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MASTER'S THESIS

THE EU STRUCTURAL FUNDS IN 10 NEW MEMBER STATES: How they were implemented in 2004-2006 period

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DECLARATION:

I hereby declare that this thesis is my own work, based on the sources and literature listed in the appended bibliography. The thesis as submitted is 82135 keystrokes long (including spaces), i.e. 70 manuscript pages.

Jana Vašáková 21st May 2008

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ABSTRACT

The aim of this paper is to analyze the key characteristics of Structural Funds implementation in the 10 New Member States during the 2004-2006 period. The paper introduce the basic information about the Structural Funds, explore the Structural Funds implementation in the individual countries, and at the end it compares and summarizes findings.

The main goal of this paper is to introduce Structural Funds and explore how the New Member States utilized them. What were their priority areas for the observed period? How much money individual countries were allocated? How much money they were able to absorb? The Structural Funds are important for the regional development. They fund investments, innovations, and support policies and measurements which should help countries to develop. And because the 10 New Member States were, at the time of accession, less developed than the other Member States, I decided to take a look what opportunities the NMS had in order to improve their situation.

1. INTRODUCTION

The European Union currently consists of 27 sovereign countries – Member States. They all enjoy collective co-operation at many levels and above standard relations. Not in vain, the European Union is sometimes called one of the biggest and most successful peace missions of all times. However, despite the flourishing relationships and good faiths, we must not forget that the countries are firstly independent and individualistic. They have their own priorities, interests, aims, and ideas. Sometimes, it is very difficult for these 27 individualities to find out a conclusion or to make a decision which would be suitable or acceptable for all. When it comes to this, the countries can defend and "fight" for their interest. But apart from this, the Member States can close the ranks when it is necessary. They can find ways how to help and support each other and how to make sure they are not alone for the challenges arisen.

Being an EU Member State means not only to have obligations but it also provides, among others, many benefits and privileges. One such paramount privilege is the possibility to utilize Structural Funds of the European Union when the Member State faces some structural difficulty. The Structural Funds are a great example of the goodwill and solidarity of the Member States. They serve as additional financial sources to national ones and help to reinforce economic and social cohesion. They are important instruments for the implementation of European Union policies which aim at reducing differences between the levels of development of the EU regions and Member States.

When, on 1 May 2004, 10 new countries joined the European Union and thereby became full-fledged Member States. This act immediately opened brand new possibilities out for them. With their accession, the New Member States joined also "a club" of less developed countries of the EU. This is not a ridicule or degrading status, on the contrary. All the New Member States thereby qualified for the financial aid from the EU's Structural Funds. These funds would help them to

support well-balanced development of their territory as well as to catch-up with their wealthier neighbours.

My thesis briefly maps the first two years of the New Member States in the European Union. Of course, it is too broad topic and one book would not be enough. Therefore, I decided to concentrate only on one topic - on their operations within the Structural Funds sphere. What are the Structural Funds? How were they implemented by the New Member States? Those are the main questions that I attempt to answer in my paper.

2. RESEARCH AREA AND METHODOLOGY

The European Union belongs among the economically most advanced regions of the world. However, it does not mean that all its Member States can enjoy the same economic prosperity and social well-being. Differences among individual countries are large and evident in particular cases. The European Union is aware of that fact and takes the challenging issue seriously. It endeavors hard to diminish economic and social gaps among its Member States. The EU therefore largely supports development of the states and their regions which lag behind the EU average[1] in many fields through adoption of various policies. One of the most powerful tools, which the EU can use in order to reach its ambitions, is Structural Funds. Their policy is based on solidarity as the economically richer Member States financially support the poorer Member States. In my paper, I would like to find out how the poorer Member States are able to take advantage of offered help.

2.1 Sample countries

Generally, it is acquainted that the New Member States belong among the group of less developed states of the European Union. Despite their successful fulfillment of criteria to become a member, the New Member States are still considerably poorer than the former EU 15 and it is very difficult for them to compete and catch-up with wealthier neighbors. For the purpose of my comparative analysis, I decided to focus right on 10 New Member States which accessed the European Union in 2004 – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

The reasons why I selected these particular countries are following:

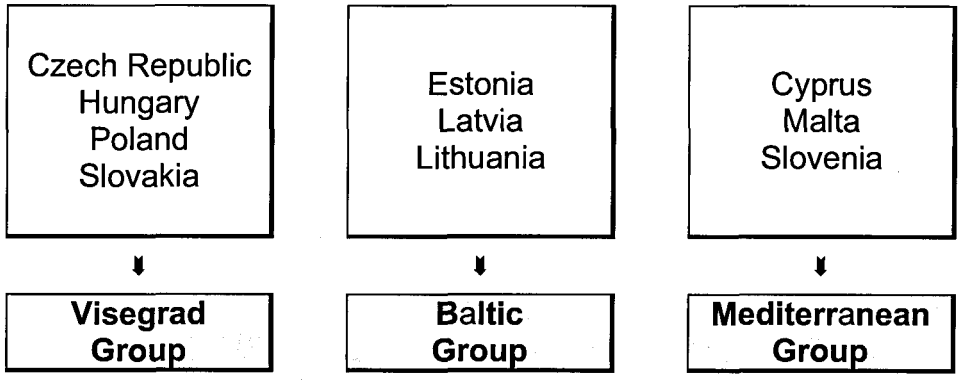
1. All 10 New Member States are entitled to draw on Structural Funds.

[1] According to GDP per capita comparison.

2. All these countries joined the European Union at the same time. It is therefore supposed that, apart from pre-accession funding, they were inexperienced with the absorption of the Structural Funds in the research period[2]. None of the countries benefited in terms of longer experience in Structural Funds drawing and so all started at the same position.
3. The countries that I selected can be easily divided into three different groups. I was interested not only to find out how individual countries implemented Structural Funds, but also whether there exist similar patterns or tendencies in the countries which have some features in common and thereby can be divided into groups. Than I can compare and contrast the findings.

2.1.1 Division into groups

Table 2.1 Sample countries and their division into groups



Visegrad group

The first group is formed from the countries of the Central Europe[3] – countries that share historical, cultural, and economic ties. They had to overcome the heritage of the socialist past and move towards the modern world and democratic change. They share common roots and experiences in many fields. They have similar interests and, among others, also similar

[2] The EU 10 reference period is 2004-2006.
[3] The Czech Republic, Hungary, Poland, Slovakia.

level of development. Moreover, these countries enjoy and profit from intensive and extensive cooperative activities within the region – so called V4[4].

Baltic group

The second group is very similar to the *Visegrad group*. It is formed from Estonia, Latvia and Lithuania – countries that all comes from the same, Northern Europe region. Likewise *Visegrad* countries, they also have strong historical, cultural and economic ties and their governments cooperate in multiple ways. The Baltic States were more closely integrated with the Soviet Union, especially with its economy. Therefore their transformation into modern states was considerably more difficult than in the case of *Visegrad group*. Overall, the Baltic countries also share similar level of development, similar interests and intensively cooperate within the region.

Mediterranean[5] group

The third group is formed from Cyprus, Malta, and Slovenia and is different from the previous two. At first sight, these countries seem too specific to be put into the only one group. Slovenia is not an island state as the other two members, belongs among post-communist countries, and close regional cooperation, in form that is apparent in previous groups, with the other members simply does not exist. But still, we can find similar patterns which make these countries belonging into the same group. Slovenia, Cyprus and Malta are the first New Member States that adopted single currency - EURO. Another similar pattern is GDP[6]. When we compare GDP figures of *Mediterranean group* countries and the rest of New Member States, we can find out that these three countries belong among the most developed[7] countries which accessed the EU in 2004 (see Appendix 1). The Slovenian

[4] Visegrad group or Visegrad four cooperation
[5] Countries in this group are bordering Mediterranean Sea.
[6] GDP per inhabitant in purchasing power standards, compared to EU 27 average
[7] According to GDP

figure is significantly higher than figures of most other post-communist countries and at the same time, it is not much different from figures found in Malta and Cyprus. Furthermore, Malta and Cyprus are the only countries among the New Member States which are not post-communist. They had functioning market economies at the time of accession negotiations while the other countries had economies in transition[8]. I put Slovenia into the same group with Malta and Cyprus because its economic and political regime during communism was far more liberal and open-minded than in other countries. Slovenian economy was more open, even towards private enterprises, and its later transition was regarded as one of the smoothest.

2.2 Research area

The Structural Funds of the European Union are, generally said, means which should help poorer Member States to finance their economic and social development. Based on this fact, I decided to scrutinize the following:

- Objectives – under which objective the country received funds
- Priorities and the Community Initiatives – what were the areas where money flown
- Money allocation – how much was spend on priorities and initiatives, how much individual Structural Funds contributed
- Absorption of financial allocation – how much of the money available were the countries able to absorb
- GDP development – how the GDP of individual countries developed while being members of the European Union

For each selected country, I will compile a national review study which will contain those information. This will serve as a ground for further research and analyses.

[8] Transition from a centrally planned to market economies.

The history of Structural Funds dates back to the 1960s but their form of grouped package, in which we know them today, was formed in the late 1980s. They were part of programming periods in 1989-93, 1994-99, 2000-06, and 2007-2013. For the purpose of my study, I chose 2000-06 reference period (respectively 2004-06 period because the New Member States joined the EU in May 2004 and were entitled for funding from the day of their accession).

2.3 Choice of method

The goal of this thesis is to compare how the New Member States implemented Structural Funds in the 2004-2006 period. As I said above, I will compile a national review study for each selected Member State which will include information and data about particular country. Afterwards, I will compare my findings. Therefore, I will use the Comparative Analysis as the essential method.

2.4 Data resources

To avoid use of various and unreliable sources, I decided to concentrate only on resources which can provide the figures and studies for all of my selected countries. Thereby, it can be ensured that I use identical entities and that data were collected under the same methodology and in the same time period. I describe data collection more deeply in the *National Review Studies* part. However, the main resources which I used are Eurostat, Fact Sheets issued by the European Commission, Structural Funds web pages of individual countries, and Ministry of finance, respectively Ministry of regional development, web pages of individual Member States.

3. THEORETICAL CONSIDERATIONS

European integration is the continuous process which makes cooperation among all Member States deeper and wider. Countries cooperate intensively and gradually grow through at many levels. As the number of Member States increase, it becomes more and more difficult to understand the labyrinth of cooperation. In order to find way of understanding, we can turn to various theories. Theories help us understand not only how cooperation among Member States can yield or how to cooperate effectively, but it also explains behavior and tendencies of various actors.

