Regional Policy

EU REGIONAL AND STRUCTURAL POLICY AFTER ENLARGEMENT

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Abstract

European Union had been created by states with dissimilar economic level. Differencies among particular regions are the backwash of cultural, historical, geographical and other differencies affecting various income level in particular regions. EU attends considerable attention on regional a structural policy what is testified by increasing part of funds given to achieving regional policy aims. Regional and strucural policy primary aim is elimination differencies in economic level and rate of unemployment in particular regions. Terms of Structural funds and Cohesion fund deriving are chaning in connection with European Union enlargement. The aim are achieving convergence and increasing competitivness in EU member states. Filling regional and structural policy aims will depend on volume and timely granting funds which particular regions will receive.

Keywords: *European Regional Development Fund, European Social Fund, Cohesion Fund*

1. Introduction

One of the basic objectives of regional and structural policy of the European Union (the EU) is elimination of economical differences between member states that are inevitably caused by cultural, historical, geographical, and other discrepancies between member states. Also increasing share of the EU budget spent on diminishing the regions differences shows the significance of the regional and structural policy of the EU. The share on total budget for the financing period 2000 – 2006 is more than 30 %. Problem of heterogeneity in the EU always come to question and is important issue whenever enlargement was on and higher form of economic integration came (creation of internal market and then the monetary union).

2. Financing the regional and structural policy

Achieving objectives stated by regional and structural policy requires financial resources that come from structural funds and Cohesion fund and that depends on particular objectives of the regional policy. Concerning structural funds, the greatest amount of resources comes from the European Regional Development Fund (ERDF). This fund was established to promote and finance economical and social cohesion through lowering of regional disparities and through the share on reconstruction and development of various EU regions.

Concerning the amount of financial resources, the European Social Fund (ESF) is the second largest fund in regional policy. Main areas that this fund promotes and finances are promotion of unemployment prevention measures, human resources development, equal opportunities for men and women, development of economic and social cohesion.

The third of the structural funds is the European Agricultural Guidance and Guarantee Fund (EAGGF) that is divided into two main sections. These sections are guidance section and guarantee section. Concerning structural funds, only guidance section is a part of the funds that currently comprises approximately 5 % of financial resources of this fund. These resources finance mainly regional policy objectives in the area of rural promotion.

Finally, the last one among the structural funds is the Financial Instrument for Fisheries Guidance (FIFG) that was created to promote and support the fisheries sector, connected industries and marketing for the fish industry products.

In connection with the monetary union creation was also the Cohesion Fund established (CF). It serves as a promotion instrument for member states that are economically lagging behind. It is also used to finance and promote the projects concerning environment. These projects should help to achieve the goals stated and declared by the EU common policy in this area. The Cohesion Fund also helps to finance the projects in the area of transport infrastructure.

New member countries (candidate countries before) that entered the EU in May 2004, were given financial resources prior to the accession through these instruments:

1. **PHARE** – to promote the strengthening of institutional structure, to promote the participation of candidate countries in the EU programs, regional and social development, industrial reconstruction, and small business.
2. **ISPA** – transport infrastructure development and environmental protection.
3. **SAPARD** – agriculture modernization and rural development.

For the New Member states, 2004-2006 is a transitional period which will allow them to become accustomed to managing Structural Funds in accordance with the current rules. They will receive support from those Funds totaling 21.8 billion euro. The measures will concentrate on a limited number of priorities: infrastructure, human resources and productive investment.

2.1 Regional Policy Objectives in 2000 – 2006

There are three objectives realized through current budget period:

Objective 1 – this objective was established to help and promote the regions lagging behind. Their GDP per capita is below 75 % of the EU average. Also the less populated regions (French overseas territories, Madeira, Canaria Islands, Azor Islands) that are below 75 % average are supported. This objective is financed through all of the structural funds – ERDF, ESF, FIFG, EAGGF guidance section.

Objective 2 – this objective is aimed at regions where economic and social changes are prevailing in the industry and service sectors, declining rural territories that are subject to economic difficulties caused by economic activity decreasing. This objective is also concerned with the territories and regions dependent on fishing that undergoes through depression phase. This objective is financed through two of the structural funds – the ERDF and ESF.

Objective 3 – concerning the support in this objective, the intent is to develop activities focused on human resources mainly through the ESF. This objective is chiefly aimed to support the member states in the area of adapting to and modernization of educational systems, professional training, and employment.

The greatest amount of financial resources is allocated in Objective 1. There is, however, condition that states that no region in member states that profits from the support under the Objective 1 can make use of the other two objectives.

Besides the support from structural funds, there also is a possibility to receive the financial resources through the EU Initiatives. There are 4 Initiatives financed in the period 2000 – 2006:

- **INTERREG** - is an initiative aiming to stimulate interregional cooperation in the EU to achieve balanced and sustainable development in the EU (this initiative is financed under the ERDF).
- **URBAN** – initiative aimed to support the economic and social regeneration of cities and urban districts that undergo the crisis (this initiative is also financed under the ERDF).
- **LEADER** – aimed to rural areas and their development (this initiative is financed by guidance section of the EAGGF).
- **EQUAL** – transnational form of cooperation aimed to fight against all the discrimination forms in the labor market.

2.2 A revised Regional and Structural Policy for 2007-2013

Financial period for the years 2007 – 2013 will be accompanied by the reform of structural and regional policy. This reform will be focused on changing the rules of structural funds using. Basic principles of the regional policy – perennial programming, partnership, cofinancing, evaluation and complementarity – shall not be changed in the next financial period.

