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# IMPLICATIONS OF THE LATEST ENLARGEMENT ON REGIONAL DISPARITIES AND COHESION POLICY. A SPOTLIGHT ON THE EU FUNDS ABSORPTION

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# IMPLICATIONS OF THE LATEST ENLARGEMENT ON REGIONAL DISPARITIES AND COHESION POLICY. A SPOTLIGHT ON THE EU FUNDS ABSORPTION

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**Abstract.** *The economic and social cohesion policy of the European Union has two inter-related components, namely the vertical cohesion, referring to the alleviation of social disparities and the solidarity with the disadvantaged social groups, and the horizontal cohesion, which concentrates on the regional disparities decrease and the solidarity with the lagging regions' population. Based on this approach, the EU's regional policy is closely related to the horizontal dimension of the cohesion policy and is supported by the EU funds via allocations for convergence – competitiveness and employment – European territorial co-operation objectives of the 2007-2013 programming period. The Central and East European Countries, as New Member States (NMS) of the EU are a major beneficiary of these allocations, especially with regard to the convergence objective, considering the big regional disparities they display in comparison with the EU average. At the EU level it is largely acknowledged that transition to the market economy experienced by these countries has deepened the regional disparities; at present the main issue is when and with which rate a process of regional convergence will occur, both inside each country and compared to the EU average. Hence, the main questions this paper raises: first, which are the implications of the cohesion policy, via EU funds for regional disparities in the NMS? Second, are these countries prepared to ensure a high capacity of absorbing the EU funds and, thus, to turn to good account their endogenous growth potential? In order to answer these questions empirical evidence based on the EU statistical data and studies will be provided, accompanied by comments upon the so-called 'absorption problems'.*

**Keywords:** EU enlargement, cohesion policy, regional disparities, convergence, EU funds, absorption capacity

## 1. Introduction

In May 2004 the largest enlargement of the European Union took place, ten new member states (NMS), mostly from Eastern and Central Europe joining it, followed by Romania and Bulgaria in January 2007. As a consequence, the EU population has increased by more than one quarter and its surface by more than one third. With almost 500 million citizens, the EU generated approx. 31% share of the world's nominal GDP in 2007. However, the combined GDP of all new member states has added only 11% to the GDP of the EU-15, whereas the GDP per capita is 13% lower than before enlargement. Compared to the EU average, the GDP per capita is 35% higher in the US and 15% higher in Japan.

Moreover, there are substantial economic and social disparities across the EU, between states and between regions as well. Even corrected for PPP, Bulgaria's GDP per capita was 29.8% of the EU-25 average in 2004 (€21740.6 per capita), Romania's – 30%, while GDP per capita was 134.1% in Ireland and 124.8% in the Netherlands (Luxemburg apart). The distance between the richest and the poorest regions (NUTS 2) is about a factor of ten. On the high end Inner London accounts for 303% of the EU average of GDP per capita, while Romania's North-East and Bulgaria's Severozapaden have 24% and respectively 26% of the EU average.

The unprecedently high amplitude of interregional disparities at the enlarged EU level offers a special significance to its cohesion policy in the 2007-2013 programming period. The economic and social cohesion policy is addressed in terms of two interrelated components, namely the vertical cohesion, referring to the alleviation of social disparities and the solidarity with the disadvantaged social groups, and the horizontal cohesion, which concentrates on the regional disparities decrease and the solidarity with the lagging regions' population. Based on this approach, the EU's regional policy is closely related to the horizontal dimension of the cohesion policy and is supported by the EU funds via allocations for convergence – competitiveness and employment – European territorial co-operation objectives of the current financial exercise. During 2007-2013 the EU's cohesion policy ranks first in terms of expenditure and coverage: cohesion for the first time surpasses agriculture as the largest area of expenditure undertaken by the EU (Leonardi, 2006). In a total budget amounting approx. €862.4 billion, cohesion policy accounts for €307.6 billion (35.6%), that is an average annual expenditure of €44 billion, compared with €41.8 billion allocated to market-related expenditure and direct payments to agriculture.

As it was conceived from the very beginning as a necessary complement to the Single Market and Single Currency programmes, the cohesion policy will be of a great importance to the objectives of economic convergence – real and nominal between the EU-15 and the NMS. Real convergence refers to the narrowing of development gaps: similarity of per capita GDP, nominal wage levels, equilibrium of real exchange rates and related to this, price levels and tradable/non-tradable price ratios. Nominal convergence aims at the narrowing and finally closing the gaps in macroeconomic stability currently existing

between NMS and incumbents: it focuses on the Maastricht criteria on inflation, interest rates, fiscal variables and exchange rate stability.[1] (Kasman et al., 2005).

Almost 82% of the total budget for cohesion policy is allocated to the objective of convergence of the member states and the regions. Its key aim is to promote growth-enhancing conditions and factors leading to real convergence within the EU. This objective covers the member states and the regions whose development is lagging behind. The targeted regions are those NUTS 2 regions of a GDP per capita less than 75% of the EU average. They are funded from the European Regional Development Fund and the European Social Fund. At the same time the member states whose Gross National Income (GNI) is less than 90% of the EU average benefit from the Cohesion Fund.

In this context it is obvious that the NMS are the main beneficiaries of the renewed cohesion policy: all of them receive allocations from the Cohesion Fund while 51 regions out of 55 NUTS 2 regions in the NMS are funded under the Convergence objective. Hence, the *big challenges* these countries have to face in the current financial exercise of the EU: *will they be able to use the big amount of the allocated funds?* And, further on, *will they be able to promote adequate economic policies and economic behaviour so as to generate high rates of their endogenous growth and, thus, to ensure an effective use of these funds?*

The answer to the first question is usually addressed in terms of the so-called "absorption capacity".

The term **absorption capacity** (pertaining to the EU cohesion policy)[2,3] defines the degree to which a country is able to effectively and efficiently spend the financial resources allocated via European Funds. In other words, it expresses the ability of a EU member state to 'digest and consume' the funds in order to foster its development and thus to improve its economic and social performance (NEI, 2002; Horvat, 2004).

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[1] A key question in both economic literature and policy debate devoted to nominal and real convergence is to what extent the two sets of criteria, the real convergence of Copenhagen and the nominal convergence of Maastricht, compete with each other or rather whether they share the strong elements of complementarity (Dedek, 2006). An alternative view adopted e.g. by the European Central Bank suggests that the two processes should be followed in parallel.

[2] Some authors (e.g. Emerson et al., 2006, Durand and Missiroli, 2006, Gottardo, 2006) give a broader, quite different meaning to absorption capacity, discussing it in relation with the integration capacity and the so-called "deepening and widening" of the EU. For example, Emerson et al. (2006), starting from the concrete Copenhagen criteria, consider that the main components of the absorption capacity are: capacity of good and service markets, capacity of the labour market to absorb NMS, capacity of the EU's finances to absorb NMS, capacity of the EU institutions to function with NMS, capacity of society to absorb NMS, capacity of the EU to assure its strategic security (see "final frontier" debate).

[3] The term "absorption capacity" is employed by other organizations as well. Thus, at the United Nations Millennium Summit in September 2000, world leaders adopted the Millennium Development goals, which set clear targets for reducing poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women by 2015 and considered the funding sources. They also referred to 'the absorption capacity of the recipient countries', which should be discussed when considering the funding options and addressed the question of the "saturation point"- the level of aid after which aid no longer has a positive effect on economic growth (see OECD, 2004).

The absorption capacity can be addressed from the perspective of the institutional system created in each member state in order to manage the funds (the *supply side*) as well as from the perspective of the beneficiaries of these funds (the *demand side*). The demand side mainly expresses the ability of the potential beneficiaries – public or private – to generate appropriate and acceptable projects (possible to be financed). The supply side is determined by three main factors, leading to three components of the absorption capacity, namely macroeconomic, administrative and financial absorption capacity.

*Macroeconomic absorption capacity* indicates the rate of the EU funding in terms of the GDP of the recipient member state. The European Summit in Berlin (1999) and then the results of the Copenhagen negotiations (2002) on 'financial chapters'[4] indicate an upper limit for the Structural and Cohesion Funds set at 4 percent of the GDP of the respective member state. The capacity to absorb the macroeconomic effects generated by the inflow of the supplementary investments is also related to the macroeconomic absorption capacity.

*Administrative absorption capacity* represents 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 principal partners, to cope with the vast amount of administrative and reporting work required by the European Commission and to finance and supervise the implementation properly, avoiding fraud as far as possible (Horvat, 2004).

*Financial absorption capacity* refers to the ability to co-finance EU-supported programmes and projects, to plan and guarantee the national contributions in multi-annual budgets and to collect these contributions from several partners (public and private), interested in a programme or project. The national co-financing is needed since the EU structural assistance, in order to increase the incentive for using the funds efficiently, finances only a part of the costs of a programme or project.

