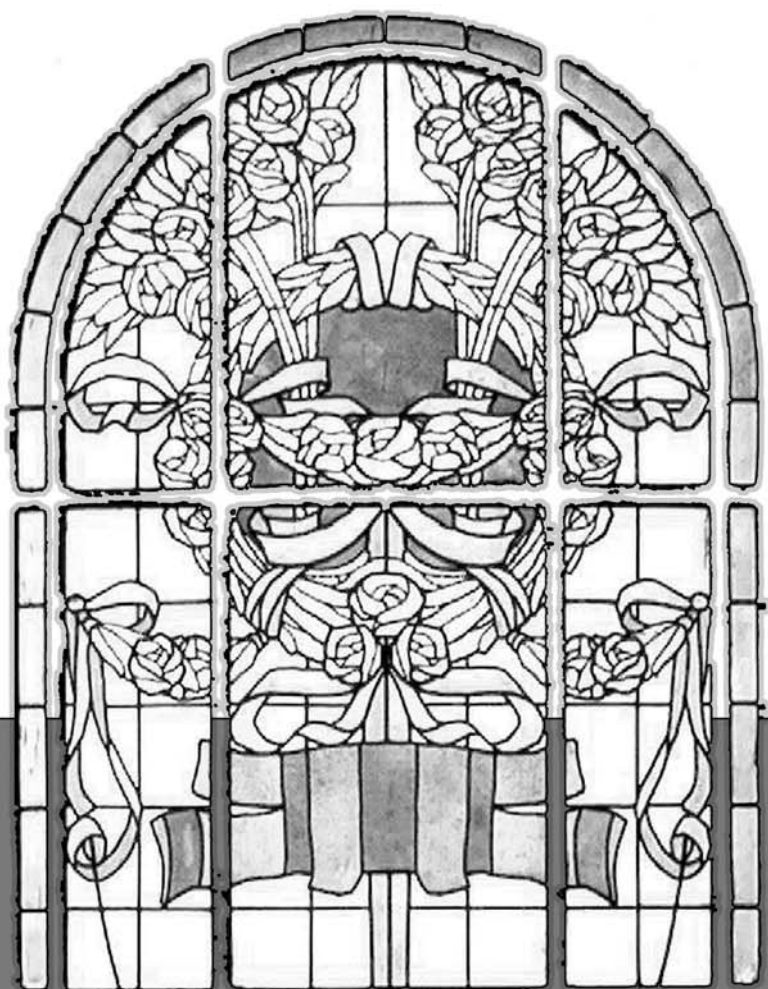


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STRUCTURAL FUNDS PERFORMANCE RESERVE MECHANISM IN ITALY IN 2000-2006

I. Anselmo, M. Brezzi, L. Raimondo, F. Utili



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The *Public Investment Evaluation Unit* (UVAL) provides technical support to public administrations, by developing, testing and disseminating ex-ante, ongoing and ex- post evaluation methods for public investment projects and programmes. One of the aims is to improve effective spending and better performance of European structural funds. The Unit is part of the network of national and regional evaluation units.

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Structural Funds Performance Reserve Mechanism in Italy in 2000-2006

Abstract

Regional development policy in Italy, started in 1998-1999, extensively adopts incentive mechanisms where Central and Regional administrations responsible of Public investment policies are given financial rewards or sanctions according to their performance measured by a number of objectives and targets. The link of financial incentives to the achievement of pre-defined results draws the attention of administrators and politicians and - by creating incentives to modify their behaviours - makes the achievement of the objectives more likely. In this paper we describe indicators, rules, monitoring activities and results of the main mechanism i.e. the *Structural Funds Performance Reserve Mechanism*. The paper provides a complete overview of the mechanism based on official documentation. The mechanism - involving 10 per cent of resources (Structural Funds plus national co-financing) earmarked for the period 2000-2006 - began with the approval of Objective 1 Community Support Framework (CSF) for Italy and ended in March 2004 with the assignment of significant rewards and sanctions. Several important targets were achieved related to the implementation of reforms and improvements in the management of resources. Lessons learned from the experience on the effectiveness of performance based mechanisms for administrations can be a useful reference for the next programming period 2007-2013.

Il sistema di premialità dei Fondi Strutturali 2000-2006 Riserva comunitaria del 4 per cento e riserva nazionale del 6 per cento

Sommario

La programmazione per lo sviluppo delle aree sottoutilizzate del Paese, avviata negli anni 1998-1999, introduce meccanismi di premio e sanzione connessi al raggiungimento di obiettivi fissati, a cui vengono sottoposte le Amministrazioni centrali e regionali responsabili delle politiche di investimento pubblico. L'individuazione di risorse finanziarie condizionate al conseguimento di risultati richiama l'attenzione di politici e amministratori e incentiva modifiche dei comportamenti rendendo più probabile la messa in pratica delle azioni necessarie per conseguirli. Nel lavoro si descrivono gli indicatori, le regole, il funzionamento, il monitoraggio e gli esiti del principale tra i meccanismi sinora realizzati, *il sistema di premialità dei Fondi Strutturali* fornendo una lettura sistematica e unitaria di tutta la documentazione predisposta. Il sistema, avviato con l'approvazione del Quadro Comunitario di Sostegno (QCS) per le regioni dell'Obiettivo 1 e conclusosi a marzo 2004 con l'assegnazione di rilevanti premi e sanzioni, ha coinvolto circa il 10 per cento del complesso delle risorse comunitarie e di cofinanziamento nazionale stanziato per il periodo 2000-2006. Gli obiettivi perseguiti, e raggiunti con successo nella maggior parte dei casi, hanno riguardato l'accelerazione di importanti riforme e il miglioramento delle capacità di amministrazione e gestione delle risorse. Le lezioni apprese circa l'efficacia di meccanismi di incentivazione delle performance applicati a un contesto amministrativo sono offerte quale base di riflessione per il prossimo periodo di programmazione 2007-2013.

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I. Introduction

I.1 Foreword

Regional development policy in Italy, started in 1998-1999, for the first time introduced a rewards and sanctions mechanism linked to the achievement of specified objectives by the central and regional governments responsible for public investment policies. This mechanism is commonly called performance reserve system.

In a performance reserve system, financial resources are set aside to be awarded when specified priority and strategic objectives are reached. In the case of regional development policy, a number of performance reserve systems have been employed largely to pursue institutional goals of improving resource's management and administration capabilities.

A feature shared by all these mechanisms was the need for the national government to ensure that key public interest objectives were achieved when responsibility for the selection and implementation of investment projects had been decentralised and delegated to regional governments. The performance mechanism was therefore aimed at influencing the behaviour of the entities involved (regional and central governments, other governmental departments and offices etc.), directing them towards critical but difficult-to-achieve objectives and encouraging them to accelerate the completion of envisaged procedures.

The earmarking of financial resources directly and explicitly connected with the achievement of the stated objective focused the attention of politicians and administrators, increasing the likelihood that all the actions necessary to achieve it would be implemented. Examples of performance reserve objectives include the completion of administrative procedures within the specified time, the definition of expenditure commitments and the implementation of investment expenditure in a circumscribed period of time, and the execution of new tasks in accordance with specified quality standards. In all these cases, essential but apparently secondary objectives compared with the main investment project, obtained visibility and priority.

A review conducted in January 2004 identified nine different mechanisms¹ used within development policies. The administrations involved were largely regional or sub-regional bodies or central government departments and offices. The main feature of these

¹ For more information on the different mechanisms used see DPS (2004)

mechanisms, compared with analogous international experiences, especially in English-speaking countries, is the emphasis placed on objectives for institutional progress, which were specifically and explicitly pursued in the belief that a) shortcomings in this field have been one of the main factors underlying the poor results of previous development policy experiences in Italy, especially in Southern Italy, and b) the chain of responsibility for actions undertaken for institutional progress is quite straightforward and therefore measurable.

The effectiveness of the mechanisms was in many cases reinforced by competition among the participating administrations: resources not allocated because of a failure to achieve the objective (called surpluses) were redistributed among those administrations who performed satisfactorily, thereby increasing the financial reward of the latter and increasing the disparity between the outcomes associated with virtuous and negligent behaviour.

The first of these mechanisms to be established, and also the most significant in financial terms, is the *Structural Funds Performance Reserve Mechanism*. The resources available amounted to about €4.6 billion, corresponding to 10 per cent of overall Community resources and national co-financing appropriated within the 2000-2006 Community Support Framework (CSF). This mechanism is the subject of the present document. The paper offers a unified framework to describe and interpret the system, the criteria adopted, the results achieved and how the mechanism continued after its deadline. In the light of the experience gained and the design and functioning of the mechanisms examined, we can offer an assessment of the effectiveness of the performance reserve mechanisms applied to the administrative environment and the lessons learned. The goal is to provide government entities with a coherent documented record that, in addition to detailing concrete innovative practice, might also serve as food for thought in the design of performance reserve mechanisms for the 2007-2013 programming cycle.

The detailed documentation referred to in this report include the criteria specification documents, Monitoring Reports by the Managing Authorities of the Operational Programmes, the Monitoring and Final Reports of the Performance Reserve Technical Group and, for the outcomes of the mechanisms, the official documentation of the Monitoring Committee of the CSF (6 per cent) and the European Commission (4 per cent). All supporting documentation is in the CD ROM attached to this document.

I.2 Essential characteristics of the Structural Fund Performance Reserve System

The mechanism was launched with the approval of the 2000-2006 CSF (August 2000), which is the first national reference document for the system, and ended with the last allocation of funds in April 2004. The resources involved totalled about €4.6 billion of Community and national co-financing funds.

The system comprises two distinct performance reserves: a Community reserve, which amounts to 4 per cent of total resources, and a national reserve accounting for 6 per cent of total resources. The 4 per cent performance reserve is called “Community” reserve because it was initially required by the Regulations for the allocation of Structural Funds, which set out the principles and general criteria that the Member States must follow in allocating funds. Italy judged the proposed mechanism to be appropriate and decided to extend it to a further 6 per cent of resources, allocated in accordance with strategic objectives set at national level.

Seven regional governments and seven central government departments participated in the two performance reserve mechanisms: all the regional governments responsible for the Regional Operational Programme (ROPs) in the Objective 1 Regions (Basilicata, Calabria, Campania, Puglia, Sardinia and Sicily) and the Molise region, phasing out from Objective 1, as well as the central government departments responsible for the National Operational Programmes (NOPs), namely Fishing (Ministry for Agricultural Policies), Schools and Research (Ministry of Education, Universities and Research), Local Development (Ministry of Productive Activities), Transportation (Ministry of Infrastructure and Transport), Law Enforcement (Ministry of Interior), and Technical Assistance and Systemic Actions, which involves a range different bodies and institutions (Ministry of Labour, Department for Equal Opportunities, Department for Public Administration, National Statistical Office, etc.) with the co-ordination of the Department for Development Policies of the Ministry for the Economy and Finance.

In addition to their different objectives and indicators, the 4 per cent and 6 per cent performance reserves differ in the period of application of the mechanism (shorter in the latter case), in the role of the European Commission in the evaluation and allocation of resources (more extensive in the case of the Community reserve), and in the mechanisms and the responsibility for allocating resources.

National and regional programmes are treated separately in both reserve performance systems and in some cases use different indicators. Although the responsibility for achieving the target falls on the government entities responsible for the Operational Programmes of the 2000-2006 CSF, the performance reserve system seeks to cover the entire regional territory and influence the operational ability of those entities in their entirety.

The active monitoring of the degree to which targets are achieved, periodically carried out by an ad-hoc Technical Group, has had a fundamental role in both reserves.

This report examines in greater detail the 6 per cent performance reserve mechanism, which is an original development implemented by Italy, in sections II-V below. Section VI offers an updated overview of the current reserve mechanism implementation, including at the subregional level, and describes the current monitoring of progress in achieving the institutional enhancement indicators of the national 6 per cent reserve. In order to provide a more complete picture of the performance reserve system of the Structural Funds, sections VII and VIII describe the principal features of the 4 per cent performance reserve system and present a summary comparison of the two mechanisms. Section IX briefly describes the specific mechanisms applied to the Molise and Technical Assistance programmes, whose special planning characteristics set them apart from the general case.

II. The 6 per cent performance reserve system: indicators and rules for allocating resources

II.1 Selection of indicators and targets

The system governing the 6 per cent national reserve uses criteria and indicators that summarise a number of conditions believed to be necessary for the success of the CSF strategy. The indicators encourage, on the one hand, institutional enhancement in specific areas of the reform of the public administration carried out in the 1990s that are considered essential to achieving the final results of the CSF, and, on the other hand, the integration and concentration of projects in order to improve quality.

The first set of indicators, which concern institution building, envisages ten indicators for regional governments and four criteria for central government entities. These regard

the modernization of the public administration with a view to improving the management of the Structural Funds², and the application of reforms in sectors considered to be particularly important for attaining CSF objectives. The benchmark thresholds for the indicators were set exogenously on the basis of collegial discussions in which the central and regional administrations shared information, data and analysis to help determine targets.

As regards the other two criteria, integration and concentration (the latter applied only to regional governments), both envisage only one indicator, albeit with two distinct progress benchmarks. In this case the performance reserve mechanism is based on a target determined by the average performance of all the administrations involved.

The choice of indicators and the corresponding targets against which performance is measured and rewarded was also based on consideration of the risks/opportunities of this approach, such as: the need to identify clear and relevant indicators for the activities of the administrations; the possibility that exogenous factors or, conversely, internal factors could modify the value of the indicator; issues regarding the completeness and reliability of data; the disclosure of information useful for the decision-making process (for example through reference standards against which citizens can evaluate the progress of government).

Institutional enhancement

The indicators concerning institutional enhancement (see Tables II.1 and II.1B) can be subdivided into two homogeneous groups based on the objective for which they were defined:

1. Indicators aimed at implementing national reform laws and the simplification of the Public Administration or laws on sector reform critical to the CSF strategy 2000-06;
2. Indicators aimed at establishing and implementing administrative and organisational procedures to accelerate and enhance the effectiveness of spending.

The first group rewards certain aspects of administrative reform considered essential to promoting the effectiveness of government action, first and foremost the effective adoption and implementation of Legislative Decree 29/93 (*A.1 Assignment of Managerial*

² The aspects concerning the sound management of the Structural Funds constitute the main subject of the Community 4 per cent reserve. See section VII.

Responsibilities to Officials). This indicator is intended to accelerate the transition from the traditional formal/hierarchical approach to a result-oriented one: it creates incentives for the separation of responsibilities between executive bodies and policy makers, and promotes ways of assigning management responsibilities, which include the adoption and implementation of techniques for assessing managerial activities and quantifying the objectives to be assessed.

Similarly, the indicator “*A.2 Establishment of internal management control unit*” referred to in Art. 4 of Legislative Decree 286/99 rewards administrations that have identified the following: the units responsible for planning and exercising the internal management control; the organisational structures and officials that are the object of the assessment of the efficiency and economy of administrative action; the procedures for setting management objectives and outputs; the techniques, criteria and frequency of cost assessments. To this end, appropriate training programmes also need to be set up for the personnel of the units responsible for management control and the heads of responsibility centres.

The indicators concerning the reforms designed to streamline administrative procedures in order to provide better services to businesses and citizens include the *creation of one-stop shops for business (A.5)*. and the *implementation of the reform of employment services (A.6)*. The first provides for the creation of one-stop shops for an area with at least 80 per cent of the regional population and that procedures should be completed by statutory deadlines in at least 90 per cent of cases. The second requires that institutional procedures for the implementation of the reform of employment services be completed and that functions have been planned and implemented so that active employment centres are available to at least 50 per cent of the regional population. These functions include information and reception, orientation and advice, matching of labour supply and demand and implementation of Law 68/99 for disadvantaged persons.

These measures establish incentives to accelerate the implementation in Southern Italy of reforms that, by simplifying procedures and enhancing the quality and speed of services, facilitate the formation and expansion of businesses in the area, as well as improving individual job placement and orientation mechanisms by establishing more advanced employment services.

Furthermore, in order to increase the competitiveness of the southern Objective 1 regions, in addition to increasing the volume and quality of public investments it is

considered necessary to activate policies which enable the public administration to provide quality services, including by promoting the introduction of competitive mechanisms in the provision of public services and expanding the scale and market orientation of the services themselves. These aspects are explicitly addressed with the 6 per cent reserve, encouraging reforms in the *implementation of integrated water services (A.8) and solid waste management (A.9)*. These are sectors that receive a considerable amount of funds as they are felt to be critical to achieving the objectives of the CSF and, as such, they are subject to a number of conditions regarding the use of Community funding after the first few years.³

Since services in both sectors are delivered in a fragmented, inefficient manner, often operated directly by municipalities, the incentives seek to reward the implementation of sector reforms, namely the creation of optimal service areas to manage operations on an appropriate scale and the outsourcing of some of the functions traditionally managed directly. In the case of the water resources indicator, the initiation by the relevant authority of procedures to outsource the management of integrated water services is rewarded. This presupposes the creation of optimal service areas, on the basis of Article 9 of Law 36/94, and the taking of significant steps in the reform ahead of the schedule indicated in the CSF, such as the preparation of the plan for the service area and its approval by the relevant authorities.

In the case of solid waste management, the creation of the optimal service areas and the related management plans by the expiry date of the performance reserve system (September 2002), is rewarded, in this case also with the aim of accelerating the organising of the sector and its rationalisation on an economic and financial basis. The targets envisaged in both cases reinforce regulations already present in the CSF as they reward an additional and successive enhancement relative to the commitments which prerequisite to have access to Structural Funds.

Other reforms taken into consideration are *territorial and landscape planning (A.7)* and the *operation of Regional Environmental Protection Agencies (A.10)*, which are support tools for the implementation of the CSF and, in particular, for Priority I - Natural Resources and the Priority II - Cultural Resources.

³ Under CSF regulations, Community resources can be used within organizational structures that are not yet fully reformed only during the first few years of the programme implementation.

