Bulgaria’s and Romania’s absorption capacity for EU Structural and Cohesion Funds

Thesis

Author:
Name: Helen Becker
Student Number: 20043699
Class: 3 ES 5

Place of Internship:
German Federal Ministry of Economics and Technology

Placement supervisor at the ministry:
Ministerialrat Hans Henner Vaubel

Thesis supervisor at the ministry:
Ministerialrat Helge Tolksdorf

HEBO-thesis supervisor:
Mrs. Antje Grebner

HEBO-second reader:
Mrs. Kitty Triest
I want to express my gratitude for the support I have received from the Federal Ministry of Economics and Technology throughout the entire writing process. Special thanks go to Mr. Tolksdorf, vice-chairman of the German-Bulgarian and German-Romanian Cooperation-Councils whose expertise, input and feedback have been of great value.

Helen Becker
List of Acronyms ........................................................................................................................ 3

1 Introduction ............................................................................................................................ 4

1.1 Some Disturbing Figures 4
1.2 Focus of the Report 5
1.3 Structure of the Report 5
1.4 Defining the Key-Term 6

2 Structural and Cohesion Funds: the Revised System .......................................................... 8

2.1 Objectives 8
2.2 Instruments 9
2.3 Key Principles 10
2.4 Financing 11
2.5 Policy Stages 11

3 Bulgaria and Romania in the Broad European Context ...................................................... 15

3.1 Outline of the Accession Process 15
3.2 Conditions of accession 16
  3.2.1 Normal Safeguard Clauses ............................................................................................. 16
  3.2.2 Additional Safeguard Clauses ......................................................................................... 18
  3.2.3 Transitional Measures ..................................................................................................... 18
3.3 Current Social and Economic Situation 20

4 Pre-Accession Structural Policy ............................................................................................ 23

4.1 Principles and Instruments 23
4.2 Actors and Procedures 23
4.3 Absorption Rates 24
4.4 Problems Encountered 25
  4.4.1 Macroeconomic difficulties ........................................................................................... 25
  4.4.2 Administrative deficits .................................................................................................... 26
  4.4.3 Financial obstacles ......................................................................................................... 26

5 Post-Accession Structural Policy .......................................................................................... 28

5.1 Funds Available 28
5.2 Operational Programmes 28

6 Experiences with Cohesion Policy in the Member States joining the EU in May 2004 31

6.1 Basis of Comparison 31
6.2 Empirical Values 32

7 Economic Opportunities for German SMEs .................................................................. 34

7.1 General Considerations 34

7.2 The German Competitive Edge 34
  7.2.1 Political and Historical Factors ..................................................................................... 34
  7.2.2 Economic and Institutional Factors ............................................................................... 35

8 Recommendations and Conclusions ..................................................................................... 38
8.1 Learning from Previous Enlargement Rounds
  8.1.1 Surprises in Eastern Europe .................................................. 38
  8.1.2 Unexpected Progress in the West ....................................... 38
8.2 Future reforms in Bulgaria and Romania ............................... 39
8.3 Concessions Made by the EU ............................................... 40
8.4 German Expertise ................................................................. 40
8.5 Reminder for the Future ......................................................... 41
8.6 Concluding remark ............................................................... 41

Annex 1: Map of Areas Benefiting from Structural Funds 2007-2013 ........................................ 1
Annex 2: Structural Funds Objectives 1, 2, and 3 in the Programming Period 2000-2006... 1
Annex 3: Division of EU-Territory into Statistical Regions – the NUTS Classification ...... 1
Annex 4: Bulgarian Trade Balance and Current Accounts 2005/2006 ................................. 1
Annex 5: Allocation of EU-Budget Designated for Structural Policy in Bulgaria 2007-2013 ................................................................. 1
Annex 7: Discrepancies between ESC Commitments and ESC Payments in Bulgaria and
  Romania (2000-2002) ........................................................................ 1
Annex 8: EU Structural and Cohesion Funds per Country per Year (2007-2013) ............ 1
References .................................................................................. 1
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEB</td>
<td>Council of Europe Development Bank</td>
</tr>
<tr>
<td>CF</td>
<td>Cohesion Fund</td>
</tr>
<tr>
<td>DIS</td>
<td>Decentralised Implementation System</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>ERDF</td>
<td>European Regional Development Fund</td>
</tr>
<tr>
<td>ESC</td>
<td>Economic and Social Cohesion</td>
</tr>
<tr>
<td>ESF</td>
<td>European Social Fund</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GDR</td>
<td>German Democratic Republic</td>
</tr>
<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
<tr>
<td>ISPA</td>
<td>Instrument for Structural Policies for Pre-accession</td>
</tr>
<tr>
<td>JMC</td>
<td>Joint Monitoring Committee</td>
</tr>
<tr>
<td>MS</td>
<td>Member States</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>NSRF</td>
<td>National Strategic Reference Framework</td>
</tr>
<tr>
<td>NUTS</td>
<td>Nomenclature of Territorial Units for Statistics</td>
</tr>
<tr>
<td>OP</td>
<td>Operational Programme</td>
</tr>
<tr>
<td>PHARE</td>
<td>Original name: “Poland and Hungary Assistance for the Reconstruction of the Economy” but later on attributed to other candidate countries as well.</td>
</tr>
<tr>
<td>SAPARD</td>
<td>Special Accession Program for Agriculture and Rural Development</td>
</tr>
<tr>
<td>SMSC</td>
<td>Sectoral Monitoring Sub-Committee</td>
</tr>
</tbody>
</table>
1 Introduction

1.1 Some Disturbing Figures

Eurostat recently published figures indicating that in 2004 in the Region of Inner London, the Gross Domestic Product (GDP) of € 65,138 per capita was equal to 302.9 % of the EU-27 average. In the Romanian region of Nord-Est the GDP per capita amounted to no more than € 5,070 which was equal to only 23.6 % of the EU-27 average1 (Eurostat, 19.02.2007). To put it differently, the size of the economy in relation to the population was – at that moment in time – 12.83 times bigger in Inner London than in Nord-Est. Nevertheless, since January 1st 2007, both regions have been part of the same economic zone – the Internal Market of the European Union.

These figures speak for themselves. Within the same market, based on the four freedoms – free movement of goods, services, capital and labour – such discrepancies cannot be in the common interest. For the states that participated in the second part of the 5th enlargement round of January 2007, specific transitional measures are being applied in various fields of European policy. Considerable limits to the movement of workers are only one example2. Yet, this does not solve the problem in the long term. The day will come when Bulgaria and Romania will enjoy all rights and obligations coming with the Internal Market.

Decades ago, the European Union established a system of funds dedicated to the reduction of regional economic differences on EU territory. The so-called *Structural and Cohesion Funds* contribute to the financing of projects that are expected to bring more prosperity to regions that are lagging behind in their economic development. Regions of every member state benefit from this aspect of regional policy3 (European Union Regional Policy, n.d.). More than one third of the total EU Budget (35.6 %), or to put it differently € 308 billion, will be spent on Structural and Cohesion Funds in the current programming period 2007-2013 (Toepel, 2007, p. 201). The challenge for all Member States is to make this money

---

1 The absolute numbers referred to in this paragraph take into consideration the differences in purchasing power between the two countries.
2 For detailed information on the transitional measures applicable after the accession of Bulgaria and Romania to the European Union, please turn to chapter 3.2.3
3 For a map indicating the regions benefiting from Structural and Cohesion Funds in the programming period 2007-2013, please turn to Annex 1
accessible for them, in other words to fulfil the criteria for obtaining financial support through EU Structural Policy⁴.

1.2 Focus of the Report

Bulgaria and Romania face considerable deficits in their economic development. Therefore the question of how high absorption capacities for EU Structural Funds in these countries can be guaranteed is central. It is important to correctly identify the actors in this context and to know in which way they can contribute to fulfilling this challenging task. At present time the only experience with EU Structural Policy in Bulgaria and Romania refers to pre-accession funds. It is therefore vital to know which conclusion can be drawn from low absorption rates concerning pre-accession funds with regard to post-accession structural funding. Given that the German Federal Ministry of Economics and Technology supports national economic interests it is also of great importance to explain if German SMEs⁵ are particularly well suited for planning and executing operational programmes in Bulgaria and Romania. This work will give answers to the previously raised questions based primarily on extensive desk research.

1.3 Structure of the Report

In order to provide the reader with a comprehensive approach to this topic, this report begins with a summary of the revised Structural Policy of the European Union. It will name and explain its objectives, procedures and the parties involved. It is followed by a close look at the Bulgarian and Romanian accession process, the respective economic situations and experiences made with pre-accession funds. Bulgaria’s and Romania’s pre- and post-accession Structural Policies are the subject of the following two chapters. Experiences with the absorption capacity for EU-Structural Funds in the context of the EU enlargement of May 2004 are being discussed in chapter 6. In the subsequent part, evidence is given as to why German SMEs are in a particularly good position to bring their expertise to bear in the context

⁴ As Pelzold points out in his commentary on the Consolidated Version of Article 158 of the Treaty establishing the European Community, both Structural and Cohesion Funds can be referred to as the Structural Policy of the European Union or Common Structural Policy. (Petzold, 2003, p. 1247) In the present report, the terminology will be used accordingly.

⁵ The 3.5 million small and medium size businesses are the backbone of the German economy. Roughly 70% of all jobs and more than 80% of places to train are to be found in this segment of the German economic landscape. They created far more jobs in recent years than large companies did. It is therefore a central objective of the German federal government and the Federal Ministry of Economics and Technology in particular to create adequate prevailing conditions for the country’s SMEs to fully exploit their potentials (Bundesministerium für Wirtschaft und Technologie, 10.07.2006, p. 5). The initiative for the SMEs has been set up in order to realize this objective. Mr. Schauerte, Secretary of State at the Federal Ministry of Economics and Technology has special responsibilities in this field.
of EU Structural Policy in Bulgaria and Romania. A summary and conclusion will round off this report.

1.4 Defining the Key-Term

As Horvat points out, there are three distinct components influencing the so-called absorption capacity of a Member State:

- The “macroeconomic absorption capacity” (Horvat, n.d., p.7) refers to the additional expenditure a Member State has to face as a result of EU membership. Every Member State has to pay its share of the EU budget. Furthermore, community funds have to be co-financed. Even net-receiving countries such as Bulgaria and Romania have to face these supplementary expenses in order to obtain financial support from the EU: In the context of the Common Structural Policy and according to Regulation 1260/1999, the total amount of Structural and Cohesion Funds allocated to a country can amount to 4% of the country’s GDP. Only if the respective national budget has covered the previously mentioned ‘additional’ expenses\(^6\), the Member State will benefit from EU-Structural and Cohesion Funds (Oprescu, Constantin, Ilie & Pîslaru, n.d, p. 9).

- The “administrative absorption capacity” (Horvat, (n.d.), p.7) refers to the capability of the public authorities on various administrative levels within the country to adequately prepare, execute and monitor programmes subsidised through EU Structural Policy.

