

Regional development, Absorption problems and the EU Structural Funds;

Some aspects regarding administrative absorption capacity in the Czech Republic, Estonia, Hungary, Slovakia and Slovenia¹

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Abstract

Based on the review of literature and our own conceptual considerations, we show that absorption problems regarding the EU Structural Funds may be important. Our brief covering of some general macroeconomic aspects of absorption problems brings us closer to the central topic of our paper, namely, the question of how to measure the administrative capacities of particular Candidate Countries for Structural Funds. *First*, we describe a suitable methodology for calculating the administrative absorption capacities of Candidate Countries. We then turn to some of the Candidate Countries' institution-building activities in preparation for the EU's Structural Policy. This shows that the process of preparing programming documents was the central point of the overall institution-building exercise. At the end of this chapter we present calculations on administrative capacities in five Candidate Countries: the Czech Republic, Hungary, Slovakia, Estonia and Slovenia, respectively. These calculations are based on previous calculations by the European Commission and on the strategic documents negotiated between the Commission and these Candidate Countries before the end of 2003. By calculating the key indicators of administrative capacity, we offer some preliminary statements regarding the present administrative capacity in a particular prospective new Member State and provide additional information on the overall absorption capacity of the countries in the 2004-2006 programme period.

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THE EU'S STRUCTURAL POLICY AND THE ABSORPTION PROBLEM

Introduction

There are views supported by the European Commission (see **European Commission, 1996; 2001a**) saying Structural Policy in the EU should speed up the convergence process between the more and the less developed countries and regions. These ideas are mainly based on the theories of endogenous growth (see e.g. **Romer, 1986; Lucas, 1988; Grossman/Helpman, 1991**) and, therefore, human resources and institutions dealing with management, programming and implementation of EU grants in the recipient countries are very important.

We will show in this paper that economic theory has not seen much research on the topic of absorption of foreign transfers². Therefore, we devote our core attention to this aspect, especially to the administrative absorption capacity. We concentrate on Accession Countries from the viewpoint of the processes necessary for improving administrative preparedness for the EU's Structural Policy. In the process, we try to make some conclusions/speculations regarding possibilities of successful or unsuccessful Structural Fund implementation in economically less developed areas of certain Candidate Countries in the 2004-2006 period.

Here we point out that there is great ongoing pressure for the new Member States to adopt rules and practices in a very short time. The rules and practices of today's Structural Funds have developed since the end of the 1980s, giving Member States over ten years to adjust their systems of structural (or development) policies to the EU's gradual system reforms. Today, we can speak of almost 'optimal' – albeit still different – systems of managing Structural and Cohesion Funds in each Member State. In addition, Candidate Countries have had to adopt the same implementation system Cohesion Countries used to have but the new Member States received much fewer per capita funds in 2004-2006. Consequently, this means these funds are to be accompanied by higher administrative costs per unit. Therefore, it is even more important to administer these grants as efficiently as possible in these countries.

We are fully aware of the complexity of the questions that motivated us to prepare this paper. These questions seek answers far beyond the scope of this paper. Therefore, to a great extent we will concentrate our research here on indicating the potential absorption problems of new Member States, in particular indicating their administrative absorption capacities for managing Structural Funds in the 2004-2006 period.

In the *first part* of this paper we will briefly present literature on absorption issues, some possible definitions of absorption capacity and will define programming principle as the most important for the institution building when dealing with the administrative absorption capacities in the pre-accession period.

After describing the framework, in the *second part*, we will present the administrative absorption concept as developed for the Candidate Countries. Moreover, such a concept could be of use also for the EU Member States. Based on the concept developed by the EU Commission for the 10 Candidate Countries, we will present the country analysis in Hungary, the Czech Republic, Slovakia, Estonia and

² Here, we note that we are concentrating our study on the question of absorption capacities for Structural Funds of the EU. Hence, we will not discuss the literature and problems of the development literature dealing with bilateral and multilateral aid to development countries. For recent studies dealing with this topic see, for example, **Collier/Dollar (2002), Ram (2003)**.

Slovenia, respectively. The main questions here will be, (1) how to *ex-ante* measure the administrative absorption capacity in the new Member States and (2) what is the level of preparedness for the EU Structural Funds implementation in these countries. At the end some conclusions will be driven.

Enlargement, institution building and absorption literature

In process of actively preparing for accession, each CEEC had to consider varying options when introducing the EU's Structural Policy and in introducing related new institutions into the domestic economic and policy environment. The options chosen caused – and still are causing – external shocks bringing positive and negative consequences for the whole society. By preparing programming documents such as National Development Plans and Community Support Frameworks or Single Programming Documents, deriving from the EU's Structural Funds regulation³, both formal and informal institutions have had either to adapt to the new circumstances by taking on additional tasks or to be replaced by newly established institutions. Therefore, the task of preparing new strategic documents should be also seen from the viewpoint where institutions are permanently in a process of transition. This applies to institutions of the central government, the social partners, non-governmental organisations, and for institutions at regional and local levels.

According to the General Regulations, each Member State has to fulfil certain requirements before it can take part in the EU's Structural and Cohesion policy. Each country's government must – inter alia – decide which ministry will take on the leading role in Structural and Cohesion Fund management, who will be responsible for the execution of programmes and financial execution and control, how the national cofinancing of the EU's development programmes will be assured (also involving direct links with respective national budgets – the question of matching funds), how the monitoring process will be dealt with regarding partnership aspects, and whether project pipelines for different programmes are working etc.

Literature on absorption phenomena

A review of academic and EU-internal literature indicates the absence of a conceptual framework to comprehensively assess the issue of absorption problems relating to Structural Funds. Therefore, we must look at literature on absorption problems in fields such as development economics and public choice. Further, the topic of how to manage Structural Funds is quite rarely described in academic literature.

What might explain this relatively low interest in this topic from both the European Commission and the academic world? Of course we can only speculate, but one reason may be that the EU's Structural Policy is a relatively new field for investigation⁴. After the reform in 1988, the first programming period started in 1989 and lasted up until 1993 and we are now experiencing the third programming period of 2000-2006.

³ See **Council Regulation (EC) No. 1260/1999** of 21 June 1999 laying down general provisions on the Structural Funds, Official Journal of the European Communities.

⁴ In a recent volume by the World Bank (see **Funck/Pizzati, 2003**: 7) the authors confirmed the fact that only since the late 1980s have the Structural Funds had an efficiency-oriented design. Because supply-side effects take time to materialise, it is too early to assess the impact of Structural Funds on long-term convergence. The situation of measuring the influence of absorption problems is even much worse since the various phenomena as such are only being discussed and potential indicators being constructed to measure them. This paper also hopes to make a modest contribution to these efforts.

In our paper we briefly describe the main phenomena related to absorption problems, however, our main topic focuses on administrative absorption of Structural Funds, especially in new Member States. Here, relevant materials for paper were very scarce in both quantity and quality terms. According to our information, the first studies on this topic were only made in 1997 for Member States taking into account research from other fields of economics such as development economics, institutional economics, economics of organisations and similar. Only after 2000 did the European Commission also start to commission studies for the Candidate Countries.

The EU's Structural Policy is still a 'work in progress' and is further developing with every programming period. Reflecting these developments, this topic is becoming ever more interesting for the academic world.⁵

Short overview of studies and evaluations

Different literature sources deal with absorption capacity. We can find two groups: (1) *macroeconomic analysis*, such as by **Herve/Holzmann (1997)**⁶; and (2) *different evaluation studies and reports* prepared and published by the European Commission or by consultants working in charge of the Commission. Most sources used in this study will be described in the relevant chapters of the paper, therefore we will only provide a short overview here.

One of the first EU studies to theoretically and empirically investigate definitional and measurement of absorption problems was made in **1997** by **Hervé and Holzmann**. The authors took quite a strict economist's approach when reviewing and assessing the academic literature and empirical evidence with regard to the capacity of economically less developed regions or countries to productively absorb large-scale transfers. Since no previous study had been made they could only link their review to existing literature in fields such as development economics and public choice. This study, therefore, deals with economic aspects of absorption problems in general and also seeks to find some empirical evidence in EU Structural Policies.

The European Commission a range of evaluations⁷ and reports⁸ presenting the effects of the EU's Structural Policies in Member States and abroad. These reports should reveal whether the main goal of Structural Policy, that is, economic and social cohesion and real convergence between Member States and their regions, is taking place as a result of this policy.

However, none of these reports on the progress of Structural Policy also deals with absorption capacity questions in Member States or Candidate Countries. However, in the framework of the Third Cohesion Report some studies have been prepared where also issues of absorption has been tackled (see **ÖIR, 2003**). The study by ÖIR asked questions about the impact the implementation process has on the achievement of results. Additionally, the Commission's Services very recently produced a report on the management of Structural Funds in Member States, however, it mainly concentrated on the European Regional Development Fund (see **European Commission, 2003a**).

Here, we should also mention the **Regular Reports (1998; 1999; 2000; 2001; 2002)** the Commission has published since 1998 in order to make annual checks of Candidate Countries' fulfilment of the

⁵ See, for example, recent books published by the Austrian National Bank (**Tumpel-Gugerell/Mooslechner, 2003**) and the World Bank (**Funck/Pizzati, 2003**), where the latter also explicitly deals with institutional arrangements and future structural funds management in the new Member States.

⁶ Here, reference is made to the study done for the European Commission. For a book version of this study, see **Herve/Holzmann (1998)**.

⁷ See, for example, **Bradley/Barry (1999); Bradley/Undiedt (2000); Bradley et al. (2001); Beutel (2002), CSES (2003)**.

⁸ See **European Commission (1996, 1998, 2000a, 2001, 2001a)**

accession criteria. There, one can also find general chapters dealing with the absorption capacities of these countries, however, they contain no quantitative or qualitative analyses.