The second group of indicators encourage the implementation of administrative and organisational procedures designed to accelerate and increase the quality and effectiveness of expenditure. Both central and regional administrations are required to set up and implement, by July 2001, the *evaluation and verification units pursuant to Law 144/99 (A.3)*. These units are responsible for offering support for the planning process, in terms of ex-ante evaluations, analyses, opinions and assessments of programmes or projects, as well as developing methods for the dissemination of best practices in evaluation within government. The establishment of these structures within government administrations injects new skills and knowledge into the evaluation function, which is critical for deciding public investment policy. Their introduction therefore seeks to directly and indirectly influence the quality of public investments.

The introduction of the indicator (A.4) for the adoption of information technology in the monitoring procedures for financial, procedural and physical data transmitted from final beneficiaries to the regional government for a substantial number of final beneficiaries (indicator for the Regions) and in payment orders with concurrent commitment of funds (for central government bodies), rewards the speedy activation of administrative procedures which exploit the technological and organisational innovation facilitated by information technology and the “e-economy” and which allow higher quality information, to speed up and control better the transmission of information, making more effective the implementation of programmes.

The indicators relating to institutional enhancement on which central government bodies compete are: A.1 Assignment of managerial responsibilities to officials, A.2 Establishment of internal management control unit in accordance with Article 4 of Legislative Decree 286/99, A.3 Establishment of evaluation and verification units in accordance with Law 144/99 and A.4 Adoption of information technology in payment orders with concurrent commitment of funds.

Table II.1A Indicators and targets of the 6 per cent performance reserve system for regional governments

OBJECTIVE	INDICATOR	TARGET
INSTITUTIONAL ENHANCEMENT		
Implementation of national legislation fostering the process of public administration reform and procedural streamlining or sector reforms critical for the 2000-2006 CSF	◆ Assignment of managerial responsibilities to officials (Legislative Decree. 29/93 (A1)	◆ Transposition of Legislative Decree 29/93 and issuance of annual guidelines for evaluation of managers
	◆ Establishment of internal management control unit (Legislative Decree 286/99) (A2)	◆ Adoption of the project for the implementation of the system; establishment of system; appointment of managers and staff; training of personnel; start of system operations
	◆ Creation of regional one-stop shops for business (A5)	◆ At least 80% of the regional population covered by one-stop shops; at least 90% of procedures completed on time or average start time of procedures for new production plan not > than 75% of deadline
	◆ Implementation of regional employment services (A6)	◆ Completion of institutional process and activation of advanced service functions for users for at least 50% of the regional population
	◆ Territorial and landscape planning (A7)	◆ Compliance with requirements for each region in accordance with Law 499/99
	◆ Implementation of integrated water service (L. 36/94 (A8)	◆ Choice by area body of procedures for the delegation of integrated water services for at least 60% of the population or for the single optimal service area (Art. 9 Law 36/94)
	◆ Solid waste management by optimal service areas (A9)	◆ Regulation specifying optimal service area; institution of bodies for the cooperation selected; specification of area rates; approval of investment programmes
	◆ Operation of regional environmental protection agencies (A10)	◆ Approval of regional legislation establishing regional EPA; appointment of director and administrative bodies; preparation of internal regional EPA rules; allocation of financial and human resources
Innovations for accelerating and enhancing the effectiveness of Structural Funds expenditure	◆ Establishment of regional and central government evaluation units (L. 144/99 (A3)	◆ Formal adoption of measures establishing units with specification of functions; appointment of director; selection of personnel
	◆ Development of the information society in government (A4).	◆ Electronic transmission of monitoring data for at least 50% of final beneficiaries for at least 60% of total expenditure
INTEGRATION	◆ Implementation of integrated territorial projects (B)	◆ Benchmark I: ratio between commitments undertaken for PITs and total of ROP resources >= to 70% of average value of all ROPs Benchmark II: ratio greater or equal to average value
CONCENTRATION	◆ Concentration of financial resources within a limited number of measures (C)	◆ Benchmark I: at least 70% of financial resources, in at least four priorities, are concentrated in a number of measures lower or equal to the average for all ROPs ◆ Benchmark II: at least 75% of financial resources are, for all priorities, concentrated in a number of measures lower or equal to the average for all ROPs

Source: DPS – UVAL

Table II.1B Indicators and *targets* of the 6 per cent performance reserve system for central government entities

CRITERIA	INDICATOR	TARGET
INSTITUTIONAL ENHANCEMENT		
Implementation of the national legislation fostering the process of public administration reform	◆ Assignment of managerial responsibilities to officials (Legislative Decree 29/93 (A1))	◆ Transposition of Legislative Decree 29/93 and issuance of annual guidelines for evaluation of managers
	◆ Establishment of internal management control unit (Legislative Decree 286/99 (A2))	◆ Adoption of the project for the implementation of the system; establishment of system; appointment of managers and staff; training of personnel; start of system operations
Innovations for accelerating and enhancing the effectiveness of Structural Funds expenditure	◆ Establishment of regional and central government evaluation units (L. 144/99)(A3)	◆ Formal adoption of measures establishing units with specification of functions; appointment of director; selection of personnel
	◆ Development of the information society in government (A4)	◆ Electronic transmission of at least 70% of total expenditure commitments
INTEGRATION	◆ Integration of PON strategies in territorial programming (B)	◆ Benchmark I : ratio between commitments in integrated agreements with Regions and total of NOP resources \geq 70% of the average ratio for all NOPs Benchmark II: ratio greater or equal to average value in all for all NOPs

Source: DPS – UVAL

Integration and concentration criteria

The other two criteria, on the basis of which the 6 per cent performance reserve system indicators have been chosen, are integration and concentration. These are believed to be essential to maximising the effect of investments for any given level of resources.

Integration is based on the assumption that, when resources are limited, it is appropriate to pursue only a restricted number of objectives and, for each objective identified, to implement all necessary interventions through a process that is integrated at the territorial and temporal levels. In addition to being relevant to the objective pursued, this process is also highly coherent internally and is characterised by reliable and efficient organisational and managerial approaches, where the benefits generated are greater than the sum of the benefits that could be obtained through isolated individual actions.

The 6 per cent indicator for integration for regional governments rewards the identification and the implementation of the Integrated Territorial Projects (PIT) through a process of refining the project in partnership with the other parties involved.

PITs are a strategic innovation in the programming for 2000-2006. For the purposes of the performance reserve system, consideration is only given to projects presented by regional governments that, on the basis of an evaluation by the Technical Monitoring Unit of the performance reserve system, satisfy the specified internal coherence and management reliability which are prerequisite for eligibility.⁴ This evaluation, which is made at the central level, is necessary to ensure the comparability of projects, an essential characteristic for specifying the benchmark level of the indicator. The latter focuses on the average state of progress in the funding commitments of the individual PITs. More precisely, two benchmarks have been established for access to different levels of the performance reserve: the first benchmark is achieved when the ratio of commitments made in the PITs that meet the eligibility the admission requirements with respect to the total funding of the operational programme is at least 70 per cent of the average value calculated from the ratio between overall commitments for operations in all the PITs that meet the eligibility requirements and the total cost of the ROPs; the second benchmark is reached when the average value is exceeded.

As regards central government, the integration criterion seek to encourage agreed procedures between the departments in charge of National Operational Programmes and the Regions to integrate territorial intervention strategies. As with the indicator for regional governments, the criterion first specifies certain requirements for the agreements between government bodies. Subsequently, in order to satisfy the indicator, the ratio of commitments relating to projects or measures included in the agreements with respect to the total funding of the programme is compared against the average value for commitments by all participating bodies. In the case of central government bodies two benchmarks are also specified for access to the different levels of the performance reserve: the first benchmark is reached when the ratio of commitments to the total resources of the operational programme is at least 70 per cent of the average; the second benchmark is reached when the average value is exceeded.

The *concentration* criterion measures the ability of government bodies to focus financial resources on a limited number of specific objectives both in the programming phase, with the approval of the “Programming Complement” document, and in the implementation phase, i.e. maintaining the same level of resource concentration in the last financial plan approved by the Monitoring Committee of the Operational

⁴ A detailed description of the requirements for the eligibility evaluation and its results are contained in “Gruppo Tecnico per il Monitoraggio della Riserva di Premialità” (2003a)

Programme by September 2002. This indicator is applied exclusively to the Regional Operational Programmes because they are the only ones that have a multi-sector nature and the same structure by priorities that would enable comparison of the approaches of different bodies to organizing the programmes. The proxy variable used in assessing concentration is the division of programmes into measures corresponding to one or more specific objectives of the current programming format adopted by the CSF for Objective 1.

The indicator shows the level of financial concentration of the programmes in a limited number of measures, comparing the size of financial allocation by measure between regional governments relating to the same priority axis, hypothesising that the amount of financing reflects the hierarchy of objectives. For each priority, the average number of measures is calculated for all the Regional Operational Programmes in which 75 per cent of the financial resources of the priority are concentrated. This becomes the “target value”, against which the behaviour of the individual programmes is measured. There are also two benchmarks with respect to the target value which facilitate access to a different level of performance reserve on the basis of the degree of concentration of the single programme. The first benchmark rewards those operational programmes for which 70 per cent of financial resources, in at least four priorities, is concentrated in a number of measures less than or equal to the target value. The second benchmark rewards those operational programmes for which 75 per cent or resources is concentrated, for all priorities, in a number of measures less than or equal to the target value.

As illustrated above, the indicators of the 6 per cent performance reserve system seek to use verifiable and quantitative measures to identify intermediate objectives of territorial programming, such as building or strengthening institutional capabilities. This involves encouraging Southern Italy to accelerate or bring forward the introduction of national- and European-level principles of implementation for integration and concentration, the timing of which can contribute to improve the conditions in question and set in motion a virtuous pattern of growth.

In general, the path towards the fulfilment of the “institutional” indicators is sufficiently clear and substantially the same for all institutions. Thus, the performance reserve can be directed at accelerating this process. For this reason, the indicator targets for institutional enhancement represent minimum standards and are themselves broken

down into a number of requirements that describe the subsequent steps necessary to achieve the indicator completely. During the definition of the indicators and targets some of the administrations participating in the performance reserve system had asked for the targets to be adjustable to take into consideration both special circumstances, such as independent legislation, and their different starting points in relation to the reforms underlying the performance reserve indicators. However, because of the need to ensure the measurability and comparability of results, it was decided to adopt indicators whose targets could be unequivocally fixed for all administrations to avoid significant disparities in the efforts of the various Managing Authorities.

In the case of the financial integration and concentration criteria it was decided to adopt relative targets linked to the average performance of government entities. This choice was dictated by two considerations: first, at the time the targets were set, it was not clear how the entities were going to interpret and apply the principle of integration and concentration defined by the CSF and therefore which paths (and how different) they would take to satisfy the performance reserve indicators. It was also intended to introduce a certain degree of direct competition between the entities participating in the performance reserve system to discourage collusion.⁵

II.2 Resource allocation rules

The 6 per cent national performance reserve amounts to about €2.6 billion in Structural Funds and national co-financing. Six regional governments and six central government entities responsible for the Operational Programmes for the 2000-2006 CSF participate separately stake in this system.⁶ Potentially, each entity has access to a total of 6 per cent of resources initially allocated to the Operational Programme.⁷

The mechanism for the allocation of resources provides for the access to individual portions of the 6 per cent reserve connected with achieving the targets for each

⁵ For an examination of the use of absolute and relative benchmarks in fixing targets in competitive mechanisms see Brezzi, M., Raimondo, L., and F.Utli (2006).

⁶ The regions are Basilicata, Calabria, Campania, Puglia, Sardinia and Sicily and the central government entities are the Ministry for Productive Activities (Local Development NOP), the Ministry of Agriculture and Forestry, (Fishery NOP), Ministry of Education, Universities and Research (Education NOP and Research NOP), Ministry of the Interior (Law Enforcement NOP), Ministry of Infrastructure and Transportation (Transportation NOP). Performance reserve resources are also set aside for the Molise ROP and the Technical Assistance NOP, but the allocation rules differ from those for the 6 per cent reserve (see also Section IX)

⁷ Accordingly, the absolute amount of available financial resources is not the same for all entities as it is proportionate to the overall endowment of each programme.

indicator. This flexibility was introduced in the conviction that, considering the broad scope and variety of the areas of intervention, the achievement of each target on the part of administrations responsible for Operational Programmes could contribute positively to improving the programming process and implementation of the investment programme. In addition, the possibility of accessing individual portions of the reserve can be a strong incentive for entities that, because of their history, traditions or size, are less efficient and therefore can focus their organisational and renewal efforts on a selected and restricted number of indicators, achieving at least some of the results.

The performance reserve indicators have different weights that reflect the importance given to each criterion (institutional enhancement, integration and concentration) at the time the system was developed. In the case of Regional Operational Programmes, the achievement of the targets for each of the ten indicators for institutional enhancement allows the allocation of 0.35 per cent of resources initially set aside for the programme (institutional enhancement therefore accounts for 3.5 per cent of the resources initially allocated to the programme). The achievement of the benchmarks for the integration criterion provides access to an allocation of 0.8 per cent for the first benchmark and 0.7 per cent for the second. Finally, achievement of the benchmarks for financial concentration gives access to an allocation of 0.6 per cent for the first and 0.4 per cent for the second (for a total of 1.5 per cent and 1 per cent of the resources appropriated for integration and concentration, respectively).

With regard to National Operational Programmes, achievement of each the four institutional enhancement indicators triggers the allocation of 0.9 per cent of the resources initially set aside for the programme (institutional enhancement therefore accounts for 3.6 per cent of resources initially set aside for the programme). In addition, only the integration criterion is applied: the programmes satisfy the first benchmark they gain access to 1.4 per cent of the initial allocation, with another 1 per cent coming when the second benchmark is surpassed. The annexes include the points and financial resources for each indicators.

The reference date for the evaluation of the extent to which the indicators have been satisfied is 30 September 2002, except for the requirements relating to the evaluation and verification units in central and regional administrations, the fulfilment of which was brought forward to 2001.

In order to increase its effectiveness, the national performance reserve system has also been designed with the aim of promoting a certain degree of competition among regional or central administrations in reaching the same objectives.⁸ Direct competition between programmes has been introduced only in the case of concentration and integration criteria where the benchmarks are set on the basis of the average performance of the entities involved. For the remainder, competition between entities responsible for implementation is second-level competition, i.e. it takes place only after awarding the resources for the indicator targets achieved and only if some programmes have not reached the targets envisaged for one or more indicators. In this case, the surplus (residual resources) is available separately for the central and regional levels, which do not compete for the allocation of unassigned resources. Because the indicators used to evaluate regional and central government bodies differ, the entities therefore compete within their own group, although the mechanisms for the allocation of resources are the same. This approach is intended to avoid a lack of homogeneity in the set of indicators by which the central and regional administrations are measured, together with their institutional and governance systems, which might have favoured or disadvantaged one of the two groups.

The mechanism for the allocation of the surplus assigns 50 per cent of it to those entities that have satisfied at least one indicator, in proportion to the number of indicators satisfied, taking account of their initial budget appropriation. The surplus distribution mechanism is intended to reward good performers with an extra incentive. At the same time, in order to reduce the risk that poor performance by many entities could lead to the award of performance reserve resources in a quantity that would be difficult for a single body to absorb, even if very efficient, it was decided to distribute only 50 per cent of the surplus based on performance.

Of the remaining 50 per cent, 25 per cent is assigned in accordance with the results of the 4 per cent community performance reserve and the remaining 25 per cent on the basis of a proposal by the Managing Authority of the CSF.⁹ Therefore, at the end of the competition for the 6 per cent performance reserve indicators (30 September 2002) it

⁸ See Brezzi et al. (2006) for a theoretical analysis of the role of competition in increasing overall efficiency.

⁹ See “*QCS Obiettivo 1 2000-06 Criteri e meccanismi di assegnazione della riserva premialità del 6 per cento*” March 2002 and “*Proposta di attribuzione della riserva di premialità nazionale del 6 per cento*” of 17 February 2004; in this last document it is decided to assign 25 per cent of the surplus on the basis of performance of each programme with respect to the set of 4 per cent indicators, simplifying the procedures originally devised, which envisaged assessing performance priority by priority with respect to certain 4 per cent indicators.

was possible to assign only 50 per cent of the surplus, in addition to the specific resources for the achievement of the objective. The remaining portion was carried over to the following year to await the outcome of the 4 per cent community performance reserve system (25 per cent) and (for the other 25 per cent) the proposal of the Managing Authority of the CSF for the assignment of a second tranche of the national reserve for 6 per cent objectives (for the distribution procedures for performance reserve resources and the surpluses see Sections IV.3 and IV.4 and Tables IV.1 and IV.2; the timetable for the allocation of resources is summarised in annex A).

III. Implementing the 6 per cent performance reserve mechanism

III.1 Stages in the definition of the indicators

As with the establishment of the 2000-2006 CSF, the performance reserve system is based on a close institutional and social partnership in the definition of the performance reserve mechanism and in the choice of indicators and targets to be achieved. The competing entities themselves were involved from the outset in these choices, with the aim of ensuring the transfer of knowledge disseminated to the different levels of government and to those responsible for the Operational Programmes, of increasing the entities' "ownership" of the performance reserve system, and of making the indicators and the targets a real priority in the policies of the Regions and Ministries involved.

The Department for Development and Cohesion Policies (DPS) was the main actor in defining the performance reserve system, filling the role of co-ordinator as well. The partnership process of analysis, elaboration and exchange of information, which lasted about 18 months, and ended with the final draft of the Mezzogiorno Development Plan (MDP), identified the basic principles of a system of competition between public administrations for resources. The MDP, approved in September 1999, included a brief description of the two performance reserves linked to the Structural Funds. With regard to the 6 per cent performance reserve, the MDP sets out the main rules for the mechanism and the criteria and thematic areas on which to base the specification of the indicators.

