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REGIONAL DEVELOPMENT AND THE EU
PRE-ACCESSION AND STRUCTURAL FUNDS
TRENDS AND POSSIBLE COURSES OF ACTION



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SUMMARY

The prospects of the Central and Eastern European (CEE) countries acceding to the European Union (EU) raises several economic and social questions. A basic one of them is whether the framework of regional policies in the EU is adequate to meet the regional-policy challenges in the CEE countries. Even if this question cannot be decided at present, the EU structural-policy framework certainly provides better chances of doing so than the CEE countries would have otherwise: more adequate institutional models and more abundant (if still insufficient) funding.

The financial resources for implementing regional policies in the CEE countries are very limited. Another important feature is the general centralization of the budgetary allocations. The proportion of sub-national disposal over financial resources did not increase appreciably in the first 7–8 years of the transition. Indeed, it showed a sharp decline in some countries. These factors have also contributed to the general increase in regional disparities described in this study.

Pre-accession EU financial transfers to the CEE countries may change this situation, but for this to happen, the potential recipients will have to make considerable efforts to ensure sufficient administrative capacity and make available the budgetary co-payments required. This will become even more important after accession, when the EU structural-policy transfers will probably be of a greater order of magnitude. The way pre-accession transfers are utilized provides an important test of the public administration and the institutional background for regional policy in recipient countries.

The basic framework of EU regional policy and the features of regional policy in the CEE countries, outlined in this paper, point to some general recommendations for the EU candidate countries. First among them must be to define strategic objectives and corresponding regional-policy tools. This has to be done in a way that takes into account the situation in individual coun-

tries, but all CEE countries should, in their own interest, apply EU regional-policy principles. The legacy of earlier regional-development policies will probably remain even in the longer term, because of the complexity of tasks they raise, but a gradual policy transformation is required, with more emphasis on regional and local initiatives.

Such a transformation of regional policy in the CEE countries is an important requirement for efficient absorption of EU financial resources. The basic principles of EU structural policy – concentration of financial resources, programming, partnership, and contribution – have to be applied to the whole process of regional policy-making at national level. This requires sophisticated coordination of actions, so that overlapping or redundancy in programmes can be avoided. Only if these principles are respected can there be a real prospect of integral adaptation to EU structural policies.

There are also institutional requirements for such adaptation. CEE countries have begun to develop their institutional infrastructures, what in most cases means reorganizing old structures, including the creation of new territorial levels of competency, but the process has reached very different stages in different countries. It is crucial to the effectiveness of the system that the new institutions have clear functions and responsibilities, as well as corresponding human, infrastructural and financial resources. Only then can the principle of subsidiarity, a key word in European integration since the early 1990s, apply.

Although the rules of the game are decided centrally, local initiative is crucial to successful exploitation of the possibilities of EU transfers from the Pre-accession Funds, and from the structural policies of the Union after accession. The attitude of local governments can be decisive in this respect, while non-governmental organizations can act as a catalyst.

INTRODUCTION*

The prospects of 10 Central and Eastern European (CEE) countries acceding to the European Union (EU) raises several economic and social questions, among them the future of regional development and the scope and limitations of regional policy. The reasons for this are at least twofold. (i) Regional disparities have increased and tensions have emerged in most CEE countries during the transition. (ii) EU accession may open opportunities for these countries in these fields, but it will also require major institutional and operational changes. Consequently, issues of regional development and regional policy have become the subject of intense economic and political discussion.

This study reviews the main regional-policy issues raised for the CEE countries by the prospect of EU accession and the likely consequences of it. *Chapter 1* presents the trends and changes in EU regional policy, as a reference point for evaluating recent experience and the prospects for regional development in the CEE countries. The latter are discussed in *Chapter 2*, while *Chapter 3* advances proposals for developing the regional capabilities of EU candidate countries, especially through local-government and non-governmental organizations (LGOs and NGOs).

1. TRENDS AND CHANGES IN EU POLICY

Regional policy in the EU member-states today is strongly determined by the domestic conditions and economic traditions specific to each country. Meanwhile regional policy on an EU level is a relatively recent devel-

opment, seeking to help and systematize the various national regional-policy objectives, by setting common priorities and a financial framework.

The EU countries face various problems of economic development, which define the objectives of their national regional policies. With the poorest of them – known as the cohesion countries, from the name of the fund created to assist their economic development and enable them to join into the Economic and Monetary Union (EMU) –, the main problem is national underdevelopment.¹ In some developed member-countries, such as Germany and Italy, the main problem in national regional policy is to reduce extreme regional disparities in economic development. Other North-Western European countries, notably the United Kingdom and France, are concerned mainly with unemployment and economic restructuring in disadvantaged regions. The Nordic members of the EU centre their regional policies around the sparsely populated areas, due to their geographical circumstances.

The regional-policy objectives depend strongly on these central issues. The overall underdevelopment in the cohesion countries means that considerations of equity do not play a significant role and policy efficiency is measured on a national level. In the other countries, the emphasis on equity is strong, for constitutional or historical reasons, or in the case of the Nordic countries, as an explicit objective, while efficiency assumes growing importance. In this sense, it is better to see the cohesion countries traditionally as having an overall development policy, while the development policy in the other groups of countries has a clear regional focus. The policy instruments include ones that influence the business environment generally, and incentives that encourage specific actions. *Table 1* provides an

* This is a shorter, edited version of a background paper prepared for and published by the Local Government and Public Service Reform Initiative of the Open Society Institute: Regional Development, Pre-accession and Structural Funds, in: *European Union Enlargement and the Open Society Agenda*, LGI Studies, OSI Local Government and Public Service Reform Initiative, March 2000, Budapest, pp. 3–33.

¹ The statements about the cohesion countries concern mainly Spain, Portugal and Greece. Ireland's considerable recent development means that they no longer apply to it fully.

overview of the regional financial incentives provided in the EU countries.