A set of studies commissioned by the European Commission was prepared in 2002 (**NEI, 2002a, 2002b, 2002c**). Based on the country studies (Ireland, Spain, Portugal, East Germany's *Länder*) and sectoral studies (Management, Programming, Implementation, Monitoring and Evaluation, Financial Management and Control), a set of key indicators, benchmarks and baseline indicators for Candidate Countries to effectively manage the Structural Funds were defined. The studies focused mainly on the institutional set-ups and administrative resources required to manage Structural Funds in these three Member States and East Germany's *Länder*.⁹

At the beginning of 2003, the European Commission published studies where key indicators described in the studies above were tested in ten CEEC Candidate Countries. Eight of the ten countries studied are expected to become EU members in 2004 and the remaining two countries (Bulgaria and Romania) after 2006 (**Papadopoulos, 2003, 2003a**)¹⁰. Here, country studies were prepared to identify the needs for further institution-building and to ameliorate the countries' capacity to absorb EU funds upon accession. The results reveal surprisingly poor levels of administrative capacity in eight new Member States. According to these studies, accession in the area of Structural Funds is not only too early for the Candidate Countries that were excluded from accession in 2004, such as Bulgaria and Romania, but also for the CEECs that became EU Member States in May 2004. We will examine and discuss in this paper some of these results for administrative capacity in Hungary, Czech Republic, Slovakia, Estonia and Slovenia.

Most relevant studies on absorption capacity described in our paper were developed in framework of the institution-building part of Phare programmes in the Candidate Countries. A general framework regarding absorption capacity issues was briefly described there and country studies from cohesion Member States such as Ireland, Spain, and Portugal were compared with the existing systems in Candidate Countries such as Hungary (**Pires, 2001**) and Slovenia (**NEI, 2002**). As a result, recommendations for restructuring or reorganising the system were provided with the main objective to adapt each country's Structural Policies in line with the EU's Structural Policies. These studies were produced in the framework of Phare's 'Special Preparatory Programme for Structural Funds' executed in Candidate Countries separately (see e.g. **Slovenia SPP-TA, 2002**).

The most valuable document that was used for the purpose of this paper is **Questionnaire** regarding negotiating Chapter 21 - Structural and Regional Policy (see **European Commission, 2003c**, and **2003c Annex**). There, the Commission prepared a set of questions regarding the necessary institutional arrangements for administrating the Structural Funds and distributed them to Candidate Countries for their completion.

The review of literature and own conceptual considerations indicate that absorption problems regarding the EU's Structural Funds may well be important. This might not be in contradiction with the general opinion – as well as other empirical findings – concluding that the macroeconomic effects of Structural Funds have been highly beneficial. The conclusion is simply that, without absorption problems, the EU's Structural Policy would be even more beneficial regarding economic and social cohesion in the EU.

⁹ However, the absorption capacities of these countries were not measured explicitly, but only different structural funds management systems were described in detail. The full awareness of the differences between the countries studied has been taken into consideration and the key indicators for the Candidate Countries developed. In our paper, we used the results of these studies as the basis for our research and further development of indicators for successfully managing Structural Funds.

¹⁰ Out of 10 candidate countries, Malta and Cyprus were not included in this analysis, but Bulgaria and Romania were however analysed.

Institutional factors and definitions of absorption capacity

The importance of absorption problems depends mostly on **institutional factors**, both at the EU and national levels. ***Institutional factors at the EU level*** are largely related to the European Commission and its services. Important factors are, for example: transparency of the allocation process of Structural Funds, and coherence in the use of different funds. **Bauer (2001; 14-15)** also stresses typical *administrative factors* such as: problems of an overburdened administration and a lack of internal vertical communication and horizontal co-ordination which reduce the Commission's organisational abilities.

Institutional factors at the national level are related to the real structure of the economy, wage-setting institutions, administrative capacity and capability, organisation of the political system (federal vs. central) and economic policies. Consequently, where a similar amount of transfers is involved absorption problems are likely to vary in importance from country to country. The national factors can be influenced by the Commission only with small leverage and are linked to the requirements of the Structural Funds' General Regulations.

In relation to the EU's Structural Funds absorption issues can be summarised around three specific definitions of absorption capacity (**NEI, 2002**):

1. ***Macroeconomic absorption capacity***, which can be defined and measured in terms of GDP levels to Structural Funds allocated. Here, we should look at the total outcome of the negotiations stated in three so-called 'financial negotiating chapters'¹¹ in December 2002 in Copenhagen (see **Copenhagen, 2002**). At the European Summit in Berlin¹² the upper limit for the Structural and Cohesion Funds was generally set at 4 percent of the GDP of the respective Member State.
2. ***Administrative absorption capacity***, which can be defined as the *ability and skills* of central, regional and local authorities to prepare acceptable plans, programmes, and projects in due time, to decide on programmes and projects, to arrange co-ordination among the principal partners, to cope with the vast amount of administrative and reporting work required by the Commission, and to finance and supervise implementation properly, avoiding fraud as far as possible.
3. ***Financial absorption capacity***, which means the *ability to co-finance* EU-supported programmes and projects, to plan and guarantee these national contributions in multi-annual budgets, and to collect these contributions from several partners (public and private), interested in a programme or project.

All three definitions can – more or less – be studied with the help of existing programming documents as well as evaluation studies in both “old” and “new” Member States. For old Member States, we could find information for all three definitions of absorption capacity in national programming documents as well as in evaluation studies committed by the Commission. Unfortunately, no comprehensive studies of all three aspects have been carried out.

Documents for consideration when dealing with the absorption capacities of new Member States can only be useful for *macroeconomic* and *administrative* absorption capacity, but not *financial* absorption. Financial absorption of Structural Funds in a country or region can only be evaluated ex-post. Therefore, for new Member States we can only examine the pre-accession funds.

Before turning our attention to administrative absorption problems, we would like to present some crucial points that are important for institutional arrangements when implementing EU Structural Funds as well as the institutional arrangements in the pre-accession period.

¹¹ So-called 'financial chapters' concern: (1) Agriculture (Common Agricultural Policy); (2) Structural Policy (Structural and Cohesion Funds); and (3) Financial obligations of a particular country to the EU budget. However, other budget items are also devoted to Member States, such as Internal Affairs (e.g. allocations for the Schengen border). See **Copenhagen (2002)**.

¹² This Berlin conclusion can be found in **Council Regulation (EC) No. 1260/1999**, Article 7.8.

Programming and Institution-building

In the 1988 reform of the Structural Funds the President of the European Commission Jacques Delors had to make propositions aimed at the more effective use of Structural Funds in order to bring them to work together and not separately, as had occurred before then¹³. The principles of *programming*, *concentration*, *partnership*, and *additionality* were introduced accompanied by two operational principles, namely, the principles of *co-financing*, and of *monitoring and evaluation*. The Structural Funds principles provide a framework according to which the use of Structural Funds must be programmed and organised in a strategic way and concentrated around the prescribed objectives, the partners of the EU, national, and regional levels have to be consulted, and national co-financing must bring on board additional funds for Structural Policy meaning that a national budget's funds are not to be merely substituted by EU funds. The objectives and aims of using the funds must be presented, including the results to be achieved for the next period.

Of all Structural Funds' principles, the programming principle is the most important one for the purposes of our paper. Namely, through this principle the main parts of institution-building exercises were performed in the Candidate Countries in the pre-accession period.

Building the administrative capacity in pre-accession period

When the European Commission started to require the preparation of national planning and programming documents in order to place the pre-accession funds in a coherent way and in line with the EU's regulations and practice at the end of the 1990s, this meant an uneasy process in the CEECs. Implementing individual projects without a programme base was the reality of many cases in CEECs and investment projects were approved on a project-by-project base without a comprehensive strategic national development document¹⁴. Only with the introduction of additional pre-accession instruments, namely, SAPARD¹⁵ as a pre-fund of the EU's rural development programmes, and ISPA¹⁶ as a pre-fund of the Cohesion Fund, in 1998 the Commission expressed the need for intensive programming activities while preparing those documents. In the framework of the Phare programme for economic and social cohesion a 'Special Preparatory Programme for Structural Funds' (hereafter: **SPP**) in the Accession Countries was introduced with the main objective to help Candidate Countries in building up the institutions for managing Structural Funds at the central government level, and executing Objective 1 type pilot projects in the pilot regions of respective countries. Through this programme the Commission pointed out the institution-building exercises at the central government level as one of the main priority tasks of accession.

The SPP was aimed at preparing Candidate Countries to design and implement the Objective 1 type of programmes, supporting national structure-building and preparing the country to manage the pre-

¹³ The reforms that introduced the Structural Policy as we know it today started at the end of the 1980s for the programme period 1989-1993, while reforms are underway in preparations of the next programme period between 2007-2013. For an overview see **Tondl (1995)** and **(2001)**, **Mitchie/Fitzgerald (1997)**.

¹⁴ Such an absence of the development strategies accompanied by solid financial means and clear strategic objectives and measures that would meet EU standards can be explained by the fact that at the start of the 1990s these countries were coming from socialistic planning systems. Therefore, their first worries were to transform and adapt their countries' macroeconomics to the market system, similar to those in Western Europe. The same can be argued for the development strategies of those countries: the main purpose was to stabilise the country politically and economically; the development policies came on to the agenda only when accession became visible enough.

¹⁵ SAPARD stands for 'Special Action Programme for Agriculture and Rural Development'.

¹⁶ ISPA stands for 'Instrument for Structural Policy for Pre-accession'.

accession instruments PHARE, ISPA and SAPARD¹⁷. For instance, in *Slovenia*, SPP as a tool to link the pre-accession period and accession started in July 1999 and was seen as an intergovernmental approach of co-operation and preparation for the implementation of Structural Funds (see **Slovenia SPP-Twinning, 2001**; **Slovenia SPP-TA, 2002**). The results of the SPP exercises have so far been mixed. The somehow reluctant attitude of the Slovenian administration is also reflected in certain other Candidate Countries. This might bring us to the conclusion that the SPP implementation was too early. Consequently, all exercises were not taken as seriously by the central administrations as desired by the Commission. The results in this paper show that this fact might have some negative consequences also for the administrative absorption capacity.