These components can be analysed starting from the EU programming documents and various evaluation studies in both EU-15 member states and NMS. Though, till now, comprehensive studies regarding all three components have not been carried out. Moreover, for the NMS only macroeconomic and administrative absorption capacity can be evaluated so far. The financial absorption capacity can be evaluated only ex-post so that, according to n+2 rule[5], such evaluations will be possible from 2009 on. Nevertheless, useful information for the absorption capacity in the NMS can be found in the studies focusing on the pre-accession funds as well as on the preparedness of the (former now) candidate countries to absorb the EU funds after accession.

Based on these overall considerations, this paper discusses the implications of the EU structural assistance to the NMS on regional disparities, with a special emphasis on the capacity of these states to absorb the allocated funds. First, the influence of the EU

[4] The 'financial chapters' refer to Common Agriculture Policy, Structural and Cohesion Funds and Financial obligations of a particular country to the EU budget.
[5] This rule provides that each year's 'tranche' that involves a programme co-financed by the Funds must be used up before the end of the second year following the commitment.

enlargement on cohesion policy in the 2007-2013 programming period is addressed, revealing the close links between cohesion and EU's regional policy. Then, the regional disparities in the NMS within European context are discussed in connection with the contribution of the structural instruments to reducing these disparities. Finally, the absorption capacity of the EU funds in the NMS is examined, as a pre-condition for achieving this goal. A particular emphasis will be put on the administrative absorption capacity, considering that the institutional framework created in the NMS for the administration of the EU funds is expected to play a decisive role for their successful, complete integration in the EU structures.

## 2. The EU enlargement and the cohesion policy in 2007-2013

Economic development within an integrated area might be considered the result of two complex components - *competitiveness and cohesion*, competitiveness aiming at the most efficient use of resources and factors and cohesion addressing mainly the reduction of discrepancies among regions and countries. However, social and economic cohesion remains the determinant element of this equation since the main goal of the entire European construction, namely the promotion of security, stability and economic growth in the region, cannot be attained as long as significant disparities remains among different parts of that integrated area and obstructs the competitiveness of the whole structure.

In terms of number of newcomers, the latest round of enlargement might be considered the EU's biggest ever given that twelve new member states (ten in 2004 and two in 2007) were joined the Union. The EU population has increased by more than one-quarter and the territory by approx. one-third. However, the combined GDP of all new member states has added only 11% to the previous EU GDP while the GDP/capita has decreased with 13%. All in all, as a result of the latest enlargements, the current disparities within the EU-27 member states and regions in per capita income have considerably increased (Table 1).

**Table 1. Impact of successive enlargements of the EU**

| Enlargement | Population | Surface | GDP | GDP/capita |
|---|---|---|---|---|
| EU 9 (73) | + 33.4% | + 25.4% | + 32.2% | -0.9% |
| EU 10 (81) | + 3.7% | + 7.9% | + 2.34% | - 1.33% |
| EU 12 (86) | + 17.5% | + 33.4% | + 11.3% | - 5.5% |
| EU 15 (95) | + 6.28 % | +34.9% | + 6.5% | + 0.2 % |
| EU 25 (04) | + 19.6% | + 18% | + 8.9% | - 8.9% |
| EU 27 (07) | + 6.5% | + 8.5% | + 2.04% | - 4.03% |

**Source**: Eurostat, 2007

According to European Commission figures, the average GDP per head in the twelve new member states is less than 40% of the EU average. Within the Eastern European group of members, the ratios go from about 35% in Romania and Bulgaria to almost 70% in Slovenia (compared to the EU average). If the stark income gaps within some of the new

member states is added, it becomes clear that eastward enlargement has burdened the Union with unprecedented economic disparities (Table 2).

**Table 2. The level of the GDP per capita in the new member states in 2003**

| Country | GDP/capita (euro, PPS) | EU27 = 100 |
|---|---|---|
| EU27 | **21740,6** | **100,0** |
| **EU15** | **23720,1** | **109,1** |
| **NMS (10)*** | **11499,1** | **52,9** |
| Czech Republic | *14749,7* | *67,8* |
| Ciprus | *17377,2* | *79,2* |
| Malta | *15796,7* | *72,7* |
| Slovenia | *16527,1* | *76,0* |
| Estonia | 10488,8 | 48,2 |
| Latvia | 8881,6 | 40,9 |
| Lithuania | 9845,8 | 45,3 |
| Poland | 10214,5 | 47,0 |
| Slovakia | 11298,1 | 52,0 |
| Hungary | 12896,5 | 59,3 |
| Bulgaria | 6469,0 | 29,8 |
| Romania | 6522,0 | 30,0 |

**Source**: Eurostat, 2006
* NMS = New Member States (in 2004)

The changes of priorities in case of the new financial perspectives 2007-2013 have been determined by changes in the overall background of the EU under internal and external pressures. The "new paradigm" of the 2007-2013 cohesion policy, as expressed by the European Commissioner, Danuta Hubner (2007, p.1), should be the creation of new "opportunities for the future […] rather than compensation for the problems of the past". In fact, this new paradigm reflects the position of the most member states concerning the syntagm "competitiveness – cohesion" which does no longer represent an antinomy - competitiveness versus cohesion, but a tandem of interdependent objectives.

**Cohesion Policy** is considered as the main instrument at the EU level for the realization of the Lisbon Strategy, both according to the Community Strategic Guidelines for 2007-2013 and the EU Budget.

The first new objective for 2007-2013, *Convergence objective* (regions with a GDP per head less than 75% of the EU average) is applying to 100 regions which account over 35% of the EU 27 population. The purpose of this objective is to accelerate the economic convergence of less-developed regions by improving conditions for growth and employment as a result of investments in human and physical capital, innovation and development of knowledge society, protection of environment or improving the administrative capacity. From the total amount of € 264 billion allocated for this objective, 67,34 % go to regions whose GDP per capita is below 75% of the average, 8,38% to

regions under "statistical effect"[6], 23,86% to Cohesion countries and 0,42% to the outermost regions[7] (Euractiv, 2007). For the new member states, the Convergence Objective will play a more significant role given that the disparities among regions and states are more important.

The second objective, *Regional Competitiveness and Employment* applies to the rest of the EU, which means another 155 regions including 61% of the EU-27 population. It accounts for 15,8% of the funds allocated to the cohesion policy. These regions have relatively high GDP levels even if both growth and employment rates remain weak in many regions. The regional development programmes will strengthen regional competitiveness by supporting economic and social innovation, knowledge society, entrepreneurship, protection of environment and risk prevention.

The third objective, *European Territorial Cooperation* (2.44% of funds) aims to reinforce cooperation at cross-border, transnational and interregional level. This objective is complementary with the other two objectives, the eligible regions being eligible under both the first and second objectives. Its aim is to promote common solutions for authorities of different countries in the domain of urban, rural and coastal development, development of economic relations and setting up of small and medium-sized enterprises (SMEs).

According to the European Commission, the total share of *Covergence regions* in EU-27 GDP in 2002 was only 12.5 % compared to a 35% population share (European Commission, 2006). GDP levels also indicate widely differing regional situations. The GDP per inhabitant in 2004, the accession year, ranged from 24% of the EU-27 average in North-East region of Romania to 303% in Inner London (Table 3). Among the 100 Convergence regions, Romania and Bulgaria account for twelve of the fifteen lowest prosperous regions (Romania with seven regions and Bulgaria with five).

**Tabel 3. Regional GDP per capita in the EU-27 in 2004 (in PPS, EU27=100)**

- percentage -

| **The fifteen highest** | | | **The fifteen lowest** | | |
|---|---|---|---|---|---|
| 1 | Inner London (UK) | 303 | 1 | Nord-Est (RO) | 24 |
| 2 | Luxembourg (LU) | 251 | 2 | Severozapaden (BG) | 26 |
| 3 | Bruxelles Cap (BE) | 248 | 3 | Yuzhen tsentralen (BG) | 26 |
| 4 | Hamburg (DE) | 195 | 4 | Severen tsentralen (BG) | 26 |
| 5 | Wien (AT) | 10 | 5 | Sud- Muntenia (RO) | 28 |
| 6 | Ile de France (FR) | 175 | 6 | Sud-Vest Oltenia (RO) | 29 |
| 7 | Berkshire, Buckinghsmdhire, Oxfordshire (UK) | 174 | 7 | Severoiztochen (BG) | 29 |
| 8 | Oberbayern (DE) | 169 | 8 | Yugoiztochen (BG) | 30 |
| 9 | Stockholm (SE) | 166 | 9 | Sud – Est (RO) | 31 |
| 10 | Utrecht (NL) | 158 | 10 | Nord – Vest (RO) | 33 |

[6] regions where GDP per capita would be below 75% of the EU-15.

