

## Absorption Capacity of Region for Pre-Accession Instruments in Slovak Republic and Czech Republic

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### Abstract

*The accession funds assistance of European Union presented aid for the candidate countries to solve the environmental issues on national and regional level, too. The article evaluates the absorption capacity of particular regions especially on NUTS II and NUTS III level of Slovak republic and Czech Republic in SAPARD, ISPA and partly PHARE programs. Absorption capacity of particular regions is influenced by complex of economical-social and institutional factors, that significantly decreasing with rising regional disparities. The obtained results are valuable resource of information to assess the potential of evaluated countries with a view to Structural funds and Cohesion Fund assistance of European Union.*

**Key words:** ISPA programme, SAPARD programme, structural funds, cohesion fund, ability of regions

**JEL Classification:** R11, R58

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### Introduction

Economic and Social Cohesion Policy is one of the most important common policies of the European Union, which is one third of its budget. It is equally important for the Czech Republic and Slovakia during period after accession in European Union from this point of view. A critique concerning the preparation for EU accession was mainly aimed at ability of candidate countries to implement the whole system effectively and transparently on both public

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administration side and project pipeline. There is still lack of meaningful, well-prepared projects at municipality and private company level on the other side.

There is no such analyse, which would say a few words concerning ability of certain regions for European Union's regional policy and ability to take advantage of Structural Funds assistance. There has been published just one analyse concerning impacts of EU accession on the Czech Republic's regions (Blažek, 2001), which was aimed at macro-economic impacts and hasn't included analysis of regional initiative and expected impact of EU funds with presumption of well prepared projects. In Slovakia, the lack of comprehensive assessment of regional capabilities for implementing projects from pre-accession instruments at least after the end of commitment periods will lowering the ability for the efficiency of structural funds.

Therefore, this paper is aimed at questions concerning project pipeline and ability of regions to be well prepared for regional development projects at all levels including both public and private levels. The main objective is to verify the hypothesis whether the Czech Republic's and Slovakian regions are ready for successful utilisation of Structural Funds and Cohesion Fund assistance as a mean for forced economic development on regional level.

One of proposed results will be an answer to the questions concerning results of Structural Funds and Cohesion Fund in the European Union's member countries. Although there has decreased difference among member countries, the difference on regional level has increased on the contrary (2<sup>nd</sup> Report on Economic and Social Cohesion, 2002). One of result of this paper is answer to question whether the same situation will happen also in studied countries. It is question whether there will be decreasing tendency in differences among regions or not.

Proposed paper analyses situation in multi-level policy co-ordination region by region by means of projects proposed in the past in certain calls for proposals.

There are mentioned measures as GDP, foreign direct investment flows an unemployment rate in regions in many reports. These measures are important for explaining the situation and previous changes, but they are unable to discuss potential for further sustainable development and improvement of conditions in the regions.

## **1. Pre-accession Funds in Czech Republic and Slovak Republic**

An important objective of the pre-accession strategy was preparing the candidates for their participation in assistance from structural funds after entering into the European Union.

Based on the conclusions of Berlin Summit (Berlin, March 24 – 25, 1999), the European Commission elaborated a proposal for the financial allocation to the accession countries. These funds are provided to candidates within the pre-accession aid period through three programmes: PHARE (Council Regulation 3906/890), Instrument for Structural Policies for Pre-accession – ISPA (Council Regulation 1267/990) and Special Accession Programme for Agriculture and Rural Development – SAPARD (Council Regulation 1268/99) from 2000 until their accession to the European Union (Klúvanková-Oravská, 2004).

The ISPA budget has an annual budget than 1 billion EUR. In order to determine the distribution between the countries, the European Commission used the following criteria: population, surface and GDP per capita. For practical reasons, a margin of flexibility was created. Funds allocated for Czech Republic was from 5.5 – 8.0 % and for Slovak Republic it is ranged between 3.5 – 5.5 % from total available budget (The Enlargement Process ..., 2001).

Applicant countries generally have significant need for assistance in the field of environment, in order to comply with EU environment legislation (preserving, protecting and improving quality of environment; protecting human health, and rational utilisation of natural resources) and EU environment principles (precautionary principle; preventive action; damage rectified at source and polluter pays principle).