3.1 Institutional theory

The fundamental theory which is applied to the Member States' relationship with the European Union is *Institutional theory*. This theory assumes, as the title anticipates, that the most important actors in the EU integration process are European Institutions[9]. In this case, institutions are not only means which help Member States to promote their interests but on the contrary, it is the institutions that help to create environment and conditions which Member States must react and adapt to. Generally, there exist three various views of this theory – rationalistic, historic, and sociologic. (Drulák)

Rationalistic institutionalism

Under this view, European institutions were established by Member States in order to obtain better information about each other. Functions or capacities of institutions correspond to interests of Member States.

Historic institutionalism

[9] European Commission, European Parliament, European Council, et cetera

In this case, position of Institutions is stronger. Institutions follow terms and conditions under which they were established (path-dependency). They do not adapt spontaneously to changes which occur in their surroundings. Likewise, they do not change their functions according to new interests of its Member States. Establishment of an Institution has particular goal.

Sociologic institutionalism

This view supposes that institutions can influence Member States in such a way that they change their behavior or interests. Simply said, institutions represent a certain kind of rule or order which Member States follow and specify what is acceptable and what is not. As a result, Member States treat others according to these rules.

The Institutional theory is important when we speak about the Structural Funds. It is European institutions, particularly the European Commission, that play a crucial role in the Structural Funds issues. The European Commission is, among others, responsible for approval, monitoring, and evaluation of Structural Funds use or draw and at the end it sends money from the EU funds to Member States. In this case, it is the institution that governs and Member State must follow rules which are set by an institution. As Sociologic institutionalism says, institutions also influence behavior of Member States and this statement is obvious when we speak about the Structural Funds. The Member States would compete and become rivals under the certain circumstances. However, institutions created friendly environment and set up rules which somehow says "you should help". The Member States following these rules become partners and their relationship is based on solidarity. As we can see, the importance of the European Union institutions has a growing tendency. The institutions become more and more important actors in the European Union issues.

3.2 Multi-level governance

Multi-level governance is a theory which was introduced as a new approach towards the European integration. It is described as a system of continuous negotiations at several levels – supranational, national, regional, and local. Theory stresses not only frequent and complex interaction between governmental actors but also emphasizes increasing importance of non-state actors in EU policy-making. The main patterns of this theory are:

1. **Many actors** – In today's Europe, it is not only governmental actors that participate in negotiations and decision making processes. Relationships between various actors at different levels are changing and becoming more dynamic. We are witnessing how supranational institutions[10] and sub-national authorities[11] are more and more engaged into negotiations and decision making processes. They become increasingly important but at the same time threaten the role, power, and authority of states.

2. **Domestic vs. international** – European integration means the wider and deeper cooperation among the states. Scope of the cooperation and number of areas escalate with time. Due to this European *intergrowing* the distinction between domestic and international is fading. Multi-level governance, dedicated to far-reaching European integration, does not strictly distinguish between domestic and international politics. Rather, it refers to entanglement of the national policy of the Member States with the European policy.

3. **Governance and States** – The word governance is crucial for this theory as it is much broader concept than politics. The state is important actor according to this theory but we may not forget that state is not represented only by its head. When we think about the multi-level governance we must

[10] European Commission, European Parliament, etc
[11] Regional and local

always bear in mind that there are many actors at various levels which are important and cannot be left out of consideration.

The Structural Funds implementation is a nice example of how the Multi-level governance works. No doubt that it is a continuous negotiation process at several levels. Structural Funds involve a long period of preparations and negotiations between public and non-public, national, regional and local authorities and than, it is moreover followed by intensive negotiations between a Member State and the European Commission (supranational level). Processes associated with the Structural Funds are complex and they touch sensitive issues of under-development and solidarity. It is therefore important to involve all, those who will be somehow affected, in the process of negotiations and decision makings. Thereby, it can be assured that the issue will be tackled properly and a lot of possible problems would be overcome.

3.3 Policy network

Policy network theory illustrates multiple ways of communication between governmental and private sectors with similar interests in the national policy. The networks are linkages or connections between many various actors. These actors interact and thereby shape political actions or policies. The key actors are divers and include public as well as private sectors, for instance: ministries, local government associations, business associations, labor unions, interest groups, et cetera. The theory helps us understand formation and evolution of various policies. I think this theory can be applied to Structural Funds as well. The Member States are developing National Development Plans and setting the priority areas to allocate the funds. This is where the policy network works as well. The state communicates and negotiates at many levels and with many actors. These actors interact and try to enforce their priorities. Policy network, therefore, can explain why it was these particular priorities and not others which were selected (probably due to strong influence from the particular interest group). On the other hand, the

policy network can have also a negative side effect – corruption. Networking is a "fertile land" for people trying to push through their own interest by using any means. This can be a huge problem which should be prevented.

3.4 Path-dependency theory

The last theory which I selected is path-dependency theory. Path-dependency describes a practice which is based on past or tradition and which continues even if better alternatives exist. This theory is generally used to compare and to analyze development or persistence of institutions. Term "*institutions*", in this case, does not mean organizations but rather it means rules or policies. It can be said that the European institutions follow terms and conditions under which they were established. They do not frequently change and do not spontaneously adapt to changing interests – they are path-dependent. This fact is emphasized by the EU Structural Funds example. The Structural Funds function from the 1960s and their purpose is constant. They slightly changed into form that we know today in 1980s when they were introduced as a package and were included in a programming period. This practice proved to be successful and helpful in the past and it works even today. The Structural Funds can be considered as a path-dependent practice also because they are deeply embedded into the European Union policy. But why no major changes take place? Does not better alternative exist? The reasons can be simple. To establish a new practice can be costly and time consuming. It can also prove insufficient. Why to change something that is already established and works? Moreover, to break away from path-dependency requires high level of commitment and agreement. This becomes more and more difficult as the number of Member States increase and only time will show us, whether the EU will be able to change it path-dependent policies and find better alternatives.

4. THE EU STRUCTURAL FUNDS

It is not a surprise that 10 New Member States range among the poorer states of the European Union. Most[12] of them are post-socialist countries which had to overcome communist heritage of centrally planned economies and had to adapt to modern democratic system and its challenges. It was not an easy task but they were successful as they were able to join family of prosperous countries within relatively short period of time[13]. Despite the rapid change and adjustments in these countries, the New Member States still lack behind their richer neighbors. In order to improve their status and reach the wealthier countries, they can utilize funds which are a declaration of solidarity that dominates in the family of the Member States.

4.1 The EU budget

Before the European Union can assist Member States with money, it must draft a budget. The main European Institutions agree in advance about the objectives and priorities for the next several years, so called programming period (for instance 2000 – 2006). According to these priorities, they develop a financial perspective which determines the maximum amount of financial resources the EU can spend. Likewise, it specifies where the money will come from and what the money will be spent on.

The EU budget consist of direct contributions of Member States and own EU resources. Member States contribute a percentage of their gross national income which, in total, accounts for three quarters of the EU's revenues. The EU's own resources flow from levies, custom duties, and value-added tax and they account for about one quarter of the overall EU budget. Collected money is spent there where it is needed most – on EU policies. The largest portion of the budget is

[12] All countries except Cyprus and Malta
[13] Approximately 15 years from fall of communism

spent on Common Agricultural Policy (around 45%). The Structural Funds represent the second largest part of the budget expenditures of the European Union. Spending on Regional Policy amounts approximately one third of total expenditures. The remaining money is distributed among wide range of policies.

4.2 Basic information about the EU Structural Funds

The Structural Funds of the European Union are managed by the European Commission and used on EU Regional Policy. They serve as a financial assistance to resolve structural economic and social problems in Member States. They represent the second largest part of the EU budget and the financial grants are mostly directed to the poorest regions where they help to improve levels of development and reduce economic and social disparities. The policy of Structural Funds is based on solidarity and therefore the regions or areas are rigorously selected. To allocate the funds to the proper areas, priority objectives are clearly defined by the EU.

4.1.1 The Four Funds

In the programming period 2000-2006, the Member States could take advantage of the financial support from four Structural Funds:

- European Regional Development Fund (ERDF)

  ERDF was established in 1975 and its main objective is "to promote economic and social cohesion within the European Union through the reduction of imbalances between regions or social groups"[14]. In terms of amount of financial resources, it is the biggest fund out of these four. Resources from this fund are used to support investments or activities which will lead to:

  - development of small and medium enterprises
  - development of infrastructure

[14]European Commission, Regional Policy – The Structural Funds. http://ec.europa.eu/regional_policy/funds/prord/sf_en.htm

- support of research and development
- environmental protection
- creation or maintenance of jobs (through investments in manufacturing)

▹ European Social Fund (ESF)

ESF was established already in 1960 and is the oldest out of these four funds. Its main objective is to improve education and training systems, promote skilled workforce, and prevent and combat various types of unemployment such as:

- long-term unemployment
- unemployment of young people entering the labour market
- unemployment of people excluded from the labour market

▹ The European Agricultural Guidance and Guarantee Fund (EAGGF)

EAGGF operates from 1962 and its resources are mainly used to finance agricultural sector and rural areas development. This fund has two sections:

- Guidance section – supports rural development
    - modernization, education and retraining of farmers, encouragement of tourism and craft, competitiveness of agricultural products, environmental protection
- Guarantee section – interventions on the agricultural market
    - price stabilization, export compensations, et cetera.

▹ Financial Instrument for Fisheries Guidance (FIFG)

The last fund, FIFG, was established as late as in 1994 in order restructure fisheries and to achieve a balance between fishery resources and their exploitation. This fund is utilized for:

- help to regions which are dependent upon fishery industry
- modernization of fishery industry (fleets)
- protection of marine areas

There is also the **Cohesion Fund** which serves as an instrument of EU structural policy too. However, it does not belong among Structural Funds. It is rather its complement and therefore, I will not explore this fund in my study.

4.1.2 Three Objectives

To allocate the funds to the proper areas, priority Objectives are clearly defined by the EU. The regions of the Member States are than classified and assigned to particular Objective according to difficulties they encounter. Within Objective framework, individual Member States develop their own operational programmes which are used to drain money from the funds. There are three types of Objectives (or regions) that receive financial support from Structural Funds.

- Objective 1

  Objective 1 concentrates on the regions whose GDP per capita is less than 75% of the EU average. Its aim is to help and support development and structural adjustment of regions that are lagging back in development and are unable to catch up with the wealthier states. Objective 1 represents the highest level of regional funding as all four Structural Funds are used.

