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# Evaluation of European Union Funds' Investments in regional development and their impact on the quality of life

SUMMARY



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2014-2020 Operational  
Programme for the  
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Investments in Lithuania

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Evaluation of European Union Funds' Investments in regional development and their impact on the quality of life was carried out under the agreement signed by the Ministry of Finance of the Republic of Lithuania and the service provider UAB "BGI Consulting" on May 3, 2018.

The aim of the evaluation is to optimize investments in regional development by updating the meanings of the quality of life index and its sub-indices. To achieve this goal, several tasks were defined such as updating the quality of life index (hereinafter referred to as "QLI"), which was created during the evaluation of the impact of the EU structural assistance on cities and towns in 2016; an assessment of the relationship between ESIF investments under the European Union fund investment action program for 2014-2020 and the QLI sub-indices; and the analysis of the applicability of the QLI to planning, monitoring and carrying out impact assessments of regional investments.

During the evaluation, the estimates of QLI 2007-2016 (including 2017 for individual QLI sub-indices) indicator values, sub-index and QLI were recalculated, interactive maps were prepared, QLI usage practice and potential were identified, and an updated life quality index based on population's achievements was proposed. Below are the key findings of this study.

QLI is structurally composed of sub-indices, and these are the indicators that reflect the quality of life chosen by the authors of the survey conducted in 2016. The index consists of two types of indicators - linked to a particular administrative territory (density of infrastructure, air and water quality, etc.) and related to individuals living in a specific area (number of users of different services, income, etc.). QLI is calculated at municipal level. In 2016, when establishing QLI, the values of all sub-indices for all municipalities were calculated for each year from 2007 to 2014. The evaluation carried out now redefines the values of all sub-indices for the years 2007-2016. Due to this, 38 indicators were collected for each year in the 2007-2016 period for all 60 municipalities of the country and for the whole country (23.180 (10 \* 61 \* 38) data points). According to four sub-indices, 2017 data was collected additionally (1.342 (1 \* 61 \* 22) additional data points). The decision to recalculate all QLI values from 2007, and to not just add the new values from 2015 to 2017 to the former line of estimates, was made because of the following reasons. Firstly, the significance of the indicators forming part of the QLI could be retroactively clarified by the responsible authorities and, secondly, QLI (compiled in 2016) calculation methodology available to the evaluators lacked detailed information on the calculation of a few specific indicators. When calculating QLI values, the indexing methodology has not been queried and the values of all QLIs and the sub-indices that make it up have been recalculated consistently in line with the steps described in the 2016 evaluation report, while the missing pieces of methodology were interpreted in the same way throughout the entire scope of the study.

Overall, the QLI score for the country improved for the analyzed period of 2007-2016 - in 2016 it was 55,4, while in 2007 - 39,8. Index values also increased in each municipality individually, although differences between QLI dynamics were noticeable among individual municipalities. The highest positive percentage change from 2007 to 2016 was recorded in Silalė municipality (78,8 percent), the lowest - in Visaginas municipality (4 percent). According to the overall QLI estimate, the municipalities of largest cities showed the best results of 2016: Vilnius City estimate was 71,9 points, Klaipėda City - 60,8 points, Kaunas City - 59,6 points. There were also relatively few small municipalities not far behind: Neringa municipality (62,5 points), Elektrenai municipality (61,5 points).

The best QLI values at the end of the analyzed period are held by the municipalities of largest cities, which have good and stable estimates for all sub-indices, and in some cases are well ahead of other municipalities in the country. In 2016, Vilnius City and Klaipėda City Municipalities were among the leading municipalities of Lithuania according to the estimates of the sub-indices of material living conditions, population's entrepreneurship and business competitiveness. The municipality of Vilnius City also showed good results in demographic, civic and social activity sub-indices, Kaunas City municipality stood out according to the sub-index of health services. All three of municipalities were also among the best in the sub-index of educational services.

Worst overall QLI estimates at the end of analyzed period were in Kalvarija district (31,1 points), Šalčininkai district (33,7 points), Vilkauskis district (34,3 points), Kelme district (35,8 points) and Lazdijai district (36 points) municipalities. This result is not accidental as these municipalities remain in the bottom of the list throughout all the years analyzed along with Zarasai district, Skuodas district, Radviliskis district municipalities. Although they all show an average growth of index values, it is not sufficient to catch up with other municipalities of the country, which demonstrate better indicators since 2007. In general, these municipalities are characterized by low estimates of the sub-indexes of material living conditions, entrepreneurship and business competitiveness, education services and demographic, civic and social activity.