The process of institution-building by preparing programme documents for Structural Policy in the Candidate Countries since 1998 can be seen as evolutionary, involving three phases. The *first phase*, started with *Phare* and the preparing of Preliminary National Development Plans before 2000, the *second phase* was an intermediate phase of co-ordinating all *pre-accession funds* with national development priorities (NDP) while the *third phase* is when programming is concentrated on the strategic documents that will be used when the *accession* is completed.

Figure 1 reveals the evolution of programming documents from before 2000 through to the time of full membership. In all three phases of preparation we can recognise a common thread of linking strategic development planning with both current (PHARE, ISPA, SAPARD) and potential future EU funds. In the last column of Figure 1 we see that the *Cohesion Fund*¹⁸ has to be dealt with in a separate strategic document, however, a coherent approach between CSF/SPD priorities and CF projects has to be assured. The same also applies to the *Rural Development Plan*¹⁹ of the Guarantee section of the EAGGF.

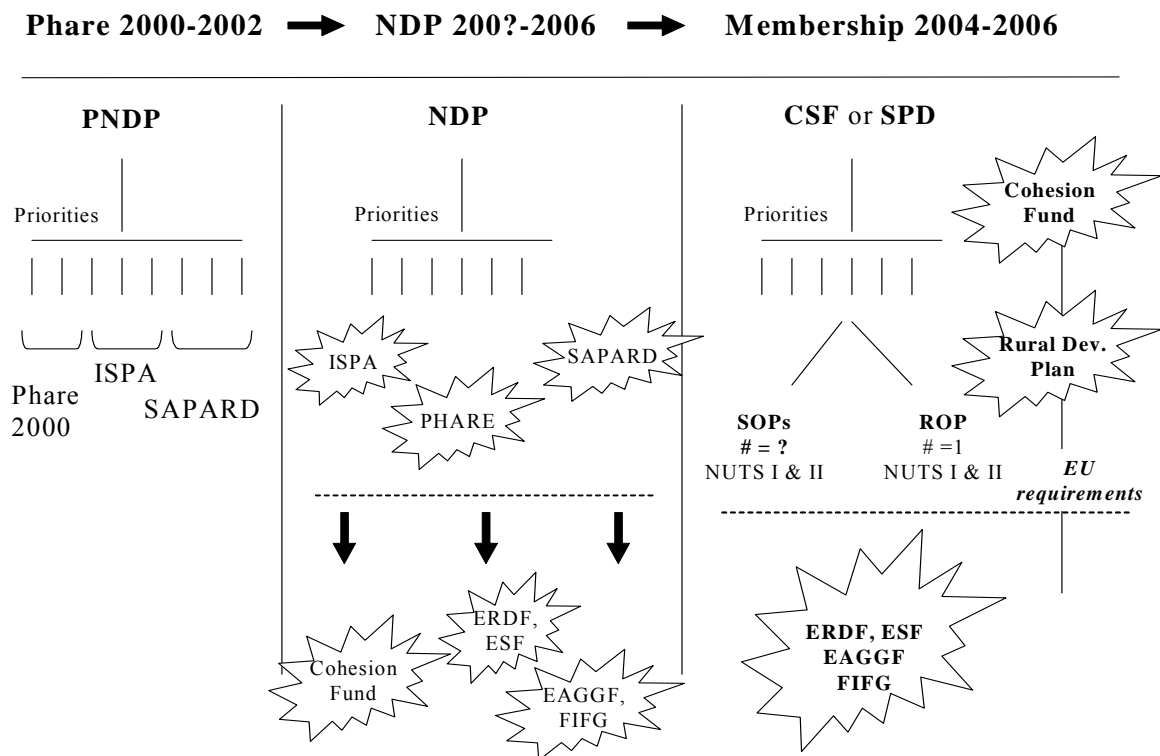
For the programming of the Phare programme of social and economic cohesion in the 2000-2002 period, the Candidate Countries had to prepare their *Preliminary National Development Plans* and started on preparations for the *National Development Plans* for the period till 2006. In the period 2000-2002 respective National Development Plans were presented to the Commission and, by the end of 2003, the Community Support Frameworks and Single Programming Documents were agreed with the Commission. After official accession in May 2004 formal process as required by the General Regulation also started.

¹⁷ The results of the first SPP are still a 'work in progress'. However, in Slovenia neither close co-operation nor the co-ordination of all pre-accession instruments has been established through the SPP. An additional issue involved the Technical Assistance team. Namely, co-operation between the typical Technical Assistance component in the form of a consulting company and the Twinning component in the form of government officials from a Member State was not always complementary. Due to the special nature of the Twinning exercise in general, this co-operation was not easily dealt with. In some Candidate Countries, a second phase called SPP II started in 2002 and 2003. The Twinning Covenant between Germany and Slovenia was signed in the summer of 2003 (see **Slovenia SPP II, 2003**).

¹⁸ For Cohesion Funds see the following regulations: **Council Regulation (EC) No. 1264/1999** and **Commission Regulation (EC) No. 1386/2002**.

¹⁹ For the Rural Development Plan, see **Commission Regulation (EC) No. 1750/1999**, for the EGGF see **Council Regulation (EC) No. 1257/1999**.

Figure 1: Three phases of Programming in Candidate Countries



Source: own drawing based on **Slovenia's SPP-TA (2002)**.

In the **period 1998-2000** the Candidate Countries had to make a number of internal institutional decisions regarding implementation of the EU's Structural Policy. For instance, in Slovenia in 1999 (see **SI-Act, 1999**) and Lithuania in 2000 (see **Nakrosis, 2003**) new laws on regional development were introduced, adapting the national regional policy to the EU principles. In the Czech Republic, Poland and Hungary regionalisation in accordance with the NUTS divisions has been executed and new NUTS 2 statistical regions have been constructed and taken on the title of 'cohesion regions'²⁰.

Since 2000 the Candidate Countries have been eligible to receive assistance under the Phare Economic and Social Cohesion component (for Productive Environment and Human Resource Development), ISPA (for environment and transport infrastructure), and SAPARD (for rural development). For Phare programming purposes, the Candidate Countries had to prepare *Preliminary Development Plans* for the three-year period 2000-2002 and some time later a *National Development Plan*. Both documents received financial support from Phare's Special Preparatory Programme in the framework of the institution-building process. **The original idea of the PNDP** was to prepare a programming document for pre-accession instruments, while that **of the NDP** was to concentrate all development activities of a country under one umbrella document in order to use the same logic (concentration) when preparing the CSF/SPD documents for Structural Actions and to achieve synergies with other EU and national development funds. However, the existing *loose inter-ministerial or intergovernmental co-ordination* in this field in Candidate Countries can hardly be replaced by an 'EU logic' of preparing development documents and resulting in a coherent development strategy.

²⁰ For regional planning and regional policy in some Central and Eastern European Countries, see e.g. **Sykora (1999)**, **Kosarczyn (2001)**, **Petkevicius (2001)**, **VATI (2002)**.

Therefore, both PNDPs and NDPs were mostly a collection of sectoral development strategies with too many sometimes even competing objectives and priorities, with no direct link to the development parts of the respective national budgets. Without sufficiently elaborated financial components, we could describe these documents as mere *'tigers without teeth'*.²¹

We can see that the preparations to enhance administrative capacities for dealing with the EU's Structural Funds in the Candidate Countries were a very important aim of both the European Commission and Candidate Countries. Preparations of strategic documents such as PNDPs and NDPs became a tool in overall institution-building in the Candidate Countries. These valuable experiences were also used later in the process of preparing Community Support Frameworks and Single Programming Documents. We will see later in this paper that these preparations form an important part of the indicators for measuring administrative absorption capacity in the Candidate Countries.

ADMINISTRATIVE ABSORPTION CAPACITIES IN CANDIDATE COUNTRIES AND REGIONS

The question of administrative capacity regarding the use of Structural Funds in new Member States emerged when these countries revealed differences in their use of Pre-accession instruments, especially the Phare funds²². However, the performance and functioning of the Structural Funds can hardly be measured in CEECs because of the absence of experience in Structural Fund management there and the different managing systems employed when dealing with Pre-accession instruments, on the one hand, and Structural Funds, on the other²³.

In this part of our paper we, *first*, present the *methodology* the European Commission developed in January/February 2002 that later proved to be appropriate enough for calculating the absorption capacities of Candidate Countries. However, these calculations were not made during the negotiations nor were they explicitly used by the European Commission. We can speculate that the Commission already had a relatively clear picture of the low absorption capacities of Candidate Countries before the negotiations. It is very likely the Commission did not want to present such calculations because this might not have been politically good for the enlargement.²⁴

²¹ This was definitely the case in Slovenia and Hungary. In Slovenia the PNDP did not establish a direct link with the national budget, but the NDP also did not succeed completely (see **PNDP Slovenia, 1999**; **NDP Slovenia, 2001**). In Hungary, for instance, three versions of the PNDP were prepared and sent to the Commission in late 1999, April 2000 and December 2000. In addition, another plan, the Szechenyi Plan, prepared by the Ministry of the Economy was approved in 2001 by the Hungarian government. It was limited to the Ministry of the Economy portfolios and was mostly an investment plan financially guaranteed up to 2001 and 2002, only. It also excluded areas such as human resources and the environment. See **Pires (2001)**.

²² See **Martens (2001)**, **European Commission (2003b, Annex)**.

²³ Phare is permanently changing and is now in the phasing-out process in new Member States (see **European Commission, 2002b**).