- Objective 2

  Objective 2 supports the economic and social conversion of regions that face structural difficulties but which are not eligible to receive funding under Objective 1. Regions which are covered under Objective 2 usually embody high levels of unemployment or criminality, are undergoing structural or economic changes, and face decline, depression, or other difficulties. Objective 2 is fulfilled through ERDF and ESF means.

- Objective 3

  Objective 3 is focused on human resource development. Its aim is, among others, to reduce unemployment, support job creation, help workers to adapt to

new working conditions[15], diminish working barriers[16], and develop labor markets. The only fund which provides means for this Objective is ESF.

4.1.3 Community Initiative Programmes

Not only Objectives, but also EU's Initiatives are financed through the Structural Funds. Initiatives are special programmes which aim to solve problems that arise across the whole European Union and not only in the specific regions. Initiative Programmes are non-refundable aid which is organized by the European Union and covers sensitive topics.

For 2000-2006 period, there were four Initiatives:

- INTERREG III – supports and encourages cross-border (IIIA), international (IIIB), and inter-regional (IIIC) cooperation
- EQUAL – fights against discrimination and inequalities in the labor market
- URBAN – supports and encourages development of urban areas threatened with social and economical problems
- LEADER + – supports development of poor rural areas

Table 4.1 Objectives and Initiatives funding

	Objective 1	Objective 2	Objective 3	Interreg	Urban	Leader	Equal
ERDF	✓	✓		✓	✓		
ESF	✓	✓	✓				✓
EAGGF	✓					✓	
FIFG	✓						

Source: European Commission

[15] Education and training
[16] Based on disability, race, sex, or age

4.3 Allocation of Structural Funds

Allocation of the Structural Funds is a comparatively long and complex process. The Structural Funds are not provided to Member States in order to make savings in their national budget. On the contrary, strict rules which apply throughout the whole EU are given and Member States must follow them unexceptionally.

The simplified procedure of allocation of Structural Funds is as follows:

The EU Council must approve the Community Strategic Guidelines (CGS). This document describes the priorities of further European Union development and serves as a pattern for Member States. According to priorities set in CGS, Member States prepare their National Development Plans and Operational Programmes.

In order to receive money from the Structural Funds, Member States must develop a National Development Plan (NDP) and than submit it to the European Commission. NDP is usually outlining the social and economic situation in the given country and its priorities and strategy for use of Structural Funds. Simply said, the NDP describes and defines the way how a country plans to spend money from the EU funds. NDP is also a basic document which sets grounds of negotiations between the European Commission and the Member State. During negotiations, NDP can be changed and adjusted according to European Commission's requirements.

Together with NDP, countries prepare a National Strategic Reference Framework (NSRF) which defines a system of Operational Programmes (OP). OP is, generally said, a topic under which individual applicants from the Member State submit projects and ask for grants. OPs are used to obtain money from the Structural Funds and therefore must be approved by the European Commission as well.

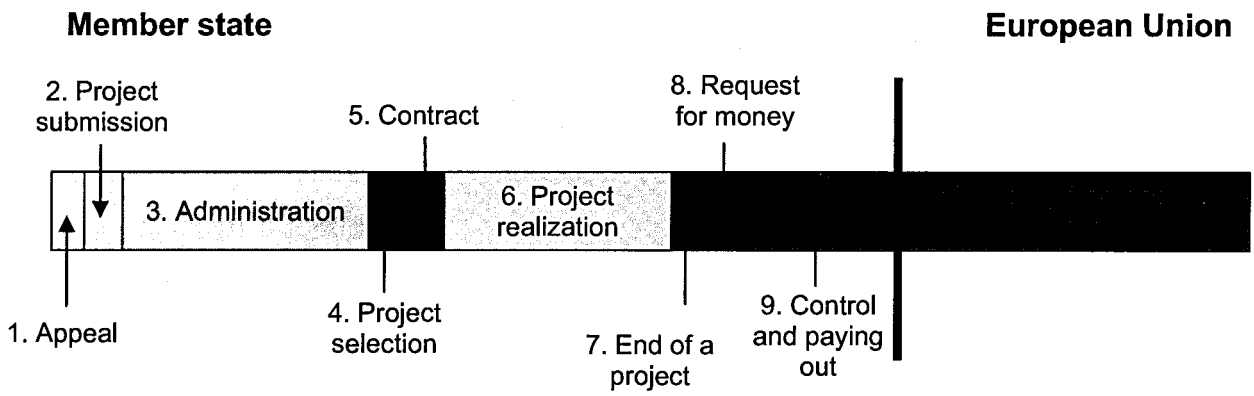
The successful negotiation results in an agreement which is known as the Community Support Framework[17] (CSF) or Single Programming Document[17] (SPD). These documents contain overall directions and amount of support from the Structural Funds. They lay down the general strategy and fundamental rules for the utilization of the Structural Funds, such as – objectives, targets, measures, resources, control, or evaluation. After the approval, the Structural Fund utilization can begin.

Table 4.2 Countries which developed SPD and CSF

Single Programming Document	Community Support Framework
Cyprus, Estonia Latvia, Lithuania Malta, Slovenia	Czech Republic Hungary, Poland Slovakia

4.4 Financial flow

The following graph illustrates the simplified flow of money from the European Union to the individual projects:



Grants are paid to the applicants from the national budgets first and than the Member States apply for reimbursing the cost:

[17] CSF and SPD are in other words National Development Plans for the implementation of the EU Structural Funds.

1. Companies (eventually individuals) are appealed to prepare a project which must be in accordance with set priorities.
2. A company prepares a project and develops a plan. Once the project is prepared, it is introduced to a managing body[18].
3. Managing body administer all the necessary procedures. Among others, it collects and evaluates received projects.
4. Once the projects are evaluated, the managing body selects and approves the proper projects.
5. Contract about the project funding is signed with the selected company. However, money will be received when the project (or its phase) is finished. It is somehow an agreement about future payment.
6. The company realizes and controls the course of a project. It also records the expenditures related to the project realization.
7. When the project is finished, the company sums the expenditures up.
8. Than, according to the agreement, the company requests the repayment of the project cost.
9. The managing body makes control that everything was done according to agreement and approves the repayment. Afterwards, the grant is paid out to the company's account from the national fund/budget[19].
10. Paying out the grants is in the responsibility of Ministry of finance of the given country and it pays money from the national fund/budget which was established for this purpose. Ministry of finance than annually sends an aggregate request for the repayment to the European Commission. The European Commission than sends money from the Structural Funds to a special account, established in each Member State for this purpose.

The flow of money from the Structural Funds is much more complex than in my simplified model. It involves a lot of procedures at each stage - from exhaustive

[18] Ministries, their departments, and regional authorities
[19] During my research, I encountered both fund and budget term.

controls, through deep analyses, to prolonged approval processes. I just wanted to briefly draft out and explain the most important points of the flow and thereby understandably show how the Structural Funds work.

4.5 N+2 rule

Probably due to the complexity of the Structural funds, "N+2" rule exists. It means that every obligation of a Member State must be fulfilled within two years from its acceptance by the European Commission. In other words, if a country is entitled to resources from the Structural Funds, it must withdraw them within two years. It means that the money allocated for the year 2004 must be withdrawn until the end of year 2006. Likewise, it means that the period during which Member States can draw money still did not terminate[20]. Therefore, it is too early to make a final conclusion about the Structural Funds utilization. My study is therefore rather exploratory than conclusive.

4.6 Pre-accession period

Before I will get to the main body of my thesis, I would like to shortly mention about the funding in the pre-accession period. Experience with the pre-accession programmes is very useful for Structural Funds absorption. The New Member States become familiar with this kind of help and have some experiences with utilizing such help. Before their accession to the European Union, candidate countries had opportunity to utilize so called pre-accession instruments – ISPA, PHARE, and SAPARD. ISPA served as an instrument to finance transportation and environmental investments and is similar to the Cohesion Fund. PHARE was used to help the candidate countries to increase their administrative capacity and meet the accession requirements. And finally, SAPARD was a special accession programme which financed agricultural and rural development. These instruments were, after the accession of the candidate countries, replaced with the Structural

[20] It will terminate at the end of 2008.

Funds or Cohesion Fund. They were established in order to help the candidate countries to meet the accession criteria, to reach some standards, and to familiarize with EU policies and funding principles.

5. NATIONAL REVIEW STUDIES

In this chapter, I will summarize the important information and indicators of individual countries. The 10 national country reports were designed to serve as basis of my comparative analysis. Before I will proceed to individual countries, I would like to describe single parts and explain data resources:

5.1 Structure of review studies

Country info

Basically, I introduce the country's population size and development of GDP in order to see how big the country is and how the development proceed from 2004 to 2006. The information about size of population in 2001 is as stated in the European Commission's fact sheet. The GDP information was obtained from Eurostat (Appendix 1) and the EU 27 average is considered 100%.

Recipient under

The Structural Funds concentrate on three Objectives. Here I specify under which Objective the given country receives aid – for regions lagging behind in development (Objective 1), for changeover of industrial, urban, or rural zones (Objective 2), or for human resource and employment issues (Objective 3). I used fact sheets issued by the European Commission as the main source of information.

Priorities of the programme:

Every Member State is individual and has own priorities areas and development plans which generate the Operational Programmes[21]. Here, I introduce and briefly summarize the priorities of the New Member States which are important for further

[21] Operational programmes reflect priorities.

implementation of strategies. Again, I used the European Commission's fact sheets as my source.

The Community initiatives:

Because not only the nationally prioritized sectors are financed through the Structural Funds, I briefly mention Community initiatives as well.

Objectives Allocation 2004-2006 (in millions of EUR):

Here, I indicate how much money was allocated from Structural Funds on individual objectives and initiatives. I used figures from the European Commission fact sheets and than counted the percentage.

Individual Structural Funds Allocation 2004-2006 (in millions of EUR):

In this case, I show how much money individual Funds provided and which was the most generous one. I obtained figures from Ministry of Finance and Structural Funds web pages of individual countries. The figures are approximate because:

- Some of the figures were expressed only in percentage. Therefore I counted the amount of money from the total allocation.
- Some of the figures were expressed in national currencies. I avoided converting these currencies into Euro because of inconstant exchange rate. Rather, I counted the percentage and than again counted the amount of money from the total allocation.
- In case of Cyprus, I was not able to find any statistical data related to Structural Funds. I tried to contact Ministry of finance of Cyprus but my e-mail remained unanswered.