- The last element to be mentioned in this context is the “financial absorption capacity” (Horvat, (n.d.), p.7) referring to the capacity to co-finance the above-mentioned programmes (Horvat, (n.d.), p.7). For the Member States that just recently joined the EU, the objective of maximising the countries’ absorption capacity for these funds is harder to reach due to a lack of previous experience and administrative capacities in this field.

The absorption capacity only refers to the quantity of funds spent in the respective Member State. It does not give an insight into how efficiently these funds are being invested.

---

\(^6\) The additional costs covering the national contribution to the EU budget and the co-financing obligations in the context of the EU Structural Policy in Romania are expected to amount to at least 2% of the GDP annually. This sum has to be added as supplementary costs to the national budget (Oprescu, Constantin, Ilie & Pîslaru, n.d, p. 9).
(Šumpíková, Pavel, Klazar, n.d., pp. 2-3). This would be a very rewarding topic for another analysis exceeding the frame of this thesis.
2 Structural and Cohesion Funds: the Revised System

2.1 Objectives

Structural and Cohesion Funds are “the financial instruments of the European Union regional policy […] intended to narrow down the development disparities among regions and Member States” (Structural Funds and Cohesion Funds). Three major objectives can be identified in this context (Council of the European Union, 11.07.2006, Article 3(2)), replacing what was known as objectives 1, 2, and 3 in the previous programming period\textsuperscript{7}, namely:

1) Convergence objective

- The aim associated with the convergence objective is to narrow down development disparities between the regions within the Union (Council of the European Union, 11.07.2006, p. L 210/25, Recital 3). In order to qualify for measures taken in this context, the respective territorial entity – in this context NUTS level 2 regions\textsuperscript{8} – must have a GDP per capita below 75% of the EU-25 average (Council of the European Union, 11.07.2006, p. L 210/37, Article 5(1))

- With 81.54% of the funds being dedicated to this objective (Council of the European Union, 11.07.2006, p. L 210/41, Article 19), the convergence objective receives by far the most significant share of the financial resources.

2) Regional competitiveness and employment objective

- Strengthening the “competitiveness, employment and attractiveness of regions other than those which are the most disadvantaged“ (European Union – SCADPlus, 22.01.2007) is the focus of this objective. It takes into account social, economic and environmental aspects (European Union – SCADPlus, 22.01.2007).

- Almost 16% of the resources are made available for this objective (Council of the European Union, 11.07.2006, p. L 210/41, Article 20)

3) European territorial cooperation objective

- “Strengthening cross-border cooperation through joint local and regional initiatives” (Council of the European Union, 11.07.2006, Article 3(2)) is the key-concept behind this objective. The respective regions are to cooperate in the fields of infrastructural and economic matters, focussing on innovation in branches with a promising future for SMEs.

\textsuperscript{7} For further information on objectives 1, 2 and 3 from the previous programming period, please turn to Annex 2
\textsuperscript{8} For further information on the NUTS classification, please turn to Annex 3
The resources dedicated to this objective amount to 2.52% of the total funding (Council of the European Union, 11.07.2006, p. L 210/41, Article 21).

All three objectives mentioned above are supposed to contribute to the implementation of the revised Lisbon Agenda (Council of the European Union, 06.10.2006, p. L291/12, recital 10), aiming at turning Europe into “the most competitive knowledge-based economy” (European Institute of Romania, n.d, p. 13) until the year 2010. The emphasis on economic growth fostered through technological innovation and the commitment of employees (European Institute of Romania, n.d, p. 13) is to be taken into consideration when conceptualizing and implementing programmes subsidised through structural or cohesion funds.

2.2 Instruments

The relevant instruments of EU-Structural Policy are as follows: the “Structural Funds” referring to the European Regional Development Fund (ERDF) and the European Social Fund (ESF) as well as the “Cohesion Fund (CF)” (Council of the European Union, 11.07.2006, Article 1). All three instruments are based on the principle of co-financing. This means that the EU never pays for the entire project; there are always partners from the public or private sector from within the member state that cover a share of the costs. The table below indicates which instrument can be utilised in combination with which objective.

1) European Regional Development Fund (ERDF)

- The creation of the ERDF in 1975 can be regarded as the first benchmark in the process of establishing Regional Structural Policy as an integral element of EU politics (Neheider, 2006, p. 3). Its objective is to further sustainable economic development in regions which are lagging behind in their economic development. It contributes to financing projects in various fields, among those: infrastructure, job creation, SMEs, culture, education and health (Vincelette, 07.2006, p. 25).

- Depending on the profile of the respective region, co-financing rates vary from 50% to 85% (Council of the European Union, 30.12.2006, p. L 411/8 f).

2) European Social Fund (ESF)

- Projects financed by the ESF have to contribute to improving the situation on the respective local labour market. Creating and maintaining jobs, offering further

---

9 This means that the remaining 15% to 50% of the budget dedicated to the operational programmes (OP) have to be financed through private or public investment in the receiving Member state (MS).
education, promoting equal opportunities and social integration for both men and women can be some of the results of such initiatives (Vincelette, 07.2006, p. 25).

− Depending on the profile of the respective region, co-financing rates vary from 50% to 85% (Council of the European Union, 30.12.2006, p. L 411/8 f).

### 3) Cohesion Fund (CF)

− The CF exclusively finances projects in the context of the previously explained Convergence Objective. It aims at infrastructural projects on community level and trans-European networks in the transportation sector (Vincelette, 07.2006, p. 25).

− Depending on the profile of the respective region, co-financing rates can be up to 85% (Council of the European Union, 30.12.2006, p. L 411/8 f).

### 2.3 Key Principles

The principles governing the distribution of Structural and Cohesion Funds are still the ones that were introduced in the reforming process of the year 1988 (Horvat, n.d., p. 8). They are applicable to all three funds and all three objectives.

− **Programming**

  Instead of having one operational programme at a time approved by the European Commission, every Member State develops a multi-annual strategy (Schöndorf-Haubold, 2005, pp. 114-115). In the current programming period, this document is referred to as the National Strategic Reference Framework (NSRF). At the time of writing this analysis, all EU-countries had presented their NSRFs to the Commission that was in the process of (dis)approving them.

− **Concentration**

  Structural and Cohesion Funds are exclusively focused on the above-mentioned objectives. This means that there is a very high concentration of funds contributed to regions eligible for support in the context of the Convergence Objective (Schöndorf-Haubold, 2005, pp. 115-116).

− **Partnership**

  According to the partnership principle, the European Commission, the respective Member State and its regional and local administrations assigned to the management of the EU Structural Policy work together very closely. The close

---

10 For further information on the NSRF, please turn to chapter 2.5 “Policy Stages”
cooperation between bodies with very different territorial and operational competences is a unique characteristic of this EU-policy area (Schöndorf-Haubold, 2005, pp. 117-118).

- **Additionality**

  Financing through the EU Structural Policy is not intended to substitute, but to complement national investments in the same field (Schöndorf-Haubold, 2005, p. 118), so that EU funds contribute to additional spending which goes beyond what the national government intends to finance through its budget.

### 2.4 Financing

For the programming period 2007-2013, 35.6% of the EU-budget or, to put it differently, 0.37% of the EU gross domestic product (GDP) is dedicated to the funding of EU Structural Policy. In absolute numbers, this equals € 308 billion (Toepel, 2007).

One aspect in the broader field of finances of the Common Structural Policy concerns only Bulgaria and Romania. A distinguishing factor meant to favour the disbursement of Structural Funds in the two new Member States is the replacement of the n+2 rule by the n+3 rule. This means that the two countries are given an additional year (three instead of two years) to spend the funds they are eligible to. Only if the country has not spent the money in the three years following the European Commission’s allocation of the funds, it is automatically de-committed and these sums are therefore lost for the respective Member State (Ioniţă, 01.2006, p. 9).

Another difference that will make it easier for Bulgaria and Romania to benefit from EU Structural Policy Funds are reduced co-financing rates concerning the ERDF and the ESF for – among others – these countries. Instead of 25% in the past, within the current programming period the receiving state only has to finance 15% of the programmes (Ioniţă, 01.2006, p. 9).

### 2.5 Policy Stages

The Structural Funds’ budget is being proposed by the European Commission; the Council of the European Union and the European Parliament have to approve. The Commission then formulates the *Community Strategic Guidelines on Cohesion* which

---

11 The n+2 rule was applicable in the previous programming period. For further information please turn to chapter 6.1.
describe the overall EU Structural Policy (Council of the European Union, 11.07.2006, p. L 210/42, art. 25-26). In a next step, all Member States prepare the so-called National Strategic Reference Framework, presenting the National Structural Policy which has to be in accordance with the general policy described in the Community Strategic Guidelines (Council of the European Union, 11.07.2006, p. L 210/43, art. 27). Furthermore, it has to refer to the Operational Programmes, in other words the specific programmes a Member State intends to realize with the financial support of the ERDF, the ESF or the CF (Council of the European Union, 11.07.2006, p. L 210/43, art. 27.3 (c)). The financing of each operational programme per year has to be indicated as well (Council of the European Union, 11.07.2006, p. L 210/43, art. 27.3 (e)). Next, the Commission has to give its approval to the National Strategic Reference Framework (Council of the European Union, 11.07.2006, p. L 210/43 f., art. 28).

The task of implementing the programmes is assigned to the regions of the Member States, at the “appropriate territorial level” (Council of the European Union, 11.07.2006, p. L 210/39, art. 12) which means NUTS level 2 or 3 (as indicated in the table on page 13). At the corresponding territorial level the following committees and authorities have to be set up:

1. The **Managing Authority** is referred to in Article 60. Its main tasks are to guarantee adequate documentation, maintain the flow of information to the European Commission and to control both the financing and the accounting of the operational programme (Council of the European Union, 11.07.2006, p. L 210/54 f., art. 60).

2. The **Certifying Committee** in turn has to keep the books and certifies “statements of expenditure and applications of payments” (Council of the European Union, 11.07.2006, p. L 210/55, art. 61).

3. The **Audit Authority** formulates an audit strategy corresponding to the characteristics of the respective operational programme. It also has to make sure that the audits conducted meet international standards (Council of the European Union, 11.07.2006, p. L 210/55 f., art. 62)

4. The **Monitoring Committee** fulfils the task of ensuring that the financial resources for the operational programme are being used as efficiently as possible. At the same time, the Monitoring Committee is the body that coordinates the implementation of the respective operational programme. Furthermore, it sets up the decision-making and working procedures and organisational rules applicable in the context of the operational programme (Council of the European Union,
The table below indicates which NUTS-level is eligible for which type of funding under which objective. The budgets mentioned refer to the total expenditure for all 27 EU Member States.