²⁴ We should explain this brave statement by using the public choice considerations and the related information disadvantage of both. Firstly, voters going to EU enlargement referenda in the respective Candidate Countries and, secondly, by Members of Parliaments in the respective EU Member States that have to agree with the **Accession Treaty (2003)** signed in Athens in April 2003. The Commission was never very keen on discussing the issue of limited administrative absorption capacities in the Candidate Countries and by that a potential EU investment into sub-optimal projects. Therefore, we can claim that the Commission was not interested in increasing transparency in this field by investing more funds for research and publicity here. Anyway, the Commission was to a great extent dealing with the governments of respective Candidate Countries. Neither the voters in the Candidate Countries nor in the Member States will know that the chosen policy is sub-optimal. For more on public choice considerations see also **Smyth et al. (1994)**, **Vaubel (1995)**.

We present some *institution-building activities* introduced by the European Commission with the purpose to prepare Candidate Countries for the EU's Structural Policy. Here, by institution-building we mean either the adjustment, upgrading or foundation of administrative structures, systems and tools, human resources, and programming documents. We may claim that, during introduction of the Structural Funds in the Candidate Countries, the process of preparing programming documents was the central point of the overall institution-building exercise.

Second, at the start of 2002 *assessments of the administrative capacity* for Structural Funds in Candidate Countries were presented to the Commission. By comparing experiences of EU Cohesion Countries such as Ireland, Spain, Portugal and Germany's Eastern Länder these assessments developed key indicators for measuring Candidate Countries' administrative capacities. The results of these assessments reveal a very normative and mainstream view of managing Structural Funds; as required by the General Regulations for Structural Funds. This means that were the EU Member States' administrative absorptions capacities to be checked by the same standards (key indicators) as developed for the Candidate Countries, some Member States may well have serious problems.²⁵

Third, we will present our calculations on administrative capacities in five Candidate Countries, namely, Czech Republic, Hungary, Slovakia, Estonia and Slovenia. These calculations are based on the methodology developed by NEI (2002a) and tested by Papadopoulos (2003). However, new data from the respective countries were used, the calculations were updated, and any strategic documents available also helped upgrade the calculations. With this method we can make some preliminary statements regarding the present administrative capacity in a particular new Member State. This should provide additional information for the overall absorption capacity of the countries in the 2004-2006 programme period.

Administrative Absorption Concept for the Candidate Countries²⁶

Here, we would like to present the concept of how to measure administrative absorption capacities in Candidate Countries.

When looking at three variables (*see* NEI, 2002c) like the performance, functioning and design of Structural Funds we very quickly discover there are limitations in each of them when measuring absorption capacity in Candidate Countries. **Performance**, the extent to which the Structural Funds have been managed effectively and efficiently, can be determined at the end of a programming period (ex-post). But since the new Member States are at the beginning of their first programming period, performance cannot be measured for the Structural Funds in these countries. Further, the **functioning** of Structural Funds cannot be measured in new Member States because no effective or efficient management of the Funds is in place in these countries.²⁷

Therefore, most attention should be given to **design**. Design variables can be considered to create the conditions for the effective and efficient management of Structural Funds and need to be related to the requirements of the Structural Funds' General Regulations. Both changes in design and requirements

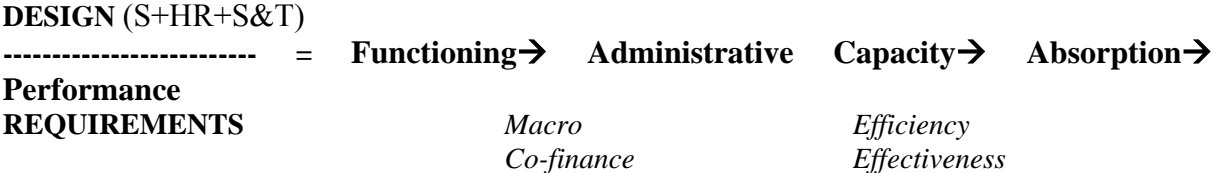
²⁵ For instance, here we should mention the case of Monitoring and Evaluation, and in particular the development or functioning of an information system for Structural Funds. For the case of the European Regional Development Fund and its Management and Control Systems for 2000-2006 Structural Fund Programmes, see **European Commission (2003a)**.

²⁶ Sources on *administrative absorption capacity* are mainly **Papadopoulos (2003, 2003a)**, **Pires (2001)** and the **NEI (2002, 2002a-c)**.

²⁷ However, some deductions can be made for both performance and functioning, namely, from the experience of the functioning of the pre-accession funds currently in place. For calculations on pre-accession funds see **Horvat (2004)**.

will have an impact on functioning and ultimately on performance. However, we must be aware that the concept of absorption rates and absorption capacity is merely *input-oriented* and therefore insufficient to gauge the economic impact of transfers.

The abovementioned can be summarised in the following concept:



The concept demonstrates the importance of **proper design** (*Structure, Human Resources, Systems and Tools*) as an input for managing Structural Funds, **in relation to the requirements**. The ratio between design and requirements determines the actual functioning of a system (throughput), or the *supply side* of administrative capacity, whereas the actual ability of project applicants to generate projects is seen as the *demand side* of administrative capacity. The study of the Netherlands Economic Institute (**NEI, 2002a-c**) focused predominantly on the supply side of administrative capacity. Other factors that determine absorption are the *Macro-* and the *Co-financing* situations. Ultimately, absorption capacity only leads to the strong performance of Structural Funds if *efficiency* and *effectiveness* are fully taken into account.

The *structure, human resources, systems and tools* together provide complementary elements of the *Management Capability Grid* (see **NEI, 2002a**). **Structure** relates to the clear assignment of responsibilities and tasks to national institutions that deal with Structural Funds in fields such as: **(1)** management; **(2)** programming; **(3)** implementation; **(4)** evaluation and monitoring; and **(5)** financial management and control. **Human Resources** relate to the ability to detail tasks and responsibilities at the levels of: **(1)** preparing job descriptions; **(2)** the number and qualifications of staff; and **(3)** fulfilling recruitment needs. A key success factor in the management of Structural Funds is experienced and motivated people. Clearly, the conditions within the administrative system need to be favourable for recruiting and retaining such professionals. **Systems and Tools** relate to the availability of instruments, methods, guidelines, manuals, procedures, forms etc., which enable the organisations managing Structural Funds to transform implicit knowledge stored in the heads of individuals into explicit knowledge that can be shared across organisations. This is especially important in times when key staff may leave an organisation and hence with such tools the risk of malfunctioning will be reduced.

Combining the dimensions of the management capability grid and the policy life cycle results in the so-called **Structural Funds Management Grid**. The Structural Funds Management Grid provides an overall framework and a checklist of topics that play a role in implementing sound management of Structural Funds throughout the policy life cycle. It emphasises the *design aspects*, but also takes the *functioning aspects* into account.

The idea of the management grid developed was to identify key indicators of measuring absorption capacities in Candidate Countries even before their membership. The main purpose of this exercise was to assess any needs and shortcomings in the current state of their preparations for the EU’s Structural Policies. Each cell of the Structural Funds Management Grid was covered, resulting in 20 key indicators (see **Table 1**). The key indicators were developed for Candidate Countries to effectively manage the Structural Funds. However, these key indicators can also be used when calculating the administrative absorption capacity of Member States in the future.

Table 1: Key absorption indicators for Candidate Countries

INDICATORS	DESIGN			FUNCTIONING
	<i>Structure</i>	<i>Human Resources</i>	<i>Systems & Tools</i>	
Management	Designation of MA	Staffing of MAs	Arrangements for delegating tasks	Existence of a modern civil service
Programming	Partnership present	Capacity to carry out programming	Guidelines/Manuals for programming exist	Existence and quality of NDP
Implementation	Assignment of IB	Staffing of IB	Existing operational projects development and management process	Absorption of and project pipeline for pre-accession funds
Evaluation & Monitoring	Designation of monitoring and evaluation responsibilities	Availability of independent evaluation expertise	Existence of computerised monitoring and evaluation system	Functioning monitoring system for pre-accession funds
Financial Management & Control	Designation of PA and functions	Accounting and auditing expertise secured	Existence of accounting system and financial procedures secured	Established practice for dealing with financial irregularities

Source: NEI (2002a)

Testing key indicators in 10 Candidate Countries

During the summer-winter months of 2002 the key indicators were tested in 10 countries of Central and Eastern Europe. In April 2003 the Commission presented the results of this Administrative Capacity Study at the annual meeting of ISPA partners (see **Boijmans, 2003**, and **Breska, 2003**). Below we present the methodology of the study of **Papadopoulos (2003)**.

The questions and recommendations accompanying the key indicators relate to (see **NEI, 2002a**, **Boijmans, 2003**, and **Breska, 2003**), *firstly*, the institutions necessary for managing Structural Funds (*Structure*), *secondly*, staffing and availability of appropriate expertise in these institutions (*Human Resources*) and, *thirdly*, to the working materials such as guidelines and manuals or, for instance, the existence of a computerised evaluation system necessary for reporting to both the European Commission and the national government (*Systems and Tools*). The *additional* question for each key indicator is also related with practical information such as the existence of a modern civil service or absorption of pre-accession funds (*Functioning*). The answers to these questions are then compared to the requirements expressed by the General Regulations for Structural Funds.

For the Candidate Countries the main questions relating to the *Structure* of all five key indicators are, for example, whether Managing and Paying Authorities in a particular country have already been designated and functioning. Looking at the experience of EU Cohesion Countries there is usually only one overall (or CSF) Managing Authority with several sectoral and regional MAs. Development of Structural Fund managing systems in these countries since 1989 has shown that this may be the most efficient system. In the case of the SPD no sectoral or regional operational programmes are to be

prepared separately, but the SPD consists of one programme with more priorities and measures. Here, the experience of some successful Objective 1 regions such as that for Wales (see **Wales SPD, 1999**) should be taken into account. Also the designation of Intermediate Bodies and monitoring and evaluation responsibilities should be institutionally concentrated as much as possible in the case of Candidate Countries.