The ISPA assistance concentrates on the „investment heavy“ directives, i. e. directives that are costly to implement, and, that deal with worst environmental problems, in areas such as: drinking-water supply, treatment of waste water, solid-waste management and air pollution. The second important priority for rising from an urgent need to build and rehabilitate transport infrastructure in the accession countries and to link this structure with the European Union's transport networks, since this is a crucial element in the element in the economic development strategies of the candidates countries (Kárász, 2003; Williams, Baláz and Zajac, 1998; Baláz, 2004). These required major investments, ISPA therefore contribute to funding the development of railways, roads, ports and airports, taking into account requirements for sustainable transport and modal change.

A part of ISPA budget may also be used to fund preparatory studies and technical assistance. The technical assistance can be used to prepare environment and transport projects, but also prepare for decentralisation. Funding for third objective was less than 10 % in accession countries. However, in Czech Republic the budget allocated for this objective was nearly 9 % and in Slovak Republic were 0.6 % (Overview of the Implementation of Rural Development Policy, 2003).

The pre-accession assistance program SAPARD was focused on supporting rural development. The SAPARD aims to support the efforts made by candidate

countries to prepare for their participation in the Common Agricultural policy and the single market. The Community annual allocations for studied countries are as follows – Slovakia 18,289 mil. EUR and Czech Republic 22,063 mil. EUR. The European Council specified has determined the priority areas for which the funds could be allocated. Of the available measures, the following three priority axes can turned out as most important: investment to the improvement of agricultural production sector including food-processing industry (57.5 %); sustainable rural development (35.5 %) and human resources development (cca 5 %) (see Overview of the Implementation of Rural Development Policy, 2003).

For the complexity of provided information, we should mention that, the most serious constrains with SAPARD program in Slovakia was the delay in project selection due to the late accreditation of the national SÁPARD agency in April 2002 (Klúvanková-Oravská, 2004).

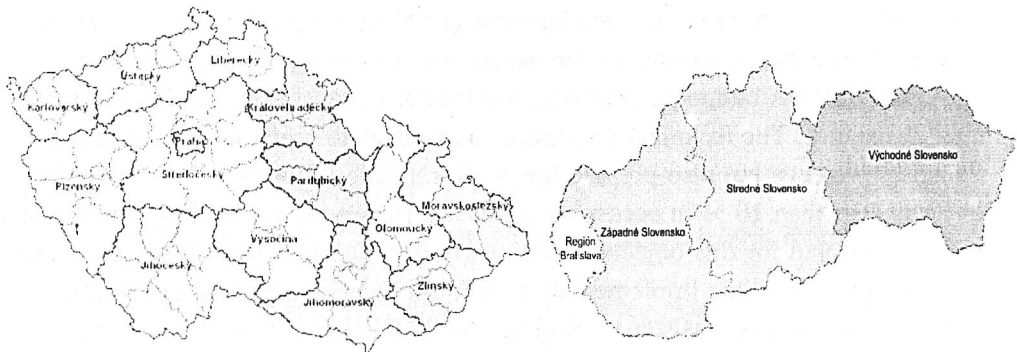
The SAPARD introduced the new dimension in Community aid for third countries. The innovation is to confer management on agencies in the applicant countries. This is radical move because it is the first time a fully decentralised external assistance programme has been undertaken by the Commission. It transfers new and important responsibilities on the candidate countries (Report from the Commission to the Council, 2002).

## 2. Methodological Approach

Proposed and successfully implemented projects at NUTS III level measure analysis of initiative in certain regions in the Czech Republic and in Slovak Republic. Map of NUTS II regions for both countries can be seen below (Figure 1).

Figure 1

Distribution of NUTS II in Slovakia and Czech Republic



Chosen approach is based on ability to absorb international and state assistance in the field of regional development. For needs of this analyse is the absorption capacity defined as an amount of activities, skills and experience of private and public sector on regional level, both NUTS II and NUTS III, by means of proposals and successful projects. However, we did not succeed to include all listed parameters for both countries in all regions, used indicators allow us to complete a comprehensive assessment of absorption capacity of the monitored regions.

Research is done at activities held during last 3 years (2000 – 2003),<sup>1</sup> which enable to see differences among NUTS III regions, which have been established in 2000.