However, it should be noted that both the estimates for each year analyzed and the positive dynamics of the index values throughout the whole analyzed period are partly affected by population size and its changes in particular municipalities. A relatively large proportion of QLI indicators are indicators measuring resources (infrastructure, for example, the number of schools, or the number of services, such as the number of doctors, etc.) per 1000 inhabitants. Thus, with a small population in the municipality, any standard public infrastructure (cultural center, school) is often used by a smaller number of people (according to QLI, this is an advantage). Accordingly, the faster the decrease in population in the municipality, the better the values of these indicators, since public services and public infrastructure are usually more inert and do not adjust to the changing demographic situation immediately. The QLI also includes indicators specific to a particular type of area that cannot and should not be sought by all municipalities in the country. For example, higher education institutions are traditionally concentrated in the main cities of the country (and this tendency is becoming more evident), a similar situation exists with high-level healthcare institutions. All these services and the infrastructure used to provide services are not focused on the inhabitants of a specific municipality, but are used for the needs of the whole country, therefore their attribution to one municipality is misleading in terms of quality of life. These and similar reasons make it possible to assess the situation of municipalities using the QLI and related ESIF or other public investments only with certain reservations.

Partly for the reasons mentioned, QLI has not been used as a tool for investment planning. Usually, institutions of national level (investment planning practices of Ministry of Economy and Ministry of Interior of Republic of Lithuania) have their own instruments that more accurately meet the specific needs of the public sector. In addition, some ministries (in this specific case, the Ministry of Economy) distributes most of the investment by means of open competition and only a small part of the measures have set restrictions or, conversely, priority is given to certain types of municipal entities, where it may be important to identify the specific territorial units eligible for support. Measures administered by the Ministry of the Interior of the Republic of Lithuania in the framework of the Operational Programme for the European Union Funds' Investments in 2014-2020 are directly related to the improvement of the quality of life, whereas target locations, for which investment was allocated, were identified by a certain type of location, such as: target areas of five largest cities; target areas covering small towns and rural areas with a population of 1 to 6 thousand, with the exception of municipal centers (selected by regional development councils using certain criteria); transitional areas and cities with more than 6 thousand inhabitants or located in the municipality center and complying with established principles and criteria. However, the main criteria for the selection of target territories (cities) include a small percentage of indicators that could be related to the understanding of quality of life and are limited to assessment of labour and entrepreneurship fields and population changes. As shown by the analysis of the actual distribution of funds between regions and the municipalities (that make up regions), a clarified specialization of regions or their constituent municipalities in regional investment measures is not yet supported. Currently, albeit using different measures, most of the target areas implement very similar projects related to the management of the urban environment, focusing on recreation or leisure.

According to the data of the analysis of strategic documents and the survey of civil servants of responsible municipalities, quality of life or similar models (including QLI) are also not used by municipalities or used only in isolated cases. If such models are used, then they are not the main tools or they are used inconsistently (several respondents indicated that the municipality used quality of life models, but made

only some strategic documents using them). The prevailing methods for planning strategic goals of municipalities and related investments are SWOT analysis, public consultations (with residents, social-economic partners, experts) and population surveys. On the other hand, the significance of methods, no matter which ones are chosen, in the planning of municipal investments is relatively low, since municipalities are very often focused on the possibility of obtaining financing from external sources (support from the ESIF or other funds), even if this does not correspond to the actual needs of municipality – even 89% respondents in the survey indicated that if possible investment directions were not limited to specific parts of the Operational Programme for the European Union Funds' Investments in 2014-2020, which could be used for receiving funding, a list of the projects included in the regional development plan (covering all major planned investments in the municipalities under the Operational Programme for the European Union Funds' Investments in 2014-2020) would be different. It is quite obvious that according to the current EU funds' investment planning practice, the municipality has no significant impact on the investment direction, and the provisions of the related strategic documents largely mirror the EU funds priorities set at national level.

Such trends are also confirmed by the analysis of the ESIF investment coherence with QLI sub-indexes value dynamic. The extent of EU funds' investment in public infrastructure, services, human resources are not differentiated based on the status of municipalities in terms of specific sub-indexes of the QLI. In most cases, extent of investments (contracted until July 2018 in accordance with the Operational Programme for the European Union Funds' Investments in 2014-2020) in the municipalities with worst individual sub-indexes' values does not differ from the extent of investments (per capita) in the remaining municipalities. In the case of the sub-index of material living conditions and the sub-index of entrepreneurship and business competitiveness of the population, the opposite is observed: the municipalities with worst values in these sub-indexes receives considerably less related investments compared to the average of the remaining municipalities. This investment situation is most likely due to the fact that a significant part of the Operational Programme measures for the development of human resources competencies and business growth for the period 2014-2020 are implemented through a competition, therefore, municipalities that lack entrepreneurship and have weaker industries, have less ability to use opportunities offered by public intervention.