<table>
<thead>
<tr>
<th>Structural and Cohesion Funds Programming Period 2007-2013</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference to Council Regulation 1083/2006</td>
<td>Convergence</td>
</tr>
<tr>
<td>Fund(s)</td>
<td>Budget in billion € (Art. 19)</td>
</tr>
<tr>
<td>NUTS level 2 regions with GDP &lt; 75% of EU 25 average</td>
<td>Art. 4, 5(1)</td>
</tr>
<tr>
<td>NUTS level 2 regions with a GDP &lt;75% of EU 15 average (transitional)</td>
<td>Art 8(1)</td>
</tr>
<tr>
<td>NUTS level 2 regions covered in 2006 by Objective 1 GDP &gt;75% EU-15 (transitional)</td>
<td>Art 8(2)</td>
</tr>
<tr>
<td>Member States with a GNI &lt; 90% of EU-25 average</td>
<td>Art. 4, 5(2)</td>
</tr>
<tr>
<td>Member States with a GNI &lt; 90% of EU-15 average (transitional)</td>
<td>Art. 4, 8(3)</td>
</tr>
<tr>
<td>other regions than the ones referred to in Art 5(1), 8(1) and 8(2)</td>
<td>Art. 6</td>
</tr>
<tr>
<td>NUTS 3 level regions along internal, certain external and maritime borders</td>
<td>Art 7(1)</td>
</tr>
<tr>
<td>NUTS 2 level regions along internal, certain external and maritime borders</td>
<td>Art 7 (2)</td>
</tr>
<tr>
<td>Entire EU territory</td>
<td>Art 7(3)</td>
</tr>
</tbody>
</table>

% of budget for structural and cohesion funds

| % of budget for structural and cohesion funds | 81.54% | 15.95% | 2.52% |

Total of funds in billion Euros for the programming period 2007-2013

| 251.163 | 49.128 | 7.550 |

12 The difference to the total amount of 7,75 bil € mentioned in Article 21 of Council Regulation (EC) No 1083/2006 are due to pre-accession assistance financed through the ERDF. See Council of the European Union. 11.07.2006, p L210/41, Article 21 (2) ff.
3 Bulgaria and Romania in the Broad European Context

3.1 Outline of the Accession Process

Enlargement has been one of the most successful policies of the EU in the past years. It has brought peace, prosperity and stability to large parts of Europe, for the benefit of all of us. Enlargement needs to continue, managed by the principles of conditionality, consolidation, and communication. (Rehn, 2006)

On October 18th 2006 Mr Rehn, EU-Commissioner responsible for enlargement, spoke these words to the German Members of Parliament. By now one knows that enlargement has indeed continued. The decision-making bodies of the European Union and the two candidate states Bulgaria and Romania have agreed to enlarge the Union another time and to face the advantages and challenges that come with this momentous decision on both sides. As enlargement is based on the “principles of conditionality, consolidation, and communication” (Rehn, 2006) it had been a long process until the European Flag was hoisted in Sofia and Bucharest. The following paragraphs outline these lengthy procedures prior to the integration of Bulgaria and Romania in the Union:

On February 1st 1995 association agreements between the European Union, Romania and Bulgaria went into force. These documents, also referred to as Accession Treaties, had been signed two years before and established a free trade zone between the two applicant countries and all members of the Common Market. In December 1999, only five months after Romania, Bulgaria applied for EU-membership. In February of the following year, accession negotiations commenced with both countries. At the Copenhagen Summit in December 2002 the decision was taken not to include the two countries in the May 2004 accession round, as they were found not to be as far in process of implementing the *acquis communautaire* as the other ten countries were. Accession negotiations were successfully concluded in 2004 – this time Bulgaria was the first one to achieve it in June, whereas it took Romania until December to get to this point. Once the European Commission and the European Parliament had expressed their support for the two countries’ accession to the Union, the accession treaty was signed on April 25, 2005 (Leiße, 03.07.06, p. 6-9) The ensuing Annual Monitoring Reports issued by the European Commission have certified the considerable progress the two countries have made regarding the implementation of the *acquis communautaire*. At the same time they were not short of criticism. In the Annual Monitoring Report dated September 26, 2006 the European Commission recommended January 1st 2007 as the accession date for the
two south-east European Countries (Commission of the European Communities, 26.09.06, p.3).

On October 26, 2006, as one of the last Member States to do so (Steinmeier, 2006), the German Parliament gave its approval to the accession of Bulgaria and Romania to the European Union (Deutscher Bundestag, 2006). After the approval of all 25 Member States and according to the above-mentioned recommendation expressed by the European Commission (Commission of the European Communities, 26.09.06, p.3), Bulgaria and Romania joined the European Union on January 1st 2007. Attempting to describe the political dimension of this event, Bulgaria’s Prime Minister Stanishev said, “This is the genuine and final fall of the Berlin Wall for Bulgaria.” (EU approves Bulgaria and Romania, 26.09.2006)

3.2 Conditions of accession

3.2.1 Normal Safeguard Clauses

The “Treaty of Accession 2005” is the legal basis for the integration of both Bulgaria and Romania into the European Union. The articles 36 - 38 of the accession protocol refer to so-called safeguard clauses as they had also been formulated concerning the enlargement of May 2004 (Gabanyi, 2006. Rumäniens Beitritt zur EU – 2007 oder 2008, p. 8-9). Their content is the following:

a) In the case of serious complications in parts of the economy or a considerable decline in the economic performance of the country as a whole, Bulgaria and/or Romania might face measures protecting the 25 old Member States against negative consequences resulting from this/these poor performance(s) (European Union, 21.06.2005 b, Art. 36).

b) Bulgaria’s and/or Romania’s access to the Common Market can be restricted if the economic conditions in the two countries would otherwise threaten the proper functioning of the Internal Market (European Union, 21.06.2005 b, Art. 37).

c) Concerning the areas of justice and domestic affairs, if the two new Member States do not fully adapt the acquis communautaire, the European Commission is authorised to intervene (European Union, 21.06.2005 b, Art. 38).

As a way of measuring the advancement that is being demanded by the European Union under these three categories, both countries have specific benchmarks, in other words areas in which progress has to be made. As the countries have made considerable progress
concerning the implementation of the *acquis communautaire* in recent years, the number of benchmarks has gradually been reduced. In mid-December 2006, there were six remaining benchmarks for Bulgaria and another four for Romania (see below).

In the current post-accession period, the two new Member States are obliged to annually report to the European Commission on the progress accomplished in the context of their respective benchmarks. Furthermore, the European Commission can – on its own initiative – investigate if these requirements are being met. The benchmarks that were left to be dealt with in the two countries only a few weeks before the accession date show both similarities and differences, as the enumeration below indicates (European Commission, 13.12.2006 a and b).

a) In the case of Bulgaria the benchmarks to be taken into consideration even after the country’s accession to the EU are the following (European Commission, 13.12.2006 a, Annex):

1. Measures to ensure the accountability and independence of the judicial branch
2. Introduction of a new judicial system and civil procedure code
3. Continuation of the judicial reform in order to deliver a more professional, trustworthy and efficient service
4. Carrying out of investigations in cases of suspicion of corruption
5. Supplementary measures against corruption – particularly at borders and within local authorities
6. Instruments against organised crime, especially concerning money laundering and criminal assets.

b) The respective Romanian benchmarks are mentioned below (European Commission, 13.12.2006 b, Annex):

1. Reform of the judicial procedures guaranteeing the rule of law through empowering the Superior Council of Magistracy
2. Establishment of an Integrity Agency, which is to assure the legality of working procedures within public administration.
3. Continuation of the fight against high-level corruption
4. Additional measures against corruption, especially within local authorities.
An additional means of exerting pressure on the new Member States is that the EU can refrain from paying Structural and Agricultural funds to those countries (Gabanyi, June 2006, Rumänien und Bulgarien – EU Beitritt 2007 mit Auflagen, p.4). In all situations previously mentioned, the Council of the European Union has to decide unanimously in favour of such measures. Furthermore, these instruments are limited to the first three years of membership. Therefore, these safeguard clauses can be applied until December 31st 2009.

3.2.2 Additional Safeguard Clauses

In addition to the conditions of accession to the Union applied in previous rounds of enlargement, both countries could have been subject to a supplementary safeguard clause, also referred to at times as the postponement clause, under which the accession of Bulgaria and/or Romania could have been postponed for a year, to 1 January 2008 (Leiße, 03.06.2006). This measure, described in Article 39 of the Accession Protocol, could have been applied if the Monitoring Reports had revealed that the respective country had not advanced far enough in the process of preparing for EU membership. Once again, the unanimous support of the European Council would have been necessary in order to make use of this instrument. Since both Bulgaria and Romania joined the EU in January 2007, it apparently was not applied.

Only applicable in the context of the Romanian accession to the European Union is yet another safeguard clause which, if it had been applied, would also have lead to a postponement of the date of accession for a year. This safeguard clause aimed at establishing European Standards in the areas of “Competition” and “Justice and Domestic Affairs“. Failing to meet the requirements in these policy-areas, a qualified majority within the European Council would have been sufficient in order to delay Romanian integration into the EU for another year (Gabanyi, 2006. Rumäniens Beitritt zur EU – 2007 oder 2008, p. 9-10). Once again, from today’s perspective one knows that this instrument has not been applied.

3.2.3 Transitional Measures

In order to foster the integration of Bulgaria and Romania in the European Union without putting at risk the implementation of the acquis communautaire in the EU of 27 as whole, specific transitional measures enable the new Member States to continue adapting to European standards, even after accession.

In areas in which Bulgaria and Romania have not yet fully implemented the acquis communautaire, European Regulations and Directives are not being applied automatically.
Instead, every ‘old’ Member State has the right to apply more restrictive bilateral agreements in its relations with the new Member States. It is then up to the new Member State to decide whether or not to apply these restrictive transitional measures reciprocally (Wirtschaftskammer Österreich, 2006, p. 8). Alternatively – if an ‘old’ Member State has come to the conclusion that no protective instruments are necessary in an area covered by such a transitional measure – European legislation will be applied in the bilateral relations to the respective new Member State. Consequently, situations in which European law is applicable between some ‘old’ Member States and a new one whereas other ‘old’ Member States opt for the transitional measure in the same subject area do occur\(^{13}\).

Transitional measures are not intended to be applied in the long term run. Therefore in most cases, after an initial period of two, sometimes three years, the ‘old’ Member States have to inform the European Commission in case they wish to prolong the implementation of certain transitional measures for another two or three years. In the context of a very limited number of transitional measures, this procedure might be repeated once more, so that these protective instruments could be applied for a maximum of seven years (Wirtschaftskammer Österreich, 2006, pp. 7, 16). In the absence of such a statement, European legislation will regulate the subject matter in the future. Other transitional measures include a calendar indicating deadlines to be met concerning progressively more demanding conditions, in order to gradually lead the new Member States to the fulfilment of EU standards.