Attention was also kept on cross-sector analyses. Reasons for doing this were certain differences in conditions, strengths and weaknesses of all NUTS III regions, outside and inside the regions.

We are aware, that there is a difference in the used methodology in both countries. This is due to the different features of analysed pre-accession instruments. In our opinion, the occurred differences allow us to broaden and deepen our analyses and conclusions.

### **3. Absorption Capacity of Regions in Czech Republic and Slovak Republic**

Although there are mentioned these measures, the main part of this paper is based on activities analyses. This approach shows differences between certain Czech and Slovak regions caused by historical, geographical and traditional circumstances.

This approach enabled to see differences not only among regions, but also among different types of activities (investments in infrastructure, private companies' investment, non-profit sector activities, etc.).

Result of each proposal call is discussed with other programmes calls to enable comparability of results among different types of activities and regions. There is used another adjustment for climate and geographical circumstances for all regions (especially in SAPARD programme). Finally, there was made adjustment for both sizes of regions and density of population for ensuring comparability of results among all regions for all analysis. In certain cases we use a real assistance as a measure of financial support to compare concentration of assistance to successful projects.

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<sup>1</sup> Years, for which we were able to collect data.

#### 4. Regional Comparison in Czech Republic

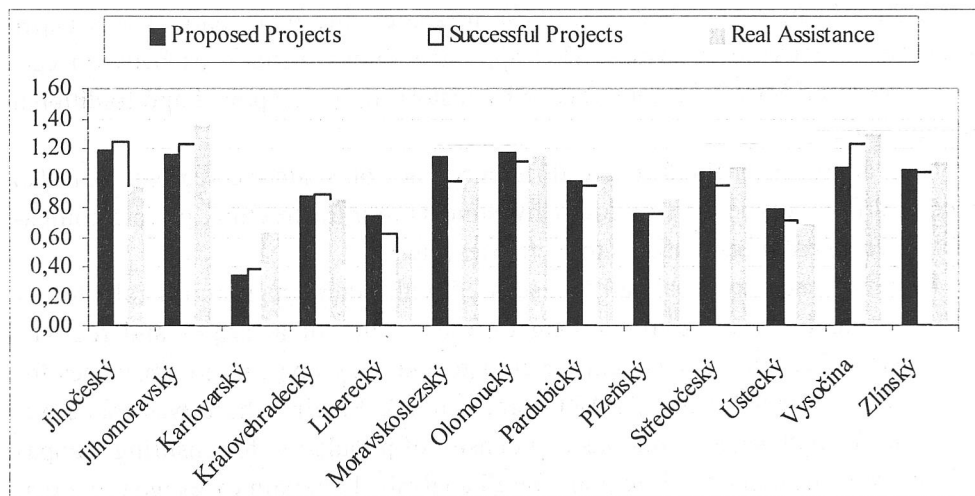
The first comparison has been made on EU Programme SAPARD. There were included 4 calls for proposals for purpose of this paper.<sup>2</sup> There is shown comparison among the Czech Republic's regions in Figures 1 and 2. Prague region wasn't included because of small part of agriculture areas and farms and small size of this region.

There have appeared three regions, in which is the initiative at high-level – Jihočeský, Olomoucký and Vysočina. Jihomoravský region has good results under size of the region adjustment, but not so high evaluation in case of adjustment by number of inhabitants. It is given by city of Brno in the middle of this region. There are also regions, which have low evaluation, on the contrary. These regions are Karlovarský, Ústecký region, Liberecký and Moravskoslezský. One explanation for these results is that these regions are mainly industrial or are with mountains, which make these regions less interesting for farming.

We can also see differences among private companies, municipalities and land offices, who all were eligible for making proposals, when we try to make more detailed analysis for each group of project proposes. This fact is crucial for future Structural Funds assistance in the Czech Republic especially in case of private companies and municipalities.

Figure 2

Evaluation of Project Supported from SAPARD (regions adjusted by size and to national average)



Source: The Czech Republic's SAPARD Agency; calculations of authors.

<sup>2</sup> There was also 5<sup>th</sup> call, which wasn't included in this analyse, because we weren't able to recognize unsuccessful projects.