Absorption of financial allocations:

When it comes to absorption or utilization of funds, to obtain reliable information or data was the most difficult task. For instance, the Czech Republic has web pages where the statute is monthly published. Slovakia, Latvia, Lithuania, and Estonia

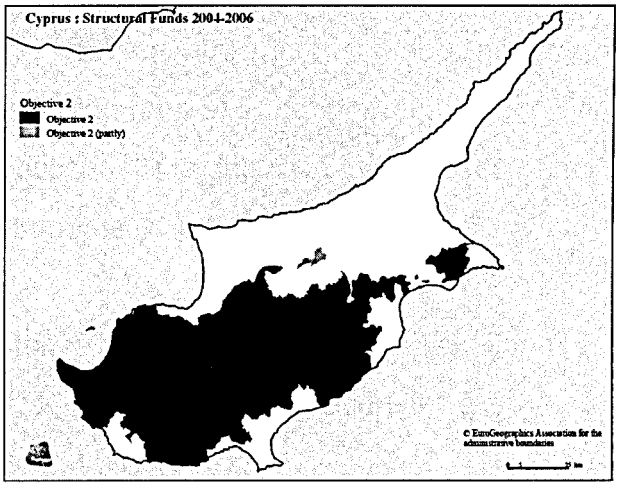
had the figures as to 31.03.2008. In case of other countries, it was impossible for me to find or obtain any up-dated data because:

- Data were not available at all (Cyprus, Malta)
- No detailed data about utilization were available (Hungary, Slovenia)
- Data were not up-to-date (Poland)

In order to have data which would be collected under the same methodology and in the same time period, I decided to search for data directly at the European Commission. I found a summary of payments against decisions (Appendix 2) as of 05 February 2008. The figures are expressed in percentage and so, again, I decided to count the amount of money from the total allocation.

5.2 Cyprus

Country info:



Cyprus is one of two New Member States which did not experience communist regime. Total population of Cyprus[22] consists of 706 thousands inhabitants. However, only 212 thousand inhabitants were covered by the Structural Funds aid due to ongoing disputes over the territory. For the 2004-2006 period, Cyprus was allocated 56.08 million EUR from the Structural Funds for social and economic development of its regions.

GDP development:

2004	2005	2006
91	93	92

GDP of Cyprus was the highest of all newly accessing countries. However, as it is seen, it had slightly fluctuating tendency and no major improvements are noticeable.

Recipient under:

- Objective 2 and Objective 3

Cyprus territory was not eligible, due to high GDP and development, to receive aid under Objective 1. The Greek part of Cyprus was therefore covered by Objectives 2 and 3.

[22] Due to division of Cyprus into Greek- and Turkish-controlled areas and due to ongoing disputes over this issue, only the Greek part of the Cyprus is recipient of aid from the Structural Funds.

Priorities of the programme:

Objective 2

- Sustainable rural development – This priority aimed to strengthen the structure of the rural economy; to support the development of infrastructure in order to stimulate tourism and manufacturing industry; improve local services; and increase standard of living in rural areas.
- Revitalization of urban zones in decline – This objective involves restoring and repairing buildings and monuments in urban zones; and improving infrastructure.
- Technical assistance – Assistance was mainly used to finance preparation activities, information, supervision, or evaluation.

Objective 3

- Support for education, training and employment – Here the priority was promotion of active employment policies; fight against social exclusion; and improvement of education and training systems (new information technologies application).
- Fisheries sectors – This priority was aimed at fleet and fishing installations modernization; aquaculture enhancement; and commercial activities support.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

Other programmes were implemented within Community Initiatives. The biggest portion of money went to INTERREG IIIA initiative for the cross-border cooperation with Greece.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 2	Objective 3	INTERREG	EQUAL	TOTAL
28.02	21.95	4.30	1.81	**€ 56.08**
49.96%	39.14%	7.67%	3.23%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

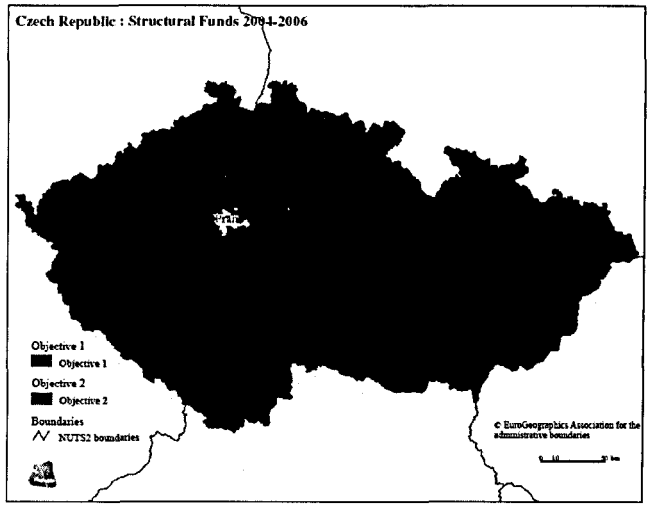
ERDF	ESF	EAGGF	FIFG	TOTAL
N/A	N/A	N/A	N/A	**€ 56.08**
N/A	N/A	N/A	N/A	**100%**

Absorption of financial allocations as to February 05 2008

62%	€ 34.77 mil.

5.3 Czech Republic

Country info:



The Czech Republic made a significant progress from the fall of communism but still it needs structural help. The population of the CR consists of 10219 thousands inhabitants, out of which 9055 thousands were covered by Objective 1 and 1164 thousands[23] were covered by Objective 2 aid. For the 2004-2006 period, the Czech Republic was allocated more than 1685 million EUR from the Structural Funds for social and economic development of its regions.

GDP development:

2004	2005	2006
75	77	79

The GDP of the Czech Republic is not as high as in case of Cyprus but has growing tendency. The GDP improved slightly (4%) in the watched period.

Recipient under:

- Objective 1 (all regions except Prague)
- Objective 2 and Objective 3 (Prague only)

The whole country, except Prague, was eligible to draw money from SFs under the Objective 1. Prague, which has a much higher development level than the other regions, was benefiting from the Objectives 2 and 3.

[23] Prague population

Priorities of the programme:

Objective 1

- Industry and companies – The emphasis was put on contributions to development of Czech economic environment; support of competitiveness of small and medium enterprises; support of industrial production and research & development in industry; and aid for innovations in energy efficiency.
- Infrastructures – Investment aid directed towards contribution to development of transport infrastructure; and support modernization and protection/improvement of the environment negatively affected by transportation.
- Human resources – This priority aims to support active employment policy; ensure high level of employment and qualified labour force (training, education); promote equal opportunities for men and women; contributes to adaptability of employees and employers to economical and technological changes.
- Rural development and multi-functional agriculture – Aimed at support of balanced development of regions; help on Czech agriculture to adapt for European model; contributions to development of multi-functional agriculture; and promote competitiveness and product quality.
- Joint regional operational programme – Was a complementary to operational programmes. It was based on a joint development strategy at local level. This programme encouraged partnership and networks between regions so they could benefit from cooperation.

Objective 2 (Prague only)

- Revitalization of the urban environment – This involved progress of the transportation system and rehabilitation of run-down areas.
- Laying the bases for the future prosperity of the zones concerned – Aim to promote relations between public and private sectors and urban services for the information society.

Objective 3 (Prague only)

- Education, training, and employment support for the Prague region.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

The biggest portion of money, within Community Initiatives framework, went to INTERREG IIIA initiative for the cross-border cooperation with neighboring countries (Austria, Poland, Slovakia) or their regions (German's Bavaria or Saxony). EQUAL was about to assure equality in the labor market.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	Objective 2	Objective 3	INTERREG	EQUAL	TOTAL
1 454.27	71.30	58.79	68.68	32.10	**€ 1 685.14**
86.30%	4.23%	3.49%	4.08%	1.90%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

ERDF	ESF	EAGGF	FIFG	TOTAL
1 049.17	460.55	171.38	4.04	**€ 1 685.14**
62.26%	27.33%	10.17%	0.24%	**100%**

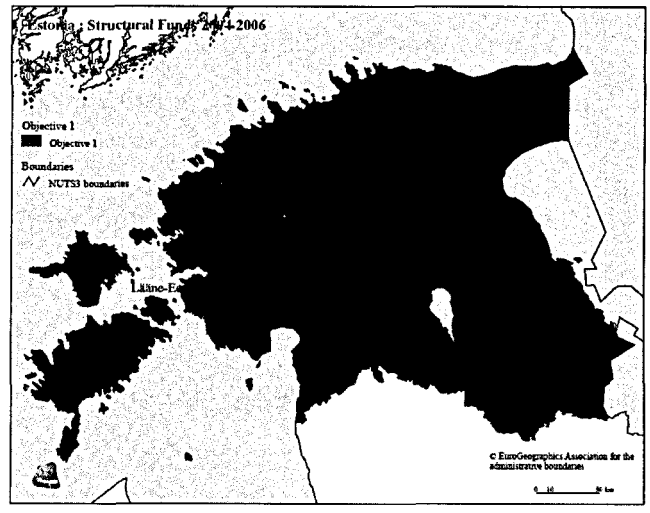
Absorption of financial allocations as to February 05 2008

73%	€ 1 230.15 mil.

5.4 Estonia

Country info:

Estonia belongs to the Baltic group and also belongs among countries which were affected by communist regime. The whole population of Estonia accounts of 1367 thousands inhabitants. For the 2004-2006 period, Estonia was allocated almost 385 million EUR from the Structural Funds for development of regions which are lagging behind.



GDP development:

2004	2005	2006
57	63	69

The GDP of Estonia is significantly developing. From 2004 to 2006, it increased by 12% that is 6% per one year.

Recipient under:

- Objective 1

The entire Estonian territory was covered by Objective 1.

Priorities of the programme:

<u>Objective 1</u>

- Human resources – The primary goal was to increase investments in educational system; to support higher education and increase number of people who are higher educated; to boost up companies' investments into

human resources and trainings; to modernize and increase capacity of public services in order to better cope with unemployment.