The Public Investment Evaluation Unit (UVAL) of the DPS was in charge of finalising a proposal for the implementation of the 6 per cent performance reserve system. This

document was attached to the 2000-2006 CSF¹⁰ and therefore, with the approval of the latter in August 2000, it became an effective decision of the European Commission and a binding commitment for Member State. The year between the drafting of the MDP and the ratification of the CSF saw intense collaboration between UVAL, the Managing Authorities of the Operational Programmes¹¹ and central government entities responsible for the reforms addressed by the performance reserve system. The indicators were chosen from the list proposed by the MDP. They were specified precisely on the basis of measurability and available information, while their feasibility was assessed both by the entities responsible for the thematic areas and by means of a survey of state of progress in each participating entity for each theme. A number of simulations were conducted to define the benchmarks for the financial concentration criterion, and general principles were established for allocating financial resources.

Although the indicators for the performance reserve system were included in the CSF, after the ratification of the latter it was therefore necessary to specify precisely the targets for some indicators, the different requirements of which they are composed, and the measurement procedures. The central government bodies with specific skills and responsibilities for the issues addressed often realized that the performance reserve system could be a tool for speeding up and implementing sector reforms and therefore they not only actively participated in the choice of targets, but in some cases took on responsibility for monitoring and evaluating progress (the Ministry of Labour, for the indicator relating to employment services, the Department of Public Administration for the one-stop shop for businesses and the Ministry for Cultural Heritage for the indicator relating to territorial planning). This stage also included a series of meetings and exchanges of working documents with the OP Managing Authorities.

The final document regulating the 6 per cent performance reserve system was approved by the Monitoring Committee (MC) of the 2000-2006 CSF in April 2001.¹² Compared with the preliminary versions, this document contains a new definition of the indicator for the information society since the original definition proved difficult to measure. Some indicators: - territorial planning and integration – are specified in greater detail and

¹⁰ See Annex D of the CSF. Section 6.5 of the document outlines the criteria and mechanisms for the allocation of the 4 per cent performance reserve.

¹¹ The Managing Authority is composed of the departments of the entity responsible for the Programmes. In the case of Regions these are usually the programming departments.

¹² See DPS 2002b “*QCS Obiettivo 1 2000-06 Criteri e meccanismi di assegnazione della riserva di premialità del 6 per cento*” – UVAL (9 April 2001) amended by the Monitoring Committee of the CSF on 14 March 2002.

other targets were modified following the collection of information (for example, the target relating to the spread of one-stop shops for businesses was set at a lower value than that originally proposed by the Department of Public Administration following a preliminary survey on the state of implementation of the regulation. The rules of the performance reserve mechanism was also modified in part: for example, greater importance was given to the criterion for institutional enhancement (from around 33 per cent in the first version of the document to 60 per cent in the final one) following an explicit request by the Managing Authorities, which had understood the importance of capacity building.

After the initial period of implementation of the performance reserve, a number of modifications and improved specifications of the indicators were implemented at the suggestion of the monitoring group or following specific requests from the Managing Authorities or the participating administrations involved in the monitoring.¹³ The changes, which were in any case limited and did not compromise the credibility of the mechanism, are described in the following sections.

III.2 Monitoring the performance reserve system

The 6 per cent performance reserve system was in operation for two and a half years from the approval of the CSF in August 2000, where the main principles of the 6 per cent performance reserve system were already outlined, up to March 2003, after which the Monitoring Committee of the CSF approved the allocation of the performance reserve resources on the basis of the results achieved by the participating entities. This initial period was followed by another seven months during which the entities competed for the allocation of unassigned surpluses on the basis of a number of the performance reserve indicators to be achieved by September 2003 (the so-called “*second tranche*” of national performance reserves; see below, Section IV.2).

A major role is played by the monitoring of the results achieved during the entire period of implementation of the performance reserve system. Since the programming of the Structural Funds is largely based on a cooperative approach, the monitoring and the evaluation of the reserve were conceived so as to enable information sharing between all

¹³ A deeper analysis of the improved specifications made during the implementation of the performance reserve mechanisms can be found in Barca, F., Brezzi, M., Terribile, F. and F.Utli (2004).

parties involved. In order to assess the yearly progress made by the participating administrations with respect to the targets and the benchmarks set out in the performance reserve system and to provide the entities, where necessary, with assistance in redirecting their actions, an inter-institutional Technical Monitoring Group was set up. The group is composed of two representatives from UVAL and two representatives from the regional evaluation units.¹⁴ In carrying out its work, the Technical Group received contributions from all the entities involved both as recipients of resources and as organisations helping the Technical Group in monitoring and, in some cases, certifying the level of compliance with the indicators.

The system is, in fact, based on self-certification or the provision of the documentation of the results achieved, and on an annual self-evaluation contained in a monitoring report. This report is discussed and approved by the Programme's Monitoring Committee and later forwarded to the Technical Group. On the basis of the administrations' reports on progress in meeting targets and on other official sources, the Technical Group prepares a monitoring report that indicates the state of implementation, identifies delays, suggests specific remedies and recommendations to overcome potential obstacles that could adversely affect the achievement of the indicators.

This Technical Report, adopted by the Managing Authority of the CSF¹⁵ and forwarded to the Monitoring Committee, provides the information base on which the Monitoring Committee of the CSF can draft specific recommendations for each entity¹⁶ (see Table III.I for an illustration of the monitoring phases).

After the expiry of the deadline set for achieving the objectives of the national performance reserve system (30 September 2002), the Technical Group drafted a final report - based on the final reports prepared by the Managing Authority of each programme - containing the assessment of whether the performance reserve indicators and criteria had been satisfied so the Managing Authority of the CSF¹⁷ could produce a proposal for the allocation of resources.

¹⁴ The Technical Group was formally established by a decree of the chairman of the Monitoring Committee of the CSF, Head of Department for Development and Cohesion Policies, on 13 June 2001 and is coordinated by a UVAL representative with technical, administrative and organisational coordination duties.

¹⁵ Assured by the Directorate for Community Structural Funds Policies of the DPS.

¹⁶ See Gruppo Tecnico per il Monitoraggio della Riserva di Premialità, August 2001 and March 2002.

¹⁷ See Gruppo Tecnico per il Monitoraggio della Riserva di Premialità, March 2003

The performance reserve system introduces for the first time an element of competition among public administrations in the allocation of public resources and gives to the Managing Authority of the CSF the role of distributing resources within a competitive framework to regional governments and sectoral entities. Thus, the establishment of the Technical Group, with its duty to verify the applicability of the mechanism, monitor the progress of the entities and express a final evaluation, first and foremost meets the need for the presence of a third party between the body distributing the resources and the participating entities, guaranteeing fairness in the performance evaluation process and thereby providing a further incentive to participate.

Table III.1 Monitoring phases of the 6 per cent performance reserve

Year	Period	Entity	Activity
2001	30/04/2001	Managing Authority of the Operational Programmes	Approval of 1st Annual Report by the Monitoring Committee of the Operational Programme and transmission to Managing Authority of the CSF
	26/09/2001	Technical Group	1st Technical Report to the Managing Authority of the CSF
	As scheduled	Managing Authority of the CSF	1st Report to the Monitoring Committee of the CSF
2002	31/01/2002	Managing Authority of the Operational Programmes	Approval of 2nd Annual Report by the Monitoring Committee of the Operational Programme and transmission to Managing Authority of the CSF
	30/05/2002	Technical Group	2nd Technical Report to the Managing Authority of the CSF
	As scheduled	Managing Authority of the CSF	2nd report to the Monitoring Committee of the CSF
	30/09/2002	Managing Authority of the Operational Programmes	Approval of 3rd Annual Report by the Monitoring Committee of the Operational Programme and transmission to Managing Authority of the CSF
2003	10/03/2003	Technical Group	3rd Technical Report to the Managing Authority of the CSF
	12/03/2003	Managing Authority of the CSF	Proposal for the allocation for each PO to the Monitoring Committee of the CSF
2004	2/04/2004	Monitoring Committee of the CSF	Adoption of final proposal for the allocation of resources and surpluses

Source: DPS-UVAL

The Technical Group actively participated in the definition of indicators and targets with the goal of choosing the most significant indicators and describing the targets unambiguously. When the performance reserve system criteria and mechanisms were defined and approved, the Technical Group met with each Managing Authority to provide information on all aspects of the performance reserve system and the role that the Technical Group would play. At the same time, these meetings facilitated the collection of information on how the entities would “translate” indicators and targets, fill the information gap of a centralised/decentralised set of rules, and correct, in

advance if possible, certain inaccuracies. Thanks to these initial meetings and the subsequent actions, a consensus was created around the performance reserve system.

The Technical Group also made a significant contribution to the identification of specific problems and suggested possible solutions as well as making proposals to modify the performance reserve system document in order to overcome specific problems that arose during the first period of implementation. These modifications, however, did not compromise the credibility of the system, because they were limited in number and because they were discussed and approved by all the members of the Monitoring Committee of the CSF. An example of this is the monitoring of progress made by the regional governments in achieving the integrated water system management indicator: this showed that the delay already accumulated by the governments at the beginning of 2002 would have proved difficult to bridge in the following 18 months, with the risk that all regions would have given up trying to satisfy this indicator. Therefore the Monitoring Committee of the CSF accepted the proposal made by the Technical Group in March 2002 to make the target for this indicator less ambitious.

With regard to the indicator for the implementation of territorial and landscape planning, the first monitoring exercise revealed the unsuitability of the targets proposed for each region by the Ministry for Cultural Heritage, in part because of the introduction of a new law in this sector. A new target, identical for all regions, was negotiated with the Ministry. Furthermore, the original text of the integration criterion for central administrations envisaged the drawing up of some form of formal negotiated planning instrument (Programme Agreements, Master Programme Agreements) as the only procedure agreed for strategy integration. However, in view of the differences between the programmes and the procedures for their implementation in collaboration with the regions, at the beginning of 2002 the indicator was reformulated to introduce greater flexibility in the way the criterion was to be implemented.

IV. Results achieved and resources allocated

IV.1 Indicators and targets achieved (30 September 2002)

The assessment of the results obtained by the deadline for the achievement of the 6 per cent performance reserve indicators (30 September 2002) was positive: the performance reserve mechanism fostered a marked acceleration in administrative modernisation and sector reforms. The results obtained allowed all the entities involved to receive a share of the financial resources available. At the same time, the competitive system envisaged

in the performance reserve system ensured that the financial resources allocated to the entities would also be of substantially different amounts.

On average both regional and central government entities achieved about 75 per cent of their *targets*, but in both groups the differences in performance were very high. At the regional level, Basilicata was the only one to satisfy all indicators, reaching 93 per cent of the targets (the only target missed was the second benchmark of the integration criterion).

Table IV.1 Results of the 6 per cent performance reserve: indicators and targets achieved at 30.9.2002 and points obtained

Administration	Indicators satisfied	Targets achieved	% of targets achieved	Points gained	% points achieved
ROP	(Max 12)	(Max 14)		(Max 60)	
BASILICATA	12	13	93%	53	88%
CALABRIA	4	4	29%	16.5	27%
CAMPANIA	8	9	64%	42	70%
PUGLIA	9	10	71%	38	63%
SARDINIA	3	3	21%	17.5	29%
SICILY	9	9	64%	34	56%
TOTAL ROP	45	48	57%	201	57%
Maximum obtainable total ROP	72	84	100%	360	100%
<i>Standard Deviation</i>	<i>3.39</i>	<i>3.79</i>	<i>27.09</i>	<i>14.26</i>	<i>23.82</i>
NOP	(Max 5)	(Max 6)		(Max 60)	
FISHING	1	2	33%	24	40%
RESEARCH	2	3	50%	33	55%
EDUCATION	4	4	67%	36	60%
LAW ENFORCEMENT	3	3	50%	27	45%
LOCAL DEVELOPMENT	5	6	100%	60	100%
TRANSPORT	2	2	33%	23	38%
TOTAL NOP	17	20	56%	203	56%
Maximum obtainable total NOP	30	36	100%	360	100%
<i>Standard Deviation</i>	<i>1.47</i>	<i>1.51</i>	<i>0.25</i>	<i>13.79</i>	<i>0.23</i>

(*) The amount of resources allocated to each entity is calculated on the basis of points achieved. Each indicator (or target in the case of financial integration and concentration indicators for which there are two benchmarks each) corresponds to a certain number of points equal to the relative weighting of the indicators (see Section II.2)

Source: UVAL presentation based on data from the CSF Monitoring Committee decision of March 2003

The other regions fall into two separate groups: on the one hand we have Campania, Puglia and Sicily, which achieved over 64 per cent of their targets, which corresponds to least eight indicators satisfied; on the other hand are Calabria and Sardinia with a very low performance, achieving less than 30 per cent of targets with only three indicators satisfied.

The results obtained by central administrations are similar, although compared with the regions they had a smaller number of indicators and targets (5 and 6 respectively) and

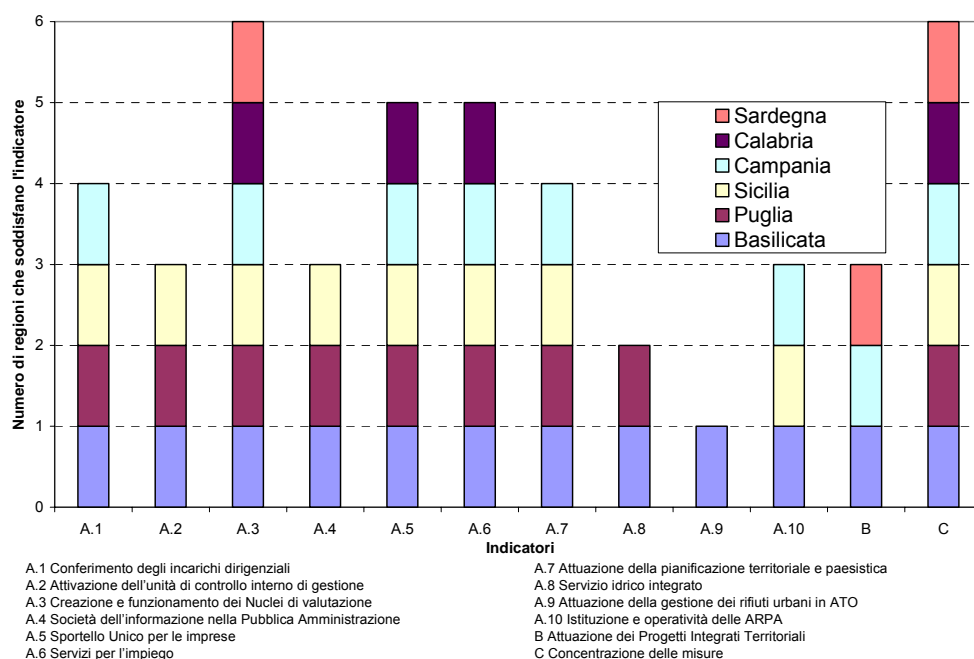
therefore a simpler system of objectives and incentives. In this case, the Local Development NOP (MAP) satisfied all the indicators and achieved 100 per cent of its targets; followed by the Education and Research (MIUR) and Law Enforcement (Ministry of the Interior) OPs, which achieved over 50 per cent of their targets. The last group includes the Fishing OP (MIPAF) and Transport OP (ITM), which achieved just over 30 per cent of targets, corresponding to 1 or 2 satisfied indicators.

As can be seen in Table IV.1, the different weighting given to the indicators means that the points obtained (and therefore the financial resources allocated) differ from the number of targets achieved.

The distribution of the performance of entities by indicator (Figures IV.1 and IV.2) shows that the goal of setting targets that are both ambitious and achievable was reached: all of the indicators were satisfied by at least one entity. Thus, in general, the indicators and the targets established two years before the final evaluation and the time span allocated for achieving them were chosen well.

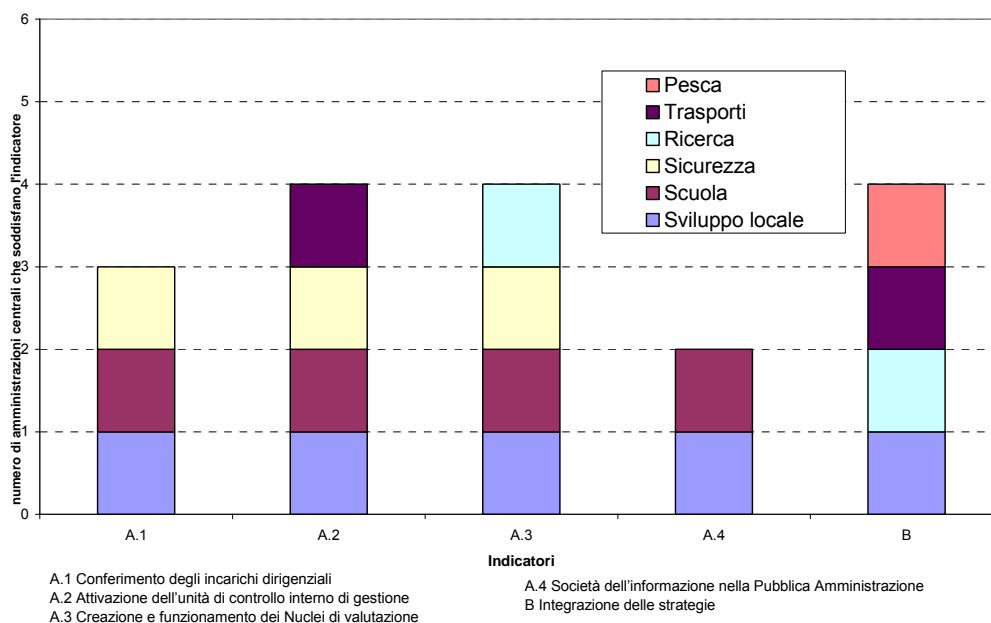
With regard to the indicators involving regional governments, half were achieved by at least four regions. The two indicators relating to the establishment of regional evaluation units and concentration of financial resources were met by all governments, while the indicator for the implementation of the integrated water system and solid waste management proved difficult to achieve. A deeper analysis of the progress made shows that all regions achieved a certain number of requirements that were part of the two indicators for water and waste although they were not able to fully achieve the indicators in the time span required.

