

# **THE OBJECTIVE 1 ITALIAN PERFORMANCE RESERVE: A TOOL TO ENHANCE THE EFFECTIVENESS OF PROGRAMMES AND THE QUALITY OF EVALUATION**

**Iolanda Anselmo and Laura Raimondo<sup>1</sup> -**

**Unità di Valutazione degli Investimenti Pubblici - Ministero del Tesoro**

## **ABSTRACT**

With a view to increasing the effectiveness with which the Community Structural Funds are used, the Council regulation establishing general provisions on the Structural Funds provides for the implementation of a performance reserve. The amount of this reserve is set at 4% of the commitment appropriations.

The Italian government has considered the performance reserve as a key element of the set of rules that will govern implementation of Community Structural Funds for the period 2000-2006 in Objective 1 areas. On this basis, it has decided to add up to the 4% reserve requested by regulations a 6% performance reserve. The latter is conceived as a tool to strengthen administrative and institutional reform and the effectiveness of public spending on local development. The resulting 10% reserve represents an adequate incentive to enhance the quality of the programming process and the effectiveness of public investment.

A technical proposal for the implementation of the reserve was produced and partially integrated in the Community Support Framework for Objective 1. The final proposal for both reserves was then adopted by the Monitoring Committee.

The paper, after an overview of the main features of the institutional framework and of strategic choices of the new planning period, analyses the main criteria being used to measure the performance of managing authorities and the structure of the incentive system. The paper then focuses on the role of the reserve as a tool to strengthen the effectiveness and accuracy of evaluation, and therefore of programmes.

---

<sup>1</sup> The authors are both members of the Evaluation Unit at the Ministry of Treasury ([iolanda.anselmo@tesoro.it](mailto:iolanda.anselmo@tesoro.it); [laura.raimondo@tesoro.it](mailto:laura.raimondo@tesoro.it)) and represent the Unit in the technical group in charge of monitoring the implementation of the performance reserve. The paper synthesises authors' reflections developed during the definition of the official technical papers on the performance reserve, in which other members of the Unit were involved, in particular Monica Brezzi and Francesca Utili, who gave a fundamental contribution to the definition of the performance reserve mechanism. Useful insights for the paper came also from Fabrizio Barca, from the members of the OECD mission in charge of the preparation of the forthcoming "Territorial review on Italy" and from some participants of the Edinburgh Conference, in particular Massimo Florio and Raffaele Brancati. The usual disclaimer applies.

## 1. THE 2000-2006 OBJECTIVE 1 DEVELOPMENT PLAN: STRATEGY AND RULES

The 2000-2006 objective 1 planning process gave to the Italian government a chance to shift towards a more adequate policy approach that is meant to increase territorial competitiveness of Mezzogiorno and attract increasingly mobile capital; this comes after a period of regional policies which were designed to compensate competitive disadvantages of lagging-behind regions with a sectorial, top-down approach, based mainly on incentives to the private sector.

The significant amount of resources (40 billion Euro of European and national public resources), the possibility of designing a new set of rules conditioning their use, the constraints in terms of accountability and credibility of results requested by the European co-financier, made it possible to put into action some lessons learnt in the last decade, when profound changes occurred in the economy and society of Southern Italian regions, despite the significant decrease of public investment since 1992.

In the Nineties, a very lively entrepreneurial climate in some areas led to an increase in the turnover rate of non agriculture firms and in local firm agglomerations, in exports and inward flows of foreign tourists. Local partnerships between private and public actors based on the definition of common projects, financed by the central government (territorial pacts) proved to be an effective instrument to foster private investment and local relations. The reform of the municipal electoral system which increased responsibility and accountability of mayors by empowering them through a direct election, made it possible the resurgence of some urban areas. The experience of the Nineties showed that significant changes can take place in the Mezzogiorno, if a proper institutional design is devised and if responsibility is increased at a local level.

The plan therefore aims at enhancing the positive signs registered in the Nineties, through the definition of a strategy and of a set of rules which focus on the lasting objective of increasing territorial competitiveness of Mezzogiorno and attract increasingly mobile capital, turning into a major asset the challenge of the Monetary Union.