- Business competitiveness – Investment aid was aimed at boosting up the cooperation between researchers and enterprises; concentrating mainly on Research & Development and innovations in fields of infrastructures and promotion of quality; and supporting tourism through development of national infrastructures.
- Agriculture, fisheries and rural development – The drive to support modernization of agriculture in order to offer various products of a high quality; to promote environmental and aquaculture care; help to establish businesses and non-agricultural jobs in rural areas; support adjustment of fleet capacity; and fish production improvements.
- Infrastructures and local development – It pays attention to improvements of connections and services; investments directed to railways, regional airports, and roads; support environmental improvements through better water and waste management; support renewable energy resources; and protects biological variety.
- Technical assistance – Mostly used for preparatory and information activities.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

Other development programmes were implemented through initiatives with the use of Structural Funds. Interreg initiatives were directed towards regional cooperation, for instance – Finland/Estonia, Baltic Sea, and North Zone co-operations. Equal was used for equality in labor market as in other countries.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	INTERREG	EQUAL	TOTAL
371.36	10.60	4.07	**€ 386.03**
96.20%	2.75%	1.05%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

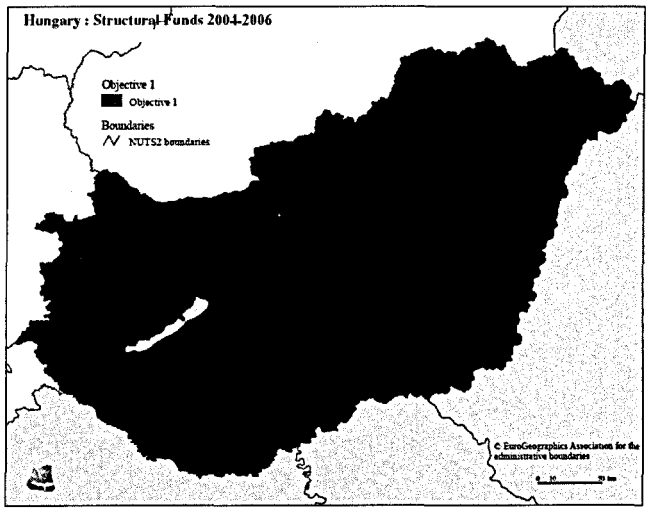
ERDF	ESF	EAGGF	FIFG	TOTAL
242.04	72.03	58.99	12.97	**€ 386.03**
62.70%	18.66%	15.28%	3.36%	**100%**

Absorption of financial allocations as to February 05 2008

79%	€ 304.96 mil.

5.5 Hungary

Country info:



Hungary is one of the Visegrad countries and like others from this group; it also had to cope with communist heritage. Despite the successful negotiations, it still must do some improvements to reach wealthier Member States. The population of Hungary consists of 10188 thousands inhabitants. For the 2004-2006 period, Hungary was allocated more than 2094 million EUR from the Structural Funds for development of regions which are lagging behind.

GDP development:

2004	2005	2006
63	64	65

The GDP of Hungary was slowly but equally developing by 1% each year.

Recipient under:

- Objective 1

The entire Hungarian territory was covered by Objective 1.

Priorities of the programme:

<u>Objective 1</u>

- Economic competitiveness – Investments were aimed at modernizing production; developing high-tech industrial structures; supporting small

and medium enterprises in order to be more competitive; investing in R&D and innovations.

- Agricultural and rural development – Its goal was to reduce production costs; promote quality of agricultural products; environmental and animal care and their preservation; support of young farmers and farm start-ups; modernization of food industry technologies directed towards logistics and safety; and promoting rural tourism.
- Human resources – Aid was used for implementation of active employment policies; fight against the long-term unemployment; ease professional integration; help to minorities or disadvantaged groups to integrate smoothly; and support of life long learning.
- Environmental protection and infrastructures – Structural help used to provide control of water quality, air quality and noise pollution; supporting environmentally friendly policies such as energy saving and use of renewable sources of energy; modernizing and improving roads and connections to enhance safety.
- Regional development – Development directed towards tourism-related services; improving public transport; supporting human resources at regional level; and boosting pre-school and elementary education.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

Initiatives framework included again Structural Funds assistance in the cross-border, transnational, and inter-regional cooperation and equal treatment in the labor market.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	INTERREG	EQUAL	TOTAL
1 995.72	68.68	30.29	**€ 2 094.69**
95.28%	3.27%	1.45%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

ERDF	ESF	EAGGF	FIFG	TOTAL
982.41	701.72	364.48	46.08	**€ 2 094.69**
46.90%	33.50%	17.40%	2.20%	**100%**

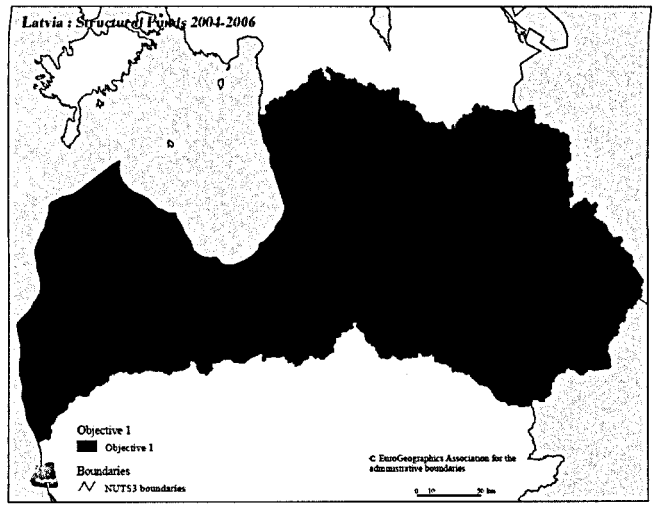
Absorption of financial allocations as to February 05 2008

82%	€ 1 717,65 mil.

5.6 Latvia

Country info:

Latvia is the least developed (according to GDP) country of all the New Member States. It must try hard to catch-up with the others. The population of Latvia accounts of 2355 thousands inhabitants. For the 2004-2006 period, Latvia was allocated almost 649 million EUR from the Structural Funds to cope with structural problems and for development of regions which are lagging behind.



GDP development:

2004	2005	2006
46	50	54

The GDP of Latvia was the lowest from all the New Member States. During the 2004-2006 period the indicator equally developed by 4% each year to 54% in 2006.

Recipient under:

- Objective 1

The whole Latvia was receiving Structural Funds under the Objective 1.

Priorities of the programme:

<u>Objective 1</u>

- Territorial cohesion – The main goal of this programme was to improve quality of life of citizens; support attractiveness of different regions;

enhance balanced development of the entire territory; and invest into infrastructure development.

- Enterprises and innovation – This priority aimed at support of enterprise establishments; existing enterprises support and enhancing their competitiveness; investments into innovations; and making access to new technologies easier.
- Human resources and employment – Funding directed towards support of employment and competitiveness of workforce; improvement and support of lifelong learning, education, and training systems; application of active employment policy; and introduction of services which would made access to job market easier and which would provide assistance for people endangered by social exclusion.
- Rural areas and fisheries - For rural areas the main objectives were to develop competitive agricultural products; enhance the creation of new enterprises in this area; and reach sustainable agricultural and rural development through improvements and modernization. For the fisheries the main priority was to ensure that the fishery resources are not exploited while quality of product increase.
- Technical assistance – Utilized for preparations, information, and follow-up activities.

The Community initiatives:

- INTERREG III – B, C
- EQUAL

Within Community Initiatives, Latvia utilized assistance through INTERREG III but only B – neighborhood programme, and C – North Zone cooperation programme. Again, EQUAL initiative was utilized as well.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	INTERREG	EQUAL	TOTAL
625.57	15.26	8.03	**€ 648.86**
96.41%	2.35%	1.24%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

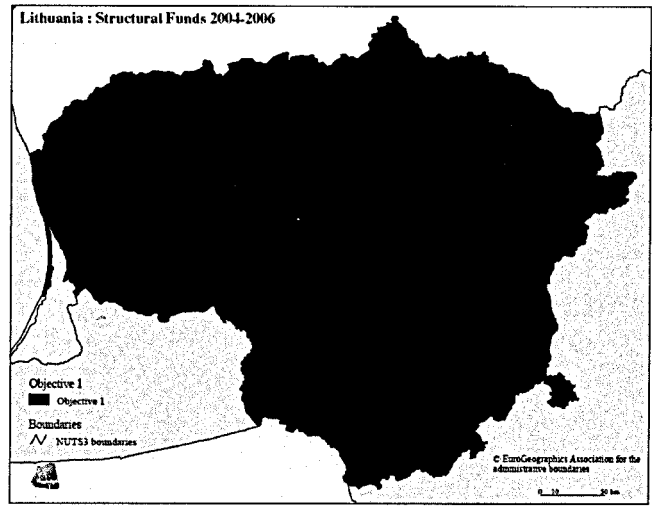
ERDF	ESF	EAGGF	FIFG	TOTAL
391.98	128.41	101.29	27.18	**€ 648.86**
60.41%	19.79%	15.61%	4.19%	**100%**

Absorption of financial allocations as to February 05 2008

74%	€ 512.60 mil.

5.7 Lithuania

Country info:



Lithuania is the last New Member State from the Baltic region group According to its GDP, it lies right in the middle with the development - between Estonia and Latvia. The population of Lithuania accounts of 3481 thousands inhabitants. For the 2004-2006 period, it was allocated almost 930 million EUR from the Structural Funds for development of regions which are lagging behind.

GDP development:

2004	2005	2006
51	53	56

The GDP of Lithuania was slightly higher than that of Latvia, but still it reached only about 50% of average in 2004. The rate improved during the examined period by 5% to 56% in 2006.

Recipient under:

- Objective 1

The whole territory of Lithuania was eligible to draw Structural Funds under Objective 1.