When it comes to the level of implementation of the *acquis communautaire*, Bulgaria and Romania have much in common. It is therefore logical that the majority of policy areas affected by transitional measures for the two countries are the same. This is applicable to the following topics: freedom of movement of persons, freedom to provide services, free movement of capital, agricultural legislation, transport policy, taxation and environment (European Union, 2005, June 21 a; European Union, 2005, June 21 b). The ‘old’ Member States can choose to opt for additional transitional measures in the fields of social policy, energy, telecommunication and information technologies (European Union, 2005, June 21 a).

\(^{13}\) A good example of such a situation after the enlargement round of May 2004 is the transitional measure on freedom of movement of workers from the 10 new Member States on the territory of the old one. Great Britain and Ireland have been among the few ‘old’ Member States to grant full access to their labour markets to nationals of the new Member States (Wirtschaftskammer Österreich, 2006, p. 7) whereas other ‘old’ EU-countries such as Germany chose to apply the transitional measures in this subject area.
A few examples of such transitional measures illustrate the nature of these instruments: In the context of the freedom of persons for example, the transitional measure permits ‘old’ Member States to maintain the limitations (which date back to the time before the year 2007) for Bulgarian and Romanian workers to enter the respective national job markets (European Union, 2005, June 21 a, chapter 1; European Union, 2005, June 21 b chapter 1). Concerning environmental legislation, the emission of substances damaging the environment has to gradually be reduced, the waste management has to be improved in both countries to achieve conformity with existing EU-legislation in the near future (European Union, 2005, June 21 a, chapter 10; European Union, 2005, June 21 b chapter 9). Furthermore, the access of Bulgarian airlines on airports of other EU Member States had been rejected as a whole right after the country’s accession to the European Union (Volkery, 03.01.2007)

3.3 Current Social and Economic Situation

In 2005 the Republic of Bulgaria had 7.8 million inhabitants. In the same year the GDP per capita amounted to € 7,500, which equals 32.1 % of the EU-25 average (Eurostat 20.02.2007, p.152). It is therefore the poorest member state of the European Union despite a promising economic development in recent years (Auswärtiges Amt, 03.2007). The general economic situation in Romania shows roughly the same trends as the Bulgarian one. Yet, the dimensions are different as the country has 21.7 million inhabitants\(^\text{14}\) (Eurostat, 20.02.2007, p. 51). With € 8,100 GDP per capita per annum – which equals 34.8 % of the EU-25 average (Eurostat 20.02.2007, p.152) – Romania is 26\(^\text{th}\) out of 27 Member States regarding this index. Among the EU Member States, only Bulgaria is poorer.

Taking into account the last five years, the GDP growth rates in both countries never dropped below 5 % (Bulgaria: 5 % - Romania 5.5 %) (Klett, 11.05.2006, p. 3). These positive economic developments are primarily due to growing domestic demands (Klett, 11.05.2006, pp. 2-3). In Bulgaria, an inflation rate of 5 % in 2005 (Eurostat 20.02.2007, p.188) and an unemployment rate of only 10.1 % at the end of the year 2005 (Eurostat, 20.02.2007, p. 140) can be considered as some of the improvements resulting from a process of privatisation and far-reaching structural reforms (Auswärtiges Amt, 03.2007). There are conflicting views on

\(^{14}\) the data available are from the year 2005
whether or not Bulgaria might already fulfil all requirements regarding the entry to the European Monetary Union (Deimel, 2007, p. 442; Auswärtiges Amt, 03.2007)\textsuperscript{15}.

Contrary to the above-mentioned economic indexes which are similar to the Bulgarian ones, the inflation rate of 9.1\% (Eurostat 20.02.2007, p.188) is significantly higher than in the neighbouring country. Nevertheless, the unemployment rate is – with only 7.7\% – considerably lower than in Bulgaria. Sectors affected strongly by foreign direct investment (FDI) have been the ones creating far more jobs in Romania in recent years than those less affected by foreign capital (Deutsch-Rumänische Industrie- und Handelkammer, 03.03.2007, pp. 8-9). As a result of the good economic performances and the growing domestic demand coming along with it in both new Member States, the trade balances indicate considerable deficits. This means that the two countries import a lot more goods and services than they export. Concerning Bulgaria, the trade balance contains a shortfall of 16.1\% for the year 2005 (Agency for Economic Analysis and Forecasting, 07.2006, p. 27)\textsuperscript{16}. A delayed process of privatisation further contributes to this situation.

A variety of international companies have invested and are continuing to invest in Romania. Among those global players is Nokia – currently investing € 60 million to build a production site and a Research and Development Centre in Tetarom. The project in its entirety amounts to foreign investments worth approximately € 200 million (Deutsch-Rumänische Industrie- und Handelkammer, 03.03.2007, p. 6). The total foreign direct investment (FDI) is estimated at € 7.0 billion for the year 2007 whereas it amounted to € 9.1 billion in the previous year (Deutsch-Rumänische Industrie- und Handelskammer, 03.03.2007, p. 6). Sales chains such as Metro, Carrefour, Auchan or Ethos are already present on the Romanian

\textsuperscript{15} The Convergence criteria that have to be met in order to be allowed to join the European Monetary Union can be found in article 121 of the EC Treaty. According to these requirements accession to the Euro-Zone is being determined:

- The inflation rate must not exceed the inflation rate of the “three best performing Member States” (European Union, 29.12.2006, p. C 321 E/295, Article 1 of Protocol No 21) by more than 1.5\%.
- The annual government deficit has to be below or equal to 3\% of the GDP.
- The government dept cannot amount to more than 60\% of the GDP.
- The respective Member State has to have been a party to the European exchange-rate system for a minimum of two years. For at least the last two years the fluctuation rate of the national currency has to have remained within the margins of the exchange-rate mechanism ERM II.
- The long-term interest rates must not exceed the one of the “three best performing Member States” (European Union, 29.12.2006, p. C 321 E/296, Article 4 of Protocol No 21) by more than 2\% (European Union - SCADPlus. 12.07.2006).

According to the information made available by the German Foreign Ministry ‘Auswärtiges Amt’, Bulgaria meets all the above-mentioned criteria with the exception of the first one, referring to the inflation rate (Auswärtiges Amt. 03.2007). Deimel though states in the 2006 Yearbook on European Integration, that the state meets all of the requirements (Deimel, 2007, p.442). As the two documents present different values for the same economic indicators concerning Bulgaria, different conclusions based on these indices are a logical consequence.\textsuperscript{16} for further information please turn to Annex 4

\textsuperscript{16} for further information please turn to Annex 4
Despite the investments made not only in Romania but also in Bulgaria, the agricultural sector (generating 9.3% of the GDP in Bulgaria, 10.1% in Romania versus 1.9% on EU-25 average) still plays a relatively important economic role. Besides, the industries in the two countries are also accountable for bigger shares of the GDP than on EU-25 average. However, in the service sector, the situation is inverted: whereas it generates 71.9% of the EU-25 GDP, it accounts for only 60.7% in Bulgaria and 54.9% in Romania (Eurostat, 19.12.2006). The *above-mentioned* discrepancies illustrate that there are fundamental differences in the economic setup of the two new Member States compared to the rest of the EU. Irrespective of these differences, the Common Market will make these systems meet. Taking into account that Bulgaria and Romania together increase the trade volume within the Common Market by 1% (Eurostat, 19.12.2006), it is evident that a much higher degree of adaptation due to the fact of EU enlargement has to be achieved in these two countries than within the EU-25 Member States.

A life expectancy of 69.0 years for Bulgarian men and 76.3 years for Bulgarian women deviates significantly from the EU-25 average of 75.8 years for men and 81.9 years for women (Eurostat, 19.12.2006). The Romanian life expectancies are slightly lower than the Bulgarian ones. These figures can be interpreted as an indicator for less favourable living conditions and standards in the country. The average Bulgarian income constitutes only 31.8% of the EU-25 standard (Deimel, 2007, p.442). It has to be kept in mind though, that wages have increased remarkably in recent years, fostering the *above-mentioned* domestic demand. Net-migration (immigrants minus emigrants) equals zero, meaning that the number of people permanently leaving Bulgaria, their country of origin, more or less equals the number of foreigners moving to Bulgaria. In Romania with a net-migration of -1%, there is a slightly higher number of people leaving the country than entering it (Eurostat, 20.02.2007, p. 76). These figures are to be seen in the context of fertility rates of 1.32 children per woman in Bulgaria and 1.31 children per woman in Romania\textsuperscript{17} (Eurostat, 19.12.2006). Unless these developments are reversed in the near future, both Bulgaria and Romania will be shrinking consumer markets.

\textsuperscript{17} figures from the year 2005
4 Pre-Accession Structural Policy

4.1 Principles and Instruments

As long as Bulgaria and Romania still had the status of candidate countries they were eligible to pre-accession aid. The objective behind these funds was to enable “future members [...] for catching up with EU standards and legislation.” (Vincelette & Vassileva, 07.2006, p. 11). At the same time, the future Member States were supposed to get accustomed to the management of EU funds in order to be prepared for administering the Structural and Cohesion Funds after their accession (Marinov & Garnizov, 07.2006, p.6).

Since their accession to the EU, neither country has been able to apply for additional financial support through pre-accession funds any more. Nevertheless, for the transitional period beginning January 1st 2007, disbursement of pre-accession funds allocated prior to the accession will be continued. Bulgaria for example will receive the last payment in the context of pre-accession funds in the year 2011 (Vincelette & Vassileva, 07.2006, p. 12). According to the ‘old’ system, applicable to both Bulgaria and Romania (and the ten new Member States that acceded to the EU in May 2004), projects supported by pre-accession funds can be financed through three instruments18:

1) **Poland and Hungary Assistance for the Reconstruction of the Economy (PHARE)** also applicable to other countries, among them Bulgaria and Romania, focusing on institution building and the adaptation of the *acquis communautaire* (Kálmán, n.d., p. 40).

2) **Instrument for Structural Policies for Pre-accession (ISPA)** promoting infrastructural development in the environmental and transport sector (Kálmán, n.d., p. 48).

3) **Special Accession Program for Agriculture and Rural Development (SAPARD)** supporting rural and agricultural regions (Kálmán, n.d.), p. 48).

4.2 Actors and Procedures

Applying the principle of subsidiarity, the key actors in the context of allocation of pre-accession funds were the regions. Therefore, a process of decentralisation or, to put it

---

18 Since 1 January 2007, the *Instrument for Pre-Accession Assistance has replaced the system applicable to Bulgaria and Romania.*
differently, the delegation of responsibilities away from the national towards the regional administrative levels in Bulgaria and Romania has been taking place. Nevertheless, even in the year 2005, the responsibility given to the two countries had been rather limited as – under the Decentralised Implementation System (DIS) – the Commission engaged in *ex ante* control of the programmes financed through pre-accession funding (European Commission, 30.11.2006, p. 3). The role of the European Commission in this context is a lot more dominant than in Post-Accession programmes as the report shall show at a later point.