Table 1
Regional financial incentives in the EU countries

	Capital grant	Interest subsidy	Tax concession	Depreciation allowance	Labour subsidy	Transport concession
Austria	•				•	
Belgium	•	•			•	
Denmark	•					
Finland	•		•			•
France	•		•		•	
Germany	•	•				
Greece	•	•	•	•		
Ireland	•				•	
Italy	•		•			
Luxembourg	•					
Netherlands	•					
Portugal	•	•				
Spain	•					
Sweden	•				•	•
United Kingdom	•	•			•	

Source: Bachtler (1999).

Economic and social cohesion was already being mentioned at the time when the European Economic Community (EEC) was established.² The financial resources for common action came with the gradual establishment of specific, so-called Structural Funds: the European Social Fund (1958), the European Agricultural Guidance and Guarantee Fund (1964) and the European Regional Development Fund (1975).³ However, adequate coordination of efforts did not emerge until the late 1980s, through a general reform of regional policy in 1988. Since then, the principles, objectives and financial instruments of Community regional policy can be said to constitute an integrated system.

Four basic principles constitute the basis for support in the framework of regional policy. These principles are as follows:

² Chapter V of the Treaty of Rome establishing the EEC, signed on 25 March 1957.

³ In 1993, two additional instruments were introduced: the Financial Instrument for Fisheries Guidance and the Cohesion Fund. This latter one has been designed to support the less developed countries (and not regions) of the EU (Ireland, Spain, Portugal and Greece), therefore it differs from the other funds, from which regions can be supported.

* Concentration: the financial resources of the Structural Funds are applied to the most important fields of regional policy, to ensure maximum efficiency.

* Programming: medium-term regional-development programmes are preferred over separate projects, to avoid overlapping.

* Partnership: responsibility for preparing, deciding and executing programmes is shared by the

European Commission, national governments and LGOs, to ensure effective control.

* Contribution: EU financing is only available if the recipient country makes co-payments of some of the costs of the programme, to ensure that real interests and efficiency are being served.

The overall objective of EU regional policy is to support underdeveloped regions and allow them to increase their competitiveness. Financial support is given to back investment in the infrastructure, education and training, research and development, and the activity of small and medium-sized firms. The geographical units supported are regions according to the Nomenclature des Unités Territoriales Statistiques (NUTS).⁴ The appropriations appear in *Table 2*. The specific objectives of the Structural Funds since 1989 have been these:

1. Support for development and structural adaptation of underdeveloped regions. Current NUTS II-level regions whose

⁴ Under Objective 1, there can be support for NUTS II regions (211 in the EU) and under the other objectives, for NUTS III regions (1093 in the EU). The same applies to the period 2000–2006.

GDP per capita, at purchasing-power parity (PPP), is less than 75% of the EU average may be entitled to support according to the general rules, if the condition is met over the three-year period before the funding application.

Table 2
Appropriations of the Structural Funds for the period
1994–1999, million ECU, 1994 prices¹

{PRIVATE }Objectives	Appropriations
1. Underdeveloped regions ²	93,810
2. Regions experiencing industrial decline	14,922
3 and 4. Long-term unemployment and integration of young people into working life	13,948
5a. Adaptation of agricultural structures	5,985
5b. Development of rural areas	6,134
Community initiatives	13,467
Transitional measures and innovative actions	1,491
Total	149,757

¹ Not including appropriations for the three member-states entering the EU on 1 January 1995. These are the following (until 1999, at 1995 prices): Objective 1. ECU 184 million, objectives 2–5b. ECU 3822 million, Objective 6 (for the support of sparsely-populated areas): ECU 741 million. Total ECU 4747 million.

² NUTS II-level regions whose GDP per capita (at PPP) is less than 75 per cent of the EU-average may be entitled to support under the general rules, if the condition is met in the three-year period before the application.

Source: Eurostat (1997), p. 65.

2. Support for structural adaptation in regions experiencing industrial decline.
3. Support for measures against long-term unemployment and for integration of young people into working life.
4. Support for labour-market adaptation to changes in industries and production structures.
- 5a. Support for enhancing the modernization of agricultural and fishery structures.
- 5b. Support for the development of rural areas.

The entry of three new member states (Austria, Finland, and Sweden) led to the addition of a further objective in 1995:

6. Support for sparsely-populated Nordic territories.

The main purpose in creating an integrated system of Community regional policy

was to enhance effectiveness. According to several studies of the efficiency of regional policy, there has been some consequent decrease in economic inequalities between countries, but in many cases, the regional inequalities within member-states have not diminished, indeed in some cases they have increased. An important reason for this is probably the differing abilities of regions in different situations to represent their interests. This cannot be solved by Community measures. What is required is a greater concentration of effort on the most problematic issues and regions, according to the most objective eligibility criteria possible.

After two years of discussions, the document *Agenda 2000*, outlining the future strategic objectives and financial background of the EU, was presented by the European Commission in July 1997 and adopted, with some modifications, at the European Council meeting in Berlin in March 1999. A greater concentration of the financial resources of the Structural Funds is to be ensured by reducing the number of regional-policy objectives for the period 2000–2006 to three.

1. Promotion of the development and structural adjustment of regions whose development is lagging behind, with the eligibility criterion remaining as before.⁵
2. Support for the economic and social conversion of areas facing structural difficulties, including areas undergoing economic and social change in the industrial and service sectors, declining rural areas, urban areas in difficulty, and depressed areas dependent on fisheries.

⁵ Areas eligible under Objective 6 for the period 1995–1999 can also be supported under the new Objective 1.

3. Support of adaptation and modernization of policies and systems of education, training and employment.

The appropriations for these appear in *Table 3*.

Table 3
Appropriations of the Structural Funds for the EU-15
for the period 2000–2006, million Euros, 1999 prices

Objectives	Appropriations
1. Underdeveloped regions ^a	135,900
2. Economic and social conversion of areas facing difficulties	22,500
3. Adaptation and modernisation of policies and systems of education, training and employment	24,050
Community initiatives	9,750
Technical assistance, innovative actions and other expenses	2,810
Total	195,010

^a Current NUTS II-level regions whose GDP per capita (at PPP) is less than 75 per cent of the EU-average may be entitled to support under the general rules, if the condition is met in the three-year period before the application.

Source: European Council (1999), pp. 11–14, and own calculations.