There is more initiative private sphere in Jihočeský and Vysočina region. The most active approach was seen in case of municipalities in Jihočeský and Středočeský regions. It is possible to see also activity in Plzeňský and Moravskoslezský region, but it isn't validated by both adjustments by size of the region and density of population.

When we see less successful proposals, let's say less initiative regions, we can see dissatisfactory situation in case of Karlovarský and Liberecký regions. We can see also less initiative in case of private companies in Moravskoslezský and Ústecký regions. We explain these results as a lack of finance for co-financing of proposed projects. Above-mentioned regions have problems with unemployment and companies are less initiative (excluding Liberecký region, but there are natural conditions, which don't allow intensive agricultural activities).

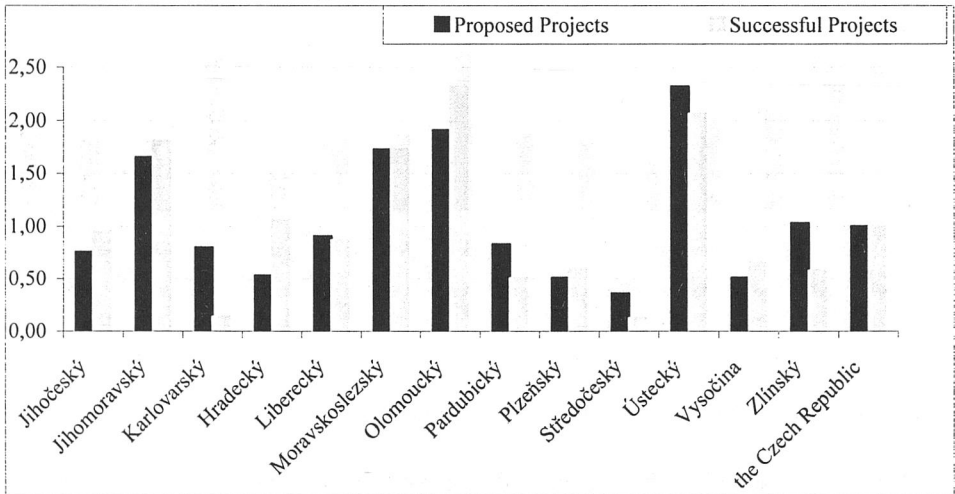
We can make clear conclusions for SAPARD programme just for Karlovarský region in case of municipalities.

We can say that there were many unsuccessful proposals in case of municipalities in the whole Czech Republic on the contrary. It was caused by a lower amount of subsidy for measures aimed at rural development, in which were municipalities eligible for making proposals.

The next programmes, which we have analyzed, are PHARE and Access programme for Civil Society development, which was implemented by Foundation for Civil Society Development (NROS).

Figure 3

Comparison of Activity among Regions (excluding Prague) for Programme Implemented by NROS (adjusted by size of regions)





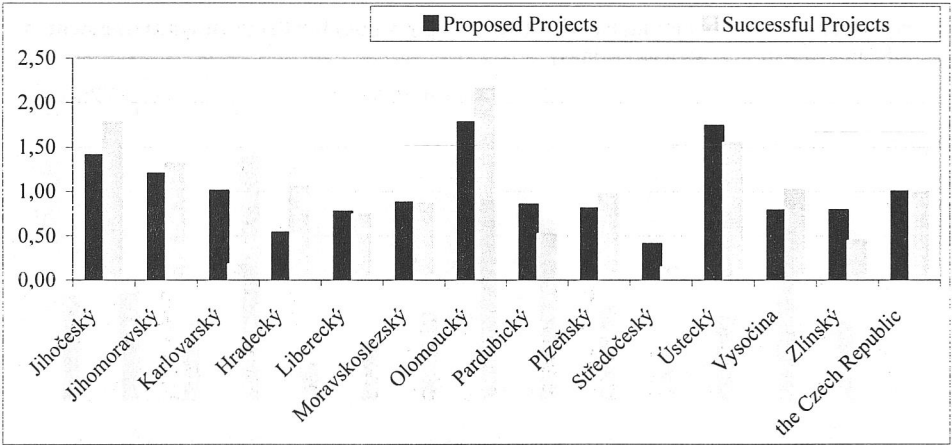
It was also necessary to exclude Prague region in comparisons made in these programmes. Non-governmental organizations (NGOs) in Prague were too successful to be comparable with the rest of the Czech Republic regions. The number of successful proposals was 66 times higher in comparison with the average of the Czech Republic and we have decided to make just comparison among the Czech Republic's regions excluding Prague. This comparison can be seen on Figures 3 a 4.