Between February and May 2003 the ten Candidate Countries (including Cyprus and Malta and excluding Bulgaria and Romania) altogether submitted to the European Commission 37 programmes (see **Boijmans, 2003**). Estonia, Latvia, Lithuania, Slovenia and Malta submitted one Single Programming Document each. All other countries²⁸ negotiated with the Commission about the Community Support Frameworks and plenty of operational programmes²⁹. According to the recommendations of the Commission and the best practices in Member States, the '*golden rule*' is as follows; the smaller the number of institutions (usually sectoral Ministries) involved at the levels of Management and Programmes (Sectoral and Regional) presented at the level of Programming in the Candidate Countries, the clearer the picture and higher the possibility of better administrative absorption of Structural Funds.

Regarding the Structures, we should also note the presence of *Partnership*, meaning that programming should not be executed solely by the central administration but also with the active involvement of social partners, non-government organisations and representatives of local interests. The involvement of partners should not only be provided through the possibility to visit an Internet site with all relevant data regarding preparation of the NDP, but also by involving partners early on in the process of preparing Work Plans of NDP preparations, for instance. Where civil society is only invited to participate just before the deadlines for submission of programming documents to the Commission, this may result in their serious protests and comments, thereby causing delays in the whole programming process.

The relevant institutions at all levels must have well-trained *Human Resources* able to deal with the tasks of Structural Fund management. The staff must also be equipped with appropriate job descriptions, while their remuneration levels should be competitive enough compared to remuneration levels in the private sector. The number of sufficient candidates for vacancies is another important indicator showing whether prestige is attached to work in the public sector. Important indicators in this regard include the utilisation of personnel experienced in the pre-accession instruments and procedures as well as the existence of a modern civil service, where the attractiveness of public sector work might also be seen in existing career paths of civil servants and job mobility between ministries and government departments. For the sustainability of Structural Fund management in the public sector, the most important are *Systems and Tools* such as: written procedures, guidelines, manuals and similar documents. These materials should guarantee the accumulation and transfer of know-how.

The current *Functioning* of the administration is also very important. Management attention must go to all areas of the policy life cycle, notably financial management and control and implementation, but also programming and monitoring and evaluation. For a head-start in 2004 existing experience gained in the pre-accession stage must be utilised, wherever applicable and useful. It is crucial that organisations develop a capacity to learn from their previous experience. The most important indicator of the future performance of Structural Funds management may include the absorption capacity of pre-accession funds and the related project pipeline for them. Here absorption rates can be calculated and

²⁸ Exceptions are Cyprus that submitted 3 Single Programming Documents, one for each Objective, and the Czech Republic that provided one Objective 2 SPD for Prague and one Objective 3 SPD. Two SPDs were also submitted by the Slovak Republic, one Objective 2 for Bratislava and one Objective 3, respectively.

²⁹ Poland submitted one CSF with 7 operational programmes (6 sectoral, 1 regional). The Czech Republic provided one CSF with four sectoral and one regional operational programme. The Slovaks are also going to negotiate one Objective 1 CSF accompanied by four operational programmes. Hungary presented the Commission with one CSF with four sectoral and one regional operational programme. For more, see **Horvat (2004: Case Study 4)**.

project pipelines demonstrated for Phare, ISPA and SAPARD programmes, respectively. But indicators such as the existence and quality of a National Development Plan and the process of its preparation can also provide information on the functioning of the administration in a particular country.

Country Analysis in Five Candidate Countries: Ready-Steady-Go?

In mid-July 2003 the European Commission in its Communication to the European Parliament and the Council exposed the state of play in Candidate Countries' administrative capacities in the fields of regional policy and co-ordination of Structural Instruments (Chapter 21) with the main message: '*Acceding countries need to further strengthen their administrative capacity*'³⁰. The information provided by the proposed new Member States followed detailed Questionnaires sent out by the Commission in the spring of 2003. This activity should encourage the accession countries to prepare their respective administrations for the EU's Structural Policy by the end of 2003, because the Commission will be not able to approve EU funding until all conditions set out in the General Regulations for Structural Actions are satisfied.

Among others (see **European Commission, 2003c**, p. 3ff), the main conclusions of this Report were summarised as follows:

- *institutional arrangements* of the implementation system are still *not finalised* and an issue of particular concern for the Commission is the role of Intermediate Bodies and the missing written agreements between different managing and implementing bodies;
- the recruitment of additional *staff* has been delayed, in those countries where relevant bodies have been designated they seem to be understaffed in view of their future tasks, particular attention needs to be paid to the administrative capacity of regional and local administrations, the public administrations have problems in attracting and retaining qualified and motivated staff; and
- generally, much remains to be done.

In the following section we evaluate administrative absorption capacity in **Hungary**, the **Czech Republic**, **Slovakia**, **Estonia** and **Slovenia**, respectively. We had wanted to use the method developed for the Candidate Countries by the **NEI (2002a-c)** and later tested on a sample of ten Candidate Countries by **Papadopoulos (2003)**. However, we realised that the documents available in the time before the negotiations were concluded are insufficient for making an analysis of a similar size. Since in the second half of 2003 the accession was, in terms of administrative capacity and negotiating the relevant programme documents, still a 'work in progress' neither government or Commission officials were willing to provide the additional information we requested by e-mail³¹.

However, we used some key indicators such as management, programming and implementation in selected five proposed new Member States in order to present the administrative capacity of these countries to absorb the Structural Funds. After examining some of the main relevant strategic development documents such as NDPs, CSFs/SPDs, and some materials flowing between the Commission and the new Member States with regard to Chapter 21 – Structural and Regional Policy, we could identify that the situation described in the documents had definitely improved compared to the findings of **Papadopoulos (2003)**.

³⁰ See **Press Releases Rapid (2003a)**; http://europa.eu.int/comm/regional_policy/newsroom/index_en.htm.

³¹ We tried to obtain additional information regarding financial parts of the programming documents as well as the administrative capacity from the DG REGIO and the Candidate Countries in the sample. However, it was impossible to have discussions regarding the financial parts. For the administrative capacity part there is no central institution in a particular Candidate Country that prepares any kind of 'follow-up' to the Questionnaire. The next similar report by the Commission is foreseen to be presented in November 2003 (see **European Commission, 2003c**).

Therefore, we decided to look at the figures regarding planned and existing *personnel* in the institutions designated in the new Member States for managing and implementing the EU's Structural Policy in the programme period 2004-2006. Then we calculated the key indicators for administrative capacity in selected Candidate Countries and compared the results with those of **Papadopoulos (2003)**.

Through this method we shall make some preliminary statements on the administrative capacity in particular new Member States, as of the second half of 2003. This should provide additional information about the overall absorption capacity of the countries in the 2004-2006 programme period.

Short review of institutional arrangements regarding personnel

We saw before that real institutional preparations for Structural Funds management started in 1998-99 with the introduction of Phare Special Preparatory Programmes for Structural Funds (SPP) in Candidate Countries. Technical assistance was combined with commercial consulting companies and Twinning arrangements with EU Member States. At the beginning of that period, institutions were selected by Candidate Countries to prepare preliminary programming documents in order to later take on the roles of Managing Authorities, Paying Authorities and Intermediate Bodies. The ministries or ministerial organs that performed the role of co-ordinating bodies for Structural Funds from 1998 onwards received permanently support in the form of training, seminars, study trips and on-the-job training and foreign technical assistance from the Member States.

Annex I reveals the planned and present personnel of the most important institutions responsible for managing and implementing Structural Funds in five Candidate Countries. The best overall performance regarding available personnel is by Hungary and Estonia and the worst by Slovakia. When observing the number of personnel in Managing Authorities and Paying Authorities (MA+PA) and comparing this number with the total shares in Intermediate Bodies, in general we can report higher values for the case of MA+PA; only in the Czech Republic is the situation the opposite, with currently better equipped Intermediate Bodies.

However, we must note that the comparison between the present and planned number of personnel could vary from country to country for different reasons and, consequently, be unrealistic. For instance, some countries' ministries presented unrealistically high, ambit numbers of planned personnel in order to win approval for at least some of the staff from their respective governments. But the opposite could also apply, where some countries presented lower initial numbers in the negotiations on Chapter 21 in order to move more quickly towards the desired numbers of Chapter 21 and to thereby please the Commission and gain a better country score in the next Regular Report.

We are well aware of the risks this indicator carries. Therefore, we decided to also calculate the funds by administrative staff. We believe this indicator presented a much more realistic situation.

Discussion 1: Political change and consequences for absorption

Every political change of a government might also change the role of institutions dealing with preparations for Structural Actions of the EU. Since every central administration needs a certain period of time to adapt to the new political situation and to new or different tasks, we could say that political change runs parallel with some negative consequences for the accession process of a country. This goes together with the judgement that, for administrative preparedness of Structural Funds, the bodies that were from the very beginning dealing with co-ordination and preparations for Structural Policy should remain the same government institutions. However, on the other side, by establishing new governmental bodies and/or merging tasks and functions related to Structural Funds new synergies could also be achieved and the administration's efficiency increased. In the latter case, political change could result in positive institutional change.

There is, however, a very important question of what happens with the personnel involved in the accession process so far: would they be merged with other bodies within the new institution or remain with the old body? We believe that, despite the fact that every political change might slow an administration's accession preparations, the worst can be avoided – of even the best achieved – when continuity in personnel is ensured.

Thus, continuity in personnel is a very important factor when we discuss the absorption capacity in Candidate Countries. It enables the administration to build up a knowledge curve and helps new staff reach a certain level of knowledge as soon as possible.