Tables 2 and 3 show the distribution by policy objectives of appropriations for the Structural Funds in the periods 1994–1999 and 2000–2006 (including the amounts for Community initiatives). It is apparent that Objective 1 has the biggest weight among the policy objectives.⁶ The concentration in the number of policy objectives, however, does not really mean that the focus of regional policy has been narrowed – the earlier policy objectives have been amalgamated under fewer points. The efficiency has to be ensured by stricter application of eligibility criteria.⁷ The allocation of resources among the member states is based on the following criteria for the three objectives:

1 and 2. An eligible population, regional prosperity, national prosperity and the severity of structural problems (especially the level of unemployment). An appropriate balance is to be struck between regional and national prosperity.

3. An eligible population, employment situation, severity of the problems (social exclusion, education and training levels, participation of women in the labour market) with relative weighting.

To ensure efficient absorption, the total amount of the transfers from the Structural Funds and Cohesion Fund received by a member-state in any year may not exceed 4 per cent of its national GDP (at market exchange rates). This is important, because of the contribution (co-payment) principle. With Objective 1, a maximum of 75 per cent (in some exceptional cases, 80 and 85 per cent) of the eligible costs can be financed by Structural Funds transfers, and with Objectives 2 and 3, a maximum of 50 per cent.

The financial prospects for the EU 15 in the period 2000–2006 appear in *Table 4*. *Table 5* shows a hypothetical financial framework for an EU of 21 members. Both tables rely on the working hypothesis that five CEE countries (the Czech Republic, Estonia, Hungary, Poland and Slovenia) and Cyprus would join the EU in 2002. If that is not the case, the financial prospects of the EU 15 remain practically unchanged, except for the amounts available for accession. The financial framework of the EU 21 (which is only indicative) should be adjusted according to the actual number of acceding countries, voted for by qualified majority by the Council.

The EU provides pre-accession aid for all 10 CEE candidate countries, with the prospect of gradually increasing amounts of mainly structural transfers after accession. The amounts the EU is ready to provide have been the subject of several debates and they are far from sufficient to cover the necessary adjustments by the CEE countries. Much depends on the institutional absorption ca-

⁶ It is important to note that as a rule, a region may receive support under only one objective in a specific time-period.

⁷ The long list of ‘particular situations’ making transitional support necessary in the period 2000–2006 sheds doubts about whether there has been a real change of EU practice in this respect.

Table 4
Financial perspective for the EU 15, 2000–2006, million EUR, 1999 prices

Appropriations for commitments	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	40,920	42,800	43,900	43,770	42,760	41,930	41,660
CAP expenditure (excluding rural development)	36,620	38,480	39,570	39,430	38,410	37,570	37,290
Rural development and accompanying measures	4,300	4,320	4,330	4,340	4,350	4,360	4,370
2. STRUCTURAL OPERATIONS	32,045	31,455	30,865	30,285	29,595	29,595	29,170
Structural Funds	29,430	28,840	28,250	27,670	27,080	27,080	26,660
Cohesion Fund	2,615	2,615	2,615	2,615	2,515	2,515	2,510
3. INTERNAL POLICIES	5,900	5,950	6,000	6,050	6,100	6,150	6,200
4. EXTERNAL ACTION	4,550	4,560	4,570	4,580	4,590	4,600	4,610
5. ADMINISTRATION	4,560	4,600	4,700	4,800	4,900	5,000	5,100
6. RESERVES	900	900	650	400	400	400	400
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Guarantee reserve	200	200	200	200	200	200	200
7. PRE-ACCESSION AID	3,120	3,120	3,120	3,120	3,120	3,120	3,120
Agriculture	520	520	520	520	520	520	520
Pre-accession structural instrument	1,040	1,040	1,040	1,040	1,040	1,040	1,040
PHARE (applicant countries)	1,560	1,560	1,560	1,560	1,560	1,560	1,560
TOTAL APPROPRIATIONS FOR COMMITMENTS	91,995	93,385	93,805	93,005	91,465	90,795	90,260
TOTAL APPROPRIATIONS FOR PAYMENTS	89,590	91,070	94,130	94,740	91,720	89,910	89,310
Appropriations for payments as a proportion of GNP	1.13%	1.12%	1.13%	1.11%	1.05%	1.00%	0.97%
AVAILABLE FOR ACCESSION (appropriations for payments)			4 140	6 710	8 890	11 440	14 220
Agriculture			1 600	2 030	2 450	2 930	3 400
Other expenditure			2 540	4 680	6 440	8 510	10 820
CEILING ON APPROPRIATIONS FOR PAYMENTS	89 590	91 070	98 270	101 450	100 610	101 350	103 530
Ceiling on appropriations for payments as a proportion of GNP	1.13%	1.12%	1.18%	1.19%	1.15%	1.13%	1.13%
Margin	0.14%	0.15%	0.09%	0.08%	0.12%	0.14%	0.14%
Own resources ceiling	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%

Source: European Council (1999), Table A, p. 26.

capacity of the recipient countries, which showed deficiencies in the first decade of PHARE assistance. The utilization of the pre-accession transfers will provide a good test for preparing national systems to cope with the far greater scope afforded by the Structural Funds transfers.

This brief summary of the framework of EU regional policy shows that the issue is considered highly important by the Union. The growing importance attached to the regions can also be felt in EU politics, for instance in the activity of the Committee of the Regions. This 222-member institution, set up by the Maastricht Treaty of 1992, represents the regions and LGOs of the EU member-states. Although it is only consultative, its inception has marked a qualitative

step in representing the regions in EU policy-making. It has the right of consultation with the Council and the European Commission on several questions (e.g. regional policy, education and training, the Trans-European networks, and cultural policy) and the right to place issues on its agenda independently. Another sign that regional and local issues are gaining importance is the Community principle of subsidiarity, introduced by the Maastricht Treaty: all decisions should be taken at the lowest possible level, where the requirements of optimal information are best met, and the responsibility for and consequences of the decisions are best defined and identified. The Community should only have decision-making competence on issues where it cannot be