According to proposed changes, the European Commission plans to implement the principle of one fund that should prevent using the financial support from more than one fund for the same operational program. Other changes that should be realized are more frequent and more extensive controls focused on drawing of structural funds resources for big projects and simplification of the programming documents system.

The basic document that will state and define the supportive framework of the EU for years 2007 – 2013 through structural funds and Cohesion Fund is the Community Strategic Guidelines for Cohesion. The very first proposal of certain changes in regional policy was revealed in

February 2004 by the European Commission. Each member state is required to adopt this document to National Strategic Reference Framework that is supposed to join priorities on the EU level with the priorities on national and regional level. Ministers for regional policy from member states agreed in the meeting in May 2005 to priorities of the EU in the area of regional policy. They also agreed to support the strategic guidelines from the EU in case they allow for the varieties of different regional needs and that will be flexible enough for member states to state their own priorities according to particular strategic objectives. Many of the member states required greater emphasis on social aspects while stating priorities through the EU regional policy.

National Development Plan approved by the Commission, should by replaced by new type of programming document – National Strategic Reference Framework. Each member state is required to inform about the NSRF the Commission. NSRF should postulate national strategy according and aimed to achieve the three objectives: convergence, regional competitiveness, and employment.

Simultaneously with the preparation of legislative framework at the EU level began the preparation of national documents at the member states level. These documents will provide the basis for drawing the resources from structural funds and Cohesion fund. Priorities of individual member states will be proposed and stated in the operational programs. The main difference concerning current and future operational programs is that there will be no program amendments in the future operational programs. However, prior to submitting the National Strategic Reference Framework the whole financial framework and allocation of the resources for each member state must be approved.

Concerning the financial period 2007 – 2013, there is € 336.1 billion planned for regional policy. Financial resources assigned to regional policy will be distributed according to fulfillment of three new priority objectives:

- Convergence
- Regional Competitiveness and Employment
- European Territorial Cooperation

The first priority – **Convergence** – will be focused on helping the regions where GDP per capita is less than 75 % of the EU average. This priority is actually identical with current Objective 1. Most of the new member states will be supported under this priority. There is also assumption that interim and specific support of descending form will be provided until 2013 for regions where GDP is over 75 % of the EU average as an outcome of statistical effect caused by the EU enlargement in 2004.

National and regional programs co-financing will be oriented to modernization and diversification of regions economic structures, to protection of environment, to improvement in institutions on labor market and to improvement of education systems. Structural funds that will co-finance these activities are: ERDF, ESF, and CF. Financial support from the Cohesion fund will be provided to those member states where GDP per capita is less than 90 % of the EU average.

From the whole sum of € 336,1 billion, the greatest amount will go to the achievement of this priority - € 264 billion or 78%. The structure for allocation is as follows:

- 67,34 % for regions with GDP per capita less than 75 % of the EU average
- 8,38 % for regions influenced by statistical effect
- 23,8 % for regions that draw resources from Cohesion fund
- 0,42 % for peripheral areas (Azor Islands, Madeira, Canaria Islands, particular French overseas territories)

Concerning the second priority – **Regional Competitiveness and Employment** – it will promote two basic goals outside the territory of the most disadvantaged member states. The first goal includes regional programs as support in economic changes in industrial, urban and rural areas. The second goal is focused, through national programs, on helping the people during their adjustment to economic development according to the priorities of European Employment Strategy. Also the support of employment policies, labor productivity, and social integration are included.

Concerning this priority, only those regions that are not included under the Convergence priority will be eligible for drawing up resources through this priority. Regions that are entitled for the support from current Objective 1 but will not be eligible in 2007 to draw up resources from priority Convergence because of their economic progress, will receive until 2013 specific and interim support through this priority in descending form.

This priority will be financed by ERDF through national development programs and by ESF according to the European Employment Strategy.

From the whole amount of the funds for 2007 – 2013, the sum of € 57,9 billion or 18% is allocated for this priority. The structure is as follows:

- 83,44 % for regions that do not draw finances under current Objective 1
- 16,56 % for regions in transition phase

The third priority of the EU regional policy in period 2007 – 2013 is the **European Territorial Cooperation**. This priority is supposed to follow the current INTERREG Initiative. This priority actually means the continuity of integration policy in the EU territory. This priority is supposed to be achieved by supporting of cross-border and transnational cooperation. Cross-border cooperation includes all the regions that neighbor with outer or inner borders on the land or in the sea. Besides it should also help and support the cross-border cooperation under the European Neighborhood Policy, partnership and pre-accession instruments. All of these should replace the current programs – PHARE, ISPA, SAPARD, TACIS, MEDA, and CARD.

There is a sum of € 13,2 billion for this priority which is 4 % of the total sum of € 336,1 billion allocated for regional and structural policy. The distribution of these resources is as follows:

- 47,73 % for cross-border cooperation, from which 35,61 % is allocated for cross-border cooperation on the EU territory and 12,12 % for the European Neighborhood Policy and Pre-accession Instrument
- 47,73 % for the area of transnational cooperation
- 4,54 % for European cooperation and exchange networks

Responsibility and control while drawing up the money from structural funds and Cohesion fund should be moved from the EU level to national level in member states. Regional policy in the future should be financed only through 3 funds – ERDF, ESF, CF. Commission initiatives URBAN and EQUAL should integrate into the operational programs priorities in member states or regions. Operational programs should be financed only by one fund, either ERDF or ESF. There will be an exception, however, concerning infrastructural programs where ERDF and Cohesion Fund should work together.