The Plan strategy rationale lies in the idea that Southern Italy is endowed with significant natural, human and cultural resources, which lie largely idle and could be better used to produce a significant social and economic return. Moreover the area is already characterised by scattered but numerous agglomerations of firms that, despite their high propensity to export and the good quality of labour, show a weak system of internal formal and informal relations hindering the inflow of new investments. Proper economic exploitation of idle resources and enhancement of relational capital within clusters, together with reduction of barriers to mobility and competition and strengthening of communication, were chosen as policy priorities to reduce current diseconomies negatively affecting both expectations and investment productivity of private investors and create positive supply externalities. This will induce, through positive expectations on growth rates, an increase in private investments and consequently a steady increase of employment rates.

In order to be successful, this strategy needs to be implemented within an adequate institutional design. Moreover it has to be credible in order to convince private investors to make their investments before programme effects on territorial competitiveness fully display, thus fostering a virtuous cycle of self fulfilling prophecies.

The success of the strategy requires a general upgrading of public investment and Public Administration. The governance of the programme is therefore based on a set of rules aimed at reaching this objective by supporting at the same time *competition* and *partnership* between

different levels of government (central, regional and local government), but also within the same government level (among regions or municipalities). Competition is induced by applying some of the principles of NPM: the allocation of more clear responsibilities at different government levels, the introduction of a mechanism of rewards and sanctions, the definition of clear operational targets, the strengthening of monitoring and evaluation functions. Partnership, both institutional and social, is deemed necessary in order to allow the transfer of knowledge needed for enacting the Plan. The strategy has indeed a high knowledge content. Knowledge needed to implement the strategy is often tacit and is spread at different government levels and among private actors. Unlike responsibilities, it cannot be easily transferred from one level to the other via formal protocols. This asks for informal interactions among actors to be developed and encouraged.

The plan allocates most of the funds (de facto 80 per cent) and the responsibility for selecting projects to the 6 Objective 1 regions (Campania, Basilicata, Calabria, Puglia, Sicilia and Sardegna) and to 1 phasing out region (Molise). The central government is directly responsible only for some operational programmes (communication, research and development, education, enhancing law enforcement). It also acts, through the Treasury, as a co-ordinating authority, with the task of setting general rules and guidelines for monitoring and evaluation. The Treasury is the managing authority both of the CSF and of an operational programme financing central government technical assistance and innovative actions in favour of the regions.

The increased responsibilities allocated to regional governments are the outcome of the political choice, made during the nineties, to decentralise, and are justified by the fact that regions are in the best position to involve local private and public actors, who possess much of the knowledge needed to enact the Plan. On the other hand, regional governments are traditionally inclined to prefer several small and scattered investment projects with more immediate and visible effects, rather than integrated projects concentrated in some territories which are necessary to implement the strategy of the plan. Furthermore complex programming and a high-quality project selection require a deep and rapid modernisation of Region's administrative structure.

In order to guarantee the quality of planning and the actual implementation of the strategy at the regional level, it was thus first intended to set conditions for the use of resources. The latter were agreed upon during a long and complex partnership process, where all institutional and social actors involved contributed to fix common priorities, objectives, targets and define common implementation rules ensuring the quality of investment in each CSF priority axis and safeguarding horizontal priorities (such as environment, equal opportunities, employment).

That was not considered however enough. Appropriate incentive devices had to be set so as to pressure Regions to implement administrative reforms and to pursue high quality of projects, both concentration and integration. Similar devices were designed to apply also to central Administrations. The performance reserve foreseen by Regulations<sup>2</sup> was considered as an opportunity to hasten the upgrading of managing authorities and reach higher quality standards. The Commission proposal was therefore strengthened (with the addition of a 6% national reserve) and turned into a reward system whose criteria and implementation mechanisms embody the main principles of the Plan.

The following sections aim at showing how the performance reserve system was adapted to the plan strategy and governance rules. Section 2 shows to what extent factors conditioning the success of the strategy, such as the transfer of knowledge from the private sectors or the strengthening of human capital in managing authorities, are built into performance reserve criteria. Section 3

---

<sup>2</sup> Regulation n. 1260/99 article 44

analyses the implementation mechanism of the reserve, showing that it is designed in such a way to foster competition and partnership between different level of governments and within each managing authority. With a customised design, the performance reserve system is a powerful mean to push forward principles and objectives commonly agreed and chosen because they are expected to influence positively the outcomes of the Plan. This is why, as section 4 shows, the performance reserve can contribute to the achievement of objectives, enhancing the role of ex-ante and on going evaluation.