Table 5
Financial framework of the EU 21, 2000–2006, million EUR, 1999 prices

Appropriations for commitments	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	40,920	42,800	43,900	43,770	42,760	41,930	41,660
CAP expenditure (excluding rural development)	36,620	38,480	39,570	39,430	38,410	37,570	37,290
Rural development and accompanying measures	4,300	4,320	4,330	4,340	4,350	4,360	4,370
2. STRUCTURAL OPERATIONS	32,045	31,455	30,865	30,285	29,595	29,595	29,170
Structural Funds	29,430	28,840	28,250	27,670	27,080	27,080	26,660
Cohesion Fund	2,615	2,615	2,615	2,615	2,515	2,515	2,510
3. INTERNAL POLICIES	5,900	5,950	6,000	6,050	6,100	6,150	6,200
4. EXTERNAL ACTION	4,550	4,560	4,570	4,580	4,590	4,600	4,610
5. ADMINISTRATION	4,560	4,600	4,700	4,800	4,900	5,000	5,100
6. RESERVES	900	900	650	400	400	400	400
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Guarantee reserve	200	200	200	200	200	200	200
7. PRE-ACCESSION AID	3,120	3,120	3,120	3,120	3,120	3,120	3,120
Agriculture	520	520	520	520	520	520	520
Pre-accession structural instrument	1,040	1,040	1,040	1,040	1,040	1,040	1,040
PHARE (applicant countries)	1,560	1,560	1,560	1,560	1,560	1,560	1,560
8. ENLARGEMENT			6,450	9,030	11,610	14,200	16,780
Agriculture			1,600	2,030	2,450	2,930	3,400
Structural operations			3,750	5,830	7,920	10,000	12,080
Internal policies			730	760	790	820	850
Administration			370	410	450	450	450
TOTAL APPROPRIATIONS FOR COMMITMENTS	91,995	93,385	100,255	102,035	103,075	104,995	107,040
TOTAL APPROPRIATIONS FOR PAYMENTS	89,590	91,070	98,270	101,450	100,610	101,350	103,530
<i>of which: enlargement</i>			<i>4,140</i>	<i>6,710</i>	<i>8,890</i>	<i>11,440</i>	<i>14,220</i>
Appropriations for payments as a proportion of GNP	1.13%	1.12%	1.14%	1.15%	1.11%	1.09%	1.09%
Margin	0.14%	0.15%	0.13%	0.12%	0.16%	0.18%	0.18%
Own resources ceiling	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%

Source: European Council (1999), Table B, p. 27.

exercised at least as efficiently at country or regional level.

The prospect of Eastern enlargement raises several questions about the sophisticated system of EU regional policy. It is crucial to know whether EU policy objectives and instruments are adequate to handle the problems of the entrants, or whether they should be redefined. Attention also has to be paid to the design and content of the structural-policy actions taken by the CEE countries.

The experience in the EU has been that richer member-states also benefit considerably from transfers to poorer member-states and regions, and this is likely to remain so. This is not a problem in itself, but care should be taken to prevent the interests of the incumbent member-states becoming exclusive determinants of structural-policy

transfers towards the new member-states. Expression of the interests of the entrants requires considerable preparatory efforts by them to elaborate their own, EU-compatible framework for creating and strengthening public administration and the overall institutional background of regional policy. These aspects are discussed in the following chapter, from the point of view of the regional-policy priorities of the CEE countries.

2. ISSUES IN THE CANDIDATE COUNTRIES

Compared with the economic-development level of the EU, all CEE candidate countries are underdeveloped. The prospect of accession means that the development policies of these countries have to contribute to diminishing the gap, in line with EU policy objec-

tives. On the other hand, the CEE group shows considerable development differences across countries, so that the importance of the development gap is not equal. Finally, the CEE countries show considerable regional disparities (*Table 6*). These, measured in some basic economic indicators, are greater than those within present EU member states. So the development policy in these countries cannot concentrate solely on diminishing the development gap overall. It has to take into account important regional aspects as well.

Table 6
Per capita GDP in the ten CEE candidate countries,
as a percentage of the EU average

Country and year	Average for country	Richest region*	Poorest region*
Bulgaria (1965)	28	34	25
Czech Republic (1996)	65	120	49
Estonia (1996)	34	51	22
Poland (1998)	37	55	25
Latvia (1996)	26	37	16
Lithuania (1994)	29	35	22
Hungary (1996)	47	70	33
Romania (1995)	32	44	26
Slovakia (1997)**	47	105	36
Slovenia (1996)	67	84	50

* According to various definitions of regions.

** In PPP terms.

Methodological remark: Due to differences in the probably various definitions of regions taken into account in the Progress Reports (without a specific description in all cases), the data are to be evaluated cautiously.

Source: EC (1999).

Regional policy is not something new in the CEE countries. Before the transition, it was marked by central decision-making, which regions were generally affected by national industrialization plans. The methods were generally direct, leaving little scope for local initiatives to influence the central decisions, which were often politically motivated. Such regional policies failed to address the dual challenge that already presented itself in development policy: overall underdevelopment versus regional disparities.

In the early years of the transition, both challenges were aggravated by the fundamental economic changes taking place in the CEE countries. Studies of regional development in several CEE countries have

shown that this development was generally marked by divergence and consequently increasing disparities. *Table 7* presents findings by Petrakos (1999) that highlight some striking features and point to some exceptions to the trends. While the relatively low level of economic development in the CEE countries is an important reason for the trends, some of the disparities derive from differences between the CEE countries. At the same time, the situation of the regions within countries has growing importance and is worth briefly discussing here.

Regional economic differences are generally bigger in countries with a single outstandingly important economic centre. In all such mono-centric CEE countries, the centre is the capital and its direct environment. Due to the structure of the economy and a relatively high level of infrastructural development, these central regions profit most from the economic development of the country and show the best results for GDP growth, investment (including foreign direct investment), employment rates and wage levels. The development chances in other regions are far worse, apart from some specific cases to be discussed in the following paragraph. In countries where the economy is not so centralized, the existence of a number of economic centres of about the same order of magnitude makes for less unevenness of regional development.