3. Conclusion

Expenditures on regional policy in the EU will depend on approved financial framework for period 2007 – 2013. Concerning this financial perspective for the future period there are many controversial issues and different positions from member states. The Commission proposed in 2004 budget expenditures to average at 1,14 % GNP of the EU. Some of the member states (Germany, France, great Britain, Netherlands, Sweden) on the other hand propose freezing the expenditures at 1 % GNP of the EU. This evokes the fears in the Commission that lowering the expenditures will not help to achieve all the goals and priorities that are stated in new regional policy for period 2007 – 2013.

Another problem issue is the agreement in former EU-15 that was adopted before the enlargement in 2004 and that is concerned with the freezing of the expenditures on agriculture. Thus it is probable that in case of expenditures decreasing from the common budget, it will not be on behalf of regional policy. Late political agreement concerning the financial period 2007 – 2013 will probably delay the funds drawing which will affect mainly new member states.

The positive effect for member states from regional policy can be disrupted by the principle according to which no member state can draw up money in one year from all the funds that will amount for more than 4 % of member state GDP. This ceiling can potentially limit mainly the small economies in new member states.

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REGIONAL POLICY AND SLOVAKIA

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Abstract

Slovakia became, together with other Central and East European countries, a part of the European Union in May 2004. Now as a full member state with all the rights it is possible to make use of the structural funds created to help poorer regions of the Union. In order for the member states of the European Union to use structural funds it is necessary to create a series of documents. First of all is the National Development Plan which is the basis for receiving the money through the structural funds of the European Union.

Keywords: *NDP, Slovakia, EU, structural funds, regional policy*

1. Introduction

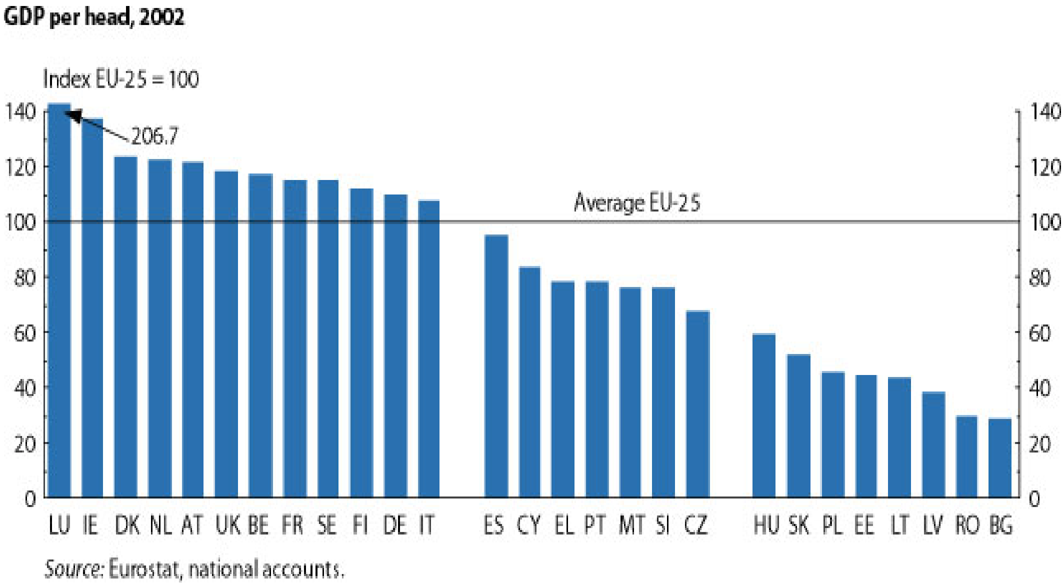
One of the principles the European Union (EU) is found on is the principle of equality. Equality among the states, but what is more important, equality among the different regions of the EU. Since the creation of the European Communities in the 50s in the 20th century, there are many differences between particular regions of member states of the EU. Before the enlargement that took place in 2004, the poorest regions of the EU were located in Greece, Spain and Portugal. After the enlargement, there are even more regions entitled to receive the support from structural funds. Despite rapid economic growth in new member states, they still face wide regional disparities and inequalities both in income and in wealth. For example, Bratislava, the richest region in Slovakia is 20 % above the EU average. On the other side stand the regions of Prešov and Košice, the poorest regions in Slovakia, with only 39 % of the EU average. Concerning the poorest EU regions, 10 poorest regions are located in new member states. Out of these 10 regions, six are located in Poland, including the EU poorest region - Lubelskie.

Table 1 Ten Poorest Regions in the EU

NUTS 2 Region	***GDP p.c. €***
1. Lubelskie, Poland	6 764
2. Podkarpackie, Poland	6 891
3. Warminsko-Mazurskie, Poland	7 217
4. Podlaskie, Poland	7 435
5. Swietokrzyskie, Poland	7 557
6. Heves, Nógrád, Borsod-Abaúj-Zemplén, Hungary	7 902
7. Opolskie, Poland	7 917
8. Hajdú-Bihar, Jász-Nagykun-Szolnok, Szabolcs-Szatmár-Bereg, Hungary	7 990
9. Prešovský kraj, Košický kraj, Slovakia	**8 200**
10. Latvia	8 249

Source: www.wikipedia.org

Figure 1 Disparities among the Member States



Source: http://europa.eu.int/comm/regional_policy/intro/working3_en.htm

The EU helps regions that are behind through the regional policy. Regional policy is based on other principle of the EU – principle of solidarity between the member states. This also includes financial solidarity between prosperous members whose contributions to the budget of the EU go to less prosperous regions of the Union. Prior to the 2004 enlargement transfers between wealthier and poorer regions for the period 2000 – 2006 should account for one third of the EU budget at 213 billion €. Out of 213 billion € 195 billion should be spent by the four structural funds and 18 billion by the Cohesion Fund.