[7] These regions are distinguished by their low population density and considerable distance from mainland Europe. There are seven "outermost regions": Guadeloupe, French Guiana, Martinique and Réunion (the four French overseas departments), the Canaries (Spain), and the Azores and Madeira (Portugal)

| | | | | | |
|---|---|---|---|---|---|
| 11 | Darmstadt (DE) | 157 | 11 | Lubelskie (PL) | 35 |
| 12 | Praha (CZ) | 157 | 12 | Podkapackie (PL) | 35 |
| 13 | Southern & Eastern (IE) | 157 | 13 | Centru (RO) | 35 |
| 14 | Bremen (DE) | 156 | 14 | Podlaskie (PL) | 38 |
| 15 | North Eastern Scotland (UK) | 154 | 15 | Vest (RO) | 39 |

**Source:** Eurostat News release, 23/2007, 19 February 2007

The structural assistance for 2007-2013 allocated to all member states represents 35% of the EU budget, respectivelly 308 billion out of 862 billion total amount value. For the EU-8 plus Romania and Bulgaria, the total amount allocated is 175 billion euro, representing more than half of the entire budget allocated for the cohesion (Table 4).

**Tabel 4. Total assistance allocated to the EU-10 for 2007-2013**

| **Country** | **Total assistance (billion euro)** | **Assistance per capita (euro)** | **Percent of GDP** |
|---|---|---|---|
| Czech Republic | 26,69 | 2.627 | 3.5 |
| Estonia | 3,39 | 2.555 | 4.1 |
| Hungary | 25,31 | 2.561 | 3.9 |
| Latvia | 4,01 | 1.751 | 3.9 |
| Lithuania | 6,78 | 2.041 | 4.2 |
| Poland | 67,28 | 1.773 | 3.6 |
| Slovakia | 11,51 | 2.102 | 3.9 |
| Slovenia | 4,10 | 2.082 | 2.0 |
| Bulgaria | 6,67 | 901 | 4.0 |
| Romania | 19,67 | 911 | 3.2 |
| Total | 175,40 | 1.930 | 3.6 |

**Source**: DG Regio, Economist Intelligent Unit

Due to the rule capping the structural assistance to a percentage of maximum 4% of the GDP of each country[8], the less developed countries, Romania and Bulgaria, have also the lowest allocation rate. Assuming full absorption of the ceiling for the payment appropriations, European Commission considers that under the new financial framework 2007-2013 the new member states will be *net beneficiaries* of EU budget. However, the *ability* of the new member states to fully benefit from EU transfers was limited due to certain agreed reforms and transitional arrangements. As different authors noticed (IER, Oprescu et al., 2005) while the old member states had to create and adapt their administrative structures to the requirements of Structural Funds gradually, in the NMS all institutional and operational requirements have to be accomplished in a very short period of time.

[8] Even if according to the Berlin Summit (Council Regulation (EC) no 1260/1999, art.7,8) the upper limit for Structural and Cohesion Funds was set up at 4%, for the 2007-2013 period, the European Council (Dec.2005) decided that the maximum level of transfers toward individual member states has to be reduced and the upper limit has been established between 3.71 and 3.2 % (and below) depending on the GNI per head.

## 3. Regional disparities in the NMS. Implications for structural assistance

As already mentioned, the accession to the European Union of the 10 NMS in 2004 and a further two in 2007 strongly increased economic regional disparities. In EU-27, gross domestic product (GDP) per capita in PPS is almost five times higher in the top 10 % regions than in the bottom 10 %, compared to less than three times higher in the EU-15 (Eurostat, 2007). In the enlarged EU also increased the ratio between GDP per capita in the top and bottom 25 % regions, from two in EU-15 to three in EU-27 and the average level of GDP per capita reduced by almost 12 % (2004 data). The map in Annex 1 gives an overview of the regional distribution of wealth among the 268 NUTS 2 regions of the EU-27. Regional GDP per capita (in PPS) relative to EU-27 average ranges from 23.58% in North-East Romania to 302.9% in the UK capital region of Inner London.

GDP per capita is substantially lower in the new Member States (map in Annex 2), where it is below 50 % of the EU-27 average in most regions (31, out of a total number of 55 regions), a notable exception being Prague (Czech Republic), the region with the highest GDP per capita in the NMS (157% of the EU-27 average).

The *dynamics of economic development* in EU-27 regions is revealed by the map in Annex 3, showing the annual average GDP growth by NUTS 2 region in 1995-2004 period. In the NMS, the growth rate was especially high in the three Baltic States, all having an average annual real GDP growth over 6 % (generating an overall growth of 70% in each country), in Poland, Slovakia, Hungary, Slovenia and Cyprus. The newest MS, Bulgaria and Romania, experienced long periods of economic decline during the 90$^{th}$, but recovered afterwards, now having significant growth rates, especially in their capital regions that concentrate most of their economic activities.

Many of the regions with a low GDP per capita in the NMS are *catching up* fast. This trend is confirmed by a Eurostat statistical analysis which shows that the Gini coefficient and the coefficient of variation (both weighted by population) reveal regional convergence at the EU level (Eurostat, 2007).

Our own calculations of Gini Inequality Index (see Annex 9) clearly show that economic disparities are bigger within the 12 new Member States NUTS 2 regions, which have an overall value of 0.2286, as compared to the regions in the EU-15 countries (0.1478 value). As a result of the last two enlargements of the European Union, Gini Inequality Index substantially grew, reaching a value of 0.2083 for EU-27 (2004 data). Smaller values of inequalities are to be found within each individual country (Table 5, column 4).

Following significant above-average growth rates in most of the NMS, economic convergence between the regions of the EU-27 significantly improved in the last years, the ratio of GDP per capita in the most developed region -Inner London- and the least prosperous one -North-East Romania- dropping from 13.9:1 in 2002 to 12.8:1 in 2003 and 2004. The distance is still very high but its slightly decline is encouraging. The number of regions with GDP per capita values below 40% of the EU-27 average also decreased from 23 in 2002 to 21 in 2003 and 17 in 2004.

The NMS are catching up with the EU-27 average at a rate of 0.8 percentage points every year (Eurostat, 2006). A closer look reveals that not all regions have such good evolutions. Although many less developed regions in NMS attained above EU-27 average growth rates, there are still 15 of the 55 regions in the NMS having disappointingly low dynamics, of less than two percents annually, which is the EU-27 average dynamics. All these regions are in three NMS: Romania, Czech Republic and Bulgaria.

Important *regional disparities* exist even within the countries themselves, as Table 1 and the graph in Annex 10 clearly show. In 2003, the highest value of regional GDP per capita was more than double compared to the lowest value in 12 of the 19 countries presented in Annex 10, the broadest inter-regional differences being in the United Kingdom and Belgium, where the ratio between the two extreme values is of 3.7 and 3.1 respectively. The NMS also display comparatively large regional disparities (see Table 5, column 3), although there was some narrowing of the range of values. The map in Annex 2 shows that the dynamics of economic development between the regions in one country can diverge almost as widely as between regions in different countries. The greatest difference in dynamics is displayed by Romania, where the GDP per capita in the most dynamic region – Bucharest-Ilfov - increased six times more than in the least developed one – North - East.

The broad regional differences in the growth dynamics within the NMS are largely determined by the *strong economic dominance of their capital regions*. In all the NMS and in some of EU-15 countries a substantial share of economic activity is concentrated in the capital regions, which usually have the highest GDP per capita (see the map in Annex 1). Their big GDP per capita is mainly the effect of a substantially higher productivity and it is also owing to in-commuting, which provides more labour force relative to the inhabitants of the capital region.

**Table 5. Economic disparities and allocations for convergence objective in the new Member States**

| Country | GDP per capita in 2004, Eur PPS | Highest / lowest regional GDP per capita in 2004 | Population in 2004, million inhabitants | Gini Inequality Index for GDP per capita in 2004 | Number of convergence regions against total number of national regions | Structural and cohesion funds, 2004-2006, mil eur (prices 2004) | Indicative allocations for convergence objective, 2007/2013, mil eur (current pr.) |
|---|---|---|---|---|---|---|---|
| *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* |
| Bulgaria | 7200 | 1.917 | 7.7 | 0.119 | 6/6 | - | 6674 |
| Czech Republic | 16400 | 2.628 | 10.2 | 0.155 | 7/8 | 2404 | 25883 |
| Estonia | 12300 | - | 1.4 | - | 1/1 | 615 | 3404 |
| Cyprus | 19700 | - | 0.7 | - | - | 108 | 213 |
| Latvia | 9800 | - | 2.3 | - | 1/1 | 1031 | 4531 |
| Lithuania | 11000 | - | 3.4 | - | 1/1 | 1379 | 6775 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Hungary | 13800 | 2.426 | 10.1 | 0.173 | 6/7 | 2837 | 22890 |
| Malta | 16400 | - | 0.4 | - | 1/1 | 81 | 840 |
| Poland | 11000 | 2.184 | 38.2 | 0.109 | 16/16 | 11202 | 66553 |
| Romania | 7200 | 2.734 | 21.6 | 0.159 | 8/8 | - | 19213 |
| Slovenia | 18300 | - | 2.0 | - | 1/1 | 423 | 4101 |
| Slovakia | 12200 | 3.054 | 5.2 | 0.246 | 3/4 | 1544 | 10912 |

**Sources***:* Eurostat, 2007 and authors' calculations

The new financial perspective for the seven years between 2007 and 2013 is covering an European Union comprising 27 Member States and having increased economic disparities. Disparities in the levels of development in the enlarged European Union imply the need for assistance on the least developed regions and Member States, by means of an appropriate allocation of structural and cohesion funds. The new round of cohesion policy will be focused on investment in a limited number of priorities organised around the three main objectives, namely convergence, regional competitiveness and employment and territorial cooperation.