Figure IV. 1 Indicators achieved by region at 30.9.2002



Source: UVAL presentation based on data from the CSF Monitoring Committee decision of March 2003

Figure IV.2 Indicators achieved by National Operational Programme at 30.9.2002



Source: UVAL presentation based on data from the CSF Monitoring Committee decision of March 2003

In the case of the reforms required by the water and solid waste performance reserve indicators, the initial state of underdevelopment in the regions and the difficulty in shortening the time necessary for the preparation of proper service management probably constitute the main reasons for the general difficulty the regions had in achieving the indicators.

With regard to the indicators for which the central government entities competed, Figure IV.2 shows that three indicators were achieved by at least four entities, no indicator was achieved by all entities and the Information Society indicator proved to be the most difficult to achieve (only two entities out of six).

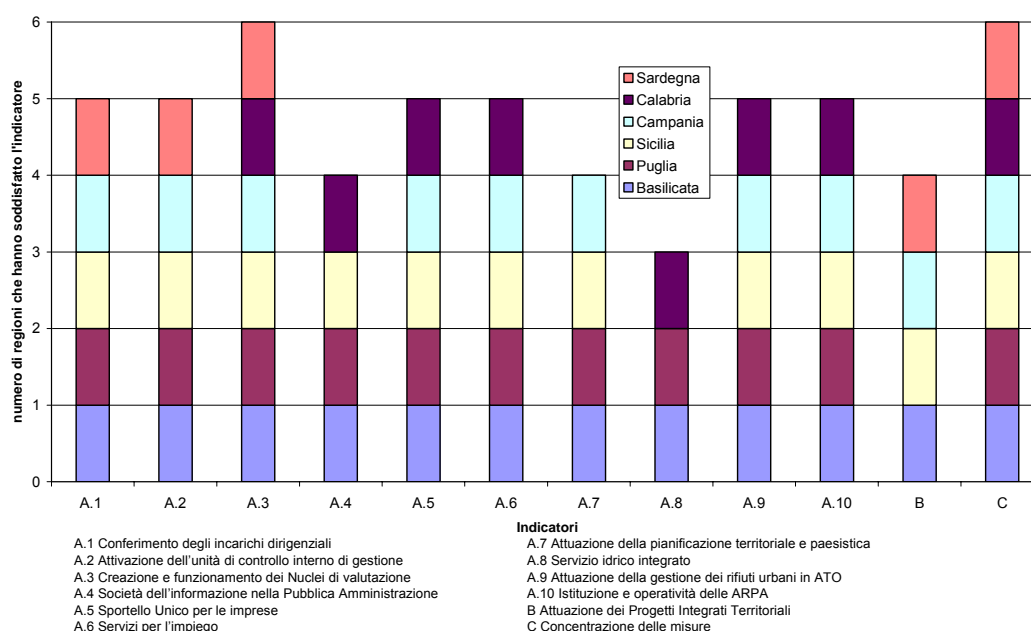
IV.2 Indicators and targets achieved (30 September 2003)

In the final report on the monitoring of the 6 per cent performance reserve, the Technical Group pointed out that the two years during which the financial incentive of the performance reserve system was in effect was a fairly short time to implement institutional and sectoral reforms and strengthen technical and administrative processes and complex principles. When the performance reserve system was activated, the level of implementation was practically nil in the majority of cases. There was a risk that, with the termination of the performance reserve system and the associated financial incentive, the institutional progress achieved by administrations towards the attainment of the objectives (in some cases failing to meet the objective by only a single requirement) could be lost.

Accordingly, the Managing Authority of the CSF decided to utilise the 25 per cent of surpluses (see Section IV.3) under its control to allow entities to complete some of the reforms already started by extending the deadline to 30 September 2003. This mechanism was defined as the “*second tranche*” of the national performance reserve system. All the regional governments except Basilicata sought to achieve the solid waste management indicator, for which a separate amount of resources was set aside. Moreover, each region was allocated further resources based on the achievement by 30 September 2003 of a certain number of indicators fixed *ex ante* for each entity, on the basis of the indicators not achieved. More specifically, Calabria and Sardinia competed on three indicators, while Campania, Puglia and Sicily focused only on one indicator. Basilicata competed for the only target not achieved, i.e. the second benchmark of the

project integration criterion.¹⁸ Similarly, for central administrations, the Research, Law Enforcement and Transport Programmes were to compete for two indicators, while the Education Programme competed for one only. The Local Development NOP was excluded from this allocation since it achieved all targets (and received a performance bonus of €1.7 million), as was the Fishing NOP, as it has achieved only one indicator regarding the integration of national strategies with those of the regions, and therefore was not entitled to the surplus. The financial incentive associated with each indicator had a unitary value inferior to that in the first tranche of the 6 per cent performance reserve.

Figure IV.3 Indicators achieved by region at 30.9.2003



Source: UVAL presentation based on data from the CSF Monitoring Committee decision of February 2004

As illustrated in Figure IV.3, the continuation of the incentive competition facilitated the achievement of another 14 targets by the regions (corresponding to over 19 per cent of all targets), a very positive result considering that the three indicators requiring activities of monitoring and certification by other administrations were excluded¹⁹ and

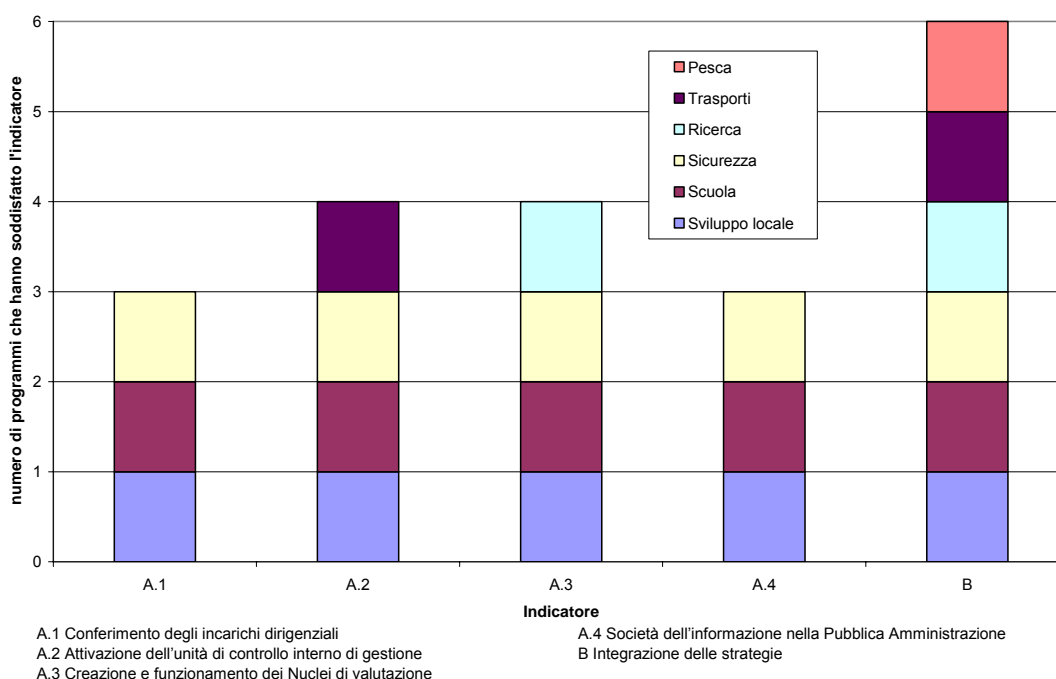
¹⁸ It also received a bonus of €5 million in recognition of the results achieved.

¹⁹ Indicators relating to One-Stop Shops, Employment Services and Territorial Planning.

the project integration indicator for those regional governments whose PITs failed the Technical Group's evaluation for admission.

Both the waste and the integrated water services indicators, which had proved the most difficult to achieve, were attained by 30 September 2003 by five and three regions respectively, thereby confirming the need for a longer period to complete the institutional and managerial arrangements of these two sectors, as required. The strong performance of Calabria and, to a lesser extent, Sardinia, which recouped some of the lag shown at 30 September 2002, should also be noted.

Figure IV.4 Indicators achieved by National Operational Programme at 30.9.2003



Source: UVAL presentation based on data from the CSF Monitoring Committee decision of February 2004

Unlike the regions, the results obtained by central administrations at 30 September 2003 increased the distance between them. In fact, of the four entities that could compete for the second tranche of performance reserve resources, the Research NOP did not send information and therefore did not take part in the allocation, the Transport NOP did not achieve any of the indicators while the Education and Law Enforcement NOPs achieved the required indicators (one and two respectively). Therefore, as shown

in Figure IV.4, at 30 September 2003, there were three entities (regarding the Local Development, Law Enforcement and Education NOPs) that achieved all five indicators, and three entities (regarding the Fishing, Transport and Research NOPs) that achieved only one or two. The only indicator achieved by all the entities was that relative to the integration of national and regional strategies.

The less satisfactory overall performance of central government entities compared with the regions can be attributed to the fact that the performance reserve system envisaged by the 6 per cent performance reserve mechanism involves the entire regional or central government entity while the achievement of indicators does not depend exclusively on the initiative of the Managing Authority of the Operational Programme. In the regions, the involvement of many high-level institutions, starting with the President of the regional government was in most cases rapid and continuous, whereas the involvement of the ministries relating to the NOP has been more difficult.

IV.3 Allocation of financial resources to Regional Operational Programmes

First allocation (March 2003)

At its meeting of 10-11 March 2003²⁰ the Monitoring Committee of the 2000-2006 CSF decided the allocation of the 6 per cent performance reserve system based on the evaluation of the results of the performance reserve competition. The financial resources based on the achieved indicators, the so-called direct allocation, and a portion corresponding to 50 per cent of the unassigned surplus of the direct allocations were allocated to the Regional Operational Programmes.

On the basis of the results achieved by the competing entities, about €509 million in Community funds²¹ were directly allocated to the regions. This resulted in a total surplus of €410 million 50 per cent of this surplus was allocated to the participating entities on the basis of the results obtained and the initial budget grant. Columns (1) and (2) of Table IV.2 show the direct allocation and the 50 per cent surplus by ROP.

At the same time, the Monitoring Committee defined the procedures for the subsequent allocation of the remaining 50 per cent of the surplus (about €205 million) in accordance with the following principles:

²⁰ CD attached and

www.mef.gov.it/documentazione/qcs/CdS_marzo2003/Proposta_attribuzione_premialita_nazionale.pdf

²¹ To which is added the national cofinancing of more or less the same amount.

1. First and foremost, drawing on resources that can be used at the discretion of the Managing Authority, it was decided that €5 million would be immediately allocated to Basilicata as a reward for the excellent results achieved in the 6 per cent national performance reserve system.
2. It was decided to continue to allocate 25 per cent of the surplus proportionately on the basis of the results obtained by each Programme in the 4 per cent Community performance reserve system. The allocation of these resources is therefore conditional on the formal adoption of the proposal by the European Commission, by 30 April 2004;
3. With regard to the remaining 25 per cent under the discretionary control of the Managing Authority of the CSF (equal to €97.53 million) it was decided to extend to 30 September 2003 the deadline for the competition between programmes on the basis of a number of the 6 per cent performance reserve system indicators as described in the previous sections (the second tranche of the national performance reserve).

Thus, as shown in column (4) of Table IV.2, the performance reserve resources allocated in March 2003, inclusive of the amount for Basilicata, totalled about €719 million, corresponding to 78 per cent of the Structural Funds potentially allocable to the ROPs under the 6 per cent performance reserve mechanism.

Allocation of the second tranche (February 2004) and additional surpluses (March 2004)

The Monitoring Committee of the 2000-2006 CSF carried out the second allocation of the 6 per cent performance reserve resources on 17 February 2004.²² With regard to the surplus share paid at the discretion of the CSF Managing Authority, about €25 million were designated for achievement of the indicator relating to waste and the remaining €72 million for achievement of the optional indicators. On the basis of the results obtained, about €20 million were allocated to the regions for the achievement of the indicator A.9 and about €70 million for the other indicators; the total can be seen in column (8) of Table IV.2.

²² Note that the proposed allocation submitted to the MC on 17 February 2004 also contained an allocation of the portion to be assigned on the basis of the results of the 4 per cent reserve. This, however, was provisional in nature, and was in fact modified at the subsequent meeting of the MC on 31 March 2004.

With regard to the portion of surpluses to be allocated in accordance with the results obtained by the ROPs in the 4 per cent Community performance reserve system, the €102 million available was allocated to the regions as shown in column (9) of Table IV.2.²³

The total of the 6 per cent performance reserve resources allocated to the regions in the two allocations, therefore, totalled about €911 million of Community funds. With regards to the initial budget grant of the ROPs, €8 million were not allocated because of the failure to achieve some of the objectives set for the September 2003 deadline. The sum was allocated to the NOPs for the Lisbon and Gothenburg objectives (see Section IV.4).

²³ The decision by the MC of the 2000-2006 CSF of 17 February 2004 was modified by the Monitoring Committee at its meeting on 31 March 2004, which took account of the definitive proposal for the allocation of the 4 per cent of resources decided with the European Commission.

Table IV.2 Total resources allocated (Structural Funds) for the 6 per cent performance reserve

Operational Programme	Possible allocation resources	First allocation (March 2003)				Resources to TASA NOP ⁽¹⁾		Second allocation (31 March 2004)			TOTAL allocated resources	Possible allocation of unassigned resources to support Lisbon and Gothenburg ^(b2)
		Direct allocation	Automatic allocation of 50% surplus	Performance bonus	Total	Direct allocation	Allocation of 50% surplus	Portion allocated on the basis of final results (25%)	Portion allocated on the basis of results of 4% (25%)	Total		
		(1)	(2)	(3)	(4) = (1+2+3)	(6)	(7)	(8)	(9)	(10) = (8+9)	(11) = (4+6+7+10)	
TASA	19,068	N.a.	N.a.	N.a.		19,068	5,420		1,910	1,910	26,398	18,134
FISHING	7,446	2,978	0,846	-	3,824				0,746	0,746	4,570	0,244
RESEARCH	72,718	39,995	11,362	-	51,357				7,285	7,285	58,642	1,950
EDUCATION	28,841	17,305	4,916	-	22,221			3,366	2,889	6,255	28,476	1,950
LAW ENFORCEMENT	34,978	15,740	4,472	-	20,212			4,628	3,504	8,132	28,344	0,732
LOCAL DEVELOPMENT	120,777	120,777	34,312	1,700	156,789				12,099	12,099	168,888	1,462
TRANSPORT	109,937	42,143	11,972	-	54,115			0,865	5,507	6,372	60,487	1,462
TOTAL NOP	393,765	238,938	67,880	1,700	308,518	19,068	5,420	8,859	33,940	42,799	375,805	25,934
BASILICATA	45,481	40,174	16,200	5,000	61,374			3,172	5,341	8,513	69,887	
CALABRIA	122,106	33,579	13,540	-	47,119			23,276	8,962	32,238	79,357	
CAMPANIA	234,198	163,939	66,090	-	230,029			14,988	27,506	42,494	272,523	
PUGLIA	161,614	102,356	41,260	-	143,616			12,327	18,981	31,308	174,924	
SARDINIA	119,166	34,757	14,010	-	48,767			17,121	13,996	31,117	79,884	
SICILY	236,219	133,857	53,960	-	187,817			18,673	27,744	46,417	234,234	
TOTAL ROP	918,784	508,662	205,060	5,000	718,722			89,558	102,530	192,088	910,810	
TOTAL	1312,549	747,600	272,940	6,700	1027,240	19,068	5,420	98,417	136,470	234,887	1286,615	25,934

(1) The TASA NOP resources are allocated in accordance with the results of the 4 per cent reserve (see Section IX)

(2) Unassigned resources include residual amounts from NOP endowments of €17.96 million and residual amounts from ROP endowments for the remaining €7.97. Their allocation for Lisbon and Gothenburg purposes pursues objectives relevant to the CSF but outside the performance reserve mechanism.

Source: UVAL presentation based on data from the CSF Monitoring Committee decisions of March 2003 and February 2004

IV.4 Allocation of financial resources to National Operational Programmes

First Allocation (March 2003)

The allocation of the 6 per cent performance reserve resources to the ROPs was carried out at the same time as the distribution of the NOPs. Therefore, in the decision of the CSF Monitoring Committee of 10 March 2003, direct financial resources were allocated together with 50 per cent of unassigned surpluses from the direct allocation equal to €239 million and €68 million of Community funds respectively (columns (1) and (2) of Table IV.2).

With regard to the remaining surpluses of about €68 million:

1. First, using resources allocated at the discretion of the Managing Authority, it was decided to allocate €1.7 million to the Local Development NOP as a reward for the excellent results obtained in the 6 per cent national performance reserve system.
2. It was decided to continue to allocate 25 per cent of the surplus (around €34 million euro) proportionately on the basis of the results obtained by each Programme in the 4 per cent Community performance reserve system. The allocation of these resources is therefore conditional on the formal adoption of the proposal by the European Commission, by 30 April 2004.
3. As regards the remaining 25 per cent of the funds at the discretionary disposal of the CSF Managing Authority, a mechanism similar to that for ROPs was proposed, although, given that the NOPs compete for a smaller number of indicators and that the amount of this portion of surpluses large, it was decided to utilise only €17 million to extend the deadline for the competition among National Operational Programmes on the basis of a number of the indicators of the 6 per cent performance reserve system²⁴ to 30 September 2003, and to set aside the remaining €15 million for a later redistribution.

Thus, the performance reserve resources allocated in March 2003 to the NOPs totalled about €308 million, corresponding to 78 per cent of Structural Funds potentially allocable the NOPs under the 6 per cent performance reserve mechanism (see column (4) Table 4.2).