## **2. THE PERFORMANCE RESERVE CRITERIA AND INDICATORS AND THE UPGRADING OF PUBLIC ADMINISTRATION**

The two reserves (4% and 6%) are based on the same general principles. They are thought to be complementary in addressing a complex set of objectives all aiming at upgrading the effectiveness of public administration action and quality of public spending.

As provided for in Regulation n.1260/99, the **performance reserve of 4%** is assessed against financial, management and effectiveness criteria. Nevertheless, differences exist between the Italian mechanism<sup>3</sup> and the Commission guidelines<sup>4</sup> and these are twofold: a) the Italian system does not reward attaining the declared performance foreseen ex-ante within each operational program; it rewards, on the contrary, reaching/satisfying a benchmark set exogenously and common to all programmes, below which access to the performance reserve is denied; b) a few indicators of the Commission proposal have been substituted or integrated in order to make the Italian performance reserve mechanism more coherent to the model and the set of rules that govern the Italian CSF. The reward is obtained if at least 6 out of 8 indicators are satisfied.

The complete list of indicators of the Italian 4% reserve is presented in annex A. Most of the indicators are directly or indirectly linked to the effort of upgrading the quality of programming and screening public investments and deepen the capacity to interpret the socio-economic conditions of the territory on which those investments will perform. Improving the quality and expanding public investment is the turning point factor triggering off growth rates in the economy of Mezzogiorno regions in the 2000-2006 period. The upgrading of public investment quality is the direct result of an overall effort of public action enhancement where factors such as detailed knowledge of the functioning of the socio-economic system, a trustful mechanism for the implementation of the public investment program, careful methods of investment selection (to choose only those which better enhance endogenous development factors) play a significant role.

Three indicators can be looked at more specifically in order to show the link with the model and set of rules of CSF: project selection, public-private partnership and the analysis of the labour market.

For the criterion related to project selection (see Annex A, indicator A.2.3), it was decided to reward the use of feasibility studies and preference premiums for proper integration of environmental and gender concern in project design. Benchmarks are set sufficiently high to call for thorough project preparation work and selection. Coherently to such premises, the indicator referring to the private capital leverage induced by Structural Funds is substituted, in the Italian

---

<sup>3</sup> A complete and detailed description of Italian 4% reserve criteria and mechanism design is contained in the document agreed with the European Commission and approved by the first objective 1 CSF Monitoring Committee on November 7, 2000 "QCS Obiettivo 1 – 2000-2006; Criteri e meccanismi di assegnazione della riserva di premialità del 4%"

<sup>4</sup> The Commission proposal for the 4% reserve is contained in "Implementation of the performance reserve for objective 1,2 and 3" – Working document 4 - DIRECTORATE GENERAL REGIONAL POLICY AND COHESION; Directorate G: Programme Coordination and Evaluation of Operations

proposal, with a measure of the effort of administrations, at any level of government, to perform public-private partnership schemes, including project finance (see Annex A, indicator A.3.2).

The improvement of public investment quality is expected to be generated also by attracting and positively exploiting the knowledge and experience matured in the private sector working in infrastructure construction and management. Project finance schemes are seen as a way to capture such knowledge content of private sector contribution plus the capability of properly screening financially viable infrastructure.

The development model underneath the CSF requires a high degree of knowledge and consciousness from the public administration, a wide range of information to be available and analytical capabilities to be developed. In this perspective, the Commission proposal to measure, among effectiveness criteria, results in terms of employment effects is being turned into one giving a reward to those administrations that establish capabilities (both in terms of human resources and analytical functions) to analyse and understand the local and regional labour market (see Annex A, indicator A.2.5).

The **national reserve of 6%**<sup>5</sup> is designed to create proper incentives to achieve conditions, such as a) specific aspects of the modernisation of the Public Administration, which are deemed to be essential to reach the expected results and b) concentration of funds on a few priorities and integration of actions to reach defined objectives.

The mechanism design, that will be analysed more in depth in section 3, is different from the 4% and varies between the first and the other two blocks of indicators. The first block, relating to institutional enhancement, includes 10 indicators for Regions and 4 for Central Administrations measuring the modernisation process of the P.A, the diffusion of institutional innovation and the degree to which reforms are being implemented in some of the sectors crucial to the achievement of the defined development objectives. The device rewards the Administration for each indicator reaching the minimum standard, which, as for 4%, is set exogenously. As for the other two blocks of indicators, integration and concentration<sup>6</sup>, they both include only one indicator. In this case, the mechanism is based on benchmarks resulting from the average of the performance of all regional administrations, so as to create a competition among them.