In order to maximise the positive effects of the funds utilised, so-called *Joint Monitoring Committees (JMC)* and *Sectoral Monitoring Sub-Committees (SMCS)* have been set up in both states (European Commission, 30.11.2006, p. 4-5). The most important institutions involved with the aspect of co-financing pre-accession funds, in case the respective member state cannot raise this money by itself are the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB). As the pre-accession funds contribute to the development of the candidate countries, even the World Bank supports them to mobilize these sums. Furthermore specialized financial service providers have addressed the needs of small and medium-size enterprises (SME) or municipalities for example (European Commission, 30.11.2006, p. 7-8).

### 4.3 Absorption Rates

Since receiving Structural and Cohesion Funds is linked to certain conditions (see chapter 3 of the present report on Structural and Cohesion Funds), attaching specific requirements on pre-accession funds illustrates the attempt to prepare future Member States for their future role within the European Union. As of Winterbourne indicates, out of the €162.2 million foreseen for the year 2003 only 33% of the SAPARD funds have been implemented (of Winterbourne, 24.02.2004, recital 30). The Court of Auditors presents similar results referring to Economic and Social Cohesion (ESC) programmes which represented about one third of the PHARE funding. As the table below indicates, the absorption rate would have left considerable room for improvement: with the exception of Romania in the year 2000 (when the country received 61.3% of the ESC funds it would have been eligible for) the absorption rate in both countries never went beyond 35.3%. The data also indicate that contrary to what one could expect or hope for, the percentage of funds that were absorbed by both countries kept declining, virtually reaching zero in the year 2002. Considering these three years as a whole, Bulgaria received 23.1% of the funds available, in
Romania the absorption rate for ESC amounts to only 26.6% (Court of Auditors, 30.01.2005, p. C15/15 Table 3)\textsuperscript{19}.

**Discrepancies between ESC commitments and ESC payments in Bulgaria and Romania (2000-2002)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulgaria ESC commitments</th>
<th>Bulgaria ESC payments</th>
<th>Romania ESC commitments</th>
<th>Romania ESC payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>15,0</td>
<td>5,3</td>
<td>88,0</td>
<td>53,9</td>
</tr>
<tr>
<td>2001</td>
<td>37,1</td>
<td>10,0</td>
<td>109,0</td>
<td>26,2</td>
</tr>
<tr>
<td>2002</td>
<td>14,0</td>
<td>0,0</td>
<td>106,6</td>
<td>0,6</td>
</tr>
</tbody>
</table>

Source of data: Court of Auditors, 30.01.2005, p. C15/15 Table 3

4.4 **Problems Encountered**

The low absorption rate for EU pre-accession funding emphasises the need for reform in Bulgaria and Romania. In order to correctly identify the areas in which improvement is needed, a close look at the factors that contributed to these countries’ inability to absorb a higher portion of funds before 1 January 2007 is crucial. The following paragraphs explain the causes according to the macroeconomic, administrative and financial absorption capacity referred to in the introduction.

4.4.1 **Macroeconomic difficulties**

− According to the so-called *Dutch disease* intensified funding in a country also generates negative side effects. With additional foreign direct investment – and EU funding can be regarded as such in this particular context – the amount of money in circulation increases, which as a consequence reduces the monetary value of the

\textsuperscript{19} For a more elaborate version of the table below, please turn to annex 7
local currency. It therefore favours inflation and the increase of wages (Kálmán, n.d., p. 35). The latter phenomenon can be observed in either one of the countries. It goes without saying that this problem will become even more relevant now that Bulgaria and Romania obtain Post-Accession Funding as the sums available are significantly higher. In this particular context, an increased absorption capacity would only cause more difficulties.

4.4.2 Administrative deficits

− Both countries are currently still in the *institution-building process*. This means that the administrative structures, human resources and programming documents necessary to plan and execute projects in due time, were not sufficiently available when dealing with pre-accession funding (Ioniţă, 01.2006, p. 10 & Horvat, n.d, p. 12).

− The number of civil servants trained to work in the context of Structural and Cohesion Funds is insufficient in order to increase the absorption capacity for these funds. Furthermore, many of those who have benefited from continuous education received training concerning aspects that do not concern their job-profile (European Institute of Romania, n.d, p. 4).

− Due to higher salaries and, generally speaking, more favourable working conditions in the private sector, the public sector is confronted with a high personnel turnover. This phenomenon further decreased the efficiency when dealing with EU-funding (European Institute of Romania, n.d, p. 5). This situation has to be seen in the context of understaffing in these parts of public administration, in which Romanian authorities for example employed only half as many people as they were intending to until 2005 (Oprescu, et al., n.d, p. 23).

4.4.3 Financial obstacles

− The principle of co-financing applies both to pre- and to post-accession funds, the applicable co-financing rates though differ. As a rule of thumb, in the context of pre-accession funds, 25% of the total costs had to be made available by the Member State (Ioniţă, S, 01.2006, p. 4). Especially in rural areas it proved to be
impossible for (local) public authorities to finance this share of the programme at times (Oprescu, et al., n.d, p. 45)\textsuperscript{20}.

\textsuperscript{20} An additional financial problem might occur, when an operational programme is terminated. The follow-up costs – the costs incurred – will be impossible to bear for certain regions. (Dohmen & Schlamp, 19.03.2007, p. 93)
5 Post-Accession Structural Policy

5.1 Funds Available

Bulgaria is expected to receive €6.85 billion Structural Funds in current prices for the years 2007-2013 (European Union Regional Policy, 2007). In the Romanian context this sum equals €19.67 billion in 2004 constant prices (European Union Regional Policy, 2007). The annual amounts for both countries will gradually increase starting in Bulgaria with €514 million in 2007 rising as high as €1.26 billion for the calendar year 2013. In Romania the financial starting point in 2007 is at €1.34 billion; in the year 2013, this country might obtain up to €3.84 billion (European Union Regional Policy, 2007). If Romania was to maximise its absorption capacity, the Structural funds would amount to approximately 4% of the GDP, as Marin indicates (Marin, 08.2006, p. 7). For all three funds in both countries, the European Union will cover up to 85% of the costs of the operational programmes, leaving the remaining expenditures to be financed by the respective Member State (Council of the European Union, 30.12.2006, Annex).

5.2 Operational Programmes

At the moment of writing (spring 2007), the current programming period (2007-2013) had just begun. The National Strategic Reference Frameworks (NSRFs) of the two countries Bulgaria and Romania had been drafted and presented to the European Commission, but the response by the European Commission was yet to come. Therefore, the operational programmes mentioned below are at an early stage of their execution. The current Bulgarian NSRF refers to six operational programmes (Republic of Bulgaria, 14.04.2006, pp. 44-48), the Romanian one mentions seven of them (Government of Romania. 04.2006, pp. 94-102). The selection of operational programmes presented in the list below shall not only give examples of the policies presented in chapter 2, it shall – above all – indicate which instruments of EU-Structural Policy are being employed in the two new Member States.

1. Development of the Competitiveness of the Bulgarian Economy

---

21 For more detailed information on the attribution of funds per year and per instrument in Bulgaria, please turn to Annex 5. It has to be taken into account though, that the prices referred to in this document are in 2004 constant prices, which explains the difference in the budget.
22 For more detailed information on the attribution of funds per year and per objective in Romania, please turn to Annex 6. It has to be taken into account though, that the prices referred to in this document are in 2004 constant prices, which explains the difference in the budget.
23 For further information on the annual amounts for the EU-Cohesion Policy for all Member States in the current programming period, please turn to Annex 8.
The *Convergence Objective*, financed by the European Regional Development Fund (ERDF), is the context of this operational programme. Its objective is to “to achieve and sustain high economic growth through a dynamic economy of knowledge” (Republic of Bulgaria – Ministry of Economy and Energy, 04.2006, p.8). More specifically, the programme is to increase efficiency, favour entrepreneurial development and provide technical assistance in order to improve the competitiveness of Bulgarian products on the Common Market and the World Market. The estimated costs amount to 1.22 billion Euro of which the ERDF will pay for 71.4% (Republic of Bulgaria – Ministry of Economy and Energy, 04.2006, pp. 64-66)

2. **Human Resource Development**

This programme aims at contributing to the attainment of social cohesion among the Member States of the European Union. Its funds will be provided by the European Social Fund (ESF) within the framework of the *Regional Competitiveness and Employment Objective* (Republic of Bulgaria – Ministry of Labour and Social Policy, 04.2006, p. 3). The European Social Fund will pay € 873 million (which equals 76.9% of the total expenditure of € 1.135 billion) over the course of the current programming period (Republic of Bulgaria – Ministry of Labour and Social Policy, 04.2006, p. 54). A core objective of this programme is to guarantee equal access to education and to engage employees in further training measures (Republic of Bulgaria, 14.04.2006, p. 45). With a more competent body of employees, the competitiveness of the Bulgarian location of industry and commerce will advance further.

3. **Romanian-Bulgarian Cross-Border Cooperation**

This programme serves to contribute to the accomplishment of the *European Territorial Cooperation Objective*. EU financial support for this programme generating estimated costs of approximately € 256 million will come from the European Regional Development Fund (ERDF), covering 85% of the expenses. The remaining 15% of the expenditure will be financed through state- and local funding (Bulgarian Ministry of Finance – Directorate for the Management of EU funds, 05.01.2007, p. 6). Three priorities can be identified in the context of this project: improvement of transport infrastructure, protection of the environment and
economic cooperation of actors on either side of the border (Bulgarian Ministry of Finance – Directorate for the Management of EU funds, 05.01.2007, p. 40).

4. **Romanian Sectoral Operational Programme Transport**

Investing in the modernization of the transport infrastructure in Romania – particularly in motorways, railways and inland water ways (Government of Romania, 04.2006, p. 94) – is expected to be an incentive for the development of up-to-date logistical systems in the areas affected by the programme. These new locational factors are to allow the entry in previously inaccessible consumer markets. Private individuals will also benefit from the improved transport system, that has to be seen in the context of the EU *Convergence Objective*. In the next seven years, this programme is expected to absorb approximately € 5 billion of which roughly 80% will be covered by the ERDF, the remaining € 1 billion will be provided through national sources (Government of Romania – Ministry of Transport, Construction and Tourism, n.d., pp. 1-2).
6 Experiences with Cohesion Policy in the Member States joining the EU in May 2004

6.1 Basis of Comparison

In order to facilitate the use of Structural and Cohesion Funds for the two new members, it appears to be advisable to learn from past experience. At first sight, it might seem most rewarding to look at previous accession rounds of members who are past the transition period, like the countries admitted in 1995. Looking at it more closely though, the situation of Austria, Finland and Sweden is completely different from the one in Bulgaria or Romania. Their political, social and economic situation was much closer to that of the other then-EU Member States than Romania’s and Bulgaria’s situation is today in comparison to the EU-25.