The convergence objective is designed to diminish the amplitude of the inter-regional disparities, focusing mainly on the least developed regions. Eligible regions for funding under this objective are the current NUTS level 2 regions whose GDP per capita, measured in purchasing power parities, is below 75 % of the average GDP in EU-25 for the period 2000–2002. In EU-27, there are 84 of these regions, in 17 Member States. From these, 51 regions (out of a total of 55 regions in NMS) belong to 11 NMS (see Annex 3).

The overall level of allocations available under the convergence objective amounts to EUR 282.8 billion, representing 81.5 % of the total budget for cohesion policy; from this funds, EUR 199.3 billion are allocations for the convergence objective aiming to speed up the convergence of the least-developed regions, preponderantly belonging to the NMS (Table 5, column 8 and Annex 6). The specific level of allocations to each Member is calculated on the basis of relative regional and national prosperity and the unemployment rate of the eligible regions (see Annex 8). The resulting indicative allocations for convergence objective for the next round of cohesion policy – 2007-2013 – are reflecting the dimensions and development level of the 51 eligible convergence regions in 11 new Member States (Table 1 and Annex 7).

Following the last two enlargements of the European Union, the average GDP/inhabitant for the EU-25, became 8 % lower than the EU-15 average, making ineligible for convergence funds a number of 16 regions which previously received 'Objective 1' funding. Considering the fact that the economic development level in these regions had not really improved, these so-called *'phasing-out' regions* will be receiving transitional funds that amount to €12.5 billion (map in Annex 3). Another 13 regions (with a total of 19 million inhabitants), so-called *'phasing-in'* regions will receive special financial allocations (€10.4 billion) due to their former status as 'Objective 1' regions (map in Annex 3).

## 4. The capacity of absorbing the EU funds in the NMS

As previously demonstrated the NMS are by far the most important *net beneficiary* of the structural assistance. The financial transfers are designed to increase the economic and social cohesion among the member states, mostly via enhancing a faster catching-up process of the less developed states and regions in terms of income per capita. This issue is of a particular importance to the NMS since Structural Funds are more important when the economy is weak, the marginal benefit of an efficient use of Structural Funds being higher in less developed economies (Daianu, 2003). Though, there are experts who question the possibility of effective, productive absorption of the substantial financial transfers by the former centralised economies, with all their structural, institutional and administrative problems (Kalman, 2002). Moreover, especially in the academic debate, some authors doubt about the ability of fiscal transfers to bring about economic convergence for the current net recipient member states, or, in general, about whether convergence can be achieved and, even if so, whether fiscal transfers are best tools for enhancing it (Boldrin, Canova, 2000). In the same area, various convergence concepts (absolute, conditional)[9] are also discussed. However, given the current options of the EU cohesion policy, this paper aims to investigate the *capacity of the NMS to absorb the large amount of allocated funds*.

This question started to concern the European Commission at the beginning of the previous financial exercise (2000 – 2006) when the current NMS were preparing their accession to the EU. In 2002 the N.E.I. – Rotterdam developed a study commissioned by the DG-Regio/DG-Enlargement, which proposed a methodology for evaluating "the capacity of the candidate countries to effectively manage the Structural Funds" (NEI, 2002). The methodology analysed the *administrative absorption capacity* only for the *design* (of Structural Funds) phase, considering that it was premature to address the other two phases – performance (the extent to which the Structural Funds have been managed efficiently and effectively) and functioning of Structural Funds. The design assessment focused on a series of indicators regarding *management, programming, implementation, evaluation and monitoring, financial management and control* calculated for three main components, namely *structure, human resources and systems and tools*. Structure refers to the clear assignment of responsibilities and tasks to deal with the Structural Funds. Human resources relate to detail tasks and responsibilities at the levels of preparing job description, the number and qualifications of staff and fulfilling recruitment needs. Systems and tools refer to the availability of instruments, methods, guidelines, manuals, procedures, forms, etc. The information provided by the candidate countries followed detailed questionnaires sent out by the Commission in the spring of 2003. As a result of this assessment the main message was that "acceding countries need to further strengthen their administrative capacity" (Press Releases Rapid, 2003).

Following this first exercise, experts, researchers employed the same methodology for their own studies and evaluations (e.g. Papadopoulos (2003) for ten candidate countries, Horvat (2004) for five countries (Hungary, Czech Republic, Slovakia, Estonia and Slovenia) Oprescu et al. (2005) for Romania). For example, the study carried out by Oprescu et al.

[9] In this case the debate is around the possibility of market forced – let alone – to lead to the convergence of income in the long run.

(2005) showed a weak capacity in the case of Romania, but at levels comparable with the other five former candidate countries at approximately the same time before accession, suggesting that the delays could be recovered and its accession at the beginning of 2007 still possible (see Table 6).

**Table 6. Administrative absorption capacity – design phase. Results of the evaluation of the main indicators by country**

| | RO | HU | CZ | SK | EE | SLO |
|---|---|---|---|---|---|---|
| **Horizontal evaluation** | | | | | | |
| Management | **C** *(72%)* | **B** *(87%)* | **B** *(75%)* | **C** *(63%)* | **B** *(87%)* | **C** *(71%)* |
| Programming | **C** *(52%)* | **B** *(80%)* | **B** *(80%)* | **D** *(40%)* | **B** *(87%)* | **B** *(80%)* |
| Implementation | **C** (53%) | **C** *(72%)* | **C** (56%) | **C** *(52%)* | **C** *(68%)* | **C** *(52%)* |
| **Vertical evaluation** | | | | | | |
| Structure | **B** *(76%)* | **B** *(84%)* | **B** *(79%)* | **B** *(79%)* | **A** *(95%)* | **B** *(74%)* |
| Human resources | **C** *(51%)* | **C** *(74%)* | **C** *(71%)* | **D** *(41%)* | **B** *(82%)* | **C** *(59%)* |
| Systems and instruments | **D** *(45%)* | **C** *(60%)* | **C** *(50%)* | **D** *(40%)* | **C** *(60%)* | **C** *(50%)* |

**Note:** **A:** Strong capacity: system ready for the Structural Funds (at least 90%);
**B:** Sufficient capacity, but weak points should be addressed (75-90% from the maximum score);
**C:** Capacity not sufficient yet, serious weaknesses must be addressed (50-75%);
**D:** Insufficient capacity, there is no base for administrating the Structural Funds.
**Source:** evaluation by Oprescu et al., 2005 and Horvat (2004)

After 2004 accession wave, new studies were carried out, concentrating on the challenges that NMS had to face in implementing the structural assistance allocated for 2004-2006. For example, the study developed by the European Policies Research Centre (2005) provided a comparative analysis concerning how these countries accomplished three essential functions: programming and structural assistance, institutional training and the implementation of the Funds. In the *programming process* the *difficulties* were generated by the *decision-making* with regard to the *political choices* of the strategic development areas and the setting of clear targets and long-term objectives. In most cases short- and medium-term objectives were preferred over long-term ones and simple and direct interventions were preferred to complex ones, able to combine several objectives simultaneously. For example, direct support to enterprises was preferred to setting up services for businesses, or modernising the existing transport infrastructure to developing combined or alternative transport modes.

The choices between the *national and regional dimensions of development*, i.e. between interventions at national level meant to support general development and economic growth

and those aiming at stimulating the endogenous potential of regional and local development, were largely in favor of the former (see comments by Baleanu, 2007).

While in the EU-15 the *regionalisation of the Structural Funds* management has been carrying on for more than one decade, in almost all NMS-10[10] the governments have chosen to use centralized management systems. Regionalisation requires the transfer of many programming and implementation responsibilities regarding Structural Funds to the regional authorities, which is not to the advantage of the countries with still weak regional and local administration. For this reason Poland, Czech Republic and Slovakia even gave up to design specific regional programmes in the programming period 2004-2006. Instead, they incorporated them into sectoral programmes or into a single national programme (for example, Joint Operational Programme in the Czech Republic).

For the regional programming period 2007 - 2013, the European Commission proposed a new legal framework in order to concentrate structural and cohesion fund on Lisbon (innovation, growth and jobs) and Gothenburg (sustainable development) goals. According to the legislation, in September 2009, the European Commission conducted a mid-term review[11] of the current policy in each of the member states in order to analyze the implementation rate of the cohesion funds, revealing that absorption rate of the NMS-812 for the current programming period had a positive evolution, excepting Czech Republic and Slovakia (see Table 7).

The EU average of absorption rate is more than 27% of funding for the 2007-2013 period, with a total amount of investment of more than 93 billion euro so far. Some of the countries, both from EU 15 and EU 12, had particularly high rates of absorption, due to effective structures put in place for the implementation of cohesion policy.