The capitals of CEE countries with a single centre are not the only regions in a favourable situation. Regions along the borders of countries such as the Czech Republic, Hungary, Poland, Slovenia, which are adjacent to developed EU countries, have undergone spectacular development in the last decade. This is reflected in their basic economic indicators and will probably continue on the long term, since it has an integral basis in traditional links revived after the change of system and backed also by the adjacent border regions of the EU countries concerned.

This development affects western regions of the most developed CEE countries. If any of these countries enter the EU before

Table 7
Indicators and measures of regional disparity at NUTS III level,
in Poland, Hungary, Romania and Bulgaria

Indicators	Measures	Poland		Hungary		Romania		Bulgaria	
Average wages	<u>Years</u>	<u>1989</u>	<u>1995</u>	<u>1990^a</u>	<u>1994^a</u>	<u>1994</u>	<u>1995</u>	<u>1989^b</u>	<u>1995^b</u>
	-								
	σ/X	0.13	0.16	0.09	0.14	0.11	0.11	0.07	0.16
	max/min	1.55	1.59	1.32	1.53	1.59	1.69	1.42	1.62
	β -convergence		+/-0.21		+/-0.22		-/-0.17		+/-0.02
Gross regional product per capita	β -density		+/-0.60		+/-0.68		+/-0.35		+/-0.54
	<u>Years</u>	<u>1992</u>	<u>1995</u>	<u>1994</u>	<u>1996</u>		<u>1994</u>		<u>1996</u>
	-								
	σ/X	0.32	0.38	0.49	0.51		0.16		0.86
	max/min	3.38	3.48	3.05	3.26		1.80		7.02
Industrial production per 1000 inhabitants	β -convergence		-/-0.07		+/-0.22				
	β -density		+/-0.58		+/-0.71		+/-0.42		+/-0.54
	<u>Years</u>	<u>1992</u>	<u>1995</u>			<u>1990</u>	<u>1994</u>	<u>1989</u>	<u>1995</u>
	-								
	σ/X	0.61	0.57			0.38	0.49	0.32	0.55
Investment per capita	max/min	12.74	11.40			4.95	8.06	4.56	6.27
	β -convergence		-/-0.32				+/-0.39		+/-0.09
	β -density		+/-0.61				+/-0.31		+/-0.23
	<u>Years</u>	<u>1989</u>	<u>1995</u>	<u>1991</u>	<u>1994</u>	<u>1989</u>	<u>1991</u>		
	-								
Foreign direct investment per capita	σ/X	0.16	0.56	0.45	0.62	0.67	0.49		
	max/min	1.85	4.69	4.82	4.10	6.71	5.91		
	β -convergence		+/-0.28		-/-0.28		-/-0.63		
	β -density		+/-0.51		+/-0.67		+/-0.18		
	<u>Years</u>	<u>1993</u>	<u>1995</u>	<u>1993</u>	<u>1996</u>	<u>1989–1996</u>			<u>1996</u>
	-								
	σ/X	1.92	2.11	2.09	1.59	2.75			2.59
	max/min	631.59	1430.87	22.58	23.23	210.16			611.49
	β -convergence		-/-0.45		-/-0.13				
	β -density		+/-0.45		+/-0.66	+/-0.35			+/-0.24

a Wages in industry.

b Wages in the public sector.

Methodological notes: σ/X is the population-weighted standard deviation of a given variable divided by its mean value (coefficient of regional variation or σ -convergence coefficient). *max/min* is the ratio of the maximum to the minimum regional value of a given variable. β -convergence is a coefficient estimated from the regression $y_t/y_0 = a + \beta y_0 + e$, where y_0 is the value of a variable at the beginning of a period, and y_t is the value of the same variable at the end of that period. y_t/y_0 indicates the growth of the variable in the (0, t) period. $\beta > 0$ implies that regions with a higher initial value of the y variable tend to have a higher growth performance of that variable (regional divergence). $\beta < 0$ implies that regions with a lower initial value of the y variable tend to have a higher growth performance of that variable (regional convergence). β -density is the slope coefficient of a given variable on regional population density. A positive value implies that regions with a higher population density have higher levels of the variable, a negative value that regions with a higher population density have lower levels of the variable.

Source: Petrakos (1999).

any of their neighbours, the effect is likely to recur along the new EU borders. However, it involves the most developed regions of the most developed CEE countries, which increases the developmental differentiation within and among them.

Regional policy-makers in the CEE countries in the 1990s were dealing with problems that derived from the economic policies of the 40-year period before the transition, including the development policies of those years. Meanwhile they also

faced the new challenges associated with prospective EU accession.

The legacy was indeed a grave one. On the one hand, the measures taken in most CEE countries before the transition sufficed only to prevent a sharp increase in regional disparities. The funds and the policy instruments were not enough to decrease them. The CEE countries at the beginning of the 1990s contained regional disparities comparable to those of Western Europe, but at a

much lower overall level of economic development.

tives. These are drawn up under an institutional infrastructure altered by the general economic and political changes and by the prospects of EU accession.

Table 8
Regional development programmes in the CEE countries included in the 'first wave' of entry negotiations with the EU

Country	Programmes
Czech Republic	Regional support programmes for individual regions
Estonia	Programme for peripheral areas Programme for mono-functional settlements Programme for islands Programme for the Setumma region (eastern Estonia) Programme for south-eastern Estonia Programme for north-eastern Estonia (Ida Viru) Programme for the border region Programme for rural and community development
Hungary	Targeted Budgetary Allocation for Regional Policy (TBARD – cross-sectoral support for economic/social infrastructure projects in various target areas) Spatial Equalization Financial Assistance (SEFA – support for projects undertaken by local governments in priority areas designed by County Development Councils)
Poland	State budget special funds
Slovenia	Targeted regional development budget line and Regional Development Fund support for municipalities in demographically endangered areas

Source: Bachtler (1999).

On the other hand, some regions in the CEE countries had been substantially altered by the development policies before the transition. Spatial development projects had generally been sectoral, concentrating on developing specific branches, often of heavy industry. Most regions that had undergone such development had found themselves in a very difficult situation by the beginning of the 1990s, if not earlier. It was obvious that the industrial structures created in the decades of central planning had little chance for survival in an open, market economy. Having been the favoured targets of politically driven development, these regions faced serious economic and social problems: declining industries, massive unemployment and a weak basis for restructuring.