As already mentioned above, QLI indicators (some individual indicators, as well as whole indicator system) have some significant disadvantages that restrict the widespread use of QLI in planning, monitoring and evaluating public investment in the regions of the country. In order to strengthen the management's efforts to have an instrument related to quality of life monitoring, additional work was carried out during the assessment and suggested which QLI indicators should be changed and supplemented to ensure that the quality of life indicator system conforms to the modern concept of quality of life that is geared towards individual achievements. It is suggested to select indicators that in each thematic field demonstrate how the population realizes the entirety of conditions and what results are achieved on an individual level. In applying such approach, the quantity of infrastructure in specific territorial units is not calculated and the values of the indicators are not dependent on the population size, since they are oriented towards situations of different individuals (income, health, education, etc.). Therefore, accessibility and quality of public infrastructure and services needed are measured not directly, but through the outcomes they help to achieve. The proposed system of indicators forms index of quality of life in the regions (hereinafter referred to as the "QLRI"). The QLRI indicator system is based on the availability of indicators at a more detailed level than just national level. It has been determined that at present time the QLRI can be calculated at a regional (county) level without excessive restrictions and additional costs. This does not mean that indicators are ideal at territorial aspect or only ones suitable in terms of their content, but they may be considered as the best alternative currently available. If desired, additional investments for the collection of more suitable indicators at greater territorial particularity can be considered in order to further develop such or a similar system of indicators.

QLRI covers the same or similar areas as the QLI. These areas are income, work, health, education, civic empowerment, leisure, security, and the quality of the environment. Each area is described by one to three indicators related to the condition of the area in terms of achievements. The index calculation

method helps to avoid distortion of the index values of the individual regions, ensuring that the normalized values of the indicators do not exceed 1, and the input of individual indicators to the final area estimate and the input of the area to the final QLRI estimate would be adequate, that is, for example, the field estimate would not be largely determined only by one indicator.

Based on the experimental calculations according to the updated QLRI, trends for quality of life for 2014-2016 were identified. Both in the country as a whole and in individual regions, with a few exceptions, QLRI index estimates improved over the analyzed period. Total change in the country index over three years was 9.48 points (from 54.36 points in 2014 to 63.84 points in 2016). The regions of the country in this respect can be divided into several groups - the regions that show *rapid positive* change (Alytus county, Klaipėda county, Vilnius county, change over 15 points during the analyzed period); *average - rapid positive* change regions (Panevėžys county, Tauragė county; change from 10 to 15 points during the analyzed period); *medium - slower positive* change regions (Telšiai county, Utena county, change from 5 to 10 points during the analyzed period) and *slow positive* change regions (Kaunas county, Šiauliai county, change from 0 to 5 points during the analyzed period). In one county (Marijampolė) the overall QLRI score fell by 1.32 points during the analyzed period.

In terms of absolute estimates, 2016 was best for Vilnius (78.86 points), Kaunas (69.74 points) and Klaipėda (68.43 points) counties. Panevėžys county (62.24 points) was lagging not far behind. Further below, Alytus county (56.69 points), which demonstrated good growth trends during the analyzed period, and, conversely, Šiauliai county (51.95 points), which stagnated during the analyzed period. Well below the national average in 2016 were Tauragė (47.42 points), Telšiai (48.43 points) and Utena (48.82 points) counties, with Marijampolė in the worst position (38.68 points).

The fact that the main directions of investment are determined by the measures planned at the national level (both state planning and regional planning measures of Operational Programme), the distribution of funds between municipalities / regions is essentially based on the decision of the institutions of the national level, implying that QLRI or similar life quality indices should be used primarily at national level. With the consent of the institutions and political authorities involved in the overall administration of EU funds on the importance of quality of life parameters in planning, monitoring and evaluating public interventions, a system of quality of life indicators should primarily be used by the managing authority (Ministry of Finance of the Republic of Lithuania), which would monitor the general changes in the index in different parts of the country. The need for a common, not diverse, approach to the quality of life is evident in the logic of interventions of individual indicators. In fact, all indicators reflecting the achievements of the population are affected by different reasons, representing different areas of public policy. Thus, there is a need for joint coordination that the managing institution could provide, and the branch ministries (groups of such ministries) should take responsibility for individual indicators and actions related to them.

In the new programming period, changes are expected in the area of regional investment planning. Some guidelines for the desired changes are presented in the White Paper of Lithuanian Regional Policy 2017-2030. In this document, the objective of regional policy is assimilated with QLRI concept and it is planned that the objective of Lithuanian regional policy is to "create favorable, active, safe, healthy and attractive life and work preconditions throughout whole Lithuania". It encourages the assessment and planning of the development of territories not through the presence of specific infrastructure or services in a specific municipality, but through the opportunity for all residents to reach the required public services within the set time. The White Paper proposes a standard for accessibility of services, which all territories of Lithuania should adapt. If such an approach to regional development is finally established and used in the planning of public interventions, the new regional development tools and QLRI, or a similar model, measuring population achievements, which largely depend on the availability of quality services, can perfectly complement each other.