However, the results in *Annex I* reveal a different situation after the change of government. In the cases of Hungary (see **Q-HU, 2003**), Estonia (**Q-EE, 2003**) and Slovenia (**Q-SI, 2003**), respectively, we reported general elections but at the same time these three countries presented different shares of presently employed staff set to deal with the Structural Funds from 2004 onwards. On the other side, in the Czech Republic there was continuity in institutional co-ordinating preparations for Structural Funds, but the shares of personnel were among the lowest of all Candidate Countries (see e.g. **Q-CZ, 2003; CZ NDP, 2003**).

In the case of **Hungary**, we can claim that the change of government and consequent concentration of the main managerial and programming tasks in the Prime Minister's Office in the spring of 2002 happened almost two years before the time of accession (see e.g. **HU NDP, 2003; Master Plan, 2002**). Therefore, the merger of different departments from different ministries in the one Office was effected smoothly enough in order for the administration to adapt to new circumstances and not to overly influence the institution-building process. In **Estonia**, general elections in spring 2003 did not see the moving, say, of the Managing Authority to some other department or ministry of the government; both the Managing Authority and Paying Authority remained with the same ministry, the Ministry of Finance. For **Slovenia**, the relative poor results regarding personnel employed can be explained by the change of government and establishment of a new Managing Authority in December 2002. While the Managing Authority was previously meant to be the Ministry of the Economy, the newly established Managing Authority has the status of a government office under a Minister without Portfolio.

We now list some recommendations regarding political influence on institutional constructions for Structural Fund management.

1. Wherever there is a *political decision to concentrate* tasks of the future Managing Authority in another institution of government, this must be accompanied by the following:

- it has to be executed as soon as possible before the end of the accession process in order to allow the new Managing Authority to prepare for new tasks and for other institutions to accept the new situation; and
- the new government body representing the Managing Authority must have strong political support and be as close as possible to the Prime Minister. We believe that, in the case of Slovenia, it would have been better to concentrate the Managing Authority tasks in an existing government body such as the Ministry of Finance or the Prime Minister's Office than to create a completely new institution.

2. *Continuity in institutions is no guarantee of good performance in personnel*, as we can see in the cases of the Czech Republic and Slovakia. However, Slovakia's relatively poor performance may involve its late start in the accession negotiations.

Discussion 2: Funding levels to be administered per administrator?

Since no benchmark has been developed for the number of staff needed to deal with Structural Funds in Member States³², it is hard to make any statements regarding absolute numbers of planned personnel in each Candidate Country. However, we believe it is worthwhile attempting to identify human resources relative to the funding to be administered.

When looking for reasons for the *low share of employees* compared to the planned staff levels in the **Czech Republic** (see **Q-CZ, 2003**) and **Slovakia** (**Q-SK, 2003**) we note: *first*, for government institutions in all Candidate Countries EU accession provided a good opportunity to increase their human resources levels. In particular, this has been the case of governmental bodies due to deal with Structural and Cohesion Funds management and implementation. The case of the Czech Republic shows that its *planning of human resources seems unrealistic* simply for budget reasons. This was also the conclusion of the **European Commission (2003c)**.

The *second* explanation is the relatively *late official decision regarding the allocation of commitment appropriations* to new Member States. Namely, before the Candidate Countries' governments had been informed of the exact financial figures they were quite generous when planning staff levels but quite restrictive in employing the staff agreed in the framework of the accession negotiations. The time lag here is obvious; the plans were agreed with the Commission in the summer of 2002 (see e.g. SI Chapter 21, 2002), but the exact figures for commitment appropriations were only agreed in December 2002 in Copenhagen.

Table 2 allows a comparison of the amounts of commitment appropriations with the planned personnel levels by each Candidate Country in order to see the average amount of funds to be administered by a single person. This should yield information regarding how realistic a country's administration's planning of personnel is.

First, we compared total Structural Actions (Structural Funds and Cohesion Fund together) with the total number of planned staff by countries. In this case, in Slovenia one administrator should manage MEUR 4 on average and in Estonia only MEUR 1.2.

Second, we only compared commitment appropriations for Structural Funds with the total number of planned staff. In this case, the Cohesion Fund's allocations were excluded but the number of staff remained the same as in the first case. We see in Table 2 in the case of Structural Funds only Slovenia (MEUR 2.3) is bettered by Slovakia (MEUR 2.5) as a country with the highest amount of funding to be managed by a single administrator; the reason simply being the higher share of Cohesion Fund allocations in the overall Structural Actions in Slovenia.

³² This was also one of the conclusions of the *Country Reports* by the **NEI (2002b)**, dealing with key indicators of administrative absorption capacity in the EU Cohesion Countries.

Table 2: Financial allocations and related administrative personnel

in MEUR and staff numbers

	(1) Total Funds (SF+CF)	(2) Structural Funds only	(3) Total Staff (Planned in 2003)	(4)=(1)/(3) Total Funds per administrator	(5)=(2)/(3) Structural Funds per administrator
HU	2,847	1,853	1,967	1.45	0.9
CZ	2,328	1,490	672	3.5	2.2
SK	1,560	1,051	424	3.7	2.5
EE	618	342	532	1.2	0.6
SLO	405	237	102	4.0	2.3

Sources: Financial data are from respective draft CSF/SPDs for Hungary (**HU NDP, 2003**), the Czech Republic (**CZ NDP, 2003**), Slovakia (**SK Negotiation Mandate, 2003**), Estonia (**EE NDP-SPD, 2003**) and Slovenia (**Slovenia SPD, 2003**). Data on staff are from *Annex 1*: Planned and present personnel for implementing Structural Actions.

As stated above, we cannot speak of more or less appropriate numbers of staff to manage funds on average. However, we can conclude from the results of Table 2 what each country thinks regarding its personnel plans. There certainly are big differences among the Candidate Countries. Relevant questions here include:

- is it possible for a Slovenian, Slovak or Czech administrator to successfully absorb on average MEUR 4 and MEUR 3.5 or have these countries overestimated their administrative capacity and now need additional personnel?; and
- have Estonia and Hungary perhaps anticipated too many personnel to deal with the EU allocations?

In addition, the results of **Table 2** answer the statement made at the start of this discussion, namely, for budget reasons the plans for additional personnel in the Czech Republic and Slovakia may be unrealistic but, compared with other Candidate Countries in this sample, they may even be underestimated.

Administrative absorption capacity: To Go?!

In the previous sub-chapter we briefly analysed the situation of numbers of present and planned personnel in crucial institutions such as Managing Authorities, Paying Authorities and Intermediate Bodies. We saw that since there is no benchmark for the necessary personnel for managing and implementing Structural Funds it is very hard to make any clear statements about how well or poorly prepared a particular Candidate Country is.

In this section we went a step further in our analysis of administrative absorption capacity in Hungary, the Czech Republic, Slovakia, Estonia and Slovenia. We used the same method as developed by **NEI (2002a)** and tested by **Papadopoulos (2003, 2003a)**. However, we relied on information from recent programming documents and new supporting materials such as Candidate Countries' responses to *Questionnaires*. Of the five key indicators developed by the **NEI (2002a)**, namely, Management, Programming, Implementation, Monitoring and Evaluation, and Financial Management and Control we did a desk analysis of the first three indicators only. The quality of the new documents and the type

of our analysis (desk only, no interviews) did not allow us to deal with all five key indicators. The same was the case when dealing with some benchmark questions such as the *Functioning* of the civil service in a particular country where we simply had to take points from the test of Papadopoulos. Therefore, we adapted the NEI's method to our situation whereby we used the new materials from Candidate Countries and executed our own calculations regarding personnel.

The basic calculations of the results in *Table 3* as well as additional explanatory notes are presented in *Annex 2*. *Annex 2* shows the scores for each country by key indicator and sub-indicators. We can see the **total score by main indicators** for five Candidate Countries. The highest score is registered for Hungary and Estonia, 51 points each, the Czech Republic (44 points) and Slovenia (42 points) are in the middle, while the lowest score is in Slovakia (34 points). In brackets we put the difference between our score and the score given by **Papadopoulos (2003)**. The best improvement can be registered for Hungary (+10) and the worst for Slovakia (-6).

Table 3: Total score by main indicators and by countries (5 CEECs)⁽²⁾

	HU	CZ	SK	EE	SLO	Total⁽¹⁾
1. Management (<i>max. 24</i>)	21 (+1)	18 (+2)	15 (-4)	21 (+3)	17 (=)	77%
2. Programming (<i>max. 15</i>)	12 (+4)	12 (+5)	6 (=)	13 (+4)	12 (+4)	73%
3. Implementation (<i>max. 25</i>)	18 (+5)	14 (+1)	13 (-2)	17 (=)	13 (=)	60%
TOTAL SCORE (<i>max. 64</i>)	51 (+10)	44 (+8)	34 (-6)	51 (+7)	42 (+4)	70%

Note:

⁽¹⁾ We calculated percentages by adding the countries' scores by each main indicator and comparing them with the maximum points possible. Thus, we received the percentage for Management by adding scores for this indicator of all five countries (92 points) and comparing this figure with the maximum possible score (120), yielding a result of 66%.

⁽²⁾ In brackets is the difference in score between our evaluations and the evaluation of **Papadopoulos (2003)**.

Source: own evaluations

We also calculated the relative success of each key indicator when taking all the countries together. Table 3 reveals that the five Candidate Countries are most advanced in *Management* (77%), and are doing worst in *Implementation*. The former can be explained by the fact that all Managing Authorities have been already designated and are relatively well-staffed, the reason for the latter is the opposite: all Intermediate Bodies have not been designated yet and there is still a lot of unclarity within the future IBs in some Candidate Countries.