Consequently, regional policies in the CEE countries in the 1990s have been concerned mainly with the legacy of the previous political and economic system. At the pertaining level of development and with often increasing regional disparities, both efficiency and equalization appear as objec-

The general situation just described means that regional policy in most CEE countries shows features from the past, but some important changes as well. The policy instruments can be grouped into two main categories. Regional development programmes for regions facing difficulties receive the majority of the funding. Examples are shown in *Table 8*. The regional aid schemes to enterprises (*Table 9*) often apply also to regions in economic and social difficulties.

Table 9
Regional aid schemes for firms in the CEE countries included in the 'first wave' of entry negotiations with the EU

Country	Programmes
Czech Republic	REGION – interest-rate subsidy for SMEs in structural change districts ROZVOJ (Development) – interest-rate subsidy for SMEs in structural change districts PREFERENCE – loan support for small firms in structural change areas VILLAGE – SME formation and development support in smallest villages
Estonia	Regional Development Loan Regional tax incentives
Hungary	Regional tax incentives
Poland	Regional tax incentives (special economic zones)
Slovenia	Tax concessions; soft loans for business investment

Source: Bachtler (1999).

A major aspect of the changing institutional infrastructure is the increasing importance given to local and regional levels. This is a natural consequence of the transition to the market economy, and of harmonization with EU regional policies. Encouraging local and regional initiatives is

very important in the CEE countries, where the scope for this was very limited during the decades of central planning. However, it is quite probable that the role of the central authorities will remain greater in the CEE countries than it is in most EU countries.⁸

Decentralizing the institutional structure of regional policy has already begun,

with some institutions are already operational in most CEE countries. By the end of the 1990s, the main elements of the institutional system of regional policy implementation had been elaborated in these countries. (*Table 10* gives an overview of the institutional structures.) The functioning of regional policy – in line with the principles

Table 10
The institutional structure of regional policy in the CEE countries

Country	Ministry	National implementation bodies	Sub-national bodies
Bulgaria	Regional Development and Public Works	Council for Regional Development	Regional administrations
Czech Republic	Regional Development	Centre for Regional Development National Programming and Monitoring Committee for Economic and Social Cohesion	Regional development agencies
Estonia	Internal Affairs	State Regional Policy Council Estonian Regional Development Agency	County governments LGOs
Hungary	Agriculture and Regional Policy	National Regional Development Council	Regional development councils County development councils
Latvia	Environmental Protection and Regional Development	Regional Development Council	
Lithuania	Public Administration Reforms and Local Authorities	National Agency for Regional Development	Regional development agencies
Poland	Economy		Regional governments Regional development agencies
Romania		National Board for Regional Development National Agency for Regional Development	Regional development boards Regional development agencies
Slovakia	Construction and Public Works	National Agency for Regional Development	Regional development agencies
Slovenia	Economic Relations and Development	Council for Structural Policy National Regional Development Agency Fund for Regional Development and the Preservation of Rural Settlements	Regional development agencies

Source: EC (1999).

General remark: Some elements of the institutional structures were not yet operational by October 1999, the date of the data source.

⁸ According to Gyula Horváth, two basic strategies of regional policy are conceivable in the CEE countries: a policy with a decentralized institutional structure, but a dominant role for the state, or a policy based on regional initiatives and decentralization of the instruments of the state's commitments. The latter is characteristic in Western Europe today. Since some conditions for such a policy are lacking, the probable

and practice in the EU – is an important aspect of the evaluations made by the European Commission of the candidate countries' progress. Although important steps have been taken in most countries, there are

pattern in most CEE countries is a mixture of the two strategies (Horváth, 1998, p. 22).

considerable differences between them and they are still far from meeting all the EU requirements or recommendations. (See *Table 11* for specific examples.)

tries are very limited.⁹ Another important feature is the general centralization of the budgetary allocations. As the data in *Table 12* show, the proportion of sub-national

Table 11
The European Commission's regional-policy recommendations for the CEE countries

Task	Bulgaria	Czech Republic	Poland	Hungary	Romania	Slovakia	Slovenia
Legislation	•	•	•		•	•	•
Build-up of institutions	•	•	•		•	•	•
Strengthening coordination between existing institutions	•	•	•	•	•	•	•
Creating financial instruments for territorial development	•	•	•		•	•	
Coordination of resources	•	•	•	•	•	•	•
Control	•	•	•	•	•	•	•
Regional statistics	•	•	•		•	•	

Source: Enlarging the European Union. Accession Partnership, Brussels: European Commission, DG 1A, 1998, quoted in: Horváth (1998), p. 22 (table prepared by Horváth).

It is worth noting that the differences between countries do not necessarily relate to their 'first-wave' or 'second-wave' status in terms of EU accession. The adoption of the 'regatta' principle by the European Council in Helsinki in December 1999 and the opening of accession talks with the 'second-wave' countries have given them considerable incentives to enhance their restructuring in this field.

One basic question, of course, is whether the framework of regional policies in the EU is adequate to meet the regional-policy challenges in the CEE countries. (Analyses show that these policies have not always attained their objectives in the EU countries, either.) Even if this question cannot be decided at present, the EU structural-policy framework certainly provides better chances of doing so than the CEE countries would have otherwise: more adequate institutional models and more abundant (if still insufficient) funding.

The financial resources for implementing regional policies in the CEE coun-

tries are very limited. Another important feature is the general centralization of the budgetary allocations. As the data in *Table 12* show, the proportion of sub-national

Table 12
The proportions of total public expenditure and total tax revenue in the hands of sub-national government, %

	Public expenditure		Tax revenue	
	1990	1997	1990	1997
Bulgaria	18.9	15.7	22.4	11.8
Czech Republic	-	21.3	-	12.3
Estonia	34.8	22.4	26.5	14.2
Hungary	20.6	23.7	7.6	8.9
Latvia	-	25.8	-	15.8
Lithuania	30.4	22.6	14.4	16.2
Poland	-	22.0	21.3	9.6
Romania	15.4	13.3	12.8	9.2

Source: World Bank (1999): World Development Report 1999/2000, pp. 216–217 (no figures available for Slovakia and Slovenia). in: Brusic (1999), p. 15.