There are the most initiative NGOs in Olomoucký region, where they have proposed and successfully gained more that twice grants in comparison with the average of the Czech Republic. The situation seems to be very interesting for NGOs in case of Ústecký region, where the private companies haven't proposed successfully many projects in SAPARD and other programmes, but NGOs are very successful.

Other successful NGOs are in regions Jihomoravský, Moravskoslezský and Jihočeský.

There have to be pointed out the Karlovarský, Středočeský and Zlínský regions, where the NGOs have less initiative and their position is less strong in comparison with other regions. Especially Karlovarský and Středočeský regions have the worst rate of successful projects to proposed projects.

Figure 4  
Comparison of Activity among Regions (excluding Prague) for Programme Implemented by NROS (adjusted by number of inhabitants and to national average)



Source: the Foundation for Civil Society Development, calculations of authors.

Interesting seems to be the fact, that although there are registered more than 50 000 NGOs in the Czech Republic, just approximately 300 of them have proposed projects, the other are passive.



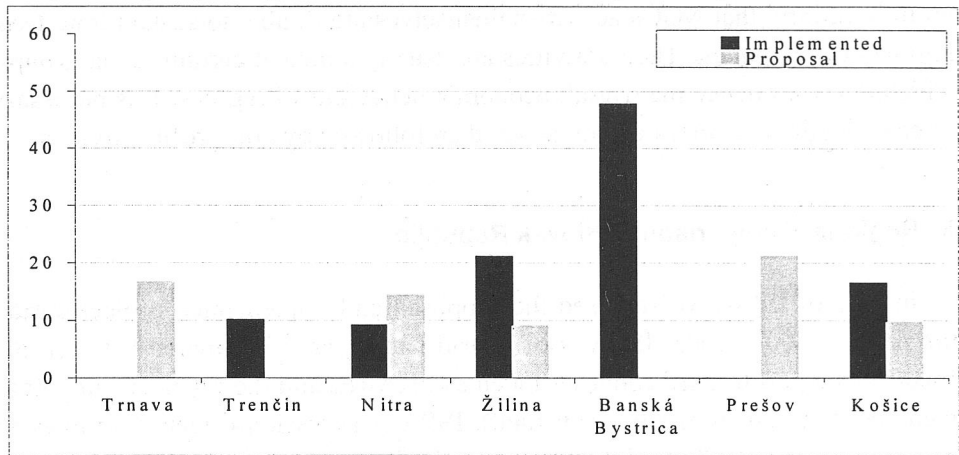
It is question if it is a result of private sector initiative, which is followed by NGOs, or this kind of activities appears without connection to it. We must say on the contrary, that NGOs activities themselves aren't able to sustain long-term regional development. Their activities are usually aimed at certain target groups, which don't influence the overall economic behaviour of regions. It is necessary to be maintained by private companies, than followed by non-profit activities.

## 5. Regional Comparison in Slovak Republic

In case of ISPA, we analysed the proposed and implemented project during the period 2000 – 2003. ISPA is of hybrid nature, as it is situated between the financial support to third countries (such as PHARE) and the financial support to member states (such as Cohesion fund). ISPA is accession-oriented, follows an approach similar to that of the Cohesion fund, and applies to the environment and transport sector. In the paper, we analysed only project focused on environment. From the regions at NUTS II level, Eastern Slovakia is the most disadvantaged one; however there is a most big need for the foreign assistance to support sustainable development. From the Figure 5, it is clear that in this area currently majority of the projects is at the level of proposal. In case of the Prešov region, affected strongly by regional disparities, there are only project proposals without implemented projects. The analyses of the implemented and proposed project by NUTS II region Východné Slovensko shows a great delay in the submission the project proposal. On the other hand, regions belong to other NUTS II (Bratislava is excluded), the number of implemented project is significantly higher. The delay in the implementation of project was probably due to lack of information in the less-developed regions, lack of local capacity for the project preparation and lack of financial resources for the co-financing. The distribution of the project in each county is presented on Figure 5.