As for the choice of 6% reserve indicators, the complete list presented in annex B, while some examples are given below for each block.

For institutional enhancement, among the different features of the administrative reform, the performance reserve mechanism rewards the transition from the former normative-hierarchical approach to administration functioning to a performance-oriented one where officials are delegated higher responsibilities and have to perform defined targets (see Annex B, indicator B.1.1) and where such elements are part of a contract that is monitored. Along the same lines is the reward for implementing an internal management control system (see Annex B, indicator B.1.2).

As highlighted previously, the success of the CSF depends also on the capacity of regional governments, to which the implementation of most funds is delegated, to screen and select the interventions which are most pertinent for their territory and to monitor and evaluate their impacts in terms of their contribution to improve supply externalities and intermediate objectives. A proxy

---

<sup>5</sup> A complete and detailed description of Italian 6% reserve criteria and mechanism design is contained in the 2000-2006 Objective 1 CSF (§6.5 and annex D) and in the document “QCS Obiettivo 1 – 2000-2006; Criteri e meccanismi di assegnazione della riserva di premialità del 6%”

<sup>6</sup> The concentration criterion applies only to regional administrations.

for this is the indicator that measures if regional and central administrations have set up and implemented monitoring and evaluation functions and equipped the responsible units with sufficient qualified human resources to perform those functions (see Annex B, indicator B.1.4).

Increasing the competitiveness of southern regions cannot be only the result of the flow of qualified public investments, even if in conspicuous amounts, but is conditioned to the contextual implementation of other policies which allow Public Administration to provide good services. Competitiveness and market competition in southern regions are among those policies. In this context, the proposal rewards the implementation of sector reforms that spur competitiveness and market competition in public service provision such as in water and solid waste services (see Annex B, indicators B.1.8 and B.1.9). These are services that will benefit considerably from structural funds because are expected to contribute significantly to the achievement of national program priorities. The indicators were defined to measure the degree of implementation of the reform and, at the same time, the capacity of local public administration to externalise some of their previous functions or privatise them.

As for integration and concentration, both criteria are based on the underlying assumption that when resources are limited, as they always are, there is only a restricted number of objectives that can be achieved and that, for each objective to be reached, all pertinent interventions have to be implemented following both a logical and temporal integration path. Both economies of scope and agglomeration should materialise providing for a higher return from those interventions. It is also assumed that regional governments, through their negotiation with central institutions and social partners will be able to identify the path which is most pertinent to meet growth and employment targets that are estimated to amplify convergence. The indicators suggested here catch only partially both aspects and imperfectly measure the principles that the plan intended to push forward. They have to be accepted as proxies. They do require, in particular integration, the capacity of regional and local administrations to identify ideas and implementation rules that are enough precise and clear to give substance to territorial integrated projects.

### **3. THE PERFORMANCE RESERVE MECHANISM AS A TOOL TO FOSTER COMPETITION AND PARTNERSHIP**

The rules governing the implementation of the reserves aim at fostering both competition and partnership between different levels of government and within each managing authority (among different offices).

For both reserves competition generally occurs in the second round of the performance screening process: only the existence of a program that is not efficient, according to the set of indicators and benchmarks defined, can open the way to the distribution of the reserve, virtually allocated to that program, to the other competing programs which qualified as efficient. It is a second-degree competition mechanism, occurring only after having allocated the reserve to efficient programs.

In the case of the 4% reserve, in the first round a Programme will be allocated the 4% of its initial budget appropriation if it satisfies at least 6 of 8 indicators. As for the 6% reserve, a more flexible device is foreseen, where single portions of the reserve can be allocated for any single benchmark satisfied. The latter mechanism is based on the belief that each target, if satisfied, can positively contribute to improve the programming process and its implementation. In the case of regional administrations, for each of the 10 institutional enhancement indicators whose benchmark is satisfied, a 0.35% of the initial budget appropriation is therefore allocated. This means that potentially any regional Operational Programme can be awarded the 4% reserve plus the quota