⁹ According to a recent article on regional policy in five CEE countries (the Czech Republic, Estonia, Hungary, Poland and Slovenia), expenditure on regional policy lies in a range of 0.03–0.2 per cent of national GDP, which implies a per capita expenditure of ECU 1.3–8.0 (Bachtler and Downes, 1999, p. 804).

Pre-accession EU financial transfers to the CEE countries may change this situation, but for this to happen, the potential recipients will have to make considerable efforts to ensure sufficient administrative capacity and make available the budgetary co-payments required. This will become even more important after accession, when the EU structural-policy transfers will probably be of a greater order of magnitude (according to the figures in Tables 4 and 5). It was pointed out in Chapter 1 that the way pre-accession transfers are utilized provides an important test of the public administration and the institutional background for regional policy in recipient countries.

The country distribution of the money additional to continuing PHARE support, to be provided by the EU for the preparation of candidates for membership (the Pre-accession Funds), became public in mid-1999. According to their objectives, these funds divide into two categories. Support under SAPARD (the Special Accession Programme for Agriculture and Rural Development) aims at helping to finance projects in various fields of agriculture and rural development, while support under ISPA (the Instrument for Structural Policies Pre-accession) is designed to help in the fields of environment protection and infrastructure. Entitlement to EU support from these Pre-accession Funds calls for a co-payment by the recipient (except with specific parts of the projects), as *Table 13* shows.

Table 13
Levels of support from pre-accession EU funding

ISPA	SAPARD
Generally a maximum of 75 per cent of the total public expenditure related to the project (in exceptional cases a maximum of 85 per cent)	Generally a maximum of 75 per cent of the total costs of a development project
Preliminary studies, expert assistance: 100 per cent (up to a maximum of 2 per cent of the total cost of the project)	In the case of technical assistance: 100 per cent.

Source: European Commission, quoted in *Figyelő* (Observer), 2–8 September 1999, p. 31.

SAPARD differs from the PHARE scheme in that the selection of projects is the task of the recipient country and the EU participates only in *ex post* control. With ISPA, projects have to be coordinated with the European Commission from the outset. The difference may be because SAPARD imposes no minimum volume for a project to qualify for support, while for ISPA, the minimum is 5 million Euros. Making the most efficient use of these financial frameworks, which are much greater than the PHARE frameworks before them, calls for great efforts by recipient countries to ensure coordination, control and monitoring. This is a major test of the EU compatibility of their public administration and its potential ability to handle probably much bigger transfers after EU accession.

The country distribution of the financial framework of support for 2000–2006 appears in *Tables 14* and *15*. With SAPARD, specific annual amounts are provided, while with ISPA (due to the greater volume of projects to be supported) bands are shown, within the percentages of the total support for all recipients. The average of the yearly ISPA support over the period 2000–2006 is planned to be in the middle of these bands in the case of all recipient countries.

The distribution of the Pre-accession Funds by recipient countries has been made public by the European Commission, based on criteria set by the EU Council of Ministers. These were as follows:

For SAPARD:

- * Number employed in agriculture.
- * Extent of the agricultural area.
- * GDP per capita at PPP.
- * ‘Special’ geographical situation.

For ISPA:

- * Population of the recipient country.
- * Territory of the recipient country.
- * GDP per capita at PPP.

The country distribution of the financial framework of support for 2000–2006 appears *Tables 14* and *15*. With SAPARD, specific yearly amounts are provided, while

with ISPA (due to the greater volume of projects to be supported) bands have been shown (as percentages of the total support for all recipients). The average of the annual ISPA support for 2000–2006 is planned to be in the middle of these bands for all recipient countries.

Table 14
The distribution of EU SAPARD resources by recipient countries, annual amounts over the period 2000–2006, EUR 1000, 1999 prices

Bulgaria	52,124
Czech Republic	22,063
Estonia	12,137
Poland	168,683
Latvia	21,848
Lithuania	29,829
Hungary	38,054
Romania	150,636
Slovakia	18,289
Slovenia	6,337
TOTAL	520,000

Source: European Commission, quoted in *HVG* (Weekly World Economy), 14 August 1999, p. 110.

Table 15
Distribution of EU ISPA resources by recipient countries, percentage shares in period 2000–2006, 100% = EUR 1040 billion p.a. at 1999 prices

Bulgaria	8 – 12
Czech Republic	5.5 – 8
Estonia	2 – 3.5
Poland	30 – 37
Latvia	3.5 – 5.5
Lithuania	4 – 6
Hungary	7 – 10
Romania	20 – 26
Slovakia	3.5 – 5.5
Slovenia	1 – 2

Source: European Commission, quoted in *HVG*, 14 August 1999, p. 115.

While the criteria for distributing the financial framework are known, the specific calculations, based on which support frameworks for each recipient have been established, have not been made public by the European Commission. This means that the recipients do not have a chance of ‘checking’ the calculations by the European Commission. Furthermore, the criterion of a ‘special geographical situation’ is not necessarily an objective one – such criteria,

which play a role in the distribution of Structural Funds within the EU are also a matter of debate within the EU.

Transfers from the Structural Funds to CEE countries, after accession, offer greater prospects, although the data in Tables 4 and 5 show that the inclusion of the new entrants in the financial framework for structural policies will be gradual. To make effective use of these prospects, the CEE countries will have to meet the financial and institutional conditions set by the EU, which have been discussed already, and ensure precise, up-to-date information and the active involvement of all the partners concerned. These questions form the subject of the final chapter.

3. PROPOSALS FOR DEVELOPING REGIONAL POLICY

The basic framework of EU regional policy and the features of regional policy in the CEE countries, outlined in the preceding chapters, point to some general recommendations for the EU candidate countries and more specific proposals for LGOs and NGOs.

