

ABSORPTION OF EU FUNDS FOR STRUCTURAL ACTIONS: THE CASE OF SLOVENIA

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Structure of the presentation

- ◆ How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period?
- ◆ What are the main outcomes of the negotiations about the 2007 – 2013 FP of the EU
- ◆ What the 2007 – 2013 FP brings to Slovenia?
- ◆ Which are the key “home works” for good absorption of EU structural actions funds in the 2007 – 2013 period?

A. How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period ?

- ◆ **Key components of a financial package**
 - Inflows to the national budget from the EU budget
 - ◆ Agriculture
 - ◆ Structural actions
 - ◆ Other inflows (lump-sum payments)
 - Outflows from the national budget into the EU budget
- ◆ **Various concepts of net flows between the EU and national budgets**
 - *Potential* net balance (inflow / outflow)
 - *Actual* net balance (inflow / outflow)

A. How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period (II)?

Pre-accession aid 2003 (EUR 45 million)				
	2004	2005	2006	Total
A. Total allocated expenditure	224	285	324	833
- Pre-accession aid	51	43	27	121
- Agriculture	43	124	157	324
- Structural actions	27	59	73	159
- »Schengen facility« and other	38	38	38	114
- Internal actions	12	21	28	61
- Cashflow lumpsum	52	-	-	52
B. Total own resources	-187	-288	-296	-771
- Traditional own resources	-18	-29	-29	-76
- VAT resource	-22	-35	-36	-93
- GNP resource	-129	-198	-203	-530
- UK rebate	-17	-27	-28	-72
C. Net balance before bud. compen.	37	-3	28	62
D. Budgetary compensation	43	85	54	182
E. Net balance after bud. compen.	80	82	82	244

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A. How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period (III)?

- ◆ **Financial package for structural actions for the 2004 – 2006 period – relatively modest**
 - Unfavorable starting position
 - In the negotiations, Slovenia did not exchange funds for structural actions for lump-sum payments; dilemma “large” vs. “small” structural fund inflows
 - Available funds EUR 404 mil (in 1999 prices)
 - ◆ EUR 236 mil from structural funds
 - ◆ EUR 168 mil from the Cohesion fund

A. How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period (IV)?

- ◆ Preparations for effective absorption of funds for structural actions – sub-optimal
 - NDP as the key programming instrument did not have appropriate political priority
 - National co-financing was provided without major problems; EU funds represent a small portion of total budget expenditures
 - Implementation structure was deconcentrated and simply to complicated
 - Preparations of the admistration inadequate; reliance on “good experiences” from the past

A. How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period (V)?

Static assessment of the absorption capacity in practice – differences among various aspects

Different aspects of Slovenia's absorption capacity	
Macroeconomic absorption capacity	High
Financial absorption capacity	Medium
Status / quality of strategic documents	High
Status of project documentation preparations	Low
Administrative capacity of project providers	Medium
Administrative capacity of the administration	Low

A. How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period (VI)?

- ◆ **Dynamic assessment of how the EU funds have actually been used until now? – strong improvements in 2005**
 - Very slow start caused a lot of criticism; starting problems or structural problems
 - The new government has put a strong political priority to this topic
 - National cofinancing is not a major problem
 - Simplifications of implementation structures
 - Intensified efforts to improve administrative absorption capacity

A. How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period (VII)?

- ◆ **Current status of the structural funds absorption (at the end 2005) – substantial progress vis-a-vis the end 2004**
 - Funds under bidding procedure 86% (58%)
 - Selection of winning bids made 80% (36%)
 - Contracts signed 58% (11%)
 - Payments made 30% (7%)
 - Claims submitted to the paying agent 20% (0%)
- ◆ **Current status of the Cohesion funds absorption – still substantial problems**

A. How successful is Slovenia in absorbing EU funds for structural actions in the 2004 – 2006 period (VIII)?

- ◆ **Final assessment – reasonably good for early stage of EU funds absorption**
 - Period 2004 – 2006 is a *period of learning* for the post 2006 period when significantly more funds will be available
 - Need for a transition from a principle of “*absorbing for whatever purpose*” to a principle “*absorb for a good purpose*”
 - Substantially *increased challenges* associated with programming and national cofinancing for the 2007 – 2013 period (more money, longer period)

B. What are the main outcomes of the negotiations about the 2007 – 2013 FP of the EU

- ◆ **Key challenges of the enlarged EU**
 - Substantive challenges
 - Financial challenges (proposal of the 6 net payers – 1.00% of GNI)
 - Legacies of the existing commitments
- ◆ **Proposal of the Commission**
 - Total expenditures – 1.14% of GNI
 - Agriculture included
 - Phasing in of new members
 - Romania and Bulgaria

B. What are the main outcomes of the negotiations about the 2007 – 2013 FP the EU (II)

Appropriations of commitments)	2006	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth	47.582	59.675	62.795	65.800	68.235	70.660	73.715	76.785
1a. Competitive-ness	8.791	12.105	14.390	16.680	18.965	21.250	23.540	25.825
1b. Cohesion	38.791	47.570	48.405	49.120	49.270	49.410	50.175	50.960
2. Natural resources	56.015	57.180	57.900	58.115	57.980	57.850	57.825	57.805
3. Citizenship, freedom, security and justice	1.381	1.630	2.015	2.330	2.645	2.970	3.295	3.620
4. EU as a global partner	11.232	11.400	12.175	12.945	13.720	14.495	15.115	15.740
5. Administration	3.436	3.675	3.815	3.950	4.090	4.225	4.365	4.500
TOTAL	120.688	133.560	138.700	143.140	146.670	150.200	154.315	158.450