Priorities of the programme:

<u>Objective 1</u>

- Economic and social infrastructures – Aid concentrated on transport improvements; development of research, education and training systems; and enhancement of health and social services.
- Human resources – Priority concentrated on reducing unemployment of young people; diminishing unemployment caused by changing labor market needs by improvements of skills, abilities to adapt to changes, lifelong learning, and strengthening human resources.
- Productive sector – Includes direct as well as indirect aid to companies such as development of the business environment; investments into information technologies; infrastructure improvements; or public services for tourism.
- Agriculture and fisheries – The drive for developing alternative productions in these fields; supports modernization of agriculture and forestry; protects fishery resources and adjust fishing capacities; provides investments into environmental protection and food safety.
- Technical assistance – Mainly used for preparatory and information activities.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

As well as other New Member States, Lithuania utilized Structural Funding for initiatives. Approximately half of the INTERREG initiative resources were used for programme A, so called neighborhood programme, which supported cooperation between Lithuania, Poland, and Kaliningrad. Equal initiative was utilized as well.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	INTERREG	EQUAL	TOTAL
895.17	22.49	11.87	**€ 929.53**
96.30%	2.42%	1.28%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

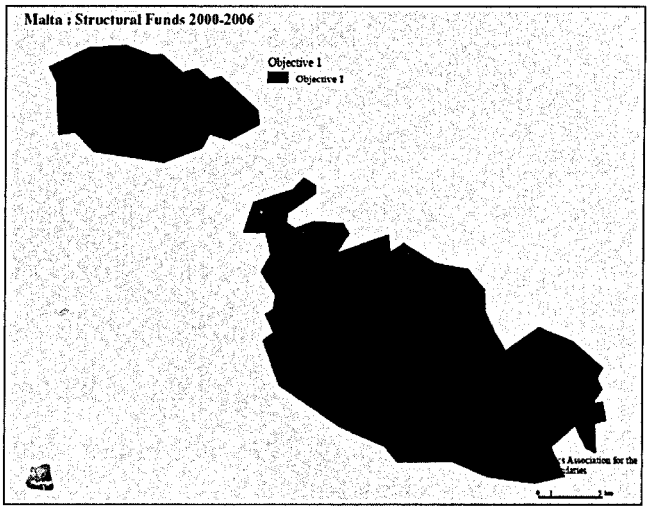
ERDF	ESF	EAGGF	FIFG	TOTAL
585.42	208.68	123.16	12.27	**€ 929.53**
62.98%	22.45%	13.25%	1.32%	**100%**

Absorption of financial allocations as to February 05 2008

73%	€ 678.56 mil.

5.8 Malta

Country info:



Malta is the second country which belongs among the New Member States which are not post-socialist. At the same time it is the smallest country, in terms of population, out of the 10 New Member States. The Maltese population consists of 393 thousands inhabitants. For the 2004-2006 period, Malta was allocated less than 67 million EUR from the Structural Funds to cope with structural problems and for development of regions which are lagging behind.

GDP development:

2004	2005	2006
77	77	77

Maltese GDP was stable during the whole 2004-2006 period. No improvement took place and the rate remained the same at 77%.

Recipient under:

- Objective 1

The entire territory of Malta is set to benefit under Objective 1.

Priorities of the programme:

<u>Objective 1</u>

- Strategic investments and a strengthening of competitiveness – The general aim of this priority is to assure the quality of drinking water and to

eliminate waste; to protect the natural environment and to enhance using of renewable energy resources.

- Development of human resources – This is aimed at improvement of workforce skills; ensure equal treatment of men and women; inclusion of disabled people in the labor market; and lifelong education.
- Rural development and fisheries – Main goal is to invest into farms, improving product processing and marketing; modernization and renovation of the fleet and fishing port equipment.
- Special measures for the island of Gozo – This was aimed at help to the separate Gozo island which faces difficulties due to its distance from Malta. It is environmentally fragile and it has poor navigational conditions. The help was therefore directed especially to improve transport infrastructures and enhance tourism.
- Technical assistance – Funds used for preparatory, information, follow-up, and control activities.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

In Malta, INTERREG support for cooperation included countries not only from the EU but for instance also Tunisia, Algeria, and Morocco.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	INTERREG	EQUAL	TOTAL
63.19	2.37	1.24	**€ 66.80**
94.60%	3.55%	1.85%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

ERDF	ESF	EAGGF	FIFG	TOTAL
49.66	9.73	4.63	2.78	**€ 66.80**
74.34%	14.57%	6.93%	4.16%	**100%**

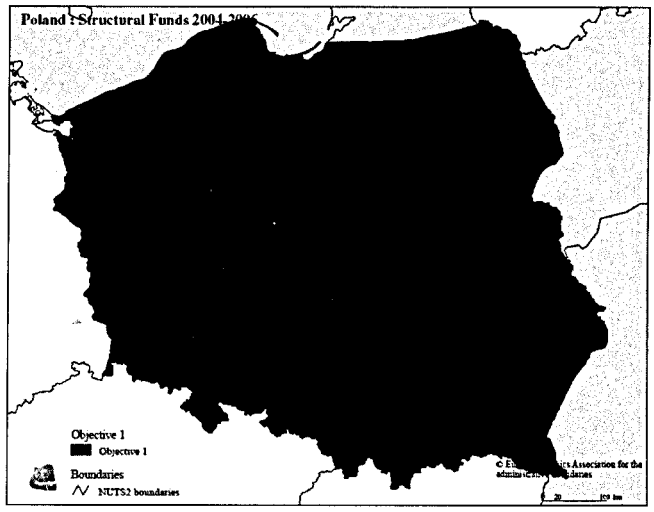
Absorption of financial allocations as to February 05 2008

81%	€ 54.11 mil.

5.9 Poland

Country info:

Poland is, in the contradistinction to Malta, the biggest country (in terms of population) out of the 10 New Member States. The Polish population consists of 38641 thousands inhabitants. For the 2004-2006 period, It was allocated slightly less than 8632 million EUR from the Structural Funds for development of regions which are lagging behind.



GDP development:

2004	2005	2006
51	51	52

Polish GDP belongs among the lower rates. The development of the GDP is imperceptible and improved only by 1% from 2004 to 2006.

Recipient under:

- Objective 1

Poland and all its regions were entitled to utilize Funds under the Objective 1.

Priorities of the programme:

<u>Objective 1</u>

- Business competitiveness – This priority was aimed at investments into R&D and technological innovations; also it supported company set-ups; and small and medium enterprises access to capital in order to become more competitive.

- Human resources – Objective was directed towards decreasing the level of unemployment and social inclusion enhancement; key areas were prevention of unemployment, integration of young people and other disadvantaged groups; furthermore, to assure better access to and standards of education; continuous training, learning, and cooperation between schools and enterprises.
- Transport – Investments to development of various transportation ways such as alternatives to road transport in order to become more competitive and improve the environmental protection; modernization of the rail network; and improving motorways qualities to enhance safety.
- Restructuring and modernization of the food sector and rural development – The drive to change and develop agriculture and rural sector includes investments into viable farms, trainings and advisory services in the agricultural field; support for young farmers; village renovation; and enhancement of economic activities.
- Fisheries and processing of fishery products – The priority concerns fishery resources and their utilization; modernization of fleet; development and protection of aquaculture.
- Integrated regional programme – This support has three main priorities: modernization and improvement of infrastructure; advancement of human resources in order to fulfill labor market needs; and investments into progress of marginalized areas.
- Technical assistance – The aid directed towards training, management, follow-up, control, and evaluation activities.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

The Structural Funds were utilized, again, also through INTERREG and Equal initiatives. More than half of money allocated for INTERREG went to programme A – cross-border cooperation with neighboring countries and their regions.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	INTERREG	EQUAL	TOTAL
8 275.81	221.36	133.94	**€ 8 631.11**
95.88%	2.57%	1.55%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

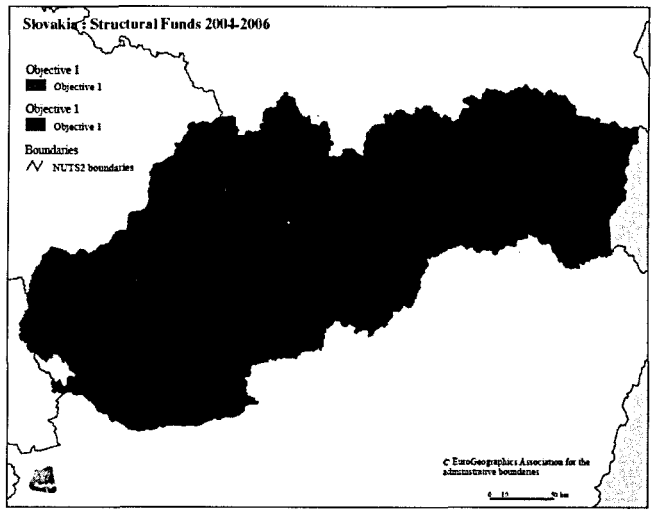
ERDF	ESF	EAGGF	FIFG	TOTAL
5 187.30	1 993.79	1 242.88	207.14	**€ 8 631.11**
60.1%	23.1%	14.4%	2.4%	**100%**

Absorption of financial allocations as to February 05 2008

74%	€ 6 387.02 mil.

5.10 Slovakia

Country info:



After the split of Czechoslovakia, Slovakia occurred in a difficult situation as political conflicts threatened Slovakia's EU accession. However, the country was able to overcome the crisis and to join the EU in 2004. The whole population of Slovakia consists of 5403 thousands inhabitants, out of which 4801 were covered by Objective 1 and 602 thousands[24] were covered by Objective 2 aid. For the 2004-2006 period, Slovakia was allocated almost 1187 million EUR from the Structural Funds for social and economic development of its regions.

GDP development:

2004	2005	2006
57	61	67

The GDP of the Slovakia belonged among lover rates but improved quite significantly. The GDP increased by 10% in the watched period.

Recipient under:

- Objective 1 (all regions except Bratislava)
- Objective 2 and Objective 3 (Bratislava only)

The whole country, except Bratislava, was eligible to draw money from SFs under the Objective 1. Bratislava, which has a much higher development level than the other regions, was benefiting from the Objectives 2 and 3.

[24] Bratislava population

Priorities of the programme:

Objective 1

- Industry and services – The priority in this case was to enhance competitiveness of industry and services; focus was paid on investments into new technologies and knowledge society; other priorities include support of small and medium enterprises, job creation, and progress in use of renewable energy resources and saving energies; the last field which is highly supported is tourism which is emphasizing poorly know natural and cultural attractions of Slovakia.
- Human resources – The main goal was to promote professional integration on the labor market. The policies included offering of new and modern employment services; promote motivation to work; strengthen inclusion of disadvantaged groups; improve qualifications; and diminish discrimination (especially against gypsies).
- Basic infrastructure – This priority was aimed to improve the area of transportation such as to develop better interregional and international connections; improvement of railway and airport technologies in order to increase security. The priority included also subsidiary areas such as reduction of emissions and pollutants or flood prevention.
- Agriculture and rural development – The objective supports investments into quality product improvements, agricultural efficiency activities, protection measures, and adaptation to European standards.

Objective 2 (Bratislava only)

- Enterprises support – Investments which would help small and medium enterprises to grow and become more competitive and provide them with services in the public interest.
- Tourism support – Development of services and activities associated with tourism and leisure.

