic development 4.2. Strategic support for integrated BSR development and socio-economic and territorial cohesion 4.3. Strengthening social conditions and impacts of regional and city development</p>	<p>Public authorities from national, regional and local levels; public equivalent bodies (e.g. associations, universities).</p> <p>Private (commercial) organisations can participate as additional partners with own financing.</p>
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