B. What are the main outcomes of the negotiations about the 2007 – 2013 FP of the EU (III)

- ◆ Positions of various groups of member states
 - Group of the six (France, UK, Netherlands, Germany, Sweden and Austria)
 - Group of “old” member states with positions closer to the Commission’s proposal
 - Group of “old” cohesion states (Spain, Greece, Portugal) facing pressure on cohesion funds
 - Group of “new” member states putting cohesion as its top priority

B. What are the main outcomes of the negotiations about the 2007 – 2013 FP of the EU (IV)

	Commission proposal (bn EUR)	Final agreement (bn EUR)	Cut from the Commission's Proposal (%)
1. Sustainable growth	462	382	-17
<i>Competitiveness</i>	122	74	-39
<i>Cohesion</i>	340	308	-9
2. Natural resources	400	371	-7
3. Citizenship	21	11	-48
4. EU as a global partner (without EDF)	63	49	-22
5. Administration	58	50	-14
Total commitments	1.004	863	-14

B. What are the main outcomes of the negotiations about the 2007 – 2013 FP of the EU (V)

◆ Main patterns of the FP deal

- Agreement was an achievement *per se*
- Main victim of the negotiations is Lisbon strategy
- Cuts in cohesion funds not drastic
- Agriculture remained more or less unchanged
- UK rebate has been cut but temporarily
- Revision clause asks for substantive revision of all segments of the budget
- Clear need for substantive reform of the budget

C. What the 2007 – 2013 FP of the EU brings to Slovenia?

- ◆ Assessment of the FP deal – bad for Europe, but a good one for Slovenia
 - From the EU point of view
 - ◆ European compromise – the lowest common denominator
 - ◆ Even though the main substantive challenge, the Lisbon strategy is the main loser
 - From Slovenia's point of view
 - ◆ In substance terms, the deal is reasonable good, as it provides a good structural actions envelope; it can be used for meeting Lisbon agenda objectives
 - ◆ In financial terms, the deal is exceptionally good for the country; some “free rider” benefits

C. What the 2007 – 2013 FP of the EU brings to Slovenian (III)?

- ◆ Structural funds envelope of the Republic of Slovenia for the period – EUR 4.5 bn or around EUR 650 mil a year
 - Structural funds – EUR 2.5 bn
 - Cohesion fund – EUR 1.2 bn
 - Rural development – EUR 0.8 bn
- ◆ Another 25% or EUR 0.9 bn should be added on account of the national cofinancing
- ◆ Potential net inflow of 0.9% of GDP

D. Which are the key “home works” for good absorption of EU structural actions funds in the 2007 – 2013 period?

- ◆ An increased volume of investments is one of preconditions for achieving strategic objectives of the Republic of Slovenia
- ◆ Agreement about the NFP is a “*necessary*” but not a “*sufficient*” condition for an increase of investments
- ◆ Key “home works”
 - No. 1: Programming
 - No. 2: National cofinancing
 - No. 3: Implementation structure

D. Which are the key “home works” for good absorption of EU structural actions funds in the 2007 – 2013 period (II)?

◆ “Home work” No. 1: Programming

– Main programming documents and their purpose

- ◆ *NDP* – substantive and financial basis of development oriented investments of Slovenia, including the macro, fiscal and investment scenarios
- ◆ *NSRF* – identification of those NDP investment priorities to be cofinanced by the EU; coordination with Lisbon strategy objectives
- ◆ *OPs* – detailed presentation of development / investment priorities; they are subject of an agreement with the Commission

D. Which are the key “home works” for good absorption of EU structural actions funds in the 2007 – 2013 period (III)?

- ◆ *“Home work” No. 1: Programming (cont.)*
 - Assessment of the programming documents preparation process – mixed feelings
 - ◆ We are late with the process; big delays in the NDP preparation
 - ◆ The process is of a much better quality than in the previous round (higher political priority assigned; better involvement of the MF)
 - ◆ Still not clear division of responsibilities among various players
 - ◆ Decision about the dividing Slovenia into two NUTS-2 regions

D. Which are the key “home works” for good absorption of EU structural actions funds in the 2007 – 2013 period (IV)?

- ◆ *“Home work” No. 2: National cofinancing*
 - The volume of EU funds available will in the case of Slovenia will increase the most only in 2007; in other new member states in 2004
 - Slovenia has a very high share of fixed public finance expenditures (around 80%)
 - National investment funds will be allocated predominantly for EU cofinanced projects; possible crowding out of other projects
 - Problems could be managed easier in case of high economic growth

D. Which are the key “home works” for good absorption of EU structural actions funds in the 2007 – 2013 period (V)?

◆ “Home work” No. 2: National cofinancing (cont.)

– Three possible scenarios

◆ *Scenario 1*: Full use of available EU funds and unchanged public finance deficit

◆ *Scenario 2*: Full use of available EU funds and increased public finance deficit

◆ *Scenario 3*: Poor use of available EU funds

– Taking into account Slovenia’s decision for early adoption of the euro, the choice of possible scenarios has been narrowed only to nos. 1 and 3

D. Which are the key “home works” for good absorption of EU structural actions funds in the 2007 – 2013 period (VI)?

- ◆ ***“Home work” No. 3: Implementation structure***
 - Legal documents for the next FP are yet ready
 - Decisions about the substance in domestic programming documents – selection of OPs
 - Experiences with the implementation of structural funds in the 2004 – 2006 period; further simplification needed
 - Potential mistakes in the design of the implementation structure for the 2007 – 2013 will be more expensive than in the 2004 – 2006 period