²⁴ The Local Development NOP was excluded from this competition on the grounds that it had satisfied all the indicators, while the Fishing NOP was excluded for having satisfied only one.

Allocation of the second tranche (February 2004) and additional surpluses (March 2004)

The Monitoring Committee of the 2000-2006 CSF carried out the second allocation of the 6 per cent performance reserve resources on 17 February and 30 March 2004.²⁵ About €9 million were allocated (out of the €17 million planned) on the basis of the results obtained for the 6 per cent performance reserve indicators and €34 million for the results obtained for the 4 per cent performance reserve; the distributions for the NOPs can be found in columns (8) and (9) of Table IV.2.

Therefore, with these two allocations (March 2003 and February – March 2004), the resources distributed to the NOPs for the 6 per cent performance reserve amounted to about €376 million.

The surpluses at the disposal of the CSF Managing Authority not allocated on the basis of the results obtained by extending the deadline for the 6 per cent indicators are allocated to the Operational Programmes based on the objectives of the Lisbon and Gothenburg strategies. The distribution of these resources between the NOPs, whose use is subject to a specific use constraint, is shown in column (12) of Table IV.2. The latter resources are therefore allocated for activities relevant to the CSF but which do not refer to results obtained within the performance reserve system, and therefore should not be taken into consideration when evaluating the final results.

V. Factors for success and lessons for the future

The introduction of a system of binding objectives associated with financial rewards and procedures for competition among public administrations in the performance of their function is an innovative element in the larger picture of Italian public expenditure. The effectiveness of the 6 per cent performance reserve in stimulating achievement of objectives and preventing collusive behaviour among entities, which would have undermined the system of rules and the allocation of resources, originates with a number of factors associated with both the structure of the rules and the performance (response) of participating entities. The main factors are discussed below.²⁶

²⁵ The same observations as in previous notes concerning the proposals presented at the two committees are valid.

²⁶ For a detailed reading of the fundamental principles of the 6 per cent performance reserve system from the perspective of principle/agent models, see Brezzi et al. (2006).

First, as noted in the premise, the performance reserve is part of a system of rules that govern the programme and its implementation procedures that were defined in a broad interactive process in which the institutional and social actors have played a decisive role in defining the objectives of the development programme and the precise results expected. The performance reserve system is, therefore, fully integrated into the structure governing regional policy for Objective 1 Regions for the 2000-2006 period. The structure of the performance reserve mechanism and the indicators were discussed with institutional and social parties at least one year before the formal approval of the Community Support Framework. This is one of the factors guaranteeing the credibility and the strength of the performance reserve system. The central and regional government entities, the Government and local authorities involved in the performance reserve system had the time to organise themselves and make decisions in order to gain access to a share of the performance reserve. The system provided the financial incentive to pursue – rapidly and efficiently - a common, shared objective, forming an integral part of the conditions for the success of part of regional policy.

Second, the indicators chosen were directly dependent on the actions of the entities responsible for the Operational Programmes. At the same time, there was an effort from the beginning to involve all levels of government, and to engender cooperation between sectoral entities and foster political participation. At the central level, the documents setting out the rules of the performance reserve system, as well as the monitoring of the progress of the entities involved, were included in the economic documents of the Ministry for the Economy and Finance. At the regional level, a major role was played by the regional government presidents. In particular, in the three regions that achieved the most performance reserve indicators, the presidents seem to have understood, from the outset, that the performance reserve system could, on the one hand, be used to influence the performance of regional and local governments, and on the other, provide a testing ground for the credibility of their programme and the government of the region itself.²⁷

An important role was played by the mechanism for competition between the entities involved, part of which was direct (for those indicators for which the benchmark was fixed on the basis of the relative performance of participating parties) and part indirect, through the reallocation of unassigned surpluses to the best performing participants.

²⁷ See Brezzi, M., Raimondo, L. and F. Utili (2004).

The existence of these elements of competition, which increased resources for performing better than others, helped neutralise collusion and led to the creation of peer control mechanisms for achievement of the objectives.

The importance and the difficulty of the objectives to be achieved required the creation of an active monitoring tool such as that described in previous sections. The proper functioning of this system was of critical importance in providing correct information to the participating entities and, at the same time, made it possible to get a clear picture of the actual state of progress of the specified reforms as an aid to or a part of the CSF strategy.

The role of the Technical Group was of particular importance, reinforcing its function as the guarantor of the performance reserve system. It encouraged the entities not to renegotiate rules but to participate constructively in the performance reserve system both through forging a partnership in defining the rules and setting targets, and in a continuous effort to render the process transparent and to make the information available to the public, thereby increasing the responsibility of participating entities and broadening awareness of the performance reserve system. In a system in which the contract between levels of government regarding the allocation of performance reserves is incomplete, due to the impossibility of correctly specifying *ex ante* all the requisites and the information necessary to evaluate the progress attained and the targets achieved, the Technical Group has the role of reducing the incompleteness of this contract.²⁸

The results of the monitoring and evaluation activities were always presented and discussed in informal meetings with the entities involved before the formal presentation to the Monitoring Committee of the programmes and of the CSF. The internalisation of the results of the Technical Group activity and of the recommendations by the Monitoring Committee in terms of an enhanced commitment on the part of the participating bodies to achieving the targets depended, in addition to the quality of the monitoring activity, on the appropriate dissemination of information on developments in the individual indicators among institutional and social partners and on the capacity of the latter to apply pressure in cases where there was a high risk of failure to achieve the targets.

²⁸ For more detailed information on the incompleteness of contract that characterise the use of indicators for the allocation of financial performance reserves, see Barca et al. (2004).

However, in some cases the size and the innovative impact of the reform measures needed to attain the objectives required an extraordinary effort on the part of the participating administrations, which made it possible to attain only some of the objectives. The modular character of the mechanism for the allocation of the 6 per cent resources however, made it possible for everybody to access at least part of the resources. This suggests both an opportunity to adopt this kind of mechanism and to evaluate with extreme care the number of objectives taken into consideration and to limit them so that efforts can be adequately concentrated.

The experience of the performance reserves of the Structural Funds has prompted the extension of incentivising mechanisms and the implementation of new initiatives outside the 2000-2006 Community Support Framework as well.

The positive outcome of the past experience, and especially certain features peculiar to the 6 per cent performance reserve, was at the heart of the motivation of the Italian proposal to introduce financial reserves for the creation of a Community and national performance reserve system in the Community regulations for the next Community programming cycle.²⁹

VI. Continuation of monitoring activities and regional mechanisms

The experience of applying the community and national performance reserve – which lasted for the period between the ratification of the CSF in August 2000 and the last allocation of resources in March 2004 – encouraged initiatives to learn about and extend the performance reserve mechanism to other levels of government. These initiatives involved a) the continuation of monitoring, b) the preparation of a report on the consolidation of the results of the Structural Funds performance reserve, c) the setting aside of CIPE resources to offer regional governments the option of implementing their own performance reserve mechanisms. These aspects are examined in this section.

²⁹ However, the Italian position is in the minority and the present version of the Regulations (Art. 48) provides only for the possibility for Member States to decide on national performance reserves both for the Convergence and the Competitiveness objectives consisting of 3 per cent of total resources for the country for each of the two objectives.

Continuation and extension of monitoring

The observations made at the time of the mid-term review of the CSF saw the emergence of a number of issues connected with the nature of institutional enhancement indicators used for the 6 per cent national performance reserve. In the majority of cases it was a matter of intermediate objectives of institutional performance translated into precisely specified administrative accomplishments. This created the risk that formal achievement might not be accompanied by effective progress or that, conversely, substantial progress would not be certified. A further question concerned the extent to which the priorities set out by the financial performance reserve mechanisms were incorporated in the ordinary administration of the competing entities once the mechanism was terminated, i.e. once the threat (opportunity) represented by the sanction (reward) ceased. Lastly, it was important to understand the how the path towards achieving the basic objectives of improving services to citizens and businesses was pursued.

The importance of these issues required the setting up of an organised system for the collection and analysis of information, defined in detail in the revised version of the CSF, which refers to the “*system of information on the consolidation of the objectives of the Structural Funds performance reserves*”.

Every six months, each entity in charge of an Objective 1 Operational Programme that participated in the 6 per cent national performance reserve mechanism is required to compile a monitoring table where the progress achieved towards each indicator and requirement in the preceding six months is recorded. The completed tables – after being verified for the internal relevance and consistency of the information by the DSP working group³⁰ and the formulation of a summary assessment of the state of progress – are published on the DSP site in order to allow detailed public monitoring of any progress or, conversely, inactivity.

The tables include the indicators in the formulation and specification used for the allocation of the performance reserve. However, they also provide additional information in order to monitor other stages of the various processes aimed at the achievement of the substantive final objectives. The monitoring exercise is therefore an immediate response to two needs: first, to verify if, and in what length of time, the

³⁰ The Interdepartmental Working Group includes UVAL and the Projects, Statistics and Research Service of the DSP

original objectives of the national performance reserve are achieved by all participating entities; second, to verify for all of them whether any further progress had been made compared with the situation existing at the deadlines (30.9.2002 and 30.9.2003).

At present, four semi-annual monitoring exercises have been carried out (two for 2004, and two for 2005). The response of central and regional government bodies to the monitoring has been good and the quality of the information is generally satisfactory.

The goal of stimulating the implementation of the process for administrative modernisation is pursued using a “soft” mechanism that uses reputational tools (the comparative public monitoring of their individual progress) in addition to giving responsibility to the participating entities, which have the opportunity, while collecting and publishing information, for reflection and internal and external dialogue on their ongoing activities.

The surveys conducted showed that none of the activities in the areas in question were interrupted on a large scale after the performance reserve mechanism ended. There was substantial progress for all indicators with respect to the deadlines of 2002 and 2003. At present, fewer than 15 per cent of the indicators (see Annex D) have still not been achieved in their original formulation. With regard to the indicators for the assignment of management responsibilities, the establishment of internal management control units, the establishment of evaluation units, the evaluation of the impact of initiatives on employment, the electronic transfer of monitoring data, the implementation of the activities is found in the majority of cases. Significant enhancements have been noted in the management of water services, where all the regions opted to outsource the service, while in the solid waste sector, after some rapid initial progress, a number of difficulties have arisen in the completion of the management structure and in the implementation of rates. With regard to the indicators for one-stop shops for business, employment services and regional environmental protection agencies, the institutional structure was already complete in all the regions except Sardinia. Apart from noting the obvious improvements achieved by the Region of Sardinia in all three areas, the monitoring process tries to take into account the operational impact of the service functions represented by the indicators, revealing gradual progress. Public documentation is available on the website of the DPS.³¹ It provides a detailed description of the progress

³¹ See www.mef.gov.it/qcs/monitoraggio_premialita.asp

of the entities involved and identifies areas in which momentum has stalled following the removal of the impulse of the performance reserve.

The information collected in the tables compiled by the participating entities is also analyzed in a specific monitoring report, to be prepared annually.³²

The regional performance reserve mechanisms

CIPE Resolution 20/2004 for the allocation of the resources of the Fund for Under-utilised Areas (FUA) resources for the year 2004 sets aside €76.5 million for regions in Southern Italy destined for the implementation of performance reserve systems at the local level. The aim is to give the regions the option to achieve progress in specific areas of their territory that they consider strategic and therefore worthy of encouragement. The opportunity has been welcomed with great interest by the regions, which have paid particular attention to encouraging institutional enhancement or the selection of quality projects in the area of integrated projects. By the deadline of 30 November 2004 all the regional governments had prepared detailed proposals of indicators and regional performance reserve mechanisms, often already discussed with local partners. UVAL, together with the Structural Funds Service, contributed to the technical specification of the proposals, providing technical support and suggestions on the basis of its experience with the Structural Funds performance reserve systems.

In general, the opportunity to activate local mechanisms sparked the conceptualisation and the development of many proposals by the different sectors of the regional governments, local authorities, and the economic and social partnership. During the technical definition of the proposals, it was suggested that the incentives be focused on a limited number of objectives in order to fit the financial incentive to the hoped-for changes in performance, in the fear that in some cases the financial incentive might be too small to give rise to new actions. Special attention was paid to ensuring that the mechanisms for the allocation of resources and possible surpluses were fully defined and that the specification of the indicators was clear and easily measured. A further important focus of attention was the suitability of the timescale necessary to achieve the objectives.

³² The first report was prepared in the first quarter of 2005. The drafting of the report is coordinated by UVAL with the collaboration of the Projects, Statistics and Research Service and with the support of two representatives designated by the network of Public Investment Evaluation and Verification Units. www.dps.tesoro.it/documentazione/qcs/premialita/Relazione_monitoraggio_Anno%202005_16_05.pdf

All the Objective 1 regions, which had participated in the 6 per cent national performance reserve, included indicators relating to the strengthening of regional and local institutional capacities, thereby demonstrating that the use of performance reserves to encourage administrations to achieve explicit capacity building objectives was considered effective. Particularly worthy of note are the incentives for the establishment or aimed at fostering the setting up or expansion of the offices in charge of managing Integrated Territorial Projects (ITPs) or one-stop shops, for respecting timetables for expenditure, for extending the spread of the information society and the computerized monitoring of activities within public administrations, and completing the institutional arrangements for waste management. In several cases, the indicators chosen by the regional governments refer to the objectives of the 6 per cent national performance reserve, but they are specified in more detail or adapted to the specific context using the information available at the local level. In addition, the precise specification demonstrates what was learned during the previous experience with the performance reserves with regard to the need for immediate measurability and the non-controversial definition of indicators and targets.

The mechanism for the allocation of resources was defined precisely *ex-ante* in order to provide all participants with the necessary information to understand the significance of the competitive mechanism from the outset. Finally, as was the case for the national performance reserve, assessment of achievement of the indicators is entrusted to specific Technical Groups, independent of the Managing Authorities of the OPs, but which include representatives of the regional evaluation and verification units, the Managing Authorities and the local authorities affected by the performance reserve mechanisms.

The creation of quality projects was selected by five regions. These related to environmental and cultural resources in Basilicata and Sardinia, cultural resources in Molise, and the information society in Abruzzo; in Campania, all sectors of the Institutional Programme Agreement were considered.

The regions made rather diversified choices regarding the duration of the systems, which in some cases were scheduled to end in 2005 and in others to continue through the end of 2007.

Starting with the initial proposals developed in a technical partnership with the Structural Funds Service and UVAL of the DSP, six³³ regions of the Southern Italy issued council resolutions or other formal instruments in which the regional procedures and the criteria for the allocation of resources were specified. In the case of Molise and Basilicata, public calls were issued with detailed specifications for eligibility and the criteria for the evaluation of “quality”³⁴ projects. At the moment, the proposals submitted (four and sixteen respectively) are being evaluated by the relevant structures, which include the regional evaluation and verification units and the regional governments, represented by the programming departments or other council departments with specific briefs in this area. In the case of Campania, where the performance reserve mechanism aims to stimulate the procedural and financial performance of the local organisations involved in the Integrated Planning of the ROPs (see publication of 26 November 2004), a number of interim phases were conducted to evaluate the eligibility of the 403 proposals submitted. These involved the checking of documentation, the degree of conformity with the published criteria and the existence of the executive plans. At present 227 applications are being evaluated. The Sardinia Region, in a resolution approved in July 2005 (no. 36/10), specified a performance reserve mechanism relating both to the preparation of quality projects, for which the official call was being prepared, and to the achievement of institutional enhancement objectives. With regard to the latter objective, performance reserve resources will be allocated to that organisations in charge of managing the ecological network areas that equip themselves with planning tools by 31 December 2006. The specific procedures for the realisation of objectives relating to the dissemination of one-stop shops, the operation of the one-stop offices of the PITs and the planning of activities by local tourist systems are being defined. With regards to Sicily, “the regional performance reserve for local organisations”, which involves municipalities, the PITs, the provinces and the Integrated Packages for Strategic Operations (PIOSs), envisages the allocation of performance reserve resources by October 2007. A Technical Group charged with preparing the final report for the allocation of resources and highlighting progress or

³³ In the case of Abruzzo and Calabria, the preliminary proposals submitted and discussed in the technical partnership were not submitted formally by the regional governments.

³⁴ With regard to Molise, see Council Resolution no. 371 of 4 April 2005; for Basilicata the announcement published in the Official Bulletin of the Basilicata Region no. 50 of 29 July 2005.

difficulties revealed by monitoring activities in that period has been set up. The progress of expenditure in the integrated projects is monitored every six months.

By contrast, the Puglia Region envisaged a much shorter time-scale for the allocation of the initial resources (see Resolution 2048 of 29 December 2004) and completed the procedures for 2005 on time. The resources were allocated for environmental projects in urban areas and the ecological network, as were the funds for the first phase of waste management and the spread of the information society. The remaining funds will be allocated by the end of 2006 on the basis of the progress achieved by 30 July and 30 September respectively.