(3.5%) of the national 6% reserve devoted to institutional enhancement<sup>7</sup>. Competition occurs then only in the second round, if some programs do not qualify for the 4% or for some of the institutional indicators. However, in both cases, fixing common performance standards for all programs ( even if differences are factored in for central and regional administrations) introduces a higher degree of comparability of the behaviour of competing administrations and, to a limited extent, some competition also in the first round. As for the 6% reserve criteria of integration and concentration, a direct competition among administrations is introduced already in the first round, by means of benchmark definition. For both indicators benchmarks are indeed fixed on the basis of the average performance of all programs. In this case there will be, by definition, programmes that will not be allocated the full amount of the quota of the 6% reserve devoted to integration and concentration. Only those regional Operational Programmes which will be ranked very close to the average will qualify for the allocation of a 0.8% for integration and a 0.6% for concentration, to which another 0.7% for integration and a 0.4% for concentration could be added if the programme performs better than the average<sup>8</sup>. Therefore, while the first benchmark could be reached by any Operational Programme, the second benchmark can only be reached by best performing programmes.

The Italian design is therefore meant to foster a higher degree of competition among administrations, if compared with the Commission proposal. Nevertheless, the second-degree competition rule and the introduction of “affordable” benchmarks allow for reducing the risk of favouring too much those regions that for their history, tradition and dimension can perform better than others. Moreover, the access to single portions of the reserve can provide the right incentive also to the least efficient administrations to focus their efforts on a few indicators and not all, helping them to reach at least a few results.

The competition fostered by the reserve also affects local governments. At least one third of the listed indicators measure the performance of the regional territory and not necessarily of the regional institutions. Again, within the framework of decentralised responsibilities, it is the overall performance of the territory that can help meeting the benchmarks. While it is true that the design of the procedures for the reserve allocation is silent or unable to reward those local governments that perform well, there are internal incentives that can be built into the system to help distributing the benefits of the reward. The necessity to perform well for the 4% reserve system (for example in terms of financial and physical implementation) and the wide share of resources dedicated in the 6% reserve system to indicators for which local governments play an important role (integration, concentration, one-stop shop, implementation of the reform in water and solid waste services) constitutes an incentive for regional administrations to set up an internal reverse reward system according to which those local governments that help getting the reward, will in turn get a share of it<sup>9</sup>. Indeed, some regional governments have already regulated and set up an internal reward system, and therefore reversed the incentive scheme towards local governments and bodies.

The incentive scheme is part of a system where institutional and social interactions among levels of government and actors play an important role in the definition of objectives and targets. The identification of patterns that are essential to the success of the program was carried out by sharing

---

<sup>7</sup> In the case of central administrations, potentially any Operational Programme can be allocated, other than the 4% reserve, a quota (3.6%) of the national 6% reserve devoted to institutional enhancement, i.e. a 0.9 % of the initial budget appropriation for each of the 4 institutional indicators satisfied.

<sup>8</sup> In the case of central administration, for which only integration applies, those satisfying the first benchmark will be allocated a 1.4%, to which another 1% could be added if the second benchmark is reached.

<sup>9</sup> For similar reasons, a reverse reward system could be applied within regional governments, among the different offices involved in the implementation of the operational programme, whose performance contribute to the attainment of the benchmarks of some indicators (output, financial absorption, quality of project selection).

experience, analytical results and knowledge by means of a vertical and horizontal partnership. The main structure and indicators of both reserve proposals were discussed at least one year before the formal approval of the CSF. Local governments, regional and central administrations had therefore enough time to organise themselves and get their share of the reward. Because it was clear that it would have been onerous for some of the less efficient administrations to produce the expected results (strengthening effectiveness on screening, programming, monitoring, evaluating public investments and implementing them) a certain degree of flexibility was introduced in the 6% reserve.

A strong incentive system, as the one described here, built within a process of decentralisation and reform of the public administration, strengthens the exposure of regional and local administrations vis-à-vis their political market; it helps reducing the degree of uncertainty which characterises still the dialogue among different levels of government and help assuming clear responsibilities as compared to at least a limited set of objectives and targets.