First among the general recommendations must be to define strategic objectives and corresponding regional-policy tools. This has to be done in a way that takes into account the situation in individual countries, but all CEE countries should, in their own interest, apply EU regional-policy principles. The legacy of earlier regional-development policies will probably remain even in the longer term, because of the complexity of tasks they raise, but a gradual policy transformation is required, with more emphasis on regional and local initiatives,

Such a transformation of regional policy in the CEE countries is an important requirement for efficient absorption of EU financial resources. The basic principles of EU structural policy – concentration of financial resources, programming, partnership, and contribution – have to be applied to the whole process of regional policy-making at national level. This requires so-

phisticated coordination of actions, so that overlapping or redundancy in programmes can be avoided. Only if these principles are respected can there be a real prospect of integral adaptation to EU structural policies.

There are also institutional requirements for such adaptation. CEE countries have begun to develop their institutional infrastructures, what in most cases means reorganizing old structures, including the creation of new territorial levels of competency, but the process has reached very different stages in different countries. It is crucial to the effectiveness of the system that the new institutions have clear functions and responsibilities, as well as corresponding human, infrastructural and financial resources. Only then can the principle of subsidiarity, a key word in European integration since the early 1990s, apply.

Although the rules of the game are decided centrally, local initiative is crucial to successful exploitation of the possibilities of EU transfers from the Pre-accession Funds, and from the structural policies of the Union after accession. The attitude of LGOs can be decisive in this respect, while NGOs can act as a catalyst. The following paragraphs cover some specific areas where their involvement is particularly important.

Adequate information about the financial opportunities available through the EU is a precondition for efficient use of them. Both LGOs and NGOs can encourage local initiatives by collecting, disseminating and explaining information of this kind. To obtain up-to-date information, they need to strengthen their ties with the regional and central authorities at home and with information sources in the EU. This means monitoring announcements and tenders and disseminating information about them to potentially interested local partners.

This all calls for a network of local partners potentially interested in participating in structural-policy programmes. To create such a network, it is necessary to provide preliminary information about what it can offer to those joining it. Once in place, the network will allow a two-way flow of

information, in which LGOs and NGOs can play a coordinating role. These could be helpful in articulating and coordinating local initiatives, also towards regional and national authorities having competency in regional development.

Successful applications for EU support require more than good ideas. Local participants often need help with technical details (filling in complicated application forms or combating language problems). It is worth reiterating here that to answer very practical questions, LGOs and NGOs need to strengthen their relations with the regional, national and EU authorities responsible for coordinating and executing structural-policy programmes. This also calls for a positive attitude by these authorities towards local initiatives. (This is often not the case in the CEE countries due to the mental legacy of central planning in the CEE countries, coupled with the disputes over decision-making competence.) Some issues of a purely technical nature need distinctly emphasizing here:

- * Precise, up-to-date information is needed about the conditions for participating in development projects supported by the EU. The statistical data required to fulfil eligibility criteria should be available on the administrative level corresponding to the programme concerned, in accordance with the requirements of the Pre-accession Funds, and after accession, of the objectives of the Structural Funds. Those keen to participate in implementing the programme should also be able to provide required information about themselves, in a structure corresponding to EU regulations.
- * Precise, up-to-date information is required about the overall legal framework of structural-policy support in the EU and the recipient countries. This can be formulated more simply from the point of view of local actors potentially involved in development programmes: information is required on the purposes for which EU financial support can be obtained, as well as when and how it is obtainable. Other

details of importance include information about the local, regional and central (national) financial resources required for co-payments.

- * Precise and up-to-date information about the concrete mechanisms of EU support. Such an information is necessary about the concrete implementation of the principles of concentration, programming, partnership and contribution, in order to provide a clear view to the potentially involved local actors about the financial commitments related to such a programme. Further important aspects include information about the timing of the payments of EU-transfers (only a part of the money arrives with the first instalment) and about the rules of equipment purchase (in the framework of EU programmes, only equipment of EU or CEE origin can be purchased).

LGOs have to be active in providing the conditions for participation in projects. They can also contribute to coordinating and implementing them. This calls for a medium-term financial framework. (The conditions depend on the situation in each country, where LGOs are financially dependent to different degrees on the central budget. In general, they are none too favourable.)

NGOs can also have positive effects on specific steps in the process of elaborating, coordinating and implementing programmes and applying for EU support. They can act as catalysts for developing ideas, in line with EU requirements, local interests and special circumstances, and ensuring that the funds obtained are employed efficiently. They can also be very useful in preparing feasibility studies. NGOs with an efficient network of partners can be active as brokers, finding partner enterprises or sponsors, so that the co-payment criteria for programmes are fulfilled. Intensive links with local, regional and central (national) state authorities can also be helpful in this respect.

On the coordination side, NGOs can help to avoid overlap in applications for

funds, by contributing to the information flow about programmes under preparation. Communication between NGOs operating in the same field is also important here if the financial framework provided by the EU is to be employed effectively. Apart from the professional content of programmes, there are also formal (administrative) requirements to be met, such as the preparation of interim reports according to EU requirements. Again, the information disseminated or specific assistance provided by NGOs could prove valuable.

NGOs lack traditions in the CEE countries, compared with Western Europe. This means they are relatively inexperienced and less readily appreciated or received by the public, although there are variations between countries in this respect. Scarcity of financial resources is often another factor limiting their activity and impeding the attainment of their objectives.

Although it is hard to find remedies for these problems, there are some ways to increase the efficiency of NGOs, applicable to the field of regional development as well. Experience in the present EU member-states can be useful in creating and developing the knowledge base that NGOs in the CEE countries require. This includes experience in preparing and running regional development programmes in the EU.

Since the experience of NGOs involved in assisting such programmes in the EU could be extremely useful to their counterparts in the CEE countries, relations between NGOs in the two groups of countries should be strengthened. With an enlarged knowledge base, greater attention could be gained for EU accession through the initiatives of NGOs in this field, because the financial resources available for regional policy make it one of the areas to which there is public attention, although it is still not enough. Successful initiatives and active networks of partners could also help in the long term to relieve the tight financial situation in which the NGOs of the CEE countries operate.

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