In contrast, most of the new Member States of May 2004 have a Communist background in common with Bulgaria and Romania. The former political culture based on a powerful central government strongly inhibits the institution-building process at the regional and local level indispensable for economic and social reform. Consequently, the ten new Member States of May 2004 are a much better frame of reference for the two most recent members Bulgaria and Romania. Like Bulgaria and Romania, the ten new Member States admitted to the European Union on 1 May 2004, namely Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia had to go through reform-processes in order to meet EU standards. Concerning EU Structural Policy these countries were eligible to pre-accession funding before May 2004. Between the date of accession and the end of the year 2006 these new Member States were subject to a shortened programming period for Post-Accession Structural and Cohesion Funds24.

By now the first three years of Structural- and Cohesion Policy for these countries have passed. First experiences with the subject matter have been gained. Yet, it is rather early to look back, because these states are still within their transition phase so that no final conclusions can be drawn yet. The so-called n+2 rule concerning budget commitments is a key factor in this context: The European Commission allocates precise amounts of funds to each and every operational programme previously approved of. According to this rule, laid down in Article 31 of the Council Regulation (EC) 1999/1260, the

---

24 For the EU-15, the previous programming period covered the years 2000-2006. As the enlargement in May 2004 took place 32 months prior to the end of this time span, the first programming period for the ten new Member States only covered these remaining 32 months.
Commission shall automatically decommit any part of a commitment which has not been settled by the payment on account or for which it has not received an acceptable payment application [...] by the end of the second year following the year of commitment [...]. The contribution from the Funds to that assistance shall be reduced by that amount (Council of the European Union, 26.06.1999, p. 161/26, Article 31 (2)).

Applied to the cases of the New Member States, this extract means that expenditures or payment applications for funds from the previous programming period can still be made until the year 2008 (two years after 2006, which was the last year of the previous programming period, in which the European Commission made the last budget commitment concerning this time span). In other words, not before the year 2008, it is going to be known for certain how high the over-all absorption capacity of these ten Member States for their programming period 2004-2006 will have been (Anders-Clever, et al., 2005, p. 136).

6.2 Empirical Values

So far only some first impressions can be formulated. Indicators for how well the respective national, regional and local administrations were prepared for the implementation of the EU Structural Policy are available. Considerable differences between the ten countries make it impossible to draw general conclusion valid for all of them. The following paragraphs present a selection of experiences which could be helpful as background-knowledge in the Bulgarian and Romanian context.

In the year 2004 Poland could have obtained as much as € 497.48 million of Structural Funds, which equals 53.9% of all Structural Funds designated for these ten new Member States (Anders-Clever et al., 2005, p. 10). Despite the fact that enterprises, non-governmental organisations (NGOs) and others showed great interest in the topic (Anders-Clever et al., 2005, p. 42), data suggest that only about 11% of the € 497.48 million intended to be spent on Structural Policy in Poland in 2004 were absorbed. As regards Cohesion Policy, the first year of Polish EU-membership was even more disappointing: not a single project was approved of (Anders-Clever et al., 2005, p. 29). Disagreement on the exact route a highway would follow was one of the obstacles faced in connection with the construction of a motorway for example. Lengthy negotiations with construction-companies and landowners hindered the disbursement of funds in other circumstances (Anders-Clever et al., 2005, p. 30). A high
turnover of staff-members within the Polish administration was identified as another problem (Ioniţă, 2006, p. 11).

Hungary and the Slovakia where the public administrations have proven to be capable of learning are counterexamples showing that absorption rates of 100% can be achieved not only on paper. In these countries administrations have been able to speed up the application procedures (Anders-Clever et al., 2005, p. 103). Formulating policies and working on future operational programmes in good time has been another factor of success in these countries (Anders-Clever et al., 2005, p. 135). Nevertheless, administrative efficiency would not have paid off without a sufficient number of programme proposals. In Hungary and Slovakia, the number of proposals exceeded by far the funds available (Anders-Clever et al., 2005, p. 135). Despite of the overall successes in Hungary, operational programmes improving certain aspects of infrastructure leave room for improvement. This description is valid for the areas of waste-management, sewage disposal and transport policy (Anders-Clever et al., 2005, p. 104).

Regardless of the enormous infrastructural adjustments Lithuania should have been going through in order to decrease the backwardness compared to the EU-15 (Anders-Clever et al., 2005, p. 174), the country’s absorption rate for Structural and Cohesion Funds is estimated at approximately 29% (Deutsch-Baltische Handelskammer in Estland, Lettland, Litauen. 04.2007, p. 7). In this case, the complicated and inflexible mechanisms of allocation of funds are given as the reason for this unsatisfactory result.
7 Economic Opportunities for German SMEs

7.1 General Considerations

As the present report as shown so far, the Structural Policy Budget for the current programming period is considerable. Millions and billions of Euros will be spent on multi-annual operational programmes. Much is at stake if the new Member States do not manage to improve their absorption capacity for these funds, as their deficit in their respective economic development compared to the EU 15 – but also compared to the EU 25 – is evident. At the same time, EU funding in the two countries is not only an opportunity for Bulgaria and Romania to reduce their development deficits, it is also an opportunity for entrepreneurs to obtain contracts in the context of the operational programmes.

7.2 The German Competitive Edge

It is in the interest of the export-oriented German economy to obtain its share of contracts in Bulgaria and Romania. The following arguments give evidence for the statement that German companies are in a particularly good competitive situation when it comes to working in the context of EU Structural Policy in new Member States.

7.2.1 Political and Historical Factors

- German enterprises have gained a wide range of experiences in the field of eastward-enlargement through the German Reunification and its aftermath. Within their own national borders they have become contemporary witnesses of the transition from a socialist country towards a democratic one. The Bulgarian and Romanian transition to democracy began in the late 1980s and early 1990s and has proven to be a long and challenging process; political and social stability only came hesitantly. Therefore even today these societies can rightfully be referred to as post-communist ones with remaining tendencies towards strong, centralised administrations.

- Alongside with the political transition of Romania and Bulgaria came the economic one from a planned economy towards a market economy. Germany is in a unique position to assist this process because of its own first-hand-experience in this area (Die Wende, 1989): In 1991, the new Länder including East-Berlin.

---

25 In Bulgaria, the first non-communist prime minister was Zhelyu Zhelev in 1990 (Library of Congress – Federal Research Division, 10.2006, p. 3). The Romanian dictator Ceaușescu attempted to flee from the country and was executed in 1989 (Library of Congress – Federal Research Division, 12.2006, p. 6).
generated only 8% of the GDP of the Federal Republic of Germany prior to the Reunification (Toepel, K. & Weise, C., 2002, p. 184). The entire territory of the former German Democratic Republic (GDR) qualified as Objective 1 regions. Even today, the GDP per capita in most of these NUTS 2 regions is below 75% of the EU-25 average\textsuperscript{26}. After the integration of the GDR in the monetary system of West Germany, the new \textit{Länder} started benefiting from EU Structural and Cohesion funds. Between 1991 and 2006 the territory of the former GDR received money from the EU Structural Policy Funds amounting to € 40.36 billion (Toepel, K. & Weise, C., 2002, p. 186). German enterprises have witnessed the institution-building process – necessary to meet EU requirements concerning among others EU-Structural policy – and gained considerable experience concerning application procedures for these funds (Toepel, K. & Weise, C., 2002, p. 188).

\textbf{7.2.2 Economic and Institutional Factors}

\begin{itemize}
  \item Trade and investment with Bulgaria and Romania did not just start at the dawn of EU-membership. There were \textit{Investment Protection Treaties} and \textit{Investment Guarantees} and \textit{Export Credit Guarantees} for German business contributing to the foreign direct investment (FDI) in the two countries prior to January 1\textsuperscript{st} 2007. More specifically this means that the German Federal Government offered to cover certain political risks, namely “nationalisation, expropriation and other sovereign acts, breach of contract by authorities, war, revolution, civil disturbance, acts of terrorism, payment embargoes, moratoriums as well as convertibility and transfer problems.” (Federal Republic of Germany, 05.2006, p. 9). In the year 2004, with insured German exports worth € 432.3 million, Romania was the country with the 15\textsuperscript{th} most significant volume of Export Credit Guarantees, also referred to as \textit{Hermes Guarantees} (Federal Republic of Germany, 2005, p. 45)\textsuperscript{27}. In the same year the insured sum of exports to Bulgaria amounted to € 76.0 million (Federal Republic of Germany, 2005, p. 46). With the accession to the European Union in sight, the necessity to make use of such instruments to insure German exports and investments to/in Bulgaria and Romania decreased remarkably in the following years (Federal Republic of Germany, 2006, p.43).
\end{itemize}

\textsuperscript{26} For more differentiated information, please turn to Annex 1
\textsuperscript{27} It has to be noted though that Investment Protection Treaties, Investment Guarantees and Export Credit Guarantees are instruments used predominantly in trade relations with developing and transition countries (Federal Republic of Germany, 2005, p. 9). Consequently, it would be false to conclude from this figure that Romania was the 15\textsuperscript{th} biggest importer of German goods worldwide in 2004.
Furthermore, Germany is among the most important trade partners for both Bulgaria and Romania. The German-Romanian Chamber of Industry and Commerce in Bucharest was founded in September 2002 (Deutsch-Rumänische Industrie- und Handelskammer, n.d.), the German-Bulgarian Chamber of Industry and Commerce in Sofia followed in March 2004. By means of their consulting services these chambers have since then been promoting business relations between both countries and Germany. They both currently have more than 350 registered members each (Deutsch-Bulgarische Industrie und Handelskammer, n.d.; Deutsch-Rumänische Industrie- und Handelskammer, n.d.).

The German-Bulgarian and German-Romanian Cooperation-Councils28 are forums for bilateral talks between entrepreneurs. The exchange of ideas and the solution of problems that can be addressed by representatives of the private economy instead of at the political level in this context take place behind the scenes. The existence of these Cooperation-Councils whose origins date back to the days of the Iron Curtain are unperceived by the general public. The chair- and vice-chairpersons are representatives of the respective national public administration whereas the key-actors, those who preside the working groups dealing with topics such as energy, agriculture, tourism, trade or SMEs should be entrepreneurs. Whereas this is the case on the German side (where the presidents of the working groups are employed by companies such as Siemens AG or TUI AG), the Bulgarian and Romanian presidents of the working groups used to be civil servants working for the respective national public administration. These presidents are now gradually being replaced by representatives from industry and commerce29.

The Bfai – the German Office for Foreign Trade is a service unit of the Ministry of Economics and Technology. As one of the three pillars of German foreign trade (besides the Chambers of Commerce and the Embassies in the countries. The latter politically support German economic interests abroad) it informs German enterprises about foreign countries and their markets with the intention to foster foreign trade. Its more than 60 correspondents around the globe provide clients from the German business community with up-to-date information and analyses.