The strength of the system is heavily dependent upon reducing the risk of renegotiating agreed rules and of tensions on the reserve allocation that would originate pressures to change rules. This risk does exist, however some characteristics of the process leading to the definition of the rules make it less likely to occur:

1. The incentive device is the outcome of a partnership effort, which will accompany its implementation until the final allocation of the reserve resources;
2. The credibility of the process and the commitment of all the actors is ensured by having made the latter part of an intergovernmental agreement with a sovranational partner, the European Commission;
3. Indicators, targets and reallocation rules were clearly defined since the beginning, while a monitoring device has been set to provide administrations with a feedback on how to improve their action to attain the benchmarks;
4. Italy recently had a positive experience of competition among administrations. In the case of the allocation of 2000 Meuro to projects presented by regional and central administrations, a 30% was allocated with a reward mechanism and there was no pressure to renegotiate rules.

As said before, we expect that the reserve system will help improving effectiveness of public investments. Because the programming of structural funds was mainly based on a cooperative model, monitoring and evaluation of the reserve are designed so as to fully share information among all actors involved. A technical group will be appointed to monitor and assess every year the progress made by each administration against their benchmarks. The assessment will then be performed with the help of each management authority (central administration or regional one) and their evaluation unit. Every year, starting from 2001, each management authority will provide the technical group with a report on both reserves stating the attainment of each indicator. On this basis the technical group will provide the CSF Monitoring Committee with a technical report assessing progress, bottlenecks and obstacles to implement the two reserve requirements. The CSF Monitoring Committee will then formulate specific recommendations to each administration. For some indicators, namely those calculated on financial and physical monitoring data, basic data will be available with a higher frequency from the general monitoring system. The latter will then report every three months the progress attained for these indicators.

The assessment of the attainment of criteria for the allocation of the two reserves will be made with reference to data contained in the last annual report on reserves provided by OP managing

authorities. The deadline for final reports is the end of September 2002 for the 6% and the end of July 2003 for the 4%. In general, benchmarks have to be satisfied by the same time. However for some indicators, the benchmark either refer to a previous deadline or it is expressed in a complex form, as a set of requirements to be satisfied at different times.

An effective monitoring and assessment system is crucial in order to provide the necessary information required to readdress or modify measures and actions being carried out to meet the reserve objectives. Therefore its outcomes will be immediately integrated into programming and implementation through a feed-back process. The sequence of collecting properly the data, monitoring, evaluating, feeding back administrations with relevant recommendations and advice is expected to be effective in internalising evaluation results and allowing all administration to satisfy as many indicators as possible. The feedback system is deemed to work because of the powerfulness of incentives.

#### **4. THE PERFORMANCE RESERVE AND THE EVALUATION PROCESS**

The performance reserve, as designed in the Italian scheme, and the evaluation process underlying planning and implementation of Structural Funds are both expected to help improving the effectiveness of the programme. The two processes, both in the Commission and in the Italian approach, are designed as separate exercises, following different rules. However, they underpin one another and it is worth conceiving them as complementary parts of a unique system, in order to maximise their positive effects.

As Section 2 and 3 showed, the performance reserve criteria embody some of the factors conditioning the success of the plan, while the implementation mechanism of the system is designed in such a way to maximise the chance of success of each managing authority in satisfying the requested conditions. Most of the factors built into criteria were identified during the ex-ante evaluation process, and in particular in the SWOT analysis applied to each priority axis. Even if general principles and implementation rules in the plan take into account the results of the SWOT analyses, only few of the conditions identified could become mandatory in Operational Programmes (i.e. their respect enabling the use of resources). An alternative way to induce the satisfaction of the conditions highlighted in the ex-ante evaluation, particularly those directly affected by the action of the managing authority, was then to reward their respect with additional resources. The performance reserve indicators represent therefore intermediate objectives, conditions considered necessary for attaining one of the most important final objective of the Plan, i.e. upgrading the effectiveness of public administration action and the quality of public spending. The reserve can however push forward only some of the objectives and principles that are expected to influence positively the outcomes of the plan and only to a limited extent.

The choice of criteria, indicators and benchmarks was limited by the need of identifying ambitious yet affordable incentives and of reducing the risk of a biased assessment. The reward system had indeed to be focused only on indicators that could be affected by the administration managing the programme, either directly or by stimulating local government through reverse mechanisms. Moreover, benchmark had to be fixed with reference either to measurable entities or to the accomplishment of some precise requirements.

To be more effective and to attain the final objective of improving the quality of public spending, the reserve mechanism needs therefore to be complemented by other tools.