Table VI.1 Summary of regional performance reserve systems

REGION	QUALITY PROJECTS		INSTITUTIONAL ENHANCEMENT	
	Area of projects	Organisations involved	Institutional enhancement objectives	Organisations involved
MOLISE <i>Council Res. no. 371 of 4.4.05, proposals being evaluated</i>	Cultural resources	PITs		
BASILICATA <i>Call published in Region's Official Journal no. 686 of 23.3.2005 Deadline 27.10 2005</i>	Ecological network Safeguarding and leveraging cultural resources	PITs	Procedural progress of initiatives. Implementation of the co-ordination or management unit.	PITs
CAMPANIA <i>Decree approving public call 26.11.04 Projects submitted evaluation in progress</i>	IIP Sectors (urban systems, culture resources, roads, infrastructure for economic activity)	PITs (planning board through lead organisation)	Organisational arrangements of one-stop offices/municipality; expenditure progress; environmental procedures progress.	IPs and final beneficiary of the project
PUGLIA <i>Of 2048 29.12.04 a) Project selection by 31.5.05 b) two tranches 30.9.05 and 30.9.2006 c) 31.7.2005 and 31.7.2006 d) result 31.9.05</i>			a) Environmental enhancement in urban areas b) Waste management c) Spread of information society; use and spread of services among public and enterprises d) Ecological network – Regional parks	Local authorities, including within Municipalities in OSAs Municipalities connected to regional government network (RUPAR) Local authorities, management organisations for protected nature areas
SARDINIA <i>DGR 36/10 26.7.2005 Calls and notices to be published; Allocation May 2006</i>	Cultural and landscape resources, environmental assets	Groups of local authorities	Cooperation between local authorities (PIT one-stop offices and shops); Programming, planning and cooperation (local tourist systems, management plans for protected areas)	Groups of municipalities Public organisations
SICILY <i>Monitoring report for the allocation of resources 15.10.07</i>			Territorial Planning, urban or provincial; diffusion of the use of monitoring and meeting of deadlines; Distribution of project finances Meeting expenditure timetables Coordination with other organisations	PITs, PIOs, Provinces PITs, PIOs, Provinces

Source: DPS-UVAL, based on official documentation of the regions

VII. Application of the 4 per cent Community performance reserve in Italy

VII.1 Choice of indicators and targets

The Community regulations for the management of the Structural Funds for the period 2000-2006 provide for the introduction by each Member State of a performance reserve (Regulation 1260/99 Art. 44 – *Performance reserve*) allocated to those programmes which show good results in the administration and the management of Community funds. Therefore, unlike the 6 per cent performance reserve, the indicators used in the 4 per cent mechanism are already contained in the indications and guidelines prepared by the European Commission.³⁵ The role of the Member States is therefore more limited than with the 6 per cent reserve, because the European Commission has already defined the areas to be considered and, in part, the indicators as well. It was therefore advisable to identify which specification of the indicators was best suited to the needs and characteristics of national programming, negotiating with the Commission where necessary.

According to the Community Regulation, 4 per cent of the resources destined for each Operational Programme shall be set aside to be allocated to the fund-holding entity at the mid-term point in the programming period (by March 2004), on the condition that the indicators relating to effectiveness, sound management and financial implementation have been achieved. For each of the three areas indicated by the Commission guidelines, one or more indicators have been identified and targets generally common to all Objective 1 Operational Programmes have been set.

The indicators were specified and adapted to the Italian situation during an intensive preliminary preparatory and negotiation phase conducted by the DPS during 2000. The Italian mechanism³⁶ defined in the document approved by the Monitoring Committee of the Objective 1 CSF in November 2000 diverges in part from the Community guidelines following modifications to some of the indicators, either because it was believed that it would be difficult to implement in its original form, or because it was made more consistent with the strategy and system of rules governing the CSF.

³⁵ See European Commission Orientation (2000).

³⁶ See DPS 2002a “QCS Ob.1 2000-2006 – Criteri e meccanismi di assegnazione della riserva di premialità del 4 per cento”, DPS November 2000. The document was subsequently modified in part by the Monitoring Committee on 14.3.2002

Moreover, unlike the Commission proposal to reward the achievement of the targets for each indicator envisaged *ex-ante* for the individual Operational Programme by its Managing Authority, it seemed more appropriate to reward the achievement of externally selected targets, with the contribution of the technical partnership with the entity participating in the performance reserve system, in order to avoid distorted incentives in setting the benchmarks. In this way, the targets set a minimum performance threshold below which there is no access to performance reserve resources.

Effectiveness

The criterion of effectiveness is measured by the indicator *Material implementation (A.1.1)*, which measures the ability of the participating entity to achieved objectives fixed *ex-ante* for 2003 in terms of material output (see Table VII.1). This indicator is the only one to retain the formulation laid out in the Commission guideline document. Objectives must be fixed for a number of measures equal to at least 50 per cent of the total cost of the Operational Programme. The public administrations are therefore called to identify appropriate targets for at least half of the programme on the basis of their knowledge of the programme and their ability to forecast the time required to meet it. The European Commission also suggested a second indicator involving forecast target values for the 2003 results.

However, Italy believed that it would be difficult to measure result indicators, both because of the lack of up-to-date information, and because of the considerable uncertainty about the possibility of measuring the first effects of the completion of projects through result indicators already in 2003. Accordingly, the Italian proposal for measuring the effectiveness of the entities in forecasting the results of programme implementation was to limit the exercise exclusively to measuring the objectives for actual implementation of the individual projects.

Sound management

Many of the planned indicators for the 4 per cent reserve represent aspects linked directly or indirectly to the improvement in the quality of programming and the selection of public investments and the refinement of capabilities in analysing the socio-economic conditions in a territory affected by the investments,

Five indicators for the sound management criterion were identified. These can be grouped as follows: a) actual implementation of the management systems (for example, the verification system, the monitoring and evaluation system) believed to be necessary for the successful implementation of the Operational Programmes; b) the ability of the participating entities to adopt and utilise selection mechanisms and criteria to ensure higher quality projects; c) the introduction of appropriate methods of analysis to interpret accurately developments in the labour market and the impact of public investment policies on this market.

The first group of indicators lists the monitoring, verification and evaluation functions that the Managing Authorities need to use or ensure are used in order to manage the Structural Funds in accordance with the Regulations. The performance reserve indicators are defined so as to increase the quality or speed of implementation of those functions. In the case of the monitoring system (*A.2.1 Quality of the monitoring system*), for example, in addition to meeting the requirements of the CSF and conforming to the national indicator system, it is also necessary to increase the speed with which monitoring data is transmitted compared with ordinary procedures in order to enhance the effectiveness of monitoring investments in progress with the swifter delivery of complete and up-to-date data.

With regard to the evaluation function (*A.2.4 Quality of the ongoing evaluation system*), the indicator specified for the performance reserve system requires that a contract be signed with the independent evaluator by 31 December 2001, that the specification of obligations be in line with the goals set out at the national level and be agreed with the Commission in order to select and define the ongoing evaluation, and that the ongoing evaluation activities in the period between the signing of the contract and the mid-term verification set for the beginning of 2004 are implemented.

In this case, too, the aim is to provide the entire management system of Operational Programmes with the operational support of the independent evaluators well in advance of the mid-term verification and to guarantee, through consistency with the guidelines agreed by the national evaluation system, the quality of the organisation of the intermediate evaluation by the administrations. The goal is to gain access to information and evaluations of the progress of programmes and their implementation planning to enable possible reprogramming at the time of the mid-term verification, as

well as access to informational and orientation input during the implementation of the OP in the two years preceding the mid-term verification.

With regard to the control function (*4.2.2 Quality of the control system*), in addition to meeting the requirements of Regulation 438/2000, public administrations must have conducted sample controls for a number of initiatives equal to 5 per cent of those started up to the time of the verification by the deadline for the 4 per cent performance reserve, i.e. September 2003. Once again, in addition to meeting the requirements of the CSF regulations, the entities are expected to deliver information more rapidly than normal to ensure the control functions.

In order to directly impact the improvement of public investments by improving the quality of project selection (a second group of indicators relating to the sound management criterion), the system rewards the use of technical and financial feasibility analysis for a number of projects with a value corresponding to specified share of the OP total and, in some sectors, the adoption of selection mechanisms for projects that are environmentally sustainable or meet the equal opportunity criterion (*4.2.3 Selection criteria*). To achieve the target in terms of percentage of commitments for projects selected on the basis of the above-mentioned analysis, the feasibility studies have to be drafted in accordance with the provisions of CIPE Resolution no. 106 of 30 June 1999, which regulates the minimum features of such studies in detail. The targets for environmental sustainability and equal opportunities were set at sufficiently high level³⁷ to incentivise the careful preparation and selection of projects.

Finally, the quality of public investments can be improved also by directly encouraging the development of analytical capabilities within government. The indicator relating to the quality of the system for assessing the impact on employment (*4.2.5 Quality of the system for evaluating employment effects*) rewards the insourcing of the analysis of the local and regional labour market. public administrations are expected to set up programmes to enhance understanding of the most important aspects of the labour market and the effect that initiatives financed with Structural Funds have on employment. Such programmes must be consistent with the guidelines, which specify a number of the monitoring and evaluation functions to be implemented for this purpose and certain aspects of employment that require a specific focus, such as regularizing underground

³⁷ In the case of environmental sustainability, equal to 50 per cent of commitments for projects in the Local Development and Cities priorities and the Transport sub-priority, while for equal opportunities it is equal to 30 per cent of commitments in 2003 by the OP.

employment, women's participation rate and the pay and qualitative characteristics of the employment created. In order to satisfy this indicator, it is necessary to prepare a monitoring and evaluation plan. The publication of the results of this analysis is also rewarded. Note that the formulation of this indicator diverges from that required initially by the European Commission, i.e., an evaluation of the scale of the impact of the initiatives carried out on employment. The Italian proposal, which was negotiated with the Commission, focuses on the need to develop and disseminate skills in analysing initiatives and their impact on the territories.

Financial implementation

The financial indicators refer to the ability of entities to draw up an adequate annual budget (*4.3.1. Financial plan*) and to foster the participation of private capital (*4.3.2. Project finance*). A more indirect way of improving the quality of public expenditure is to encourage the application of Public-Private Partnership (PPP) mechanisms in the selection of projects, through which the public operator can attract and leverage the knowledge and experience of the private sector in the construction and management of infrastructure and improve its capacity to select projects which are financially sustainable. The application of PPP mechanisms is encouraged by requiring that, at the moment of the final verification of the requirements for the 4 per cent reserve (July 2003), the procedures need to be at an advanced stage of implementation for at least four projects³⁸ selected with these mechanisms, in accordance with the requirements of the applicable regulations.³⁹

A number of modifications or specifications of the original formulation of the indicators were introduced as a result of the need for clarification and the identification of certain difficulties by the analysis of the findings of the first monitoring of the progress achieved. These slight modifications concerned the power to partially revise the targets of the physical implementation indicators following a deeper analysis; a

³⁸ Alternatively, one project for each €500 million of public expenditure by the Operational Programme.

³⁹ In particular:

- the tender for the award of the concession relative to the declared proposal of public interest in the case of application of the procedures pursuant to Art. 37 bis et seq. of Law 109/94 as amended must have been announced;
- the tender in the case of the application of the procedures required by Art. 19 et seq. Law 109/94 as amended must have been adjudicated;
- the private-sector partner in the case of projects carried out through the establishment of mixed public-private companies pursuant to Art. 22 of Law 142/90 and Art. 12 of Law 498/92 must have been selected. In this case private capital must represent a significant part of the public co-financing share.

number of specifications of the deadlines for communicating monitoring data; and the definition of commitments to be adopted for the indicator relating to the selection of projects. The CSF Monitoring Committee approved the text updated with these specifications on 14 March 2002.

Table VII.1 Indicators for the 4 per cent performance reserve

Indicators		Targets
A1: Effectiveness		
Implementation (Obligatory)	A.1.1	Achievement of pre-established targets for the implementation of measures with an overall value of at least 50% of the total cost of the OP
A2: Management		
Quality of the indicator system and monitoring procedures (Obligatory)	A.2.1	Adoption of a system of indicators and monitoring procedures in accordance with standards established and, from the first year of implementation, assuring the availability of financial, procedural and material data for all the measures and guaranteeing their transmission to the central system at the IGRUE within 30 days of the end of the quarter.
Quality of the control system (Obligatory)	A.2.2	Upgrading the control system in line with the organisational model indicated in the CSF and Reg. 438/99 and implementation of the controls on 5% of initiatives implemented by the end of 2003
Quality of selection criteria	A.2.3	Adoption of selection procedures based on technical/financial feasibility (60% of total commitments for projects above €5 million), environmental sustainability (50% in the most sensitive priorities) and support for equal opportunities (30%)
Quality of the on-going evaluation system (Obligatory)	A.2.4	Award of engagement for on-going evaluation by 31.12.2001 and meeting the minimum requirements of the monitoring and evaluation system.
Quality of the system for evaluating employment effects	A.2.5	Definition by 31.12.2001 of a programme for the monitoring and evaluation of the effect of initiatives on employment and annual publication of the results of the activities.
A3: Financial implementation (one of the two obligatory)		
Financial plan	A.3.1	Achievement of a level of payments for a total corresponding to 100% of commitments for the years 2000 and 2001
Project finance	A.3.2	At least 4 projects selected by 2002 with Public-Private Partnership mechanisms (application of procedures pursuant to Art. 19 and 37bis et seq. of Law 109/94 or establishment of mixed public-private companies pursuant to Art. 22 of Law 142/90 and Art 12 of Law 498/92)

Source: DPS- UVAL

VII.2 Regulations for the allocation of resources

The deadline for the allocation of the Community performance reserve resources, common to all Member States benefiting from the Structural Funds, was set in the European Regulations for April 2004. The European Commission was to allocate the resources on the basis of a proposal submitted by the Member States by December 2003. The deadline for achieving the requirements was set for July 2003, a longer timescale than that allowed by the 6 per cent performance reserve.⁴⁰ However, in view

⁴⁰ The setting of an earlier deadline for the 6 per cent national performance reserve is due to the fact that the indicators considered are often a prerequisite for the success of the investment programme, for which it is therefore necessary to set shorter timetables compared with the implementation of the programme.

of the importance of some achievements in the preliminary phases of the programme's implementation, the deadline for some of the requirements was moved up to December 2001. These included the minimum requirements of the monitoring and evaluation system, the appointing of the independent evaluator, the definition of an activities plan and the evaluation of the impact of initiatives on employment.

The 4 per cent Community reserve was closely linked to the programming and implementation of the Structural Funds, and explicitly sought to incentivise the Managing Authorities to manage the Operational Programmes effectively and efficiently. The indicators in question regard necessary functions, which must be activated in order to govern the financing of the programmes in accordance with regulations. The result is a rather inflexible set-up, which is laid out in the Community guidelines and incorporated in the Italian proposal, requiring the simultaneous achievement of six out of eight indicators, some of which are compulsory.⁴¹

The Community mechanism differs from that of the 6 per cent national reserve, which is modular, in accordance with the number of indicators achieved. Under the original specification of the Commission, in the 4 per cent mechanism a government entity that failed to achieve the minimum of six indicators would not have access to any part of the reserve resources. Any financial resources that are not assigned because of unsatisfactory performance are divided among those entities that performed well in proportion to the number of indicators achieved and the initial budget of the Operational Programme. While in the 6 per cent national reserve, unassigned resources remained available separately for the central and regional levels, in the 4 per cent system, where the effort required by both central and regional bodies is similar, the competition and allocation mechanism for surpluses is common to all entities, and central and regional bodies are in direct competition for the allocation of surpluses.

It should be noted that the criteria and the mechanisms for allocating resources were already largely defined at the time of the approval of the CSF in August 2000 and were approved after all the details had been specified by the Monitoring Committee in November 2000. In this, the mechanism established in Italy differs from the procedure adopted in almost all the other Member States, where the regulations for the allocation of resources have often been defined close to the expiry of the mechanism, reducing its

⁴¹ A.1 Implementation, A.2.1. Quality of the monitoring system, A.2.2. Quality of the control system, A.2.4 Quality of on-going evaluation system, and one of the two relating to financial implementation.

effectiveness in encouraging good performance and devaluing the very essence of a financial incentivisation mechanism.

VII.3 The monitoring of the incentive system

The monitoring system is similar to that of the 6 per cent national reserve, except for the presence of two independent experts designated by the European Commission in the Technical Group in charge of monitoring. Starting from February 2001 and annually thereafter (January 2002 and January 2003), the Managing Authorities of the Operational Programmes were asked to prepare monitoring reports to be submitted to the Monitoring Committees of the respective Operational Programmes. The approved reports were incorporated in the technical reports prepared by the Technical Group in charge of monitoring, which were submitted to the Monitoring Committee of the CSF. The three monitoring reports were followed by a final report, submitted by the Managing Authority of each Programme in July 2003 in view of the drafting, by the Technical Group, of the Final Report (November 2003) for the Managing Authority of the CSF and the Monitoring Committee. The final report contains all the necessary information for developing the proposal for the allocation of resources by the Member State, which was submitted in December 2003.

Table VII.2 Monitoring stages of the 4 per cent performance reserve

Year	Timing	Body	Activity
2001	28/02/2001	Managing Authorities of Operational Programmes	I Annual Report , approval in Monitoring Committee and transmission to CSF Managing Authority
	26/09/2001	Technical Group	I Technical Report , to CSF Managing Authority
2002	promptly	CSF Managing Authority	Transmission I Report to CSF Monitoring Committee
	31/01/2002	Managing Authorities of Operational Programmes	II Annual Report , approval in Monitoring Committee and transmission to CSF Managing Authority
	30/05/2002	Technical Group	II Technical Report , to CSF Managing Authority
	promptly	CSF Managing Authority	Transmission II Report to CSF Monitoring Committee
	31/01/2003	Managing Authorities of Operational Programmes	III Annual Report , approval in Monitoring Committee and transmission to CSF Managing Authority
2003	30/04/2003	Technical Group	III Technical Report , to CSF Managing Authority
	promptly	CSF Managing Authority	Transmission III Report to CSF Monitoring Committee
	31/07/2003	Managing Authorities of Operational Programmes	Final Report , approval in Monitoring Committee and transmission to CSF Managing Authority
	24/11/2003	Technical Group	Final Technical Report and proposed allocation to CSF Managing Authority
	18/12/2003	CSF Managing Authority	Proposed allocation to each OP to CSF Monitoring Committee
2004	31/12/2003	CSF Monitoring Committee	Adoption of final allocation proposal and transmission to EC
	23/03/2004	EC in concert with Member State	Allocation of resources Decision C(2004) 883

Source: DPS-UVAL

VII.4 Indicators and targets achieved

The assessment of the results achieved was conducted by the Technical Group on the basis of the results achieved as of 31 July 2003. The assessment could not take account of the developments in the indicators regarding the achievement of the financial plan, for which monitoring information updated to 30 September 2003 was not available. The scope of the Technical Group's assessment was therefore limited to identifying indicators achieved without formulating proposals for allocating the performance reserve to the participating entities .