**Table 7. Absorption rate in NMS - 10**

total payments made, as % of the national allocations

| Country | Absorption rate 2004 – 2006 | Absorption rate 2007 – 2009 |
|---|---|---|
| Czech Republic | 26 | 21 |
| Estonia | 29 | 52.3 |
| Hungary | 32.5 | 47 |
| Latvia | 25 | 36.9 |
| Lithuania | 25.5 | 35.4 |
| Poland | 24.5 | 31 |
| Slovakia | 27.5 | 18.6 |
| Slovenia | 34 | 42.2 |

**Source**: European Commission, 2009.

[10] NMS-10 stands for all ten states that joined the EU in 2004

[11] Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013, European Commission, 2010

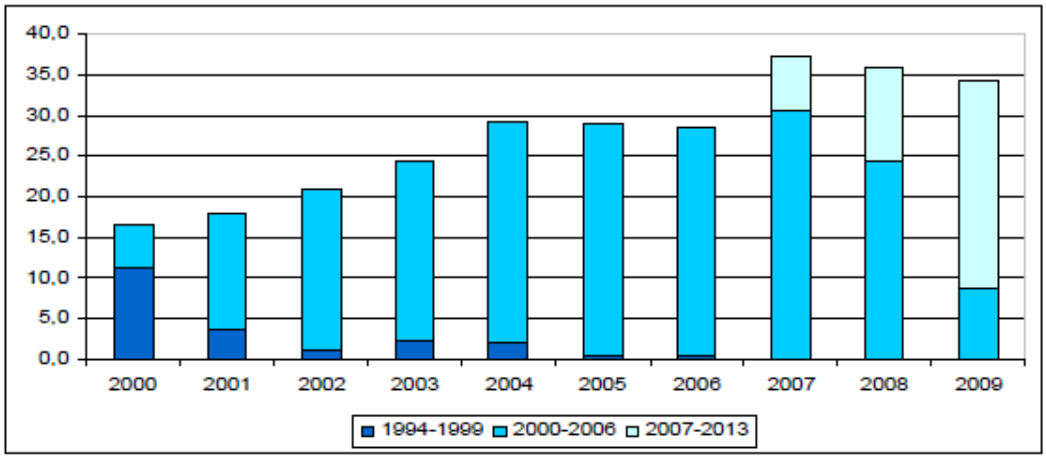
12 NMS-8 stands for NMS minus Cyprus and Malta

The EU 15 countries with a rate higher than average are: Belgium (61.1%), Denmark (30%) Finland (31.7%), Ireland (51.8%), Italy (38%), Netherlands (55.8%), Portugal (38%), Sweden (48.5%) and the UK (35,2%). Similarly, for the EU 12 the following countries were ahead of the curve Cyprus (42.3%), Estonia (52.3%), Hungary (46.3%), Lithuania (35.4%), Latvia (36.9%), Malta (48.7%) and Slovenia (42.2%).

Compared to the other EU countries Romania is lagging behind with a rate of 14% to allocating sums for selected projects. Bulgaria has an absorption rate of 20%.

In terms of payment of EU financing, between 2007-2009, a total amount of 108 billion EUR has been transferred to the Member States, out of which 64 billion EUR are related to actual expenditure under the 2000 - 2006 programmes while 44 billion EUR represents advances and actual expenditure under the 2007-2013 programmes (Graph 1).

Graph 1: EU payments to Member States - 2000-2009 (ERDF, ESF and Cohesion Fund - Billion EUR in current prices)




**Sources**: *Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013, European Commission, 2010*

Regardless of the global economic crisis that had an impact upon implementation of programmes, the European Commission appreciated in the 2010 Cohesion Report that "cohesion policy is successful in investing in regions". Moreover, the NMS governments adopted measures aimed to accelerate access to EU funding, such as removing various legal and administrative obstacles, and improving cooperation and exchange of best practices among managing authorities of individual operational programmes. According to the n+3 rule the funds can be spent for the NMS by the end of 2010, based on a system of annual re-allocation, so that the final results regarding the absorption rate will depend to a great extent on the ability of administration to strengthen its institutional capacity.

The implementation of *advanced human resource management* systems was in general limited and inconsistent. A survey conducted by the World Bank (2006) has shown that innovation is still isolated in public management: the administrative function of general coordination is at much lower standards compared to advanced countries, being unable to

keep up with the requirements, politicization has reappeared in administration, new payment and incentive systems for civil servants are not put into practice. At the same time, the experience regarding *partnership*, as a major principle in the management of Structural Funds, able to increase the effectiveness of the programmes and the commitment of actors involved in various stages of the programming cycle, as well as to create good practices in administration, has been improved, due to the experience accumulated in the former programming period. But there are still cases, where the participation is not authentic, but mimic and formal, with negative consequences on the partners' commitment and on assuming the ownership of projects results.

In order to reinforce the administrative reforms in the NMS and in the old MS whose *administrations still do not function at the required level*, the European Commission has succeeded to introduce in the programming of Structural Funds for 2007-2013 a *priority concentrating on the modernisation of public service*, financed by the European Social Fund. This priority aims to stimulate good governance practices and to strengthen the capacity of administrations to meet the requirements for planning and implementing development plans and for increasing the administrative effectiveness of public service at national, regional and local level.

Supposing that all these measures will lead to a better administrative capacity and, hence, a high rate of absorption of the EU funds, a further question is seeking an appropriate answer. It refers to the 'demand side' and regards *the impact of Structural Funds* on the economic and social welfare in the recipient state, or, in other words, the effects of Structural Funds on economic growth and real convergence. Considering the original idea behind regional policy, with economic convergence as ultimate goal, the input-oriented approach based on administrative capability does not seem to be sufficient.

Relating to the impact of Structural Funds, a series of so-called "**absorption problems**" have been identified and require careful consideration on behalf of policy makers. They are pertaining to *large-scale fiscal transfers* which can emerge for various reasons and can be significant in preventing the economy from achieving its optimal growth path (Kalman, 2002, Hervé and Holzmann, 1998). According to Kalman (2002, p.5-9) they can be summarized as follows:

● *Administrative absorption' problems*. They result in a difference between transfers and the increase in the productive capital. For any given administrative capability there is a ceiling of absorption capacity and therefore the author suggest that transfers should be phased in only gradually, starting from a low level and adjusted upwards.

● *Rent-seeking*. This phenomenon refers to the people who interfere for the use of funds in purposes which afterwards lead to gaining personal advantages by sharing the benefits resulted from the newly created economic activities (Myrdal, 1972, Krueger, 1974). Rent seeking becomes manifest through external forms of corruption like bribery, money laundering, traffic of influence and goods, black market, etc. In the EU context tent seeking might appear at three levels: between national governments and Brussels, between central and local governments, between any government and private sector agents who benefit

from regional policy (e.g. consultants, supported SMEs, construction companies, etc). The forms of rent seeking vary from legal lobbing activities to illegal forms such as bribery.

● *Use of funds for consumption instead of investment*. As a result of external funds injection, domestic investment financing may well be reduced, which means that, unless effective constraints on the use of external funds are imposed, the impact of transfers on capital accumulation and growth will be lower than expected. Several empirical studies (e.g. Hervé and Holzmann, 1998 ) in development economics confirm that a substantial part of foreign aid is in fact directed to increasing consumption.

● *Timing related problems*. The long-term focused public investment and infrastructure development-related decisions have significant opportunity costs in the short-run, such as delays in private investment decisions owing to increased uncertainty or modified expectations, or private investment even being crowded out by public sector.

● *Information disadvantage of the transfer generating authority/'principal agent' problems*. Agents (private or public, eligible for structural funding) who propose projects have better information on local conditions, thus on the expected private and social rates of returns of the project than the allocating principals. Hence, they may try to reap various advantages whereas the principal is not able to correct the information disadvantage or may do it only at very high costs.

● *Multiple priorities leading to sub-optimal choice*. For example, when economic growth is not the sole priority of the recipient country or regional government, other considerations being followed as well, such as equity or fiscal expansion for re-election purposes, they might lead to non-optimal outcomes, such as selection of sub-optimal investment projects either deliberately or not.

● *Problems resulting from relative price changes induced by transfers*. Two well-known examples are the 'Dutch disease'[13] and immiserising growth phenomena. The Dutch disease refer to the case when transfers through excess demand effects in the non-tradable sector (e.g. construction) lead to upward pressure on the overall wage and price level (inflation) and eventually determine a decline of the tradable sectors. Immiserising growth occurs when economic distortions influence the industrial structure in tradable sectors and transfers provide benefits mostly to protected sub-sectors. An industrial restructuring towards protected sectors might appear, which may be harmful for the overall growth path of the economy and some backward regions may become further disadvantaged.