28 The German names for these committees are as follows: “Kooperationsrat Deutschland-Bulgarien” and “Kooperationsrat Deutschland-Rumänien”.
29 In the absence of publicly available sources on the topic, the information given in this paragraph is a summary of a conversation with Mr. Tolksdorf, the vice-president of the German-Bulgarian and German-Romanian Cooperation-Councils who is also the supervisor for this thesis.
from the various regions of the world (Bundesagentur für Außenwirtschaft (bfai), 12.2005). Currently, there are bfai-correspondents in both Bulgaria and Romania reporting on the economic developments in the region.
8 Recommendations and Conclusions

8.1 Learning from Previous Enlargement Rounds

8.1.1 Surprises in Eastern Europe

This report has illustrated that successfully implementing EU Structural Policy at the national level is a challenging task. EU-funding does not come for free, neither for the old nor for the new Member States. Bulgaria and Romania though enter unknown territory as they are eligible for the first time for Post-Accession Funding. The absorption rates for Pre-Accession Funds in the two countries were rather low, but the same was the case prior to the entry of the ten member states in May 2004. In the years 2000-2002 the eight Eastern-European countries admitted in 2004 absorbed only 43.8% of all funds made available to them for Economic and Social Cohesion. There are significant differences between them; for the Czech Republic almost 70% of the funds were disbursed whereas in Hungary, Poland and Slovakia no more than 26%-27% of this money was spent. The latter mentioned figures are only slightly higher than the Bulgarian (23.15%) and the Romanian (26.58%) absorption rates for the same years. (Court of Auditors, 30.01.2005, p. C15/15 Table 3).

It can therefore be concluded that low absorption rates for EU Pre-Accession Funding are a well-known phenomenon that does not only concern the last two countries to join the European Union. Even more important is the conclusion that a low absorption rate for Pre-Accession Funding is not a reliable indicator for the performance of a country in the context of Post-Accession EU Structural Policy: Irrespective of the countries’ poor performances in the Pre-Accession Phase, both Hungary and Slovakia are expected to have made full use of the EU-Structural Policy Funding in the shortened Programming Period 2004-2006\(^\text{30}\) (Anders-Clever et al., 2005, pp. 103, 135). Applying this knowledge to the cases of Bulgaria and Romania it is safe to say that their low absorption rates for Pre-Accession Funds alone are no indicator for low absorption rates in the future.

8.1.2 Unexpected Progress in the West

Data collected concerning the absorption rate for EU Structural Policy Funding in the old Member States suggest that even those countries do not manage to absorb all funds made available. According to the 16\(^{\text{th}}\) Annual Report on the implementation of the Structural Funds 2004 the Netherlands only disbursed 30% of the funding intended for the country as of March

\(^\text{30}\) For further information, please turn to chapter 6.2.
Spain and Ireland to the contrary are often referred to as good example for efficient use of EU Structural Policy (Boeckhout, Boot, Hollanders, Reincke, de Vet, 02.2002, p. 1 & McLean). McLean also points out that at the time of accession of Spain (together with Portugal) in 1986, critics raised concerns about the development discrepancies between the then 10 old member states and the two new ones. Due to the positive economic impact of EU accession, the feared immigration wave from Spain (and Portugal) never came (McLean, 19.07.2005). Nowadays, Spain is referred to as “one of the best examples in the European Union for the manner the European funds can be used.” (Government of Romania – Press Office, 18.06.2005). The country absorbs and implements EU Structural and Cohesion policy so successfully, that it has sent experts to Romania to find ways to improve EU funds absorption capacity in the new Member State (Government of Romania – Press Office, 18.06.2005).

8.2 Future reforms in Bulgaria and Romania

The success stories mentioned above would not have come true without the commitment of the respective Member States. Their adaptation to EU guidelines was one of the most important measures taken in order to increase their absorption capacity for Common Structural Policy. Irrespective of their obligation to deliver an annual report on the progress their will have made regarding the implementation of the acquis communautaire (Council of the European Union, 11.07.2006, p. L 210/56 f., art. 67), Bulgaria and Romania have to realize the following reforms:

- The number of civil servants in the sectors of public administration dealing with structural funds should be increased (Oprescu, et al., n.d., p. 18; European Institute of Romania, n.d., p. 4). At the same time, adequate training has to be provided for. More tangible and intangible incentives for these civil servants to hold their jobs instead of seeking employment in the private sector have to be created (Oprescu, et al., n.d., p. 24-25).

- In order to compensate the shortage in adequately trained civil servants during the first years after EU-accession, the two countries should rely on the consulting services of private companies specialised in project management (Marin, 08.2006, p. 41).
Public administrations at local level have to have at their disposal up-to-date information in EU Structural and Cohesion Funds (Oprescu, et al., n.d., p. 26). It has to be guaranteed that application deadlines are being respected, for example.

As the experience with pre-accession funds has shown raising the funds to co-finance programmes within the context of the EU Structural Policy was difficult for local public authorities\(^{31}\) (Marin, 08.2006, p. 50). Even in the light of reduced shares of co-financing\(^ {32}\) this problem has to be addressed. International service providers with the objective to foster infrastructural development in the region such as the European Investment Bank (EIB) or the World Bank could be addressed when seeking loans to come up with the co-financing share\(^ {33}\).

The benchmarks formulated by the European Commission serving as a basis for evaluating the progress the two countries have made concerning the implementation of the *acquis communautaire* emphasise problems with the rule of law. Both countries have to continue to take measures against corruption and nepotism. The EU calls for specific measures to be put into practice in this context.\(^ {34}\).

### 8.3 Concessions Made by the EU

The eased stipulations concerning the \(n+3\) instead of the \(n+2\) rule and the reduced share of co-financing obligations referred to in chapter 2.4 are expected to increase the absorption capacity of EU Structural and Cohesion Funds in Bulgaria and Romania. Contrary to the call for progress that still needs to be done within the two countries, these concessions are made by the EU. In other words the EU itself contributes to brighten the future perspectives for Common Structural Policy in the region; by giving Bulgaria and Romania one additional year to disburse funds allocated by the European Commission and by asking for a smaller share of own financial commitment, chances to increase the future absorption capacity in the region grow.

### 8.4 German Expertise

As chapter 7 has shown, the German economy has a lot of expertise to offer to Bulgaria and Romania when it comes to operational programmes in the context of EU

\(^{31}\) For further information, please turn to chapter 4.4.3

\(^{32}\) More specific information on the subject matter can be founds in the chapters 2.4 and 8.3.

\(^{33}\) This aspect is also being referred to in chapter 4.2

\(^{34}\) The benchmarks for Bulgaria and Romania are named in chapter 3.2.1
Structural Policy. German SMEs as the driving force of the country’s economic performance do not only have an outstanding reputation, they also have hands-on experiences in transforming a part of their own country having a communist history based on a planned economy into an integral part of the Federal Republic of German. These small and medium size businesses have at their disposal the unique combination of high level expertise and the perspective of convergence objective regions, which the new Länder have been and still are. In addition to that, German SMEs can rely on political and institutional support as presented in chapter 7.1.2.

8.5 Reminder for the Future

Because it is rather early to draw conclusions from the experiences with EU Structural Policy in the ten Member States that joined the European Union in May 2004\(^3\), public administration at all levels within the two countries that most recently joined the EU has to observe very closely the development in the previously mentioned group of countries. One can expect official data on the absorption rates covering the shortened post-accession programming period 2004-2006 for these ten new member states to be published in the next few years\(^4\). This information will provide additional valuable indications on which measures could be taken in order to further improve that absorption capacity for EU Structural and Cohesion Funds in Bulgaria and Romania.

8.6 Concluding remark

Current EU Structural Policy differs from structural policy in the previous programming period and after the year 2013 it will most likely have changed again. Aiming at absorbing as much financial support as possible in this context requires continuous efforts by the Member States. There are without a doubt certain preconditions forming the basis within this area of EU policy, which were important in the past and which are continuing to be valid in the present and the future; the involvement of the local and regional level of administration is only one example. Other aspects are subject to change as for instance the share of funds available for the different objectives. The process of EU enlargement certainly is among the key factors influencing the development of the Common Structural Policy and the other way around. In other words, the performances of the new Member States Bulgaria and Romania in the field of EU Structural Policy will influence the accession perspectives of today’s candidate

\(^3\) For further information please return to chapter 6.1
\(^4\) Applying the \(n+2\) rule relevant in the context of the ten new Member States that joined the EU in May 2004, technically the latest possible date for disbursing EU-funds from the shortened programming period 2004 – 2006 is the 31.12.2008. This means that during the year 2009 these data can be collected, analysed and eventually published.
countries. The successful implementation of EU Structural Policy therefore generates consequences not only for the countries actively involved in this implementation but also beyond the present borders of the European Union.
Structural Funds 2007-2013:
Convergence and Regional Competitiveness Objectives

- **Convergence Regions**
- **Phasing-out Regions**
- **Phasing-in Regions**
- **Competitiveness and Employment Regions**

Helen Becker
Bulgaria’s and Romania’s Absorption Capacity for EU-Structural and Cohesion Funds

Cooperation objective 2007-2013
Crossborder Cooperation

Crossborder cooperation regions

Structural Funds 2007-2013: Transnational Cooperation areas

For the previous programming period, the objectives concerning the EU-structural and cohesion funds had been formulated in Article 1 of the Council Regulation (EC) No 1260/1999 of Jun 1999 laying down the general provisions on the Structural Funds as follows:

CHAPTER 1

OBJECTIVES AND TASKS

Article 1

Objectives

Community action through the Structural Funds, the Cohesion Fund, the European Agricultural Guidance and Guarantee Fund (EAGGF), Guarantee Section, the European Investment Bank (EIB) and the other existing financial instruments shall support the achievement of the general objectives set out in Articles 158-160 of the Treaty. The Structural Funds, the EIB and the other existing financial instruments shall each contribute in appropriate fashion to the attainment of the following three priority objectives:

1. promoting the development and structural adjustment of regions whose development is lagging behind, hereinafter referred to as ‘Objective 1’;

2. supporting the economic and social conversion of areas facing structural difficulties, hereinafter referred to as ‘Objective 2’;

3. supporting the adaptation and modernisation of policies and systems of education, training and employment hereinafter referred to as ‘Objective 3’. This objective shall provide financial assistance outside the regions covered by Objective 1 and provide a policy frame of reference for all measures to promote human resources in a national territory without prejudice to the specific features of each region. (Council of the European Union. 26.06.1999, Article 1, p. L161/7).
In order to establish reliable statistical data, the territory of the European Union has to be divided into units of comparable size. As the regional administrative structures of the different Member States show considerable differences, the EU-wide so-called *NUTS system* sets up standardised parameters to define the size of three levels of regions depending on the respective number of inhabitants.

The NUTS classification is hierarchical. It subdivides each member state into NUTS level 1 territorial units, each of which is subdivided into NUTS level 2 territorial units, these in turn each being subdivided into NUTS level 3 territorial units.” (European Parliament and Council of the European Union, 2003, Article 2(2))

More precisely, a NUTS level 1 region has 3 to 7 million inhabitants, 800 000 to 3 million people live in a NUTS level 2 region and the number of inhabitants in a NUTS 3 level region varies between 150 000 and 800 000 (European Parliament and Council of the European Union, 2003, Article 3(2)). Regardless of the level, the NUTS regions can, but do not have to correspond to existing administrative structures.