The projects supported by ISPA were focused on investment into drinking water supply systems (36,13 mil. EUR for implemented projects) and wastewater treatment (36,20 mil. EUR for implemented waste waters projects; 14,98 mil. EUR for implemented projects of waste water treatment plants and 13,16 mil. EUR for proposals) in accordance with the objective of the programme. The sewage processing are done either as special project or together with the development of waste water treatment plants (14,37 mil. EUR for proposed sewage projects; 12,17 mil. EUR for implemented projects of waste water treatment and sewage and 34,30 mil. EUR for proposals). The investments to the air pollution reduction measures were targeted just at the last stage of the programme through decreasing emissions from heat production (9,00 mil. EUR for proposed projects).

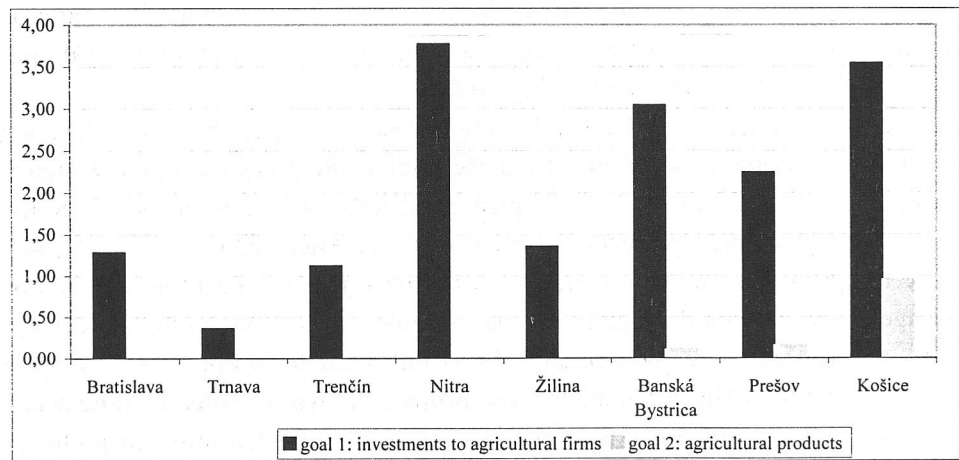
Figure 5  
Absorption Capacity of Regions at NUTSIII Level for ISPA (mil. EUR)



Source: [http://europa.eu.int/comm/regional\\_policy/funds/ispa/provisions\\_en.htm](http://europa.eu.int/comm/regional_policy/funds/ispa/provisions_en.htm); adopted.

The allocation of support from SAPARD programme is significantly depends on quality of land and associated agricultural production. Therefore, the higher number of project is allocated in county Nitra and Košice. It is important to note that also regions affected by disparities such as Východné Slovensko (NUTS II level) achieved significantly higher support than it was in case if ISPA. Majority of the funding goes to the project under goal 1 – investment to agricultural enterprises.

Figure 6  
Implemented Projects under two Different Goals of SAPARD Programme in Slovakia at NUTS III level



Source: <http://www.vlada.gov.sk/phare/ispa.html>.

The second goal – improving of the processing and marketing of agricultural products has marginal importance. The significant contribution of goal 2 is in Košice country. We already mentioned that SAPARD expects fully decentralised systems.

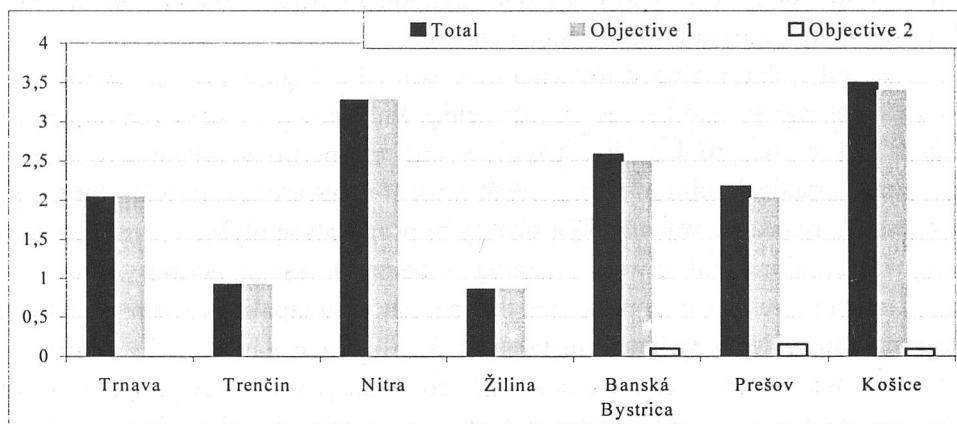
That brings to the level of lower administrative units valuable experiences in the practical application of Community rules.