Technical assistance and diagnostic monitoring to regional and central administrations are particularly important in those cases where targets are expressed in terms of procedural

requirements and guidelines, set for some indicators to give stricter qualitative requisites, are not available (for instance quality of the services provided by the one stop shop). For these indicators it was decided to be less specific in defining requirements since they have to adapt to the specific needs of each region. They will differ and the knowledge necessary to shape them can only arise locally during implementation. Targets are therefore expressed in a rather general form. On the other hand generality presents the risk that intermediate targets do not necessarily lead to final results, *i.e.* the procedural requirement (setting up the one stop shop) could be satisfied without truly enhancing administrative effectiveness (services deemed very relevant by the local business community or by would-be investors are not provided). Technical assistance and diagnostic monitoring come therefore in place in order to avoid this risk and help the administration in carrying on the administrative reform in a way more adequate to its specific needs.

The process through which criteria and indicators were designed and their feasibility was verified guarantees the credibility of the system, where benchmark are ambitious but affordable for any managing authority. It is therefore likely that managing authorities will concentrate their effort to satisfy as many criteria as possible and will apply the reverse mechanism to stimulate their offices and local governments to contribute to the attainment of required benchmarks. Diagnostic monitoring and technical assistance help to reduce the risk that the attainment of the benchmark is limited to the satisfaction of procedural requirements. The reserve mechanism therefore contributes in a significant way to the final objective of improving the quality of public spending.

On going evaluation is another important component of the system designed to increase the effectiveness of the plan and to improve the quality of public spending.

Among its various functions, on going evaluation has a fundamental role in enhancing the attainment of those objectives and principles that are expected to influence positively the outcomes of the Plan. Evaluation detects indeed the effectiveness of the plan also for those intermediate objectives that are more difficult to quantify and that could not be included in the reserve system. Not relying on a reward mechanism, evaluation is more flexible than the reserve mechanism in the definition of the scope of the analysis. However, without an incentive system, evaluation needs other mechanisms in order to be effective and hence stimulate the improvement of the quality of public spending.

The effectiveness of evaluation is usually measured in terms of its feedback on intervention design and implementation. The internalisation of evaluation results depends heavily on the quality of the evaluation process, on the diffusion of relevant information among partners, on the capacity of the latter to give a voice to unmet premises and on the accountability of decision-makers.

The strengthening of the evaluation system foreseen by the Objective 1 CSF is likely to make evaluation more effective than in the previous period. Therefore, evaluation quality is expected to improve and evaluation results are expected to be internalised more often in the implementation process. Both 4% and 6% reserves play a significant role in improving the quality of the evaluation process and in enhancing the effectiveness of evaluation. The accuracy of evaluation is directly enhanced by the strengthening of instruments and skills foreseen by some criteria. Factors such as the set up of monitoring and evaluation units within managing authorities (B.1.4) or the set up of on line monitoring systems (A.2.1) contribute to increasing the availability and quality of data and diffusing evaluation methods and results.

Moreover, after the recent change in the regional electoral system, Regions' Presidents are directly elected, endowed with more power and directly accountable. Together with the increased role of partnership in the definition and implementation of the CSF, this means that Presidents have a

stronger incentive to implement efficiently the programme and to make good use of evaluation results.

**ANNEX A: CRITERIA AND INDICATORS FOR THE ALLOCATION OF THE 4% RESERVE**

<b>CRITERIA AND INDICATORS</b>	<b>DESCRIPTION</b>
<b>A1. EFFECTIVENESS</b>	
A.1.1. Basket of outputs	Comparison of actual and planned outputs for some measures (covering at least half of the value of the programme)
<b>A.2 MANAGEMENT</b>	
A.2.1 Quality of the Monitoring System	Introduction of a system of indicators and of monitoring procedures responding to national agreed standards and guaranteeing the availability of financial, physical and procedural data from January 2001
A.2.2. Quality of Financial Control	Upgrading of the control system to the model proposed in the CSF
A.2.3 Quality of Project Selection Systems	Application of selection procedures based on feasibility studies and on criteria favouring environmental sustainability and equal opportunities (for a significant amount of projects measured in terms of % of total financial commitments)
A.2.4 Quality of the Evaluation System	Appointment of the independent evaluator by October 2001 and definition of terms of reference responding to national standards
A.2.5 Quality of the labour market analysis system	Set up within the managing authority of a system of analysis of the most significant aspects of labour market and of employment effects of interventions; diffusion of results
<b>A.3 FINANCIAL MANAGEMENT</b>	
A.3.1 Financial absorption	Attainment of 100% of declared expenditure in relation to planned expenditure in the financial plan for 2000 and 2001
A.3.2 Public-private partnership	Implementation of at least 4 public-private partnership schemes for the financing of projects