Note that the project finance indicator is not applicable to the Fishing, Research, Education, Law Enforcement and Local Development Programmes. Owing to their specific features, the Molise ROP and the Technical Assistance NOP compete on the basis of a smaller number of indicators and a partially modified mechanism(see section IX below).

The indicators achieved are summarised in Table VII.3. Overall performance was good: the participating bodies achieved a sufficient number of indicators to be eligible for the full distribution of performance resources in all cases except Calabria and the Transport NOP.

The participating entities were allowed to choose at least one of the non-compulsory indicators to achieve the minimum number of six out of eight indicators (there are five compulsory indicators; see Table VII.1). The selection and achievement of additional optional indicators granted access to larger shares of surplus resources, which were allocated on the basis of the total number of indicators achieved. Owing to the complexity of the indicator, Calabria and Sardinia opted not to compete on the basis of the project selection quality indicator, while the documentation submitted by Basilicata was considered inadequate. The activities associated with assessing the employment impact of initiatives were found to be especially challenging by many central public administrations, whereas all regional governments selected and achieved the indicator.

Table VII.3 Indicators of the 4 per cent Community performance reserve achieved by July 2003

	X	Satisfied Indicator		BASILICATA	CALABRIA	CAMPANIA	APULIA	SARDINIA	SICILY	TASIA	FISHING	RESEARCH	EDUCATION	LAW	LOCAL DEVELOPM	TRANSPORT
		Non satisfied Indicator														
		Not applicable Indicator														
A.1 EFFECTIVENESS CRITERION																
A.1.1 Implementation (<i>Obligatory</i>)	X			X	X	X	X	X	X	X	X	X	X	X	X	
A.2 MANAGEMENT CRITERION																
A.2.1 Quality of the monitoring system (<i>Obligatory</i>)	X			X	X	X	X	X	X	X	X	X	X	X	X	X
A.2.2 Quality of the control system (<i>Obligatory</i>)	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X
A.2.3 Quality of selection criteria				X	X			X		X	X	X	X	X	X	X
A.2.4 Quality of the on-going evaluation system (<i>Obligatory</i>)	X	X		X	X	X	X	X	X	X	X	X	X	X	X	
A.2.5 Quality of evaluation of employment effects	X	X		X	X	X	X	X			X				X	
A.3 FINANCIAL CRITERION (one of the two is obligatory)																
A.3.1 Financial plan	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X
A.3.2 Project finance				X	X	X		X								

Note: the Molise NOP competes under a different mechanism. The TASA NOP does not compete for optional indicators. No NOP – except the Transport NOP – competes for the Project Finance indicator.

Source: DPS-UVAL

VII.5 Allocation of financial resources to ROPs and NOPs

According to the provisions of the Community regulations and specified in the Italian document on the criteria and mechanisms for the allocation of the 4 per cent performance reserve, in principle resources were to be allocated only to those programmes achieving all necessary indicators, i.e. 6 indicators out of 8, including 5 compulsory indicators.

When the proposed resource allocation was drafted, a number of factors were taken into account. First, the allocation of the 4 per cent performance resources took place about one year after the allocation of the 6 per cent performance resources, which, though the modular mechanism used allowed all participants to gain access to part of the resources, turned out to be a rather strict mechanism, considerably reducing resources for some programmes. Second, the European Commission suggested the possibility of also considering partial pro rata allocations of reserves in specific

circumstances; realizing that, unlike the situation in Italy, where criteria and mechanisms were fixed well in advance, in many countries' rules were defined very late. Moreover, in the case of Italy, even the two programmes with the lowest number of indicators satisfied had at least achieved some results and proved that they had made considerable efforts to achieve the reserve goals, although, at times, in very difficult circumstances.

The proposed resource allocation to programmes was made on the basis of this situation. In particular, as specified in the allocation proposal submitted to the European Commission,⁴² the results achieved by the 4 per cent performance reserve were positive as regards both the goals achieved and the processes to improve efficiency and effectiveness of the Operational Programmes triggered by this mechanism, even when all the conditions necessary to enable full achievement of the goals were not realized. This positive judgment is also based on the especially strict method applied not only to rules already defined in 2000 but also to the particularly ambitious targets (also defined in advance), as well as the active monitoring carried out by the Technical Group, which lent strong support to the process. Thus, a possible pro rata allocation of the Community resources with reference to the targets achieved was agreed in the reserve allocation proposal, as the European Commission had envisaged in its document of 16 October 2003.⁴³ In view of the situations described, the Italian proposal provides for a full allocation of resources to those programmes achieving at least 6 indicators out of 8 and a partial allocation of the 4 per cent Community reserve to the programmes Calabria (about 60 per cent) and Transport (about 40 per cent).

Surpluses are mainly allocated to programmes that fully achieved the performance reserve objectives in accordance with the number of indicators met and in proportion to their initial budget endowment. The CSF Managing Authority allocates the remaining surplus on a discretionary basis using separate criteria for ROPs and NOPs.

For ROPs, the allocation regarded those programmes that demonstrated excellence in achieving the incentive goals (see Table VII.4).⁴⁴ By contrast, for the central government bodies in charge of NOPs, the remaining surpluses were allocated to the programmes

⁴² See CSF Monitoring Committee meeting of 18 December 2003.

⁴³ Document of EU Commission services to the attention of the members of the Committee on the Development and Conversion of Regions. Preparation of the Performance Reserve allocation. CDRR-03-0057-00-FR.

⁴⁴ In this case, this involved Puglia and Sicily Programmes, for which the report of the Technical Group indicated the full satisfaction of all compulsory indicators.

that, in addition to achieving particularly strong performance, are more directly focused on the achievement of the Lisbon Objectives (see Table VII.5).⁴⁵

Decision C (2004) 883 of 23 March 2004 by the European Commission on the allocation of Community reserve resources also permitted the allocation of the surpluses of the 6 per cent reserve in accordance with the results achieved in for 4 per cent performance reserve. A summary table of all allocation decisions can be found in Annex A and a summary table of both reserves is given in Annex C.

Table VII.4 Allocation of 4 per cent resources to regional programmes (millions of euros)

REGIONAL OPERATIONAL PROGRAMMES	Full award	Partial award	Surplus allocation		TOTAL
			Larger share to full award programmes	Discretionary share for excellent performance ⁽¹⁾	
	1	2	3	4	1+2+3+4
BASILICATA	34.23	-	1.13	-	35.36
CALABRIA	-	57.44 ⁽²⁾	-	-	57.44
CAMPANIA	176.29	-	6.82	-	183.11
PUGLIA	121.65	-	4.71	5.74	132.10
SARDINIA	89.70	-	2.48	-	92.18
SICILY	177.81	-	7.86	5.74	191.41
TOTAL	599.68	57.44	23.00	11.48	691.60

(1) Excellent means that there were no qualifications in the final monitoring report of the Technical Group.

(2) The partial award to the Calabria Region was assigned for the 5 indicators achieved out of the total of 8; in addition, the programme does not participate in the reallocation of surpluses.

Source: UVAL, CSF Monitoring Committee and European Commission allocation decision

Table VII.5 Allocation of 4 per cent resources to national programmes (millions of euros)

NATIONAL OPERATIONAL PROGRAMMES	Full award	Partial award ⁽¹⁾	Surplus allocation		TOTAL
			50.1% to high performance programmes	49.9% discretionary by MA of the CSF for Lisbon Objectives	
	1	2	3	4	1+2+3+4
TASA	14.35	-	1.28	-	15.63
FISHING	5.61	-	0.53	-	6.14
RESEARCH	54.74	-	6.09	10.325	71.15
EDUCATION	21.71	-	2.07	10.325	34.10
LAW ENFORCEMENT	26.33	-	2.09	-	28.42
LOCAL DEVELOPMENT	90.91	-	8.67	-	99.58
TRANSPORT	-	41.38 ⁽¹⁾	-	-	41.38
TOTAL	213.65	41.38	20.73	20.65	296.40

(1) The partial award to the Transport Programme was assigned for the 4 indicators achieved out of the total of 8; in addition, the programme does not participate in the reallocation of surpluses.

Source: UVAL, CSF Monitoring Committee and European Commission allocation decision

⁴⁵ None of the NOPs was judged to have achieved full satisfaction of all indicators.

VIII. Factors for success, comparison with the experience of the 6 per cent mechanism and lessons for future planning

Some of the chief factors for the success of the 6 per cent reserve also apply to the 4 per cent reserve. A set of rules defined well in advance of planned deadlines and agreed with the participants, together with technical monitoring, enabled significant progress to be achieved in the quality of the implementation of Operational Programmes.

In many of the administrations responsible for the Operational Programmes, the 4 per cent performance reserve accelerated the start-up of the on-going evaluation process, the introduction of analysis systems and employment impact assessments, increased the attention given to the specification of project selection criteria, and brought forward the organization and implementation of sample controls envisaged by Article 10 of Regulation 1260/99.

However, an overall evaluation of the system adopted for the 4 per cent reserve reveals some of its limits when compared with the 6 per cent reserve. The 4 per cent reserve system turned out to be too ambitious and, consequently, more difficult to implement and ended up being applied with a number of corrective measures.

An initial consideration concerns the nature of the indicators. The 4 per cent reserve indicators are focused on the implementation of the Operational Programme and the satisfaction of most requirements depends directly on the actions of the entity in charge of the OP. Thus, they meet one of the necessary requirements for the performance reserve mechanisms to be effective. However, for many indicators, in particular those relating to the management system, the goal is to improve the quality of the system, and participants are urged to define requirements in a highly detailed manner. For instance, some requirements called for the monitoring systems to conform to common orientations, guidelines or check lists in addition to indicators concerning the appointment of an independent evaluator or the transmission of monitoring data by a specified deadline. For this type of requirement, however, both participants and evaluators face greater difficulties in clearly identifying their scope of application. Since these requirements cannot be certified unambiguously on the basis of conventional standards agreed by all, there is a tendency to narrow their scope and reduce their weight compared with measurable requirements, the non-achievement of which is more evident.

It must also be noted that these indicators have less strategic importance than the indicators chosen for the 6 per cent performance reserve, being linked to procedural aspects and often more difficult to understand for those not directly involved in the management of Operational Programmes, which would include policy-makers. Consequently, the level of attention and participation with regard to the results of the 4 per cent performance reserve was lower until the 6 per cent reserve had been allocated. Little information was made available by the Managing Authorities during the monitoring phase, and therefore the actions taken by the Technical Group and the CSF Managing Authority to stimulate achievement of the indicators were not as effective as those taken for the 6 per cent reserve. Only during the last six months of implementation of the 4 per cent reserve, when the resources were to be allocated, was a significant improvement registered in the level of response by the entities involved, both in terms of the completeness of information submitted and the effective effort to achieve the targets. However, this was not enough to bridge some general shortcomings, such as poor compliance with the indicator on the quality of project selection criteria, especially with regard to equal opportunities.

Nevertheless, the distinguishing feature and primary influence on the application of the 4 per cent reserve was the allocation mechanism, which envisaged the allocation of the reserve on the condition that a fixed number of targets were achieved and not, as with the 6 per cent reserve, for every target achieved.

As described in previous sections, the application procedures used by other Member States had an impact on the allocation decisions for the 4 per cent reserve (in particular the partial modification of the regulations governing the number of obligatory indicators that had to be satisfied in order to access the resources). The summary report of the Commission⁴⁶ on the experiences of the different countries emphasises that in many cases the allocation rules for the reserve were established very close to the deadline and the indicators were often defined so as to allow a certain flexibility in the interpretation of requirements. The experience of many European countries, especially in the realization phase of the mechanism, was therefore different from Italy's, where by contrast rules had been set well in advance, monitoring was continuous and the requirements specified with extreme precision. The mechanism therefore worked as an incentive for good performance, but at the same time turned out to be too strict to be

⁴⁶ See European Commission (2004).

fully consistent with the resource allocation rule, which did not envisage partial allocations but was “all or nothing”. Moreover, at the time of the 4 per cent reserve allocation, the 6 per cent reserve allocation had already been carried out and substantial rewards and sanctions had already been issued.⁴⁷ Thus, during the allocation phase it was decided not to further penalize those programmes that had already missed out on the 6 per cent resources. Accordingly, the strictness of the mechanism was attenuated to permit a allocation reduced in proportion to the degree to which indicators were satisfied for the Operational Programmes that did not achieve the minimum access conditions for the 4 per cent reserve (the Calabria ROP and the Transport NOP).

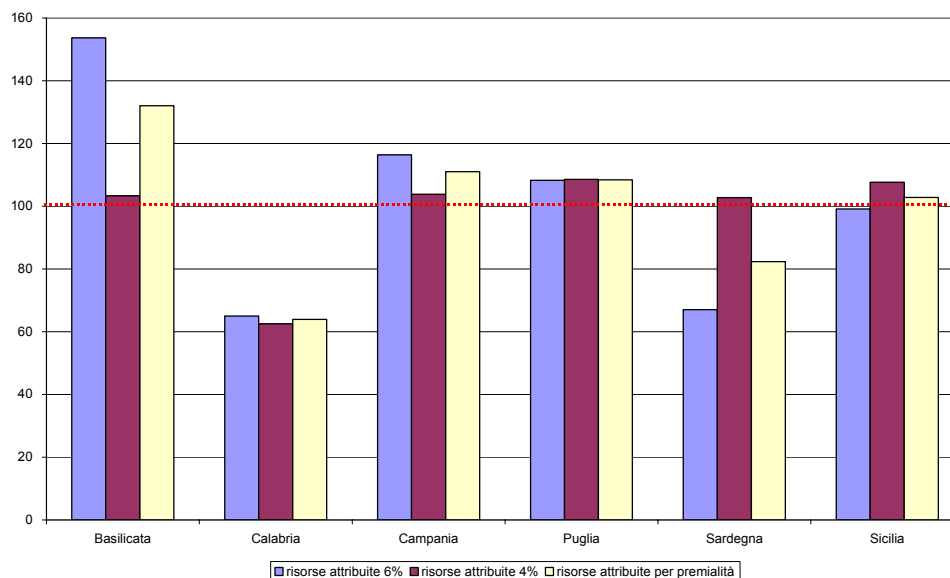
The effects of the allocation mechanism was already evident in the implementation and evaluation phases of the performance reserve system. As noted earlier, there was a tendency to underestimate compliance with guidelines compared with measurable requirements. In addition, in the final evaluation the Technical Group elected to consider some indicators for which all requirements had not been fully and simultaneously met as broadly satisfied with the introduction of a “partially met” category, an approach later adopted by the CSF Managing Authority in its proposal as well. These developments, while not affecting the substantive achievement of some objectives, are indicative of the weakness of the 4 per cent performance reserve mechanism. With a mechanism modelled more closely on that of the 6 per cent reserve, where there would have been no risk of the entire reserve not being allocated because just one indicator was only partially achieved, this greater flexibility in the evaluation of performance would have been more limited.

To understand how the competitive mechanism worked in assigning resources on the basis of each indicator satisfied in the 6 per cent and 4 per cent performance reserve systems, Figure VIII.1 shows the distribution of resources by region.⁴⁸

⁴⁷ It must be also said that Italy is the only European country to have added a national performance reserve mechanism to the Community mechanism.

⁴⁸ Percentages calculated for central government bodies and separate absolute values for the 6 per cent and 4 per cent performance reserve systems are shown in the summary table of resource allocations in Annex C.

Figure VIII.1 Percentage of resources allocated with respect to the potential endowment for both performance reserves, by region



Source: UVAL, CSF Monitoring Committee decision of March 2003 and European Commission allocation decision of March 2004

This figure shows the percentage of resources allocated to each region by the two reserve systems separately and jointly, where the initial endowment is equal to 100: for example, it shows that while Basilicata has received additional resources equal to more than 50 per cent of the initial resources envisaged for the 6 per cent performance reserve system and the entire endowment envisaged for the 4 per cent system, Calabria received only 65 per cent of possible resources of the 6 per cent reserve and 64 per cent of those of the 4 per cent reserve.

In conclusion, it must be said that despite the limitations outlined above, the 4 per cent reserve worked, since it stimulated virtuous behaviour on the part of the Managing Authorities of the Operational Programmes to some extent. It might have worked even better, with greater rigour and competition among the participating bodies, if it had not been burdened by indicators that were at times over-ambitious and difficult to measure and by an excessively severe resource allocation mechanism. However, if compared with the application of the 4 per cent reserve in other Member States, the experience of Objective 1 in Italy was in any case successful, as the corrective measures introduced did not undermine the system's credibility.

IX. Performance reserve for the TASA NOP and Molise ROP

In two cases, the Molise ROP and the Technical Assistance NOP, it was necessary to adjust the criteria and mechanisms of the two reserves to the specific characteristics of the Operational Programmes. In both cases, the entire resource endowment was allocated in accordance with the 4 per cent reserve rules.

TASA NOP

The Technical Assistance Programme has a unique configuration due to the support function it performs, in which the responsibilities of each measure are distributed among the different participating bodies (Department of Public Administration, Department for Equal Opportunities, Ministry of Labour, Istat, etc.). For this reason, the programme competes for 10 per cent of resources for a sub-cluster of five appropriate indicators of the Community reserve, which are shown in Table IX.1⁴⁹.

At the same time, in order to guarantee equal treatment with the other NOPs, the 10 per cent performance reserve allocation to the TASA NOP is carried out by distinguishing between the two resource allotments and applying the specific mechanisms of the two systems. Therefore, 6 per cent is allocated modularly in accordance with the number of indicators met⁵⁰ independently of the satisfaction of other indicators. Conversely, 4 per cent is allocated only if the programme meets – by the established deadlines – all five of the criteria on which the Operational Programme is evaluated, in line with the Community reserve mechanism.