There are four structural funds that help through regional policy to eliminate the regional disparities among the EU regions:

1. European Regional Development Fund
2. European Social Fund
3. Financial Instrument for Fisheries Guidance
4. European Agricultural Guidance and Guarantee Fund.

94 % of structural funding focuses on the following priorities:

- **Objective 1** Helping regions whose development is lagging behind to catch up - 70%
- **Objective 2** Supporting economic and social conversion in industrial, rural, urban or fisheries dependent areas facing structural difficulties - 11.5%
- **Objective 3** Modernizing systems of training and promoting employment. Measures financed by Objective 3 cover the whole Union except for the Objective 1 regions, where measures for training and employment are included in the catch-up programs - 12.3%

There are also four initiatives seeking common solutions to specific problems. They spend the rest of the funding on:

- **Interreg III** Cross-border, transnational and interregional cooperation
- **Urban II** Sustainable development of cities and declining urban areas
- **Leader +** Rural development through local initiatives
- **Equal** Combating inequalities and discrimination in access to the labor market

The structural funds finance multi-annual programs which constitute development strategies drawn up in a partnership with the regions, the member states and the European Commission. The main objectives of the programs are to:

- develop infrastructure, such as transport and energy
- extend telecommunications services
- help firms and provide training workers
- disseminate the tools and know-how of the information society

In addition to the structural funds, there is the Cohesion Fund, which provides direct finance for specific projects relating to environmental and transport infrastructure.

During the pre-accession period ten Central and Eastern European candidate countries received millions euros in EU development aid under these instruments:

- **PHARE** To improve institutions, administrations and public bodies to ensure the correct application of EU law and to assist new investments in the social and economic sectors
- **SAPARD** To support the efforts to join the Common Agricultural Policy

- **ISPA** To finance the construction of large projects in environmental protection and transport.

Currently, the enlarged Union is divided into three main groups:

- 8 new member countries with the lowest income per capita with 20 % of the EU population but only 42 % of the GDP p.c. – Czech Republic, Hungary, Estonia, Latvia, Lithuania, Malta, Poland, Slovakia
- 5 member countries (old and new ones) with 13 % of the EU population and average 71 % of the GDP p.c. – Cyprus, Greece, Portugal, Slovenia, Spain
- 12 remaining old members with 66 % of the EU population and 115 % of the GDP p.c.

2. EU Regional Policy

As mentioned in the introduction, the EU regional policy is policy that promotes solidarity. Regional policy allocates more than one third of the budget of the EU in order to reduce the gaps in development among the European regions and disparities among the citizens. The Union is aimed to three objectives that seek to help the poor regions to catch up with wealthier regions of the EU.

The preamble of the Treaty of Rome, which was signed in 1957, set the basis of what is today known as the EU regional policy: "to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored regions"[1]. One year later, in 1958, two funds were set up – the European Social Fund and the European Agricultural Guidance and Guarantee Fund. In 1975 the European Regional Development Fund was created aimed at redistribution of part of the Communities budget to the poorest regions. The Maastricht Treaty which came into force in 1993 designates cohesion as one of the main objectives of the Union. It also established the Cohesion Fund that promotes projects in the field of transport and environment in the least prosperous member states.

2.1 Structural Funds and Cohesion Fund

At present, there are four structural funds that enable the EU to grant financial assistance to less developed regions in the member countries:

[1] http://www.bmdf.co.uk/rometreaty.pdf

1. **European Regional Development Fund (ERDF)** – created to promote economic and social cohesion within the EU through reduction of disparities between regions and social groups

2. **European Social Fund (ESF)** – created as main financial instrument promoting the strategic objectives of the EU employment policy

3. **Financial Instrument for Fisheries Guidance (FIFG)** – created to promote the structural reforms of the fisheries sector

4. **European Agricultural Guidance and Guarantee Fund (Guidance Section) (EAGGF)** – created to promote the structural reforms of the agricultural sector and to promote the development of the rural areas in member states

Concerning the objectives and initiatives under the EU regional policy, each fund is eligible to finance following:

Table 2 Financing the Objectives and Initiatives

	Objective 1	***Objective 2***	***Objective 3***	***Interreg III***	***Urban II***	***Leader +***	***Equal***
ERDF	X	X		X	X		
ESF	X	X	X				X
FIFG	X						
EAGGF	X					X	

Source: http://www.europa.eu.int/comm/regional_policy/funds/prord/sf_en.htm

ERDF is mainly used to co-finance productive investment leading to the creation or maintenance of jobs, infrastructure, and local development initiatives and business activities of small and medium enterprises. It covers almost all the development areas such as transport, energy, communication technologies, environment, research and innovation, rural development, conversion of industrial sites, tourism, culture, fishing industry, and so on.

ESF aims to prevent and combat unemployment and to developing human resources and their integration into labor market. It aims to most endangered social groups – long-term unemployed, young unemployed, persons excluded from the labor market, improving the access of women to labor market. ESF also focuses on improving education and training systems, promoting skilled workforce and boosting human potential in the field of research and development according to the Lisbon Strategy.

FIFG seeks to contribute to achieving a sustainable balance between fishery resources and their exploitation. Also it tries to strengthen the fishery sector competitiveness. Main areas of interest include fleet modernization, aquaculture development, marine areas protection, fishing port facilities, processing and marketing of fishery products.

EAGGF supports rural development and improvement of agricultural structures. It aims to investment in agricultural holdings, aid for setting up of young farmers, aid for early retirement, compensation for less-favored areas, agri-environmental measures, processing and marketing of agricultural products, development and utilization of forests, encouraging for tourism and craft activities, and so on.