## 5. Concluding remarks

In order to support the proper functioning of the single market and also to ensure solidarity among its members, the EU cohesion policy aims, as an overall objective, to stimulate the process of reducing the disparities between states and between regions via the so-called convergence process. These disparities have significantly increased since the 2004 and 2007 accession waves. The structural financial assistance associated to the cohesion policy

[13] The effects of huge positive income shocks for the Netherlands in the 1970s.

plays a central role in this process, which has a special significance to the NMS as the main net beneficiaries of the financial transfers. Without neglecting the importance of the amount of funds allocated, it is even more important how these funds are used by the recipient state. *The absorption rate matters but, at the same time, the qualitative aspects of the impact of structural assistance matters as well.* On the supply side, the success of Structural Funds-based programmes is conditioned to a great extent by the quality of public administration: the higher the quality, the higher the impact of Structural Funds on the economic and social welfare in the recipient state. On the demand side, the scope of public benefits is conditioned by the way the funds are employed: if they are invested in viable projects, with big value added and significant multiplier effects, the impact of the funds will be also important. The NMS should learn from the experience of the countries which have successfully used the structural assistance that they have open economies, solid internal public policies and administrations able to implement it.

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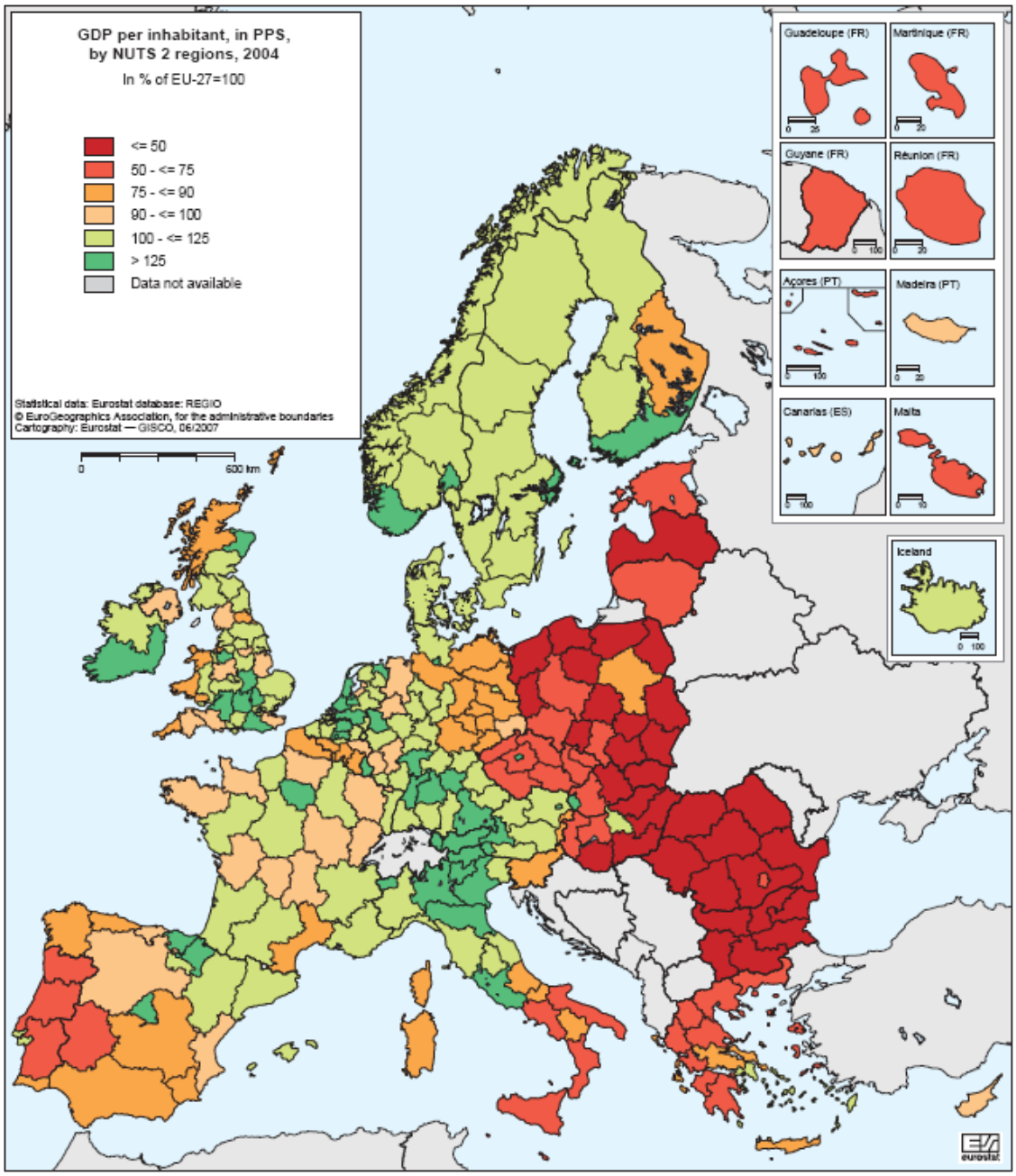
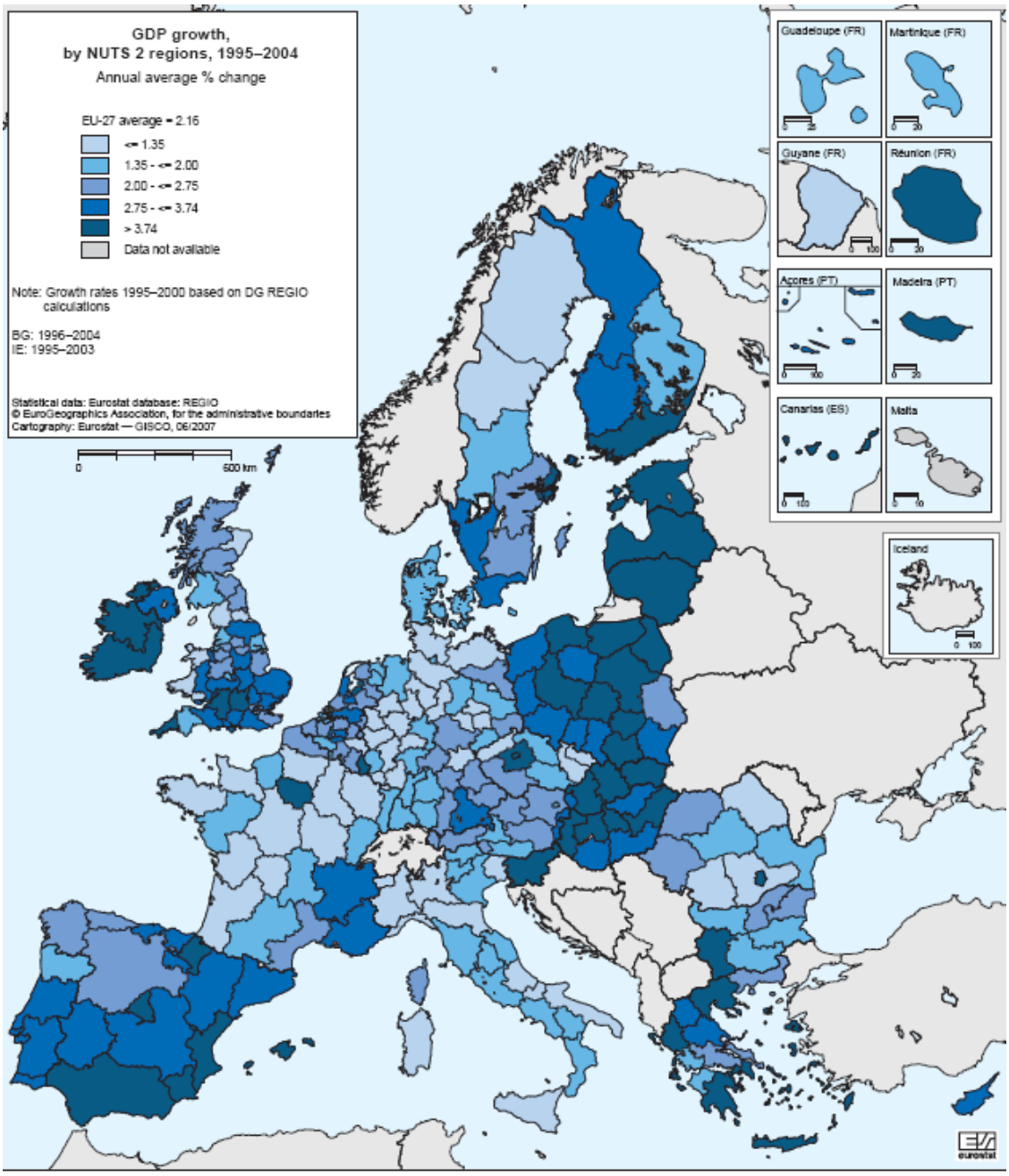
**ANNEX 1**