When we compare our calculations in *Table 3* with the calculations of **Papadopoulos (2003)**, we can see that the situation improved since the Autumn 2002 when field work for that study was carried out in the Candidate Countries. The highest improvement can be observed in the case of Programming (from 45% in Papadopoulos to 73% in our paper) showing that by the end of April all Candidate Countries had submitted their main programming documents to the Commission. Based on these

documents, we were also able to evaluate them from the viewpoint of vertical sub-indicators, such as *Partnership*, *Capacity* to carry out programming and *Guidelines* for programme preparations.

In **Table 4** we see the horizontal and vertical assessment of administrative capacity of the five countries. The ranking by horizontal and vertical assessment goes from **A** (*Overall Strong Capacity*) to **D** (*Insufficient Capacity*). We used this ranking in our calculations, which can be found in **Annex 3**.

Above we described the horizontal score by key indicators in the Candidate Countries. **Table 4** shows that in Hungary, the Czech Republic and Estonia administrative capacity in **Management** was evaluated as sufficient overall, while in Slovakia and Slovenia the capacity was judged as not yet sufficient. In the case of **Programming** the Slovak administration was evaluated as being insufficiently prepared mainly because all main programming documents were prepared by consultants and not by the Slovak administration. In all five countries the indicator **Implementation** was evaluated with a C and, therefore, this reveals insufficient capacity in all five Candidate Countries.

Each key indicator has been evaluated from the aspect of sub-indicators, such as: *Structures*, *Human Resources*, *Systems and Tools*, and *Functioning* (see **Table 1**). We see in **Table 4** that, according to sub-indicator **Structures**, only administration in Estonia was evaluated as having an overall strong capacity and being ready for the Structural Funds. Other countries still have to address certain weaknesses, especially in the consultation process and the involvement of social partners, NGOs and broad civil society in the programming process for Structural Funds.

The worst prepared area in all five Candidate Countries was **Human Resources** and **Systems and Tools**. Here, administration capacity of no country was evaluated as sufficient yet, with the Slovakian administration having no basis for administering Funds from the viewpoint of these two sub-indicators. Looking at the sub-indicator **Functioning** only, the situation in Hungary was judged as ready for Structural Funds, in Estonia certain weaknesses were still observed, while in the Czech Republic and Slovenia the capacity is insufficient. For Slovakia, this indicator was also evaluated as having no basis for administering Structural Funds.

Table 4: Horizontal and Vertical Assessment by Countries (5 CEECs)

	HU	CZ	SK	EE	SLO
Horizontal Assessment					
<i>Management</i>	B	B	C	B	C
<i>Programming</i>	B	B	D	B	B
<i>Implementation</i>	C	C	C	C	C
Vertical Assessment					
<i>Structures (max.19)</i>	B (16)	B (15)	B (15)	A (18)	B (14)
<i>Human Resources (max.17)</i>	C (13)	C (12)	D (7)	C (14)	C (10)
<i>Systems & Tools (max.10)</i>	C (6)	C (5)	D (4)	C (6)	C (5)
<i>Functioning (max. 18)</i>	A (16)	C (12)	D (8)	B (13)	C (12)

Notes:

- **A:** Overall Strong Capacity: ready for Structural Funds
- **B:** Overall Sufficient Capacity, but certain weaknesses to be addressed
- **C:** Not yet Sufficient Capacity, various and serious weaknesses to be addressed
- **D:** Insufficient Capacity, no basis for administering the Funds

Source: own estimations

Of all five countries only **Hungary** and **Estonia** scored one A, each. These two countries succeeded to obtain three Bs and three Cs. On average, Hungary and Estonia can be seen as able to administer Structural Funds sufficiently, however, with certain weaknesses. The **Czech Republic** and **Slovenia** scored very similar results, with the Czechs being slightly better in Management. Various, serious weaknesses have to be addressed in these countries. With four Ds and only one B, **Slovakia's** administration is not yet sufficiently prepared for the Structural Funds' management and implementation.

We must be aware that the situation evaluated here relates mainly to the picture in April 2003 and, for Slovenia, in September 2003. Therefore, for most countries we should hope that the European Commission's comments and recommendations have, in the meantime, led to an improvement of the administrative situation.

We also strongly believe that all countries in the sample will meet the legal requirements related to Chapter 21 - Structural and Cohesion Policy by the time of their official accession in May 2004. However, we do not believe that the administrations in Slovakia and Slovenia, being the countries recording poorest administrative capacity in our Case Study, will manage to be equipped in a way that would satisfy formal criteria of the European Commission. According to the present administrative situation presented in this paper, Slovenia and Slovakia, respectively, will have to make a lot of additional efforts to satisfy all conditions set out in the Structural and Cohesion Funds Regulations.

CONCLUSIONS

A country's administrative structure is definitely among the strongest criteria to be taken into account when dealing with Structural Funds' management. All procedures for managing and implementing Structural Funds are often long, cumbersome and demanding on human resources which at the end often gives rise to complaints such as: '*Structural Fund subsidies are not worth the effort*'. At the same time, successful execution of the EU's Structural Policy depends on these processes and, consequently, the success of national development policy. The call for improvements is particularly strong at the end of a respective programming period. However, the Commission also emphasises that the complexity of management is common to both the Member States and the Commission itself. Improvement is therefore only possible by means of close co-operation. (see e.g. **European Commission, 2002d**, and **2003**).

The Candidate Countries did not have an opportunity to contribute to the discussion on the reform of Structural Funds in 1999, but had to adopt a totally new 2000-2006 system, even significantly different from the Pre-accession ones. Therefore, the new Member States had to accept the 'state of the art' of the 2000-2006 Structural Funds implementation rules. Here, the role of the European Commission was to strongly push these countries to follow the General Regulations for Structural Funds as strictly as possible and to thereby increase their administrative absorption capacity. Accordingly, we may expect that differences in managing Structural Funds from country to country will only be small in the Candidate Countries in 2004-2006.

At the beginning of our discussion regarding absorption in the CEECs we emphasised our belief that the key indicators developed and tested here have proven to be an appropriate tool for presenting the administrative capacity of a particular Candidate Country at a certain point of time. Therefore, there is no doubt that this methodology should be further developed and also used in future studies when analysing the situation in Member States. In the following pages we make some observations and present some critical thoughts that may improve this methodology.

As mentioned, were we to take data for this paper from the start of 2004 and not from the second half of 2003 as we did, we would surely register additional progress in institution-building in the Candidate Countries and would – most probably – calculate better administrative capacities. Therefore, we believe such a paper should have been executed in future Member States already in time when the first increase in financial allocations for pre-accession funds in 2000 was executed, as well as at the start of 2002. This would definitely help in the framework of negotiating financial chapters with the Candidate Countries. For the Commission, this would enable the allocation of much more funding for investments with higher absorption potential, as well as the concentration of investments mainly around institution-building.

Today, we can only speculate about how good or bad the administrative absorption capacities are in the Candidate Countries and, consequently, about the threat of underspending the financial resources allocated from the Structural Funds. Moreover, we believe that even in the 2004-2006 period most Candidate Countries might achieve a score of *B* when measuring their respective administrative capacities, showing this period is in fact merely yet another transitional period for these countries.

We have shown in our paper that no empirical studies were done with the main aim to look at the absorption capacities of the Structural Funds. Only in 1997 did the Commission support the first study to mainly stress the economic views of the problem and concentrate on issues related with the big Structural Funds and Cohesion Fund transfers to economic infrastructure.

Therefore, it is very interesting to analyse the administrative capacity of Member States before their accession to the EU. Unfortunately, this is very hard to do ex-post. However, in many ways the adjustment problems these countries are facing are no different from those which troubled and still trouble certain Mediterranean regions of the EU and, in particular, Greece (see **Papadopoulos, 2003: 40**).

These problems appear to have grown significantly as the various aid interventions moved from relatively simple structures and procedures to an increasingly integrated and more complicated approach. Both the civil and private sector had to be flexible enough to adapt very quickly to the reforms of the Structural Funds that occurred before each new programming period. After all, an inefficient civil sector is one of the main factors of underdevelopment and vice versa. However, progress in the field of upgrading administrative capacity due to the EU's Structural Policy may perhaps be the most significant indirect long-term benefit of the EU's interventions in EU Cohesion Countries and, in the future, in the new Member States.

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ANNEXES

Annex 1: Planned and present personnel for Structural Actions

		TOTAL Staff	Total MA + PA	Total SF-IBs	Managing Authorities		PA	SF-Intermediate Bodies ⁽²⁾			
					CSF/SPD	OPs		ERDF	HRD	Agri	Reg.
HU	Planned	1,967	236	1,731	81	107	48	798	303	360	270
	Present	1,396	165	1,231	68	66	31	560	155	360	156
	%	71	70	71	84	62	65	70	51	100	58
CZ	Planned	672	265	407	69 ⁽¹⁾	158	38	249	91	n.a.	67
	Present	361	111	250	23 ⁽¹⁾	69	19	203	28	n.a.	19
	%	54	42	61	33	44	50	81	31	n.a.	28
SK	Planned	424	142	282	63 ⁽¹⁾	56	23	183	68	31	-
	Present	189	66	123	18 ⁽¹⁾	34	14	81	20	22	-
	%	45	46	44	29	61	61	44	29	71	-
EE	Planned	532	28	639 (504)	17		11	328	178 (43) ⁽³⁾	133	-
	Present	365	22	463 (343)	14		8	225	141 (21) ⁽³⁾	97	-
	%	69	79	72 (68)	82		73	69	79 (49)	73	-
SLO ⁽⁴⁾	Planned	102	37	65	18		19	26	29	10	-
	Present	65	28	37	12		16	12	15	10	-
	%	64	76	57	67		84	46	52	100	-

Sources: Q-HU (2003), Q-CZ (2003), Q-SK (2003), Q-EE (2003), Q-SI (2003), SI Proposal (2003), own calculations.