An example might best illustrate this system: the district of Mettmann is a NUTS 3 level region within the NUTS 2 level region referred to as Düsseldorf. Düsseldorf then lies within the state of North Rhine Westphalia which is the corresponding NUTS 1 level region within the Federal Republic of Germany (European Parliament and Council of the European Union, 2003, Annex 1 page L 154/14).
<table>
<thead>
<tr>
<th>Item</th>
<th>2005 (in MEUR)</th>
<th>2006 (in MEUR)</th>
<th>Change (y/y) in absolute terms</th>
<th>Change (y/y) in %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports (FOB)</td>
<td>-1226.2</td>
<td>-2094.2</td>
<td>-868.0</td>
<td>70.8</td>
</tr>
<tr>
<td>Imports (FOB)</td>
<td>6800.4</td>
<td>8900.1</td>
<td>2099.7</td>
<td>30.9</td>
</tr>
<tr>
<td><strong>Trade balance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-2976.9</td>
<td>-3455.5</td>
<td>-478.6</td>
<td>16.1</td>
<td></td>
</tr>
<tr>
<td><strong>Services (credit)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2872.9</td>
<td>3188.5</td>
<td>315.6</td>
<td>11.0</td>
<td></td>
</tr>
<tr>
<td><strong>Services (debit)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-2044</td>
<td>-2455.1</td>
<td>-411.1</td>
<td>20.1</td>
<td></td>
</tr>
<tr>
<td><strong>Services (net)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>829.1</td>
<td>733.3</td>
<td>-95.8</td>
<td>-11.6</td>
<td></td>
</tr>
<tr>
<td><strong>Income (net)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>204.7</td>
<td>31.3</td>
<td>-173.4</td>
<td>-84.7</td>
<td></td>
</tr>
<tr>
<td><strong>Transfers (net)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>716.7</td>
<td>597</td>
<td>-119.7</td>
<td>-16.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: Agency for Economic Analysis and Forecasting (September 2006)
### Financial table for the NSRF - Indicative annual allocation by Fund and Programme

<table>
<thead>
<tr>
<th>OP</th>
<th>Fund</th>
<th>Total</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ERDF</td>
<td>873</td>
<td>78</td>
<td>110</td>
<td>145</td>
<td>141</td>
<td>137</td>
<td>133</td>
<td>129</td>
</tr>
<tr>
<td>OP &quot;Competitiveness&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OP &quot;Regional Development&quot;</td>
<td>ERDF</td>
<td>1337</td>
<td>119</td>
<td>168</td>
<td>222</td>
<td>216</td>
<td>210</td>
<td>204</td>
<td>198</td>
</tr>
<tr>
<td>OP &quot;Transport&quot;</td>
<td>ERDF</td>
<td>323</td>
<td>29</td>
<td>41</td>
<td>54</td>
<td>52</td>
<td>51</td>
<td>49</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>CF</td>
<td>1005</td>
<td>90</td>
<td>127</td>
<td>167</td>
<td>162</td>
<td>158</td>
<td>153</td>
<td>149</td>
</tr>
<tr>
<td>OP &quot;Environment&quot;</td>
<td>ERDF+CF</td>
<td>1328</td>
<td>119</td>
<td>167</td>
<td>221</td>
<td>214</td>
<td>208</td>
<td>202</td>
<td>196</td>
</tr>
<tr>
<td></td>
<td>ERDF</td>
<td>323</td>
<td>29</td>
<td>41</td>
<td>54</td>
<td>52</td>
<td>51</td>
<td>49</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>CF</td>
<td>1005</td>
<td>90</td>
<td>127</td>
<td>167</td>
<td>162</td>
<td>158</td>
<td>153</td>
<td>149</td>
</tr>
<tr>
<td>ESF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OP &quot;Human Resources&quot;</td>
<td>ESF</td>
<td>873</td>
<td>78</td>
<td>110</td>
<td>145</td>
<td>141</td>
<td>137</td>
<td>133</td>
<td>129</td>
</tr>
<tr>
<td>OP &quot;Administrative capacity&quot;</td>
<td>ESF</td>
<td>135</td>
<td>12</td>
<td>17</td>
<td>22</td>
<td>22</td>
<td>21</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>TOTAL NSRF 2007-2013</td>
<td></td>
<td>5873</td>
<td>525</td>
<td>739</td>
<td>976</td>
<td>948</td>
<td>921</td>
<td>895</td>
<td>869</td>
</tr>
<tr>
<td>Total ERDF</td>
<td></td>
<td>2855</td>
<td>255</td>
<td>359</td>
<td>474</td>
<td>461</td>
<td>448</td>
<td>435</td>
<td>422</td>
</tr>
<tr>
<td>Total CF</td>
<td></td>
<td>2010</td>
<td>180</td>
<td>253</td>
<td>334</td>
<td>324</td>
<td>315</td>
<td>306</td>
<td>297</td>
</tr>
<tr>
<td>Total ESF</td>
<td></td>
<td>1008</td>
<td>90</td>
<td>127</td>
<td>168</td>
<td>163</td>
<td>158</td>
<td>154</td>
<td>149</td>
</tr>
</tbody>
</table>

Annex 6: Allocation of EU-Budget Designated for Structural Policy in Romania 2007-2013

NSRF financial table - indicative annual allocation by Fund and programme

<table>
<thead>
<tr>
<th>CONVERGENCE</th>
<th>Operational Programme</th>
<th>Fund</th>
<th>Community participation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>2007</td>
</tr>
<tr>
<td>Economic Competitiveness</td>
<td>ERDF</td>
<td>2240</td>
<td>60</td>
</tr>
<tr>
<td>Transport Infrastructure</td>
<td>ERDF+CF</td>
<td>4011</td>
<td>290</td>
</tr>
<tr>
<td>Environment Infrastructure</td>
<td>ERDF+CF</td>
<td>1133</td>
<td>87</td>
</tr>
<tr>
<td>CF</td>
<td>2877</td>
<td>209</td>
<td>295</td>
</tr>
<tr>
<td>Regional Development</td>
<td>ERDF</td>
<td>3070</td>
<td>218</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>ERDF</td>
<td>155</td>
<td>17</td>
</tr>
<tr>
<td>ESF</td>
<td>3049</td>
<td>173</td>
<td>304</td>
</tr>
<tr>
<td>Human Resources Development</td>
<td>ESF</td>
<td>185</td>
<td>19</td>
</tr>
</tbody>
</table>

| TOTAL all funds | NSRF 2007-2013 | ESF | 16870 | 1076 | 1691 | 2525 | 2938 | 3011 | 2891 | 2751 |
| Total ERDF | 7681 | 447 | 730 | 1115 | 1358 | 1407 | 1337 | 1268 |
| Total CF | 5755 | 418 | 560 | 778 | 915 | 996 | 1018 | 1070 |
| Total ESF | 3234 | 191 | 341 | 597 | 627 | 608 | 506 | 363 |
| Reserve | 200 | 20 | 30 | 30 | 30 | 30 | 30 | 30 |
| EAFRD | 16870 | 1076 | 1691 | 2525 | 2938 | 3011 | 2891 | 2751 |
| EFF | 7681 | 447 | 730 | 1115 | 1358 | 1407 | 1337 | 1268 |
| 5755 | 418 | 560 | 778 | 915 | 996 | 1018 | 1070 |
| 3234 | 191 | 341 | 597 | 627 | 608 | 506 | 363 |
| 200 | 20 | 30 | 30 | 30 | 30 | 30 | 30 |

### Annex 7: Discrepancies between ESC Commitments and ESC Payments in Bulgaria and Romania (2000-2002)

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESC commitments</td>
<td>15.0</td>
<td>88.0</td>
</tr>
<tr>
<td>ESC payments</td>
<td>5.3</td>
<td>53.9</td>
</tr>
<tr>
<td>ESC absorption (payments/commitments)</td>
<td>35.3%</td>
<td>61.3%</td>
</tr>
<tr>
<td><strong>2001</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESC commitments</td>
<td>37.1</td>
<td>109.0</td>
</tr>
<tr>
<td>ESC payments</td>
<td>10.0</td>
<td>26.2</td>
</tr>
<tr>
<td>ESC absorption (payments/commitments)</td>
<td>27.0%</td>
<td>24.0%</td>
</tr>
<tr>
<td><strong>2002</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESC commitments</td>
<td>14.0</td>
<td>106.6</td>
</tr>
<tr>
<td>ESC payments</td>
<td>0.0</td>
<td>0.6</td>
</tr>
<tr>
<td>ESC absorption (payments/commitments)</td>
<td>0.0%</td>
<td>0.6%</td>
</tr>
<tr>
<td><strong>Total (2000-2002)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESC commitments</td>
<td>66.1</td>
<td>303.6</td>
</tr>
<tr>
<td>ESC payments</td>
<td>15.3</td>
<td>80.7</td>
</tr>
<tr>
<td>ESC absorption (payments/commitments)</td>
<td>23.1%</td>
<td>26.6%</td>
</tr>
</tbody>
</table>

Source: Court of Auditors, 30.01.2005, p. C15/15 Table 3
## Annex 8: EU Structural and Cohesion Funds per Country per Year (2007-2013)

### Source:
European Union Regional Policy, 2007
Agency for Economic Analysis and Forecasting (July 2006). *The Bulgarien Economy: Analysis and Outlook.* Sofia: Agency for Economic Analysis and Forecasting

Agency for Economic Analysis and Forecasting (September 2006) *FDI in the nine months to October stepped up as high as EUR 2.8 billion following some revisions of BoP estimates.* Retrieved, April 12, 2007 from the Agency for Economic Analysis and Forecasting Web Site: http://www.aeaf.minfin.bg/en/analytical/bop_09_2006_en.php


Helen Becker

http://news.bbc.co.uk/2/hi/europe/5380024.stm


European Commission. (2006, October 31) Commission Decision of 31 October 2006 drawing up the list of regions and areas eligible for funding from the European Regional Development Fund under the cross-border and transnational strands of the European territorial cooperation objective for the period 2007 to 2013. (Official Journal of the European Union L 331/47 ff)


European Institute of Romania. (n.d.) Pre-Accession Impact Studies (PAIS III) Executive Summaries.


Romania and Bulgaria hail EU deal. (n.d.) Retrieved March 24, 2007 from the BBC news Web site: http://news.bbc.co.uk/1/hi/world/europe/5383456.stm


Šumpiková, M., Pavel, J., Klazar, S. (n.d.). EU Funds: Absorption Capacity and Effectiveness of Their Use, with Focus on Regional Level in the Czech Republic.


http://wko.at/statistik/eu/europa-lebenserwartung.pdf