Objective 3 (Bratislava only)

- Enhancement of employment, training, and education in Bratislava region.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

More than half of money allocated for Interreg initiative went to A group – cross-border cooperation with Austria, the Czech Republic, Poland, Hungary and Ukraine. Equal initiative was again implemented to enhance equality in the labor market.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	Objective 2	Objective 3	INTERREG	EQUAL	TOTAL
1 041.04	37.17	44.94	41.47	22.27	**€ 1 186.89**
87.71%	3.12%	3.78%	3.51%	1.88%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

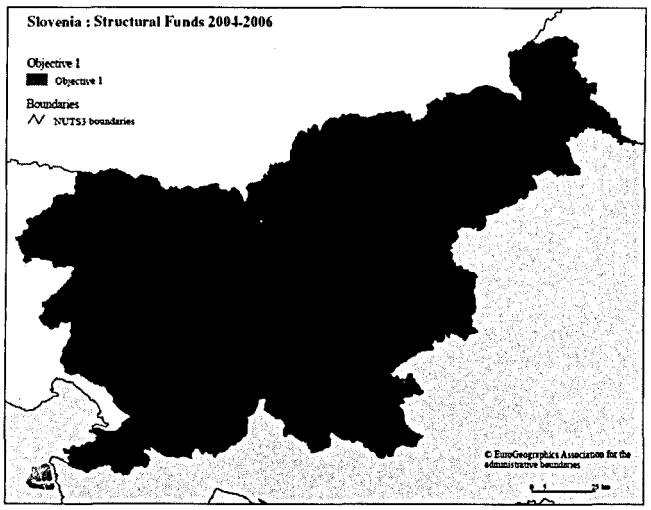
ERDF	ESF	EAGGF	FIFG	TOTAL
653.98	324.38	204.26	4.27	**€ 1 186.89**
55.10%	27.33%	17.21%	0.36%	**100%**

Absorption of financial allocations as to February 05 2008

72%	€ 854.56 mil.

5.11 Slovenia

Country info:



Slovenia is the last country in my review studies of the New Member States and only post-socialist country in the Mediterranean group. Slovenian population consists of 1965 thousands inhabitants. During the 2004-2006 period, Slovenia was allocated more than 267 million EUR from the Structural Funds for social and economic development of regions lagging behind.

GDP development:

2004	2005	2006
85	87	88

Slovenian GDP was one of the highest of the newly accessing Member States. Improvements are small but still important.

Recipient under:

- Objective 1

The entire territory of Slovenia was eligible to draw Funds under Objective 1.

Priorities of the programme:

Objective 1

- Productive sector and competitiveness – The aim of this priority was to enhance competitiveness through innovations, R&D, and knowledge;

special attention is paid to small and medium enterprises start-up assistance.

- Human resources and employment – This priority aims to improve activities linked to human resources such as quality of education and training; promote lifelong learning, workforce capacities, and social integration.
- Agriculture, forestry, and fisheries – The main goal is to diversify and support agricultural and forestry activities; improve product processing; renew fleets and develop aquaculture.
- Technical assistance - Funds used for preparatory, information, follow-up, and control activities.

The Community initiatives:

- INTERREG III – A, B, C
- EQUAL

Other programmes were implemented within Community Initiatives. Again, the biggest amount of money allocated to INTERREG was spent on programme A – cross-border cooperation namely with Italy, Austria, Hungary, and Croatia. Equal initiative was utilized to promote equality in the labor market.

Objectives Allocation 2004-2006 (in millions of EUR)

Objective 1	INTERREG	EQUAL	TOTAL
237.51	23.65	6.44	**€ 267.60**
88.76%	8.84%	2.40%	**100%**

Structural Funds Allocation 2004-2006 (in millions of EUR)

ERDF	ESF	EAGGF	FIFG	TOTAL
146.32	80.15	37.46	3.67	**€ 267.60**
54.68%	29.95%	14.00%	1.37%	**100%**

Absorption of financial allocations as to February 05 2008

81%	€ 216.76 mil.

6. COMPARATIVE ANALYSIS

As I wrote at the beginning, all the New Member States are sovereign countries with individual needs and priorities. The EU support for 2004-2006 was used to finance local projects which aimed at regional development. When we take a closer look to programmes of individual states, we can find many similarities. Of course the programmes are unique and they are adjusted to special areas and interest of the Member States. However, generally it can be said that the New Member States share similar difficulties and cope with resembling problems. This comparative analysis will therefore rather highlight similarities than contrast vast differences.

6.1 Programme priorities

Absolute majority of the New Member States and their regions were eligible to receive Structural Funds under the Objective 1. Only the entire Cyprus (its Greek part), Prague region of the Czech Republic, and Bratislava region of Slovakia obtained resources under Objectives 2 and 3. Obviously, the general goal of countries was to reduce disparity between their GDP per capita and the EU average as they mostly belonged to the regions lagging behind. The New Member States developed programme priorities in order to reach their general goal. As seen from the national review studies, the priorities were more or less the same and touched following issues:

<u>Competitiveness</u>

The New Member States were seeking to increase their competitiveness on the European market. They were mostly proposing investments into research and development, innovations, and modernizations. They attempted to create a friendly environment and services which would help new small and medium enterprises to start-up and existing enterprises to flourish and prosper. Likewise, the product quality was highly promoted.

Human Resources and Employment

When it comes to human resources, the New Member States wanted to implement Structural Funds' help to improve educational system and fight with long-term unemployment. They desired to increase number of people who are highly educated and promote those who decide to study "lifelong". Likewise, they supported companies in developing plans for training employees as it is very difficult in today's world to be able to respond to all technical changes and changing labor market needs generally. Part of this priority was also to prevent exclusion of disadvantaged groups from the labor market – such as skilled but old people, young people without skills, disabled people, or ethnic minority groups. Special attention was also paid to women and their equal treatment. Of course, the creation of new jobs was also highly supported.

Infrastructure

Infrastructure was another highly mentioned and supported priority. The attention was mostly paid to improvement of existing infrastructure and developing new one. The key goal was to increase safety and protect environment which is negatively affected with the development of infrastructures. Investments were directed also towards expansion of inter-regional and international infrastructures.

Tourism

The New Member States tried to attract tourist from the world. They would like to call attention to the regions which are beautiful but for the tourist somehow unknown, and thereby stimulate rural development. They would like to invest into development of services which are associated with tourism and become competitive in this field. And last but not least, the New Member States would like to grab international attention and attract new and foreign investors through support of tourism.

Agriculture, fisheries and nature

When it comes to agriculture and fisheries, the New Member States tended to invest money mostly into modernization of agriculture and fleets. The special attention was paid to nature protection. States promoted use of environmentally friendly solutions and renewable energy resources. The fishery resources were taking into account in order not to exploit them and assure their natural restoration.

Rural areas

The main goal was to ensure equal development in rural areas, especially to enhance the creation of enterprises in this area and to make the rural areas more attractive. The rural areas were developed also through agriculture, tourism, and infrastructure aims.

6.2 Money allocation

The New Member States will together receive approximately 16 billion EUR from the EU Structural Funds. When we take a look at individual figures of allocations, we can see the evidence for the facts that were mentioned in Chapter 4 – the highest portion of money is spent on Objective 1 and ERDF is the biggest money provider. The money spent on Objective 1 represents the highest level of regional funding as all four Structural Funds are used and they ranged from 86.30% to 96.41% of total money allocation. It is a huge portion. Structural Funds allocations to INTERREG and EQUAL initiatives were therefore comparatively insignificant.

The most generous Structural Fund was the European Regional Development Fund. It is logical as the main objective was to support development of regions which are lagging behind. It contributed by approximately 2/3 of total allocation and covered priorities such as competitiveness, environmental development, infrastructure enhancement, and support for small and medium enterprises. ERDF was than followed by the European Social Fund which contributed approximately by 20% of total allocation. It co-financed labor and unemployment issues. The last

two funds, EAGGF and FIFG, financed priorities connected to agriculture, fisheries, and rural development. EAGGF was providing around 15% of allocation while FIFG contributed comparatively insignificantly.

When it comes to countries, absolutely the highest money allocation received Poland which is the biggest country of all newly accessed Member States. The Structural Funds help for this country accounted of more than 8 500 million EUR for the 2004-2006 period. Cyprus occurred on the other axis as it was allocated "only" 56 million EUR. However, it is important to mention that the Cyprus' covered population was the smallest and at the same time, it was the New Member State with the highest GDP rate. Overall, it can be said that amount of funds allocation correspond to the size of country's population - the higher the population the higher the Structural Fund help as it is apparent from the Table 6.1. Nevertheless, GDP rate plays an important role as well, for instance when we take a look at Slovenia and Estonia. Although it has slightly higher population than Estonia, Slovenia was allocated less money. Slovenia on the other hand, had much higher GDP development than Estonia which was one of the important patterns for allocation. The same case is the Czech Republic in comparison with Hungary.

6.3 Absorption of money

The 10 New Member States started to utilize funding with their accession on May 2004. As of 5th February 2008 the average rate of absorption of financial allocations was 75%. The most successful country was Hungary which was able to draw 82% of allocated money. On the other end of an axis is again Cyprus. Even if it was allocated smallest amount from the Structural Funds, still it was able to draw only 62%.

However, it is too soon to make any judgements. The allocation rate can change every month. The procedure is long and extensive and it takes time to transfer money from the EU budget to national accounts. Moreover, it still is not the end of

the period during which the countries can draw money. As the Rule N+2 says, the countries are eligible to draw money until the end of 2008. After this period, we will exactly know which countries were and which were not successful in Structural Funds utilization.

Nevertheless, it is obvious, that some countries have difficulties to utilize the Structural Funds to their full potential. Throughout my readings I found several patterns which are considered as important for successful absorption of Structural Funds:

- Well designed national programmes – the country must be aware of its weaknesses and must find the right opportunities where to invest and what to improve. Properly developed national programme is "half of the success".
- Coordination – the country should have well developed cooperation and communication networks at many levels. Relationships between national and local governments, private and public sector are essential for coordination.
- Administrative capacity – the country should have skilled and informed authorities. They should be able to prepare appropriate projects, cooperate and coordinate, but also to be able to cope with the vast amount of administrative work.
- Financial capacity – to ask for help from the EU Structural Funds is not enough. The EU only co-finance and therefore the country should be able to guarantee national contributions.

To directly point out every single problem which individual countries encounter is very difficult. But generally said, most of the New Member States have problems with administrative capacity to handle the implementation. The staff dealing with Structural Funds has low understanding and knowledge of the issues (especially regional governments at municipal levels). There is also a lack of cooperation

between concerned parties. The last and one of the biggest problems which is often mentioned is bureaucratic workload. The countries do not have enough of skilled workforce, which would be able to cope with this kind and amount of "paper work". The pre-accession instruments helped the New Member States to familiarize with this kind of help, but did not prepare them for the Structural Funds drawing. Their system was significantly different. When the Structural Funds system for 2000-2006 period was introduced and slightly changed, the countries did not have time enough to adapt and to obtain experiences. Likewise, the amount of money allocated is much higher in case of the Structural Funds. The countries, now, can have problems to absorb this amount.