Annex 2: Key indicators, Sub-Indicators and their scoring for 5 CEECs

Annex 2; Table 1: Key indicator: Management and related Sub-Indicators

	Managing Authorities			Existence of a modern civil service⁽²⁾ (max. 6)	TOTAL (max. 24)
	<i>Designation of MAs</i> (max. 8)	<i>Staffing of MAs⁽¹⁾</i> (max. 7)	<i>Delegation of tasks arrangements</i> (max.3)		
HU	8	70% (5) 6	2	5	21
CZ	8	42% (4) 5	2	3	18
SK	8	46% (6) 3	2	2	15
EE	8	79% (5) 7	2	4	21
SLO	8	76% (5) 4	2	3	17

Notes:

⁽¹⁾ The results of staffing of the MAs represent combined results (number of points in **bold**) of our calculations from Table **HR** (percentages) and our own evaluations (number of points in brackets) based on respective **Questionnaires** in accordance with methodology of **NEI (2002a)**. The staff of respective Paying Authorities is also included.

⁽²⁾ Regarding the functioning of the Candidate Country's civil service, its remuneration levels being competitive with those in the private sector as well as the existence of a career track for the civil servants, the results were taken from **Papadopoulos (2003a)**.

Annex 2; Table 2: Key indicator: Programming and related Sub-Indicators

	Programming			Existence and quality of NDP and supporting documents (max.5)	TOTAL (max.15)
	<i>Partnership</i> (max.4)	<i>Capacity to carry out programming available</i> (max.4)	<i>Guidelines for programme preparations</i> (max.2)		
HU	3	2	2	5	12
CZ	4	3	1	4	12
SK	2	1	1	2	6
EE	4	3	2	4	13
SLO	4	3	1	4	12

Annex 2; Table 3: Key indicator: Implementation and related Sub-Indicators

	Intermediate Bodies			Absorption and project pipe line for Pre-accession Funds ⁽²⁾ (max. 7)	TOTAL (max.25)
	Assignment of IBs (max. 7)	Staffing of IBs ⁽¹⁾ (max. 6)	Existing operational project development process (max. 5)		
HU	5	71% (4) 5	2	82% (5) 6	18
CZ	3	61% (4) 4	2	70% (6) 5	14
SK	5	44% (3) 3	1	67% (4) 4	13
EE⁽³⁾	6	68% (3) 4	2	77% (4) 5	17
SLO⁽⁴⁾	3	57% (3) 3	2	76% (5) 5	13

Notes:

⁽¹⁾The results of staffing of the IBs represent combined the results of **Papadopoulos (2003a)**, Table **HRD** and own estimations based on respective **Questionnaires**. Results in percentages are from Table **HRD**.

⁽²⁾Taken from **Papadopoulos (2003a)**, **Horvat (2004: Case Study 2)** and **European Commission (2003c, Annex)**. Results in percentage are from **Horvat (2004: Case Study 2, Table 3)**.

⁽³⁾The staffing in the case of Estonia is without the staff of the Enterprise Estonia as Implementing Agency in the case of one ESF measure. This was done in order to avoid doubling.

⁽⁴⁾Data for Slovenia are from September 2003 (**SI Proposal, 2003**).

Sources: Papadopoulos (2003a), Q-HU (2003), Q-CZ (2003), Q-SK (2003), Q-EE (2003), Q-SI (2003), SI Proposal (2003), European Commission (2003c, *Annex*) own estimations.

Explanatory Notes for the Tables of Annex 2

Explanatory note for Management (Table 1)

We can observe a relatively high score (6 points out of 7) for the *staffing of MAs* for Slovakia. The reason is that the Slovak Government was faced with the problem that individuals recruited and trained were later lost to the private sector where salaries are higher (see **European Commission, 2003c, Annex**). To stop this process the Slovak government agreed to increase salaries for certain staff working on EU issues and by that made remuneration levels of those personnel competitive to those in the private sector. Therefore, despite the fact that the share of employed staff in MAs is below 50% of the planned level, the present staff is still well motivated. However, this is not the same when we look at the civil service in general. Here, Slovakia received only 2 points.

Explanatory notes for Programming (Table 2)

Estonia

Next to the Czech Republic and Slovenia, in Estonia a Strategic Environmental Assessment has also been prepared. This shows in the very good scoring in the column *partnership*.

Slovenia

Partnership; Slovenia prepared *Strategic Environmental Assessment* for the NDP and persistently dealt with this method also in the Ex-ante evaluation of the SPD. A **Monitoring Committee for NDP** was established already in 2001 and gradually developed in the framework of SPD preparations. Special attention of the Government has been given to involvement of the **NGO sector** in programming process by preparing various workshops and a special publication on the NGO sector (see **CNVOS/REC; 2003**).

Hungary

Regarding *partnership* we took into account the representation of different interest groups in the Monitoring Committees. On the level of the *CSF Monitoring Committee* in Hungary there is no representative of the horizontal Community policies, but only one joint representative for minority (Roma) and equal opportunities interests. We believe that this is not sufficient representation. The same also applies to having only one representative of 7 regions. The number of economic and social partners is not explicitly provided. On the level of the *OP Monitoring Committees* more than one representative is foreseen for the horizontal issues and the regions.

With regards to *capacity* for programming, our evaluation could only be based on the fact of existence of the provided strategic documents and their in-time submission to the Commission. Therefore, we took analytic and process skills as given and the expertise to create indicator system as missing. Because of delayed submission of the NDP and the Operational Programmes (planned by end-March, but submitted on 5 May 2003; see **European Commission, 2003c, Annex**) we gave no score for experience in programming for the capacity question.

In its conclusions and recommendations to Hungary, the Commission encouraged Hungary to further strengthen its *partnership* process. We could not find any methods for creating partnership in the documents available.

The Czech Republic

Since the very beginning of NDP preparation the involvement of NGOs has been assured through the preparation of the Strategic Environmental Assessment (SEA). Thereby, the *partnership* principle at the level of civil society, usually the part most lacking in the programming process, could be strengthened. This was the reason for such a high score.

Slovakia

Programming in Slovakia received the lowest total score (6 points out of 15). Since the NDP was largely prepared by a private consultancy company (see **SK-NDP, 2003: 270**) we can hardly speak of sufficient *capacity* – with analytic and process skills – to carry out programming. Some scepticism about ownership and real knowledge of the NDP has also been emphasised by the European Commission, especially because Programme Complements for Operational Programmes private consultants also seem to do the job.

Low scores in *partnership* are due to the complaints of some regions and NGOs that they did not have enough information and were consulted late (see **European Commission, 2003c, Annex**).

Explanatory notes for Implementation (Table 3)

Hungary

A list of intermediate bodies is available and *IBs were assigned* to individual measures, but they are neither well-regarded within their domain of work nor was an agreement from IBs obtained.

Staffing of IBs is still lacking further clarifications regarding their tasks and therefore we can also not claim that staffing is assured. However, in the case of IBs we do not see any particular obstacles to the securing of staffing when the tasks are clarified.

Systems & Tools for project development process will be developed in the framework of the current SPP II Twinning arrangements. However, in April 2003 there were no coherent set of project selection criteria, no standardised application forms, nor a manual for compliance with EU legislation.

Absorption of the Pre-accession funds can only be evaluated for the case of Phare funds, but not also for ISPA and SAPARD. In the **Q-HU (2003)** we could only read that implementation of the latter two programmes is on the way, therefore, we used the results of **Papadopoulos (2003a)** in the case of ISPA and SAPARD. For Phare, we used the results calculated in **Horvat (2004; Case Study 2)** herein.

The Czech Republic

Despite the fact that in the Czech Republic all IBs - with the exception of IBs for OP Agriculture – have been assigned to individual measures, we gave zero points for this question. Therefore, the whole indicator is relatively low.

Slovakia

In Slovakia there are also no written agreements yet between the MAs and IBs.

The main problem with implementation of the future Slovak CSF with regard to the existing operational project development and project execution is the new formulation of regional bodies and **Regional Development Agencies**. Self-governing Regions have only existed in Slovakia since 2001 and especially in the case of the OP Basic Infrastructure that is supposed to be implemented in the Regions this might cause problems in relation to absorption (see **SK Negotiation Mandate, 2003: 8**)

Slovenia

By the end of April 2003 in Slovenia the assignment of IBs was effected only at the level of Lead Ministries for each Structural Fund and no IBs (whatever their name might be: *Implementing Authorities/Agencies* or *IBs as Activity Related Bodies*) were specified below that level in the response to the Questionnaire (see **Q-SI, 2003**) nor in the latest draft SPD (see **SI Response, 2003**, and **Slovenia SPD, 2003a**). The number of staff was provided in September 2003, but not for all future *IBs as Activity Related Bodies* (see **SI Proposal, 2003**).

Annex 3: Ranking by Horizontal and Vertical Assessment (5 CEECs)

	A <i>HIGH</i>	B	C	D <i>LOW</i>
<u>Horizontal Assessment</u>	POINTS			
Management	22 – 26	18 – 21	12 – 17	< 11
Programming	14 – 15	11 – 13	8 – 10	< 7
Implementation	23 – 25	19 – 22	13 – 18	< 12
<u>Vertical Assessment</u>				
Structures	17 – 19	14 – 16	10 – 13	< 9
Human Resources	16 – 17	15 – 16	9 – 14	< 8
Systems & Tools	10	8 – 9	5 – 7	< 4
Functioning	16 - 18	13 - 15	9 - 12	< 8

Notes:

- **A:** Overall Strong Capacity: ready for Structural Funds
- **B:** Overall Sufficient Capacity, but certain weaknesses to be addressed
- **C:** Not yet Sufficient Capacity, various and serious weaknesses to be addressed
- **D:** Insufficient Capacity, no basis for administering the Funds

Source: **Papadopoulos (2003)** for Horizontal assessment, *own recalculations* for Vertical assessment