From the gathered data, it is clear that the capability of decentralized municipalities for seeking for project is very different. Detailed description is presented on Figure 8.

At the level of municipalities, the most successful was the Košice County together with Nitra.

Figure 7

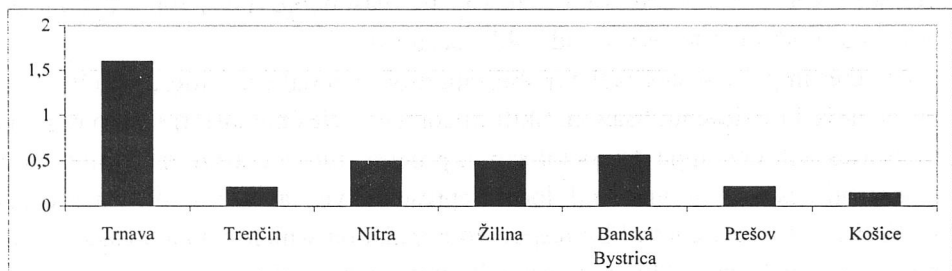
**Distribution of Financial Aid from SAPARD to Municipalities (aggregated at NUTS III level) According to Different Objectives in mil. EUR**



Source: <http://www.vlada.gov.sk/phare/ispa.html>; adopted.

Figure 8

**Distribution of Financial Aid from SAPARD to Individuals (aggregated at NUTS III level, in mil. EUR)**



Source: <http://www.vlada.gov.sk/phare/ispa.html>.

The number of projects implemented at the level of municipalities is much higher than the project lead by other subjects. It is clear, that the distribution of projects is also influenced by the overall potential for rural development in the particular region limited by factors such as quality of land, potential for agricultural production and rural tourism.

## Conclusion

The strategy of pre-accession instruments (partly analysed in this paper) should also be used to introduce applicant countries to the program management procedures of the Structural funds. Our analyses equally treated highly V centralised (egg. ISPA) and less-centralized pre-accession instruments (SAPAPRD, PHARE). Such comprehensive approach allows us to formulate conclusion towards centralized structural funds as well as funds based on the public – private partnership. Therefore, we should draw our attention to critical assessment of weaknesses of pre-accession funds implementation.

Generally, the studied instruments were utilised in higher level in the better development regions and the regions struggling with serious problems in the priority areas had serious problems in capabilities and current project planning practices.

From practical point of view, one of evident weakness of applying for the pre accession assistance was the poor quality of proposals applying for the EU funding was a major result of weak planning in the pre-accession period.

The paper results in conclusions that neither municipalities nor regional governance are able to maintain sustainable development without will of firms or citizens, whose activities are crucial for economic growth. Private sector is able to manage projects more effectively than public sector, but there is an important advantage with support from public sector side on the other hand.

Municipalities and regional governance enable to adopt any effective decision on regional development without private sector support. On the other hand the private subjects are too weak to influence the policy decision-making process at national level. The co-operation seems to be reasonable mean for fulfilling objectives of both private sector and public sector too.

Another important step is the mobilisation of regional capacities, which can be best achieved by decentralisation. Shift of competencies but also rights to regional authorities will conclude democratisation process, move considerable amount of responsibilities to regional and local representatives at the same time create mechanism of direct control by respect to population which is much easier to address at regional scale. Although difficult, only such process can guarantee expansion of bottom up activities, which are still rare (see Kľuvánková-Oravská, 2004).

We can say that also in the Czech Republic and Slovakia happened the same situation, which happened in other accession countries the European Union (The Mini ISPA Report). The situation is that certain regions will stay behind although Structural Funds will assist them. In case of the Czech Republic it may be Karlovarský and Ústecký regions and in Slovakia – Východné Slovensko (Prešov County).

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