**GDP/inhabitant in 2004 (% of EU 27) by NUTS 2 level**



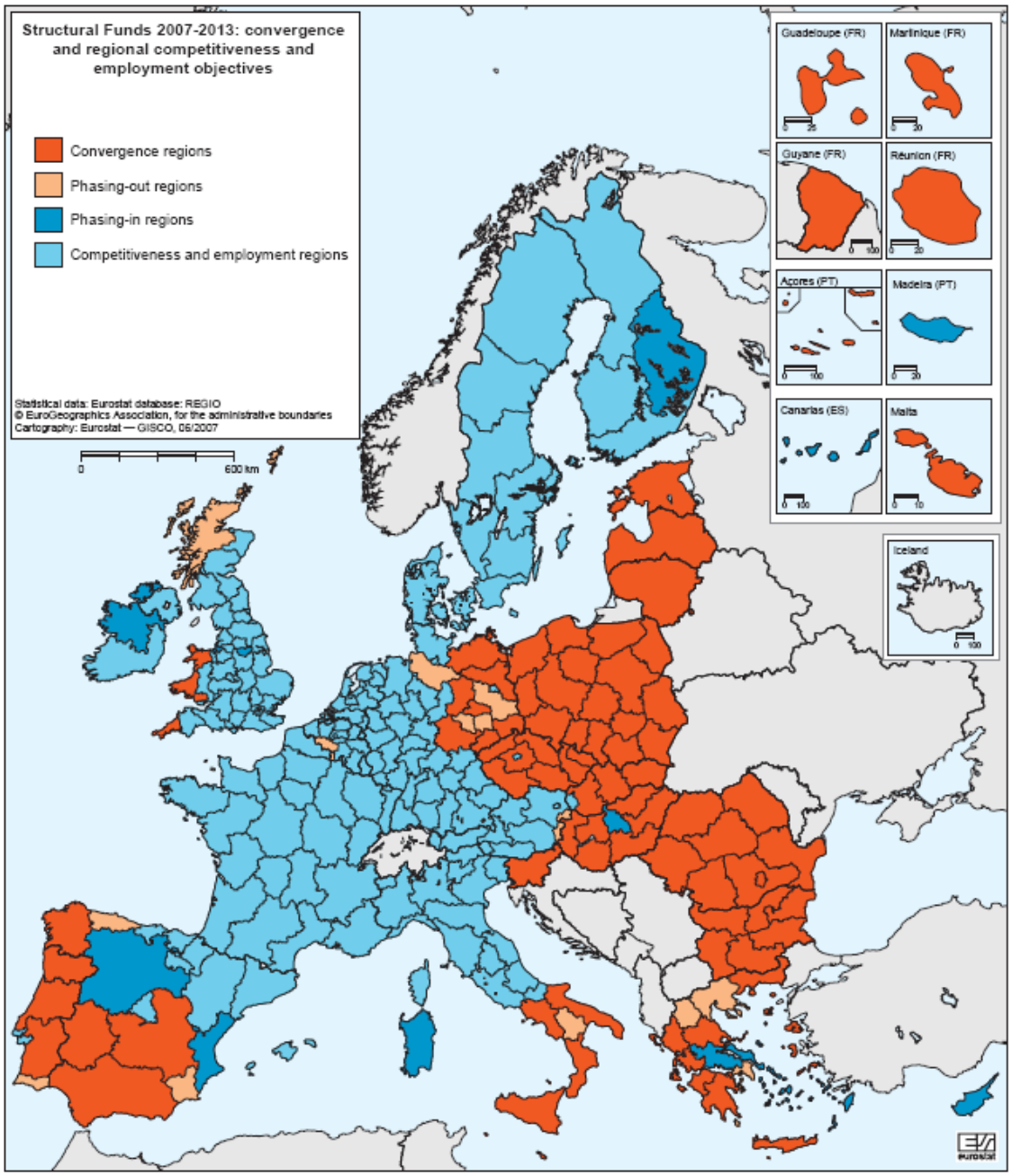

***Source:*** *Eurostat Regional Yearbook 2007*

## ANNEX 2. Annual average GDP growth in 1995-2004 by NUTS 2 level




***Source:*** *Eurostat Regional Yearbook 2007*

## ANNEX 3. Structural funds for 2007-2013 period




***Source:*** *Eurostat Regional Yearbook 2007*

**ANNEX 4**

**Structural and Cohesion Funds Allocation for New Member States 2004-2006**

(million euro, 2004 prices)

| Country | Cohesion Funds | Objectiv 1* | Objectiv 2 | Objectiv 3 | Comunity initiatives | Total** |
|---|---|---|---|---|---|---|
| Cyprus | 0 | 53 | 27 | 22 | 6 | 108 |
| Estonia | 306 | 295 | | | 14 | 615 |
| Latvia | 511 | 497 | 0 | 0 | 23 | 1031 |
| Lithuania | 602 | 743 | 0 | 0 | 34 | 1379 |
| Malta | 22 | 55 | 0 | 0 | 4 | 81 |
| Poland | 4134 | 6721 | 0 | 0 | 347 | 11202 |
| Czech Republic | 926 | 1251 | 70 | 58 | 99 | 2404 |
| Slovakia | 564 | 838 | 36 | 44 | 62 | 1544 |
| Slovenia | 187 | 207 | 0 | 0 | 29 | 423 |
| Hungary | 1101 | 1639 | 0 | 0 | 97 | 2837 |

Sources: http://ec.europa.eu/regional_policy/atlas2007/fiche_index_en.htm and http://ec.europa.eu/regional_policy/policy/fonds/index_en.htm

** including phasing out regions*

*** Due to rounding, figures may not add-up exactly to the total shown*

**ANNEX 5**

| **Country/Regions** | **GDP per inhabitant, in PPS, 2004** (in % of EU-27=100) | **GDP growth, 1995-2004** Annual average % change | **Structural Funds 2007-2013:** convergence, regional competitiveness and employment objectives* |
|---|---|---|---|
| **Bulgaria** | | | |
| BG31 Severozapaden | 25,5895 | 1,40 | Conv |
| BG32 Severentsentralen | 26,42142 | 2,03 | Conv |
| BG33 Severoiztochen | 29,29375 | 2,73 | Conv |
| BG34 Yugoiztochen | 29,85669 | 2,00 | Conv |
| BG41 Yugozapaden | 49,06268 | 4,94 | Conv |
| BG42 Yuzhen tsentralen | 25,6211 | 1,90 | Conv |
| **Czech Republic** | | | |
| CZ01 Praha | 157,1132 | 3,83 | RCE |
| CZ02 Střední Čechy | 69,86933 | 3,83 | Conv |
| CZ03 Jihozápad | 69,58104 | 2,03 | Conv |
| CZ04 Severozápad | 60,68463 | 0,28 | Conv |
| CZ05 Severovýchod | 63,65526 | 1,46 | Conv |
| CZ06 Jihovýchod | 67,3529 | 1,86 | Conv |
| CZ07 Střední Morava | 59,78916 | 1,32 | Conv |
| CZ08 Moravskoslezsko | 61,11449 | 1,23 | Conv |
| **Estonia**<br>EE00 Eesti | 55,70194 | 6,83 | Conv |
| **Cyprus**<br>CY00 Kypros/Kıbrıs | 91,3755 | 3,45 | PI |
| **Latvia**<br>LV00 Latvija | 45,4593 | 6,37 | Conv |
| **Lithuania**<br>LT00 Lietuva | 51,06963 | 6,04 | Conv |
| **Hungary** | | | |
| HU10 Közép-Magyarország | 101,5528 | 4,99 | PI |
| HU21 Közép-Dunántúl | 61,14363 | 5,52 | Conv |
| HU22 Nyugat-Dunántúl | 66,77693 | 5,16 | Conv |
| HU23 Dél-Dunántúl | 45,62485 | 3,18 | Conv |
| HU31 Észak-Magyarország | 42,49484 | 3,56 | Conv |
| HU32 Észak-Alföld | 41,86695 | 4,03 | Conv |
| HU33 Dél-Alföld | 44,15043 | 2,93 | Conv |
| **Malta**<br>MT00 Malta | 74,35278 | - | Conv |
| **Poland** | | | |
| PL11 Łódzkie | 46,73357 | 4,27 | Conv |

| | | | |
|---|---|---|---|
| PL12 Mazowieckie | 76,84177 | 6,18 | Conv |
| PL21 Małopolskie | 43,36250 | 4,23 | Conv |
| PL22 Śląskie | 57,01667 | 3,53 | Conv |
| PL31 Lubelskie | 35,19549 | 2,70 | Conv |
| PL32 Podkarpackie | 35,42153 | 3,45 | Conv |
| PL33 Świętokrzyskie | 39,26442 | 4,02 | Conv |
| PL34 Podlaskie | 37,89028 | 3,92 | Conv |
| PL41 Wielkopolskie | 54,54114 | 5,88 | Conv |
| PL42 Zachodniopomorskie | 47,19911 | 2,84 | Conv |
| PL43 Lubuskie | 45,41177 | 3,48 | Conv |
| PL51 Dolnośląskie | 51,67907 | 3,68 | Conv |
| PL52 Opolskie | 43,61174 | 2,79 | Conv |
| PL61 Kujawsko-Pomorskie | 45,37136 | 3,15 | Conv |
| PL62 Warmińsko-Mazurskie | 39,3841 | 3,97 | Conv |
| PL63 Pomorskie | 49,56785 | 3,96 | Conv |
| **Romania** | | | |
| RO 11 Nord-Vest | 32,98676 | 2,34 | Conv |
| RO 12 Centru | 35,47916 | 1,77 | Conv |
| RO 21 Nord-Est | 23,57835 | 0,73 | Conv |
| RO 22 Sud-Est | 30,74909 | 1,36 | Conv |
| RO 31 Sud — Muntenia | 28,41957 | 0,92 | Conv |
| RO 32 Bucureşti — Ilfov | 64,46439 | 4,50 | Conv |
| RO 41 Sud-Vest Oltenia | 28,75252 | 0,89 | Conv |
| RO 42 Vest | 39,04176 | 2,39 | Conv |
| **Slovenia**<br>SI00 Slovenija | 83,33668 | 3,92 | Conv |
| **Slovakia** | | | |
| SK01 Bratislavský kraj | 129,2922 | 3,43 | RCE |
| SK02 Západné Slovensko | 52,71793 | 3,98 | Conv |
| SK03 Stredné Slovensko | 46,6664 | 3,89 | Conv |
| SK04 Východné Slovensko | 42,33092 | 3,81 | Conv |