Cohesion Fund is a special fund designed to help the least prosperous member countries in the EU. Currently, its funding goes to the 10 new member countries and to 3 old ones – Greece, Portugal, and Spain[2]. The main criterion is that the GNP per capita of particular country is no greater than 90 % of the average of the EU. Cohesion Fund helps member states to reduce economic and social disparities and to stabilize their economies. It was first introduced in 1994. The fund finances up to 85 % of all eligible expenditures of a certain project. Projects must cover two main areas: transport infrastructure and environment.

The EU provided more than 28.21 million € for the Fund. For 2004 - 2006, there is 15.9 million € available, out of which 8.49 million is reserved for new member states.

2.2 Objectives and Initiatives

All objectives and initiatives of the European Union are financed through the structural funds (see table 2). All of these are financed in both old and new member countries of the EU.

There are three main objectives regional policy works with as mentioned in the introduction.

Objective 1 is the main priority of the EU cohesion policy. In accordance to the Treaty of Maastricht, the Union promotes harmonious development with special focus on eliminating the gap between various regions of the EU. Currently more than two thirds of structural funding is allocated to this kind of regions where the gross domestic product (GDP) is below the 75 % of the EU average. All regions eligible for funding through Objective 1 have similar economic indicators such as low level of investment, lack of services either for individuals and business, poor

[2] Until 2003 also Ireland was eligible.

infrastructure, and unemployment rate higher than the average. Concerning current situation, about 50 regions with 22 % of the European population are covered within period 2005 – 2006. According to the NUTS classification, there are three eligible regions in Slovakia covering 4.7 millions inhabitants: Western Slovakia, Central Slovakia, and Eastern Slovakia. There are two Operational programs that cover the Objective 1 priorities: OP Basic Infrastructure and OP Industry and Services.

Objective 2 is aimed to revitalize all areas facing structural difficulties – rural, urban, and industrial. Despite the fact, that these regions are close to the Union average, they are faced with various social and economic difficulties that are source of high unemployment. These include decline in traditional activities in rural areas, crisis situation in urban areas, awkward evolution of industrial or service sectors. There is only one region in Slovakia eligible to receive the funds – Bratislava with 3.3 % of the total population in Slovakia.

Objective 3 is a combination of former Objectives 3 and 4 in the 1994 – 1999 programming period. This objective covers all the territory of the EU which is not covered by Objective 1. It serves as a framework for all measures aimed to promoting human resources in the member states. In the period 2000 – 2006 it focuses on promoting active labor market policies to reduce unemployment, on improving access to the labor market with emphasis on people threatened by social exclusion, on enhancing employment opportunities through lifelong education, and on promoting equality for men and women.

Interreg III is an initiative aiming to stimulate interregional cooperation in the EU in the period 2000 – 2006. Interreg III is financed under the ERDF. This is the third phase of this initiative and is focused mainly on strengthening economic and social cohesion in the EU through balanced development of the whole continent. This is carried out by three main strands of Interreg III initiative with total budget of 4.88 billion €:

1. **Interreg III A – cross border cooperation** – aims to the cooperation between adjacent regions through common development strategies

2. **Interreg III B – transnational cooperation** – involves national, regional, and local authorities aim to promote better integration within the EU through formation of large groups of European regions

3. **Interreg III C – interregional cooperation** – aiming to improve effectiveness of regional development policies through large-scale information exchange and sharing of experience

Slovakia is currently involved in Interreg III A - CBC with Austria, Czech Republic, Hungary, and Poland.

Urban II is also the initiative of the ERDF for sustainable development in troubled urban districts across the EU for period 2000 – 2006. There are two main objectives of the Urban II initiative: promotion of design and implementation of highly innovative strategies of economic and social regeneration in small and medium towns and declining areas in major conurbations, and reinforcement and sharing of knowledge and experience on regeneration and sustainable urban development in the EU. Urban II is concerned with projects that improve living conditions (creating green areas, renovating buildings), create jobs (in culture, services, and environment), integrate less-favored social classes into education and training systems (Roma minority in Slovakia, though there is no such project in Slovakia financed by Urban II), develop environment friendly public transport, create effective energy management systems and make use of renewable energy sources.

Leader + is designed to promote rural actors consider long-term potential of their local region. Leader + has a strong focus on partnership and networks of exchange of experience. The budget for 2000 – 2006 period totals 5.05 billion € of which 2.11 billion is funded by Guidance Section of EAGGF and reminder by public and private contributions. The structure of Leader + is as follows:

1. **Action 1** Support for integrated territorial development strategies of a pilot nature based on a bottom-up approach

2. **Action 2** Support for cooperation between rural territories

3. **Action 3** Networking

4. **Technical Assistance**

Currently, there are 73 programs implemented in EU-15 member countries for 2000 – 2006 period.

Equal is, together with all three objectives, financed by the ESF. It is a part of the Union strategy for more and better jobs and also for ensuring that no-one is denied access to these jobs. It began in 2001 as a new way of eliminating discrimination and inequality between those who work and those looking for jobs. The total EU contribution to Equal is 3.27 billion € and is matched by national funding. Responsibility for the implementation of this initiative lies with the national authorities. Currently, there are 101 programs running in Slovakia under Equal.

2.3 Financial Support

As it was said, more than one third of the total European budget is devoted to regional development and social and economic cohesion through European structural funds and Cohesion Fund.