6.4 GDP development

It is interesting to observe how the GDP of the New Member States improved from their accession to the European Union. The most significant improvements occurred in Estonia as its GDP increased by 12% from 2004 to 2006 and Slovakia with 10% improvement. On the other hand, Malta had stable rate of GDP and the Cyprus' rate was even fluctuating. The other countries are developing slowly but equally. It cannot be said that it is the direct result of the EU accession or use of Structural Funds but these features definitely played an indispensable role. It is important to see the New Member States to grow and slowly catching-up their wealthier neighbors.

6.5 Similarities in groups

At the beginning of my paper, I divided the New Member States into 3 groups – Visegrad, Baltic, and Mediterranean groups. I did so, because I wanted to take a look whether these countries or regions posses patterns which make them different from the other groups or which make them specific.

Table 6.1 Summary table

COUNTRY	Population (thousands)	GDP improvement	Allocation (mil. EUR)	Absorption
Cyprus	212	1%	56.08	62%
Malta	393	0%	66.80	81%
Slovenia	1 965	3%	267.60	81%
Czech Rep.	10 219	4%	1 685.14	73%
Hungary	10 188	2%	2 094.69	82%
Poland	38 641	1%	8 631.11	74%
Slovakia	5 403	10%	1 186.89	72%
Estonia	1 367	12%	386.03	79%
Latvia	2 355	8%	648.86	74%
Lithuania	3 481	5%	929.53	73%

I will begin with the Mediterranean group, as it occurs first in my summary table. The group is the smallest out of the three in terms of population and also in terms of total allocation of EUR. What is interesting here, that even if there are countries with the second highest absorption rate in this group so still their GDP development was very low. Of course, these countries were the most developed at the time of accession and their initial GDP rate was comparatively high. However, still it seems that even if they were able to absorb around 81% from the financial help, it was not the important pattern or stimulus for the major GDP development. The reason can be simple, the amount of money allocated to this group was low and their contribution was therefore rather symbolic. I would like to also mention a solitaire in this group – Cyprus. Cyprus was the worst performer all the New Member States as it, so far, absorbed only 62% of the total money allocated. The amount of allocated money was the lowest from the NMS and its GDP was once improving and whereupon decreasing.

The other group, Visegrad, is slightly different. It is the biggest group in terms of population and money allocated. Their ability to absorb money was lower than in case of previous group, but still it is not "the end of the day". The GDP improvement and thereby the whole development was not expansive but had increasing tendency. If I should, again, highlight a solitaire country – one which is diverse from the rest of the group – I would mention Hungary. Hungary is the country with absolutely highest absorption rate. However, again we can see that its GDP improvement is only symbolic – 2%. When we compare Slovakia's development by 10% from 2004-2006, we must ask – who is better off?

The Baltic countries have the highest economic growth within the New Member States. The GDP level of these flourishing countries was several times higher than in the even of other countries. The Baltic States belong among countries with lower population and lower money allocation, but still they performed best when compared with other groups. To highlight one country from this group, I would mention Estonia with uncontested rate of development 12% and with comparatively high absorption capacity of 79%.

7. CONCLUSION

The New Member States have the first programming period in the European Union behind them. Every new thing may be bitter at the beginning but sweeter in the end. They experienced many challenging things which were very often difficult to cope with but which made the countries stronger and better prepared for the future.

It is apparent that to draw money from the EU Structural Funds is very difficult task. The procedure is complex and it takes long time before the country receives money. The New Member States were experienced with financial help from the EU but in spite of that fact they could not be properly prepared for the Structural Funds utilization. The pre-accession funding is just a tasting of what the Member States can enjoy in the EU. Structural Funds is unique system in form and in amount of money. We must not forget that the primary responsibility for funds lies on the Member States. They occurred in difficult and challenging situation and must learn during the process.

The New Member States must develop National Development Plans and to identify their weakness and ways how they want to improve them. As it is discoverable from the programme priorities of individual countries, their most frequent concerns were about competitiveness, human resources, infrastructures, tourism, agriculture, and rural areas. The Member States wanted in order to enhance development of regions support competitiveness of companies on the European market, to improve education and skills of the labor force, develop infrastructures which are necessary for the development in other areas and last, but not least, to make rural areas more attractive for investments and for tourist as well. The European Union allocated reasonable amount of money for these priorities, but the New Member States must proof they deserve them. The most generous Structural Fund which helps to the Member States to diminish the

disparities was the European Regional Development Fund. It allocated more than 90% of all money.

Now, the New Member States are about to finish drawing resources that were allocated for the 2004-2006 period. At the same time, they already receive projects which ask for money allocated for the programming period 2007-2013. It was a hard period for sure and it tested abilities of the New Member States. However, for the running period the NMS became experienced countries which are aware of possible difficulties and problems.

8. LITERATURE

The European Structural Funds (2004-2006) FACT SHEETS
http://ec.europa.eu/regional_policy/atlas/

EU Structural Funds or Ministry of Finance web pages in individual Member States
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Other Resources

I used my notes and handouts from the various subjects from the Charles University and Anglo-americká vysoká škola.

9. APPENDIX

Appendix 1

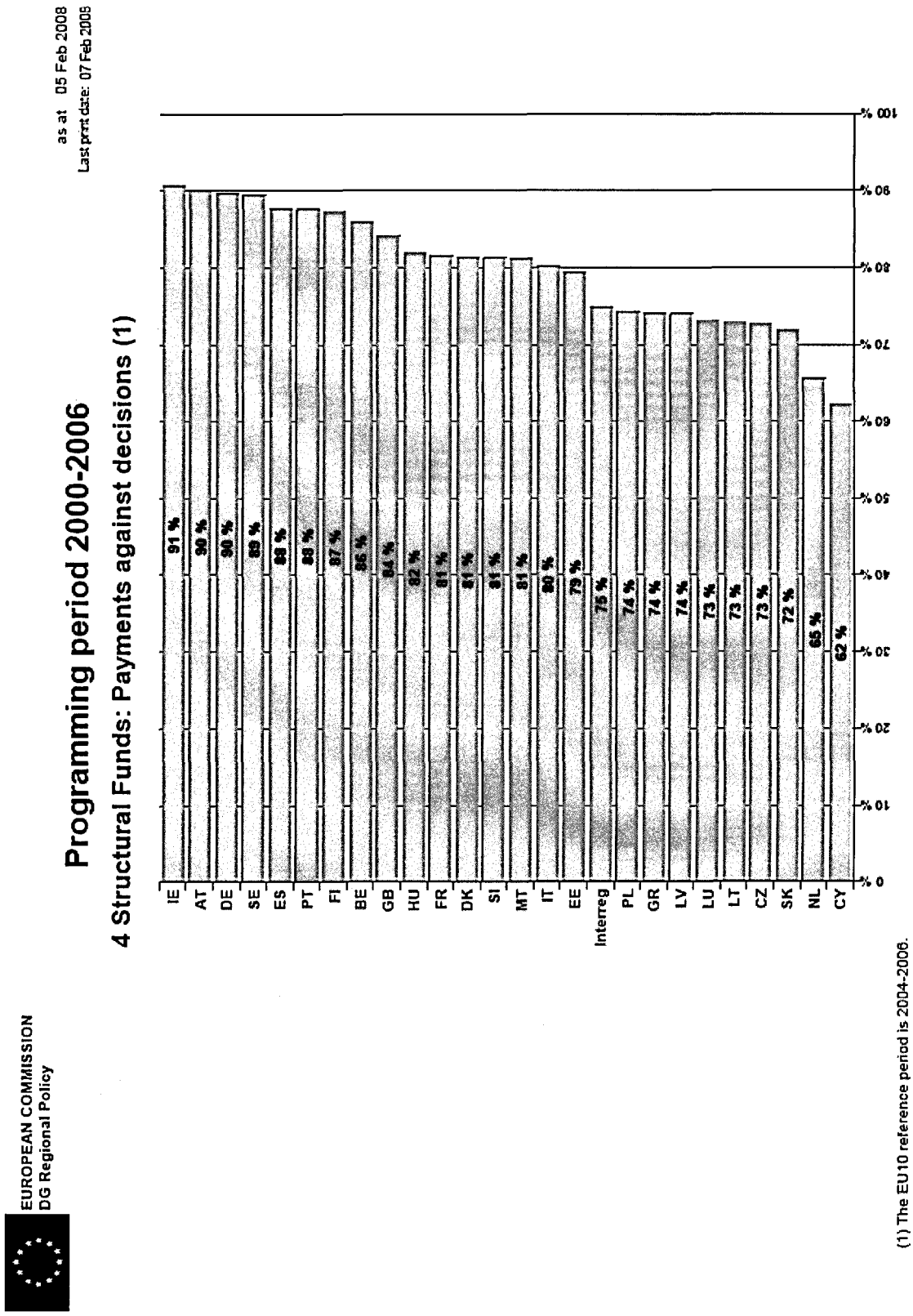
GDP per inhabitant in PPS, EU27 = 100

	2004	2005	2006
EU27	100	100	100
Euro area	111	111	110
Euro area+Malta+Cyprus	111	111	110
Belgium	121	121	120
Bulgaria	34	35	37
Czech Republic	75	77	79
Denmark	126	127	126
Germany	117	115	114
Estonia	57	63	69
Ireland	142	144	146
Greece	94	97	98
Spain	101	103	105
France	111	112	111
Italy	107	105	103
Cyprus	91	93	92
Latvia	46	50	54
Lithuania	51	53	56
Luxembourg	254	265	280
Hungary	63	64	65
Malta	77	77	77
Netherlands	130	131	131
Austria	129	129	128
Poland	51	51	52
Portugal	75	76	75
Romania	34	35	39
Slovenia	85	87	88
Slovakia	57	61	64
Finland	117	115	117
Sweden	125	124	125
United Kingdom	122	120	118
Croatia	49	50	52
Former Yugoslav Rep. of Macedonia	27	28	28
Turkey	29	29	31
Iceland	132	135	130
Norway	165	180	186
Switzerland	135	134	135
Albania	:	20	21
Bosnia-Herzegovina	:	25	26
Montenegro	:	30	33
Serbia	:	33	33

: data not available

Source: Eurostat

Appendix 2



Souce: European Commision