Sources: **Eurostat regional yearbook 2007,** Eurostat and DG Regional Policy estimates

** Categories:*

| | |
|---|---|
| ***Conv*** | *Convergence regions* |
| ***PO*** | *Phasing-out regions* |
| ***PI*** | *Phasing-in regions* |
| ***RCE*** | *Competitiveness and employment regions* |

**ANNEX 6**
**PHARE, ISPA, SAPARD Funds allocation for candidate countries 2000-2006**

(million euro )

| Candidate country | PHARE | SAPARD | ISPA |
|---|---|---|---|
| Bulgaria | 1218 | 439 | 868 |
| Estonia | 136 | 51 | 120 |
| Latvia | 153 | 92 | 195 |
| Lithuania | 408 | 125 | 217 |
| Poland | 1808 | 709 | 1454 |
| Czech Republic | 391 | 93 | 293 |
| Romania | 2633 | 1145 | 2028 |
| Slovakia | 295 | 77 | 196 |
| Slovenia | 142 | 27 | 67 |
| Hungary | 467 | 160 | 369 |

Sources:
http://ec.europa.eu/enlargement/key_documents/phare_legislation_and_publications_en.htm,
http://ec.europa.eu/regional_policy/atlas/romania/factsheets/pdf/fact_ro_ro.pdf
http://ec.europa.eu/regional_policy/atlas/bulgaria/factsheets/pdf/fact_bg_en.pdf

* *2000-2003 for New Member States*

**ANNEX 7.**
**COHESION POLICY 2007-2013: Indicative Financial Allocations for New Member states**

(million euro, current prices)

| New Member State | Convergence Objective | Regional Competitiveness and Employment Objective | European Territorial Cooperation Objective | Total* |
|---|---|---|---|---|
| Bulgaria | 6674 | 0 | 179 | 6853 |
| Cyprus | 213 | 399 | 28 | 640 |
| Estonia | 3404 | 0 | 52 | 3456 |
| Latvia | 4531 | 0 | 90 | 4620 |
| Lithuania | 6775 | 0 | 109 | 6885 |
| Malta | 840 | 0 | 15 | 855 |
| Poland | 66553 | 0 | 731 | 67284 |
| Czech Republic | 25883 | 419 | 389 | 26692 |
| Romania | 19213 | 0 | 455 | 19668 |
| Slovakia | 10912 | 449 | 227 | 11588 |
| Slovenia | 4101 | 0 | 104 | 4205 |
| Hungary | 22890 | 2031 | 386 | 25307 |

Source: http://ec.europa.eu/regional_policy/policy/fonds/index_en.htm
**Due to rounding, figures may not add-up exactly to the total shown*

**ANNEX 8. Allocation method of the funds for convergence regions**

The specific level of allocations to each Member is calculated as follows*:
'Each Member State's allocation is the sum of the allocations for its individual eligible regions, the latter calculated on the basis of relative regional and national prosperity and the unemployment rate according to the following steps:

(i) determination of an absolute amount (in euros) obtained by multiplying the population of the region concerned by the difference between that region's GDP per capita (PPS1) and EU average GDP per capita (PPS);

(ii) application of a percentage to the above absolute amount in order to determine that region's financial envelope; this percentage is graduated to reflect the relative prosperity, as compared to the EU average, of the Member State in which the eligible region is situated, i.e.:

- 4.25% for regions in Member States whose level of GNI per capita is below 82% of the Community average
- 3.36% for regions in Member States whose level of GNI per capita is between 82% and 99% of the Community average
- 2.67% for regions in Member States whose level of GNI per capita is over 99% of the Community average

(iii) to the amount obtained under step (ii) is added, if applicable, an amount resulting from the allocation of a premium of € 700 per unemployed person, applied to the number of persons unemployed in that region exceeding the number that would be unemployed if the average unemployment rate of all the EU convergence regions applied'.

** Source: Financial Perspective 2007-2013, Council of the European Union, Brussels, 19 December 2005, CADREFIN 268.*

## ANNEX 9. Methodological note

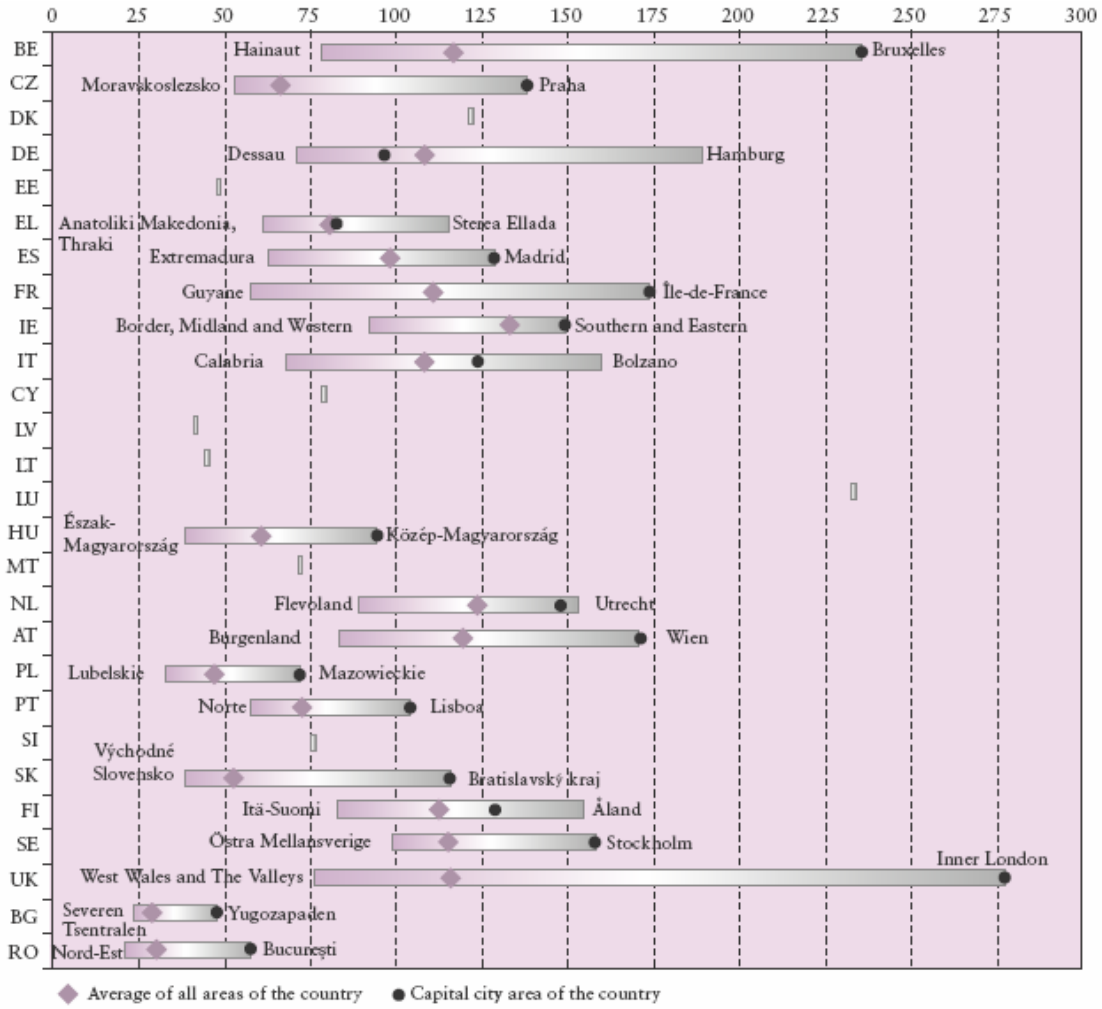
**Gini Inequality Index** (GI), first used for the analysis of income inequality between individuals is also suitable for the study of spatial disparity.

$$GI = \frac{\sum_{i=1}^{n}(2i - n - 1)\cdot x_i}{n\sum_{i=1}^{n} x_i},$$

where $x_i$ represents the territorial values of the variable, in a non-decreasing order, and n is the number of regions.

## ANNEX 10

### GDP per inhabitant in PPS (2003), NUTS 2, in percent of EU-25 average




Source: Eurostat Regional Yearbook 2006