For closing period 2000 – 2006, 213 billion € was reserved for all the funds to promote activities and projects in the EU-15. Due to enlargement in 2004, additional 22 billion € was dispatched for the period 2004 – 2006 for new member states. Yet another 22 billion € was spent during pre-accession period. Pre-accession aid continues to flow to two countries that did not become part of the EU during 2004 – Bulgaria and Romania. Total of 257 billion € comprises approximately 37 % of the EU budget for the period 2000 – 2006. Most of the money is being spent through multi-annual programs managed jointly by the European Commission, member states, and regional authorities.

Figure 2 shows the funding of all objectives, initiatives, and Cohesion Fund in financing period 2000 – 2006. There is total 21.7 million € spent on new member countries. The largest amount of money goes to the fulfillment of priorities of objective 1, second largest amount is spent through funding by Cohesion Fund. One can see that there is no funding of the Urban II initiative as well as Leader + initiative.

Figure 2 Structural Funds Budget for Period 2000 – 2006

Structural Funds budget *(billion EUR, commitments in 1999 prices)*

	Objective 1	Objective 2	Objective 3	Interreg	URBAN	EQUAL	Leader	Fisheries F.	Cohesion F.	Total
EU-15	137.800	22.040	24.050	4.875	0.700	2.850	2.020	1.106	18.000	**213.441**
EU+10	13.230	0.120	0.110	0.420	0.000	0.220	0.000	0.003	7.590	**21.693**
EU-25	151.030	22.160	24.160	5.295	0.700	3.070	2.020	1.109	25.590	**235.134**

Source:http://www.europa.eu.int/comm/regional_policy/intro/working4_en.htm

There is a slight change between the numbers in figure 2 and table 3. It is due to the inflation that is present every year in member states of the EU. Figures in figure 2 are presented in nominal 1999 prices, and figures in table 3 are in 2004 prices.

Table 3 Aid to New Member States 2004 – 2006 (in million €)

Country	*Objective 1*	*Objective 2*	*Objective 3*	*Interreg III*	*Equal*	*Cohesion Fund*	*Total*
Cyprus	*0.00*	*28.02*	*21.95*	*4.30*	*1.81*	*53.94*	*113.44*
Czech Republic	*1454.27*	*71.30*	*58.79*	*68.68*	*32.10*	*936.05*	*2621.19*
Estonia	*371.36*	*0.00*	*0.00*	*10.60*	*4.07*	*309.03*	*695.06*
Hungary	*1995.72*	*0.00*	*0.00*	*68.68*	*30.29*	*1112.67*	*3207.36*
Latvia	*625.57*	*0.00*	*0.00*	*15.26*	*8.03*	*515.43*	*1164.29*
Lithuania	*895.17*	*0.00*	*0.00*	*22.49*	*11.87*	*608.17*	*1537.70*
Malta	*63.19*	*0.00*	*0.00*	*2.37*	*1.24*	*21.94*	*88.74*
Poland	*8275.81*	*0.00*	*0.00*	*221.36*	*133.93*	*4178.60*	*12809.70*
Slovakia	***1041.04***	***37.17***	***44.94***	***41.47***	***22.27***	***570.50***	***1757.39***
Slovenia	*237.51*	*0.00*	*0.00*	*23.65*	*6.44*	*188.71*	*456.31*

Source: http://www.euractiv.com/Article?tcmuri=tcm:29-12969616&type=Overview

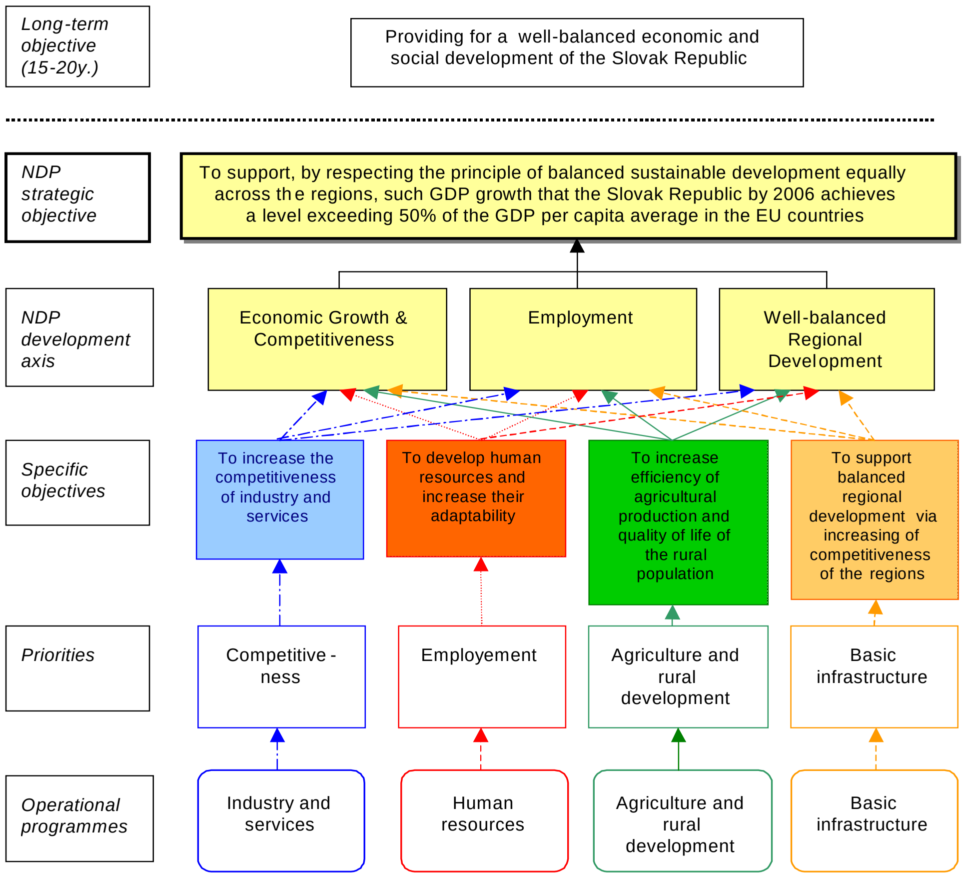
We can see that the greatest proportion of structural funding goes to Poland (12 809.7 million €). Slovakia is entitled to the total amount of 1757.39 million € in 2004 – 2006. The largest proportion of money goes to funding the priorities of objective 1 – 14 959.64 million €. Also there are only three countries eligible to receive funds for fulfillment of the objectives 2 and 3 – Czech Republic, Cyprus, and Slovakia.