The allocation of the total amount, equal to 10 per cent of the programme, was carried out in February 2004 at the conclusion of the 4 per cent mechanism, in line with the allocation proposal presented to the CSF Monitoring Committee of the CSF on 17 February 2004.

In consideration of the good performance achieved,⁵¹ the programme obtained the entire amount of resources earmarked for it by the two reserves (€19.07 million and

⁴⁹ The criteria and mechanisms are described in detail in Annex B to the document “*Criteri e meccanismi della riserva di premialità del 6 per cento*” (March 2002), in accordance with a note prepared in October 2001.

⁵⁰ Moreover, in a manner similar to the 6 per cent mechanism, indicators are weighted differently.

⁵¹ All envisaged indicators were fully met; see Gruppo Tecnico premialità (2003), *Relazione Finale sul 4 per cento*.

€14.35 million respectively) and also participated in the allocation of surpluses in both cases (€7.33 million and €1.28 million respectively⁵²).

Table IX.1 TASA NOP reserve system indicators

CRITERION	WEIGHT
<i>Effectiveness criteria</i>	12
A.1.1 Implementation	12
Achievement of 80% of the target set for 30 June 2003 for a series of measures totalling at least 50% of the entire OP cost.	12
Achievement of 60% of the target set for 30 June 2003 for a series of measures totalling at least 50% of the entire OP cost	5
<i>Management criteria</i>	30
A.2.1 Quality of the indicator system and monitoring procedures	10
A.2.2 Quality of the control system	10
A.2.4 Quality of the on-going evaluation system	10
<i>Financial criteria</i>	18
A.3.1 Financial plan	18
Total	60

Note: the weights are applied only for the 6 per cent reserve allocation. For the 4 per cent allocation, all five indicators must be met.

Source: DPS-UVAL

MOLISE ROP

The Operational Programme of the Molise Region, which is being phased out from Objective 1 in the 2000-2006 programming cycle, was endowed with specific financial resources in proportion to the resident population and so could not participate in a competitive scheme with other regions. The performance reserve system defined by the DPS together with the region⁵³ provided for a competition mechanism internal to the programme, based upon a sub-cluster of Community reserve indicators: implementation, quality of the indicator system and monitoring procedures, quality of selection criteria, financial plan. The region deemed it necessary to apply these criteria to the priorities/fund aggregates (i.e. all the measures belonging to the same priority and co-financed with measures from the same fund, for a total of 9 aggregates). The reserve is allocated to the priorities/funds that meet the compulsory implementation criterion and at least two out of the three remaining indicators.

⁵² For details, see Table IV.2 for 6 per cent, and Table VII.5 for 4 per cent.

⁵³ The document “*Criteri e procedure per l’assegnazione della riserva premiale del 4 per cento per il POR MOLISE 2000-2006*”, to be consulted for further details, was approved by the regional council and subsequently ratified by the CSF Monitoring Committee with note no. 0015371 of 13 May 2003.

The proposed resource allocation was presented and approved by the CSF Monitoring Committee in December 2003.⁵⁴ Not all priorities/funds competed for the indicator concerning the quality of selection criteria, whereas the monitoring system objective was achieved in all cases. The performance reserve target was not fully achieved for only two priorities/funds, which therefore did not participate in the reallocation of surpluses.

According to these criteria, the total 10 per cent resources were allocated. Surpluses were assigned to priorities/funds⁵⁵ in accordance with their performance. Overall, resources allocated came to €20.727 million (€16.717 million as the direct allocation in relation to indicators met and €3.555 million as the allocation of the surplus).

⁵⁴ See the document “*Proposta di attribuzione della riserva di premialità comunitaria del 4 per cento e nazionale del 6 per cento, Regione Molise*”; Monitoring Committee of the Obj. 1 CSF, 18 December 2003.

⁵⁵ Priorities/funds III-ESF and IV-ERDF.

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Annexes

Annex A *Summary table of resource allocation of the two 6 and 4 per cent reserves*

		Community and national reserves – Resource Allocation	Resources (millions of euros)
2003	January		
	February		
	March	10.3.2003 6% Final Report by the Technical Group to the Managing Authority of the CSF	
		12.3.2003 6% Resource Allocation Monitoring Committee of the CSF + Proposal Managing Authority of the CSF for surplus	
		Potential resources	1293.48
		Allocated resources (direct allocation + 50% surplus)	1020.54
		Surplus to be allocated	272.94
	April		
	May		
	June		
	July		
	August		
	September		
	October		
2004	November	24.11.2003 4% Final Report by the Technical Group to the Managing Authority of the CSF	
		17.12.2003 Technical Group Report for the allocation of the 6% second tranche	
	December	31.12.2003 Proposal of 4% distribution sent to the EU	
	January		
	February	17.02.2004 6% surplus allocation in accordance with a proposal of the Managing Authority of the CSF (second tranche and performance bonus)	105,14
	March	23.3.2004 Decision of the Commission on 4% allocation	
	April	2.04.2004 Allocation of 6% surplus:	
		According to 4% results	136,47
		TASA NOP	5,42
		Surplus allocation in accordance with Lisbon and Gothenburg objectives	25,91

NB: The items regarding the 4 per cent reserve are in bold. Those regarding the 6 per cent reserve are in grey

Source: DPS-UVAL

Annex B.1 Distribution of the 6 per cent performance reserve among indicators in each ROP -
Total points and values in millions of euros

Indicators	Points	Performance resources (Structural Funds only) in millions of euros*						Total performance resources per indicator
		Regions						
		Basilicata	Calabria	Campania	Puglia	Sardinia	Sicily	
Assignment of managerial responsibilities	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Establishment of internal management control unit	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Establishment of evaluation units	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Information society	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
One-stop shop for businesses	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Employment services	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Territorial and landscape planning	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Integrated water service implementation	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Urban waste management by optimal service area	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Establishment of regional environmental protection agencies	3,5	2,653	7,123	13,662	9,427	6,951	13,779	53,596
Total for Institutional Enhancement	35	26,530	71,229	136,616	94,275	69,514	137,794	535,957
Implementation of Integrated Territorial Projects (1st Benchmark)	8	6,064	16,281	31,226	21,549	15,889	31,496	122,504
Implementation of Integrated Territorial Projects (2nd benchmark)	7	5,306	14,246	27,323	18,855	13,903	27,559	107,191
Total for Integration	15	11,370	30,527	58,550	40,404	29,792	59,055	229,696
Financial concentration (1st benchmark)	6	4,548	12,211	23,420	16,161	11,917	23,622	91,878
Financial concentration (2nd benchmark)	4	3,032	8,140	15,613	10,774	7,944	15,748	61,252
Total for Concentration	10	7,580	20,351	39,033	26,936	19,861	39,370	153,131
Total for indicators	60	45,480	122,106	234,198	161,614	119,166	236,219	918,783

* National co-financing resources of about the same amount must also be considered.

Source: DPS (2002b)

Annex B.2 Distribution of the 6 per cent performance reserve among indicators in each NOP -
Total points and value in millions of euros

Indicators	Scoring	Performance resources (Structural Funds only) in millions of euros*						Total performance resources per indicator
		Regions						
		Basilicata	Calabria	Campania	Puglia	Sardinia	Sicily	
Assignment of managerial responsibilities	9	1,117	10,908	4,326	5,247	18,117	16,491	56,205
Control unit activation	9	1,117	10,908	4,326	5,247	18,117	16,491	56,205
Establishment of evaluation units	9	1,117	10,908	4,326	5,247	18,117	16,491	56,205
Information society	9	1,117	10,908	4,326	5,247	18,117	16,491	56,205
<i>Total for Institutional Enhancement</i>	<i>36</i>	<i>4,468</i>	<i>43,632</i>	<i>17,304</i>	<i>20,987</i>	<i>72,467</i>	<i>65,962</i>	<i>224,820</i>
Strategy integration (1st benchmark)	14	1,737	16,967	6,73	8,161	28,181	25,652	87,43
Strategy integration (2nd benchmark)	10	1,241	12,2	4,807	5,83	20,13	18,323	62,45
<i>Total for Integration</i>	<i>24</i>	<i>2,978</i>	<i>29,087</i>	<i>11,536</i>	<i>13,991</i>	<i>48,311</i>	<i>43,975</i>	<i>149,879</i>
Total for indicators	60	7,446	72,718	28,841	34,978	120,778	109,937	374,698

* National co-financing resources of about the same amount must also be considered.

Source: DPS (2002b)

Annex C Summary table of 6 and 4 per cent performance reserve allocation - Millions of euros ⁽¹⁾

REGIONAL OPERATIONAL PROGRAMMES	6% Performance Reserve			4% Performance Reserve		
	Potential resources ⁽²⁾	Allocated resources	b/a (%)	Potential resources ⁽²⁾	Allocated resources	b/a (%)
	(a)	(b)		(a)	(b)	
BASILICATA	45,48	69,89	153,7	34,23	35,36	103,3
CALABRIA	122,11	79,36	65,0	91,91	57,44	62,5
CAMPANIA	234,20	272,52	116,4	176,29	183,11	103,9
PUGLIA	161,61	174,92	108,2	121,65	132,10	108,6
SARDINIA	119,17	79,88	67,0	89,70	92,18	102,8
SICILY	236,22	234,23	99,2	177,81	191,41	107,6
Surplus to be used for other purposes ⁽³⁾		7,97				
TOTAL	918,78	918,78	100,0	691,60	691,60	100,0

NATIONAL OPERATIONAL PROGRAMMES	6% Performance Reserve			4% Performance Reserve		
	Potential resources ⁽²⁾	Allocated resources	b/a (%)	Potential resources ⁽²⁾	Allocated resources	b/a (%)
	(a)	(b)		(a)	(b)	
TECHNICAL ASSISTANCE ⁽⁴⁾	19,07	26,40	138,4	14,35	15,63	108,9
FISHING	7,45	4,57	61,4	5,61	6,14	109,5
RESEARCH	72,72	58,64	80,6	54,74	71,15	130,0
EDUCATION	28,84	28,48	98,7	21,71	34,10	157,1
LAW ENFORCEMENT	34,98	28,34	81,0	26,33	28,42	107,9
LOCAL DEVELOPMENT	120,78	168,89	139,8	90,91	99,58	109,5
TRANSPORT	109,94	60,49	55,0	82,75	41,38	50,0
Surplus to be used for other purposes ⁽³⁾		17,96				
TOTAL	393,77	393,77	100,0	296,40	296,40	100,0

TOTAL FOR OPERATIONAL PROGRAMMES	6% Performance Reserve	4% Performance Reserve
Resources allocated with the performance reserve system	1286,61	988,00
Surplus used for other purposes ⁽³⁾	25,93	
TOTAL	1312,54	988,00
Surplus used for other purposes ⁽³⁾	25,93	
MOLISE REGION ⁽⁵⁾	12,27	8,00
OVERALL TOTAL	1324,82	996,00

Source: DPS-UVAL

NOTES:

1) Resources were allocated as follows: the 6 per cent performance reserve by the Monitoring Committee of the CSF in March 2003 and March 2004; the 4 per cent performance reserve by decision of the EC issued on 23 March 2004, published in the Official Journal of the EU no. 111 of 17 April 2004. The table only shows the Community funds, to which national co-financing of about 50 per cent must be added.

2) Potential resources are those resources that would have been assigned to each government entity according to the fixed allocation criterion of the CSF if the performance system had not been implemented. The allocated quota cannot exceed 100 per cent because part of the resources "lost" by the entity is assigned by the mechanism to good performing entities.

3) The resources that remained after the application of the 6 per cent performance reserve mechanisms were allocated by the Monitoring Committee in March 2004 to the Technical Assistance Programme and the other NOPs according to functional parameters to support Lisbon and Gothenburg priorities.

4) Due to the special characteristics of the Technical Assistance Programme, the 6 per cent resources are also allocated in accordance with the 4 per cent performance reserve criteria.

5) The Molise Region, as an Objective 1 phasing-out region, adopted a special resource allocation mechanism internal to the programme.

REGIONS

Key	
X	At 30.9.2002
•	At 30.9.2003
▲	At 31.7.2004
*	At 31.1.2005
+	At 31.7.2005
#	At 31.1.2006

INDICATORS AND REQUIREMENTS ⁽¹⁾	BASIL ICAT A	CA LA BRI A	CAMP ANIA	PU GLI A	SARD INIA	SICIL Y
A.1 ASSIGNMENT OF MANAGERIAL RESPONSIBILITIES						
1) Implementation of principles in Legislative Decree 29/93	X	X	X	X	X	X
2) Annual guidance measure for the assessment of managers	X	▲	X	X		X
A.2 ESTABLISHMENT OF INTERNAL MANAGEMENT CONTROL UNIT ⁽²⁾						
1) Adoption of a plan to create an internal management control unit	X	X	•	X	•	X
2) Establishment of a service carrying out the controls	X	*	X	X	X	X
3) Preparation of a training project	X	*	•	X	X	X
4) System operational	X		•	X	•	X
A.3 ESTABLISHMENT AND OPERATION OF EVALUATION UNITS						
1) Unit establishment	X	X	X	X	X	X
2) Appointment of manager and start-up of member selection procedure	X	X	X	X	X	X
3) Report on activities performed	X	X	X	X	X	X
A.4 INFORMATION SOCIETY IN GOVERNMENT						
1) Electronic transfer to the Region of monitoring data on 50% of recipients and 60% of expenditure (Structural funds and co-financing)	X	•	*	X	#	X
A.5 ONE-STOP SHOP FOR BUSINESSES ⁽³⁾						
1) At least 80% of regional population covered by one-stop shop for businesses	X	X	X	X	74 %	X
2) 90% of procedures concluded within maximum time allowed or on average in a time not exceeding 75% of the maximum time allowed	X	X	X	X	*	X

INDICATORS AND REQUIREMENTS	BASIL ICAT A	CA LA BRI A	CAMP ANIA	PU GLI A	SARD INIA	SICIL Y
A.6 EMPLOYMENT SERVICES ⁽³⁾						
1) Completion of the institutional procedure for actual delivery of services	X	X	X	X	*	X
2) At least 50% of regional population covered by established units	X	X	X	X	34%	X
A.7 IMPLEMENTATION OF TERRITORIAL AND LANDSCAPE PLANNING						
1) Compatibility of steps taken in line with Art. 8, paragraph 2, of the State-Regions Agreement of 19.4.2001 on the exercise of powers in respect to landscape	X		X	X		X
A. 8 INTEGRATED WATER SERVICE						
1) Establishment of Area Authority and Approval of Area Plan (coverage: 60% of the population)	X	•	X	X	X	▲
2) Approval of Agreement and Technical Specifications (coverage: 60% of the population)	X	•	*	X	•	▲
3) Decision on award of integrated water service (coverage: 60% of the population)	X	•	*	X	*	▲
A.9 IMPLEMENTATION OF URBAN WASTE DISPOSAL IN OPTIMAL SERVICE AREAS						
1) OSA boundaries and the rules governing the forms of cooperation on management among local governments	X	X	X	X	X	X
2) Establishment of organizations representing the chosen form of cooperation	X	X	X	X		•
3) Fixing of area rate schedule, broken down by rates for the different user categories	X	•	•	•		•
4) Preparation and approval of intervention programme, financial plan, management and organization programme	X	•	X	▲		•
A.10 ESTABLISHMENT AND OPERATION OF REGIONAL ENVIRONMENTAL PROTECTION AGENCY						
1) Approval of the regional law establishing agency	X	X	X	X	▲	X
2) Appointment of the director and governing bodies	X	X	X	X	*	X
3) Internal rules for agency organisation	X	•	X	•		X
4) Assignment of personnel, financial resources and equipment for operations	X	•	X	•		X

NOTES:

- (1) This table refers to progress with respect to the original 6 per cent performance reserve requirements and indicators and does not include any other progress made with respect to other information factors, which is shown in detail in the Monitoring Tables.
- (2) In line with the criteria used at the time of the resource allocation, the system is considered operational if it meets the first three requirements.
- (3) For these two indicators, information is collected by the Ministry of Public Administration – Formez and by the Ministry of Labour - Isfol. Information is updated to October and December 2004 respectively.

CENTRAL GOVERNMENT BODIES RESPONSIBLE FOR NOPs

Key	
X	At 30.9.2002
•	At 30.9.2003
▲	At 31.7.2004
*	At 31.1.2005
+	At 31.7.2005
#	At 31.1.2006

INDICATORS AND REQUIREMENTS ⁽¹⁾	FISHING	RESEARCH	EDUCATION	LAW ENFORCEMENT	LOCAL DEVELOPMENT	TRANSPORT
A.1 ASSIGNMENT OF MANAGERIAL RESPONSIBILITIES						
1) Implementation of the evaluation system for results achieved by managers		+	X	X	X	+
A.2 ESTABLISHMENT OF AN INTERNAL MANAGEMENT CONTROL UNIT ⁽²⁾						
5) Adoption of a plan to create an internal management control unit	▲		X	X	X	X
6) Establishment of a service carrying out the controls	X	X	X	X	X	X
7) Preparation of a training project	▲	+	X	X	▲	*
8) System operation	▲	+	X	X	X	X
A.3 ESTABLISHMENT AND OPERATION OF EVALUATION UNITS						
4) Centre establishment	X	X	X	X	X	•
5) Appointment of manager charge and start-up of member selection procedure	X	X	X	X	X	*
6) Report on activities performed		X	X	X	X	*
A.4 INFORMATION SOCIETY IN GOVERNMENT						
1) Evidence of electronic transmission of expenditure orders to Office of Accountant General		*	X	•	X	+
2) Share of expenditure orders transferred electronically equal to at least 70 per cent of the average value		*	X	•	X	

NOTES:

(1) The table refers to progress with respect to the original 6 per cent performance reserve requirements and indicators

(2) In line with the criteria used at the time of the resource allocation, the system can be considered as operational even if the training project is missing.

Source: DPS-UVAL

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