**ANNEX B: CRITERIA AND INDICATORS FOR THE ALLOCATION OF THE 6% RESERVE**

<b>CRITERIA</b>	<b>INDICATOR</b>
<b>B1. INSTITUTIONAL ENHANCEMENT</b>	
Implementation of the national legislation fostering the process of public administration reform and procedural slimming	B.1.1 Delegation of managerial responsibilities to officials (legislative decree n. 29/93) B.1.2 Set up and implementation of an internal control management unit B.1.3 Implementation of one back-stop shop B.1.4 Implementation of employment services
Design and implementation of organizational and administrative innovation to accelerate and make effective structural fund spending	B.1.4. Set up of regional and central administration evaluation units B.1.5 Development of the information society in the P.A.
Carrying out of measures aiming at the implementation of sector reforms	B.1.6 Preparation and approval of territorial and landscape programming documents B.1.7 Concession or management by a private-public operator of integrated water services (L.36/94) B.1.8 Choice of management mode and its implementation for urban solid waste within optimal service areas B.1.9 Set up and operational performance of regional environmental agencies
<b>B.2 INTEGRATION</b>	
<b>For regional administrations</b> Implementation of territorial integrated projects	B.2.1 Incidence of commitments of integrated territorial projects on the total amount of resources budgeted for integrated territorial projects in the operational programme
<b>For central administrations</b> Degree of integration of national operational programmes with regional planning	B.2.2 Share of commitments of the investments programmed within a programme framework agreement (Accordo di programma quadro) or any other negotiated agreement between central and regional administrations over total commitments
<b>B.3 CONCENTRATION</b>	
Concentration of financial resources	B.3.1 Concentration of financial resources within a limited amount of measures

## BIBLIOGRAPHY

Fabrizio Barca "*Una politica per la competitività territoriale: spunti teorici e disegno istituzionale*"  
paper presented at the Annual Conference of the Italian Economists' Society (SIE), Cagliari  
October 26-28, 2000

European Commission – General Directorate for Regional and Cohesion Policies, 2000a  
"*Implementation of the performance reserve for objective 1,2 and 3*" – Working document 4, (cfr.  
[www.inforegio.org](http://www.inforegio.org))

European Commission – General Directorate for Regional and Cohesion Policies, 2000b  
"*Performance Reserve- Analysis of the situation in the Member States - Objective 1 and 2*",  
Working Document

Ministero del Tesoro – Dipartimento per le politiche di sviluppo e di coesione - DPS 1999<sub>a</sub>,  
"*Orientamenti per il Programma di sviluppo del Mezzogiorno 2000-2006*", mimeo (cfr.  
[www.tesoro.it](http://www.tesoro.it)), april

Ministero del Tesoro – Dipartimento per le politiche di sviluppo e di coesione - DPS 1999<sub>b</sub>,  
"*Programma di Sviluppo del Mezzogiorno 2000-2006*" (cfr. [www.tesoro.it](http://www.tesoro.it) ), September.

Ministero del Tesoro – Dipartimento per le politiche di sviluppo e coesione - DPS 2000<sub>a</sub>,  
"*QCS Obiettivo 1 – 2000-2006; Criteri e meccanismi di assegnazione della riserva di premialità  
del 4%*" , (cfr. [www.tesoro.it](http://www.tesoro.it) ), November

Ministero del Tesoro – Dipartimento per le politiche di sviluppo e coesione - DPS 2000<sub>b</sub>,  
" I progetti integrati : dal QCS all'iniziativa regionale", (cfr. [www.tesoro.it](http://www.tesoro.it)), October

Ministero del Tesoro – Dipartimento per le politiche di sviluppo e coesione – DPS 2001  
"*QCS Obiettivo 1 – 2000-2006; Criteri e meccanismi di assegnazione della riserva di premialità  
del 6%*", aprile

OECD - Territorial Development Service, Territorial Development Policy Committee, 2001  
"*Territorial Review on Italy*"