3. Slovakia and Regional Policy

Basic programming documents that determine the distribution of structural funds for Slovakia are National Development Plan and Operational Programs. After approval by European Commission, Slovakia in cooperation with European Commission elaborated Community Support framework or CSF. CSF is the basic document, or agreement, concerning the provisions from structural funds of the EU for Slovakia.

The National Development Plan analyses macroeconomic environment, economic, and social situation in Slovakia with emphasis on particular sectors of the Slovak economy. It also comprises the SWOT analysis of Slovakia, as well as main characteristics of individual operational programs. It includes also strategic objective, strategies and priorities necessary for implementation of the NDP. Strategic objective together with priorities of National Development Plan for 2004 – 2006 period are presented in figure 3.

Figure 3 National Development Plan for 2004 - 2006



Source: National Development Plan, Amendment

Basic programming documents for Slovakia are: National Development Plan/Community Support Framework, Operational Program Basic Infrastructure, Sectoral Operational Program Industry and Services, Sectoral Operational Program Human Resources and Sectoral Operational Program Agriculture and Rural Development. These documents include the support in Objective 1.

Concerning Objectives 2 and 3 there are separate programming documents of each one of the objectives: for Objective 2 Single Programming Document NUTS II – Bratislava, for Objective 3 Single Programming Document NUTS II – Bratislava. Since priorities of these two objectives are different, there are different managing authorities for these documents in Slovakia. For SPD 2 the managing authority is Ministry of Construction and Regional Development and for SPD 3 is the managing authority Ministry of Labor, Social Affairs, and Family.

There are also strategic documents for the initiatives. For Interreg III there are three Single Programming Documents – Interreg III A, Interreg III B, and Interreg III C. For the Equal initiative there is Single Programming Document SPD Equal.

We can not omit also the Cohesion Fund. There is programming document called Strategy for Cohesion Fund.

According to NUTS[3] classification, Slovakia is divided into statistical units as in table 4:

Table 4 Territorial Units in Slovakia According to NUTS Classification

Unit	***Number***	***Territorial Unit***
NUTS I	*1*	*Slovakia*
NUTS II	*4*	*Bratislava Region* *West Slovakia* *Central Slovakia* *East Slovakia*
NUTS III	*8*	*Regions of Slovakia*
NUTS IV	*79*	*Districts of Slovakia*
NUTS V	*2 883*	*Municipalities of Slovakia*

Source: National Development Plan

Concerning the Bratislava region, this region is not approved to draw on the aid within Objective 1. Instead, it is eligible for funding of the Objectives 2 and 3 through SPD 2 and SPD 3. The territorial division of units eligible for funding within Objective 1 is presented in figure 4.

[3] NUTS – Nomenclature des Uniteés Territoriales Statistiques - a classification system of statistical territorial units introduced by the Statistical Office of the European Union (EUROSTAT), in co-operation with national statistical offices.

Figure 4 Regions Eligible for Objective 1 Funding

Source: National Development Plan, Amendment

Table 5 presents NUTS II regions in Slovakia that are eligible to funding through particular objectives:

Table 5 Territorial Units in Slovakia According to NUTS Classification

Objective	***NUTS II Region***
1	*West Slovakia, Central Slovakia, East Slovakia*
2	*Bratislava Region*
3	*Bratislava region*

Source: National Development Plan

3.1 Distribution of Structural Funding

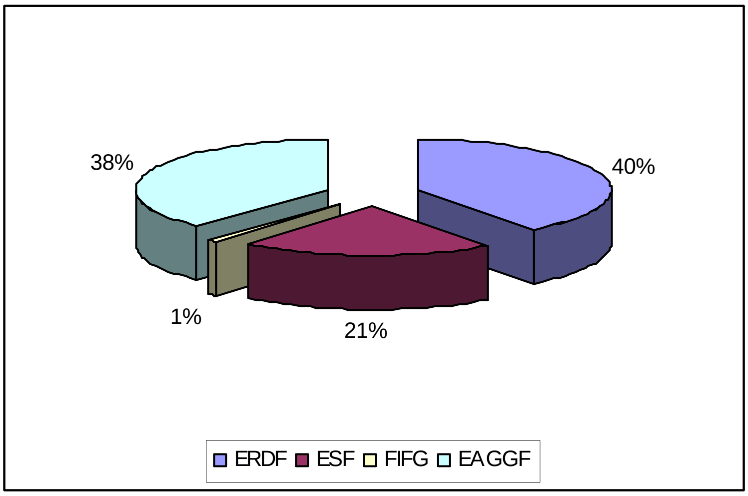
Structural aid in Slovakia in 2004 – 2006 programming period with emphasis on particular objectives, initiatives, and Cohesion Fund is presented in table 3. Total amount of money from structural funding in Slovakia is 1 757.39 million €. Activities undergoing through Cohesion Fund are supported by 570.5 million €. Second largest amount is spent on the Objective 1 – 1 041.04 million €.

Distribution of expenditures by priorities that are set up in National Development Plan is as follows: 40.5 % goes to basic infrastructure, 14.5 %

goes to competitiveness of firms, 27.2 % goes to human resources, and 17.7 % goes to fisheries[4].

According to the National Development Plan, the distribution of money from particular structural funds is shown in figure 5.

Figure 5 Proportion of Structural Funds Allocation in Slovakia



Source: Authors' Calculation, Data from National Development Plan

4. Conclusion

Prior to the accession of Slovakia together with other 9 European countries to the EU, Slovakia benefited in the pre-accession period through pre-accession aid from the EU – PHARE, ISPA, and SAPARD. Since 1st of May 2004, the situation has changed. Slovakia is a full member of the EU with all the responsibilities and rights. One of the most important rights is to take advantage of structural funding through which the EU helps poorer regions to catch on with the wealthier ones. This is done through regional policy and its instruments – structural funds. According to the NUTS classification, all of the Slovakia NUTS II regions are eligible for structural funding under the Objective 1 of regional policy except the Bratislava region. However this region is eligible for funding of the Objectives 2 and 3. The total amount of money Slovakia can draw on in the 2004 – 2006 period is

[4] http://europa.eu.int/comm/regional_policy/atlas/slovak_republic/factsheets/pdf/fact_sk_en.pdf

1 757.39 million €. This money should help in the current financing period Slovak regions that are lagging behind to catch up with the rest of the regions of the EU. Or, if not catch up with other regions, at least improve the living standards in our regions and to make them closer to wealthier regions of the EU as it was before. In this, the greatest role plays the regional policy based on the principle of equality among the regions of the EU.

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REFORM OF THE LOCAL TAXES IN THE CONDITIONS OF THE SELF-GOVERNMENT IN THE SLOVAK REPUBLIC [1]

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Abstract

Implementing of the fiscal decentralization in the field of the self-government in the Slovak republic was an important step for the financing the municipalities, for their possibilities of better provision of the local public properties, and also for finishing of the process of the reform of the public finances in accordance to the European Charter of the Local Self-Government. The new method of financing the municipalities and upper-tier territorial units reacts to the changes that were done after passing some competencies from the bodies of the state administration to the territorial self-governments. The fiscal decentralization could be done only in having adequate legal conditions – mainly the new law about the local taxes. After the first year of effect of this law the reality shows that the local taxes has increased severalfold what was not accepted by the tax payers and this calls for the further adjustments of the municipalities financing rules.

Keywords: *Local taxes, local fees, fiscal decentralization*

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1. Introduction

The reform of public administration belongs to the key system changes that are being realized within the transformation process in the Slovak republic. Its aim is the permanent formation of the modern democratic decentralized state that provides the possibilities for the participation in the public affairs operating to its citizens. The process and the current state of the public administration reform, including its parts – tax reform and the reform of the local taxes have been influenced by different social factors that have markedly influenced the general social development in the country.

Every government that was given a chance by the citizens to realize the necessary changes considered the reform of public administration. None of those governments paid such attention to the reform that it desires. [3] Frequently the political elites, professional groups as well as the representatives of the public administration failed at all its levels. Many of the political nominants leading the individual state offices hobbled the reform process, resp., they acted against the radical reform in the name of political parties they were nominated by. Various domestic and foreign professionals stated that the development in the reform of the public administration until 2002 was not more than a waste of the opportunity. Even despite the fact that many of the partial steps were clear, evident and unforgettable – the reform of the territorial-administration structure, resumption of the territorial self-government at the level of the municipalities and creation of the middle level of the self-government (regional self-government), assignment of the competencies within the frame of the public administration decentralization and the introduction of the tax reform.

2. Principles of the fiscal decentralisation and the tax reform

The year 2002 can be considered as the break-point from the point of reforms in the Slovak republic. In the field of public administration we could see the consecutive shift of the competencies from the bodies of the state government to the municipalities and the upper-tier territorial units. This process was realized according to the law no. 416/2001 of the Code [6] The task of the fiscal decentralization was:

- to strengthen the authority and responsibility of the territorial self-government in decision-making about using the public sources under the self-government bodies – mainly at the local level. It deals mainly with the decision-making about the use of the means gained from the newly introduced local taxes of the municipalities including the vehicles taxes at the level of the upper-tier territorial units, but also the shared taxes that are circumvented by the media;

- to contribute to the stabilization of the territorial self-government for longer period of time. Up to that time the financing of the self-government competencies had been every year determined by the law about the state budget for the particular year. Since 2005 the several-years budget is going to be passed and approved. [8] The several-years budget is understood as the medium-term economy tool of the financial policy (of the municipality or upper-tier territorial unit) that in the frame of their activity includes the aims of the territorial development and the local needs of the population for the three budget years;
- to contribute to more transparent and more rightful disposition of the sources by excluding the subjectivisation in providing the subsidies from the state budget. The financial sources are distributed according to the clear criteria that should be valid and applied to all subjects.

The above mentioned fiscal decentralization deals with the financing of the self- government, original competencies of the municipalities and upper-tier territorial units. Considering the competencies that the municipalities and the upper-tier territorial units perform in the mode of the transferred performance of the state administration, these are still financed by the subsidy from the state budget in the form of the particular chapter of the state budget..

The government of the Slovak republic in its program declaration of 4 November 2002, in the chapter „Economic policy" stated the following aims for the field of taxes:

- to strengthen their own tax incomes of the municipalities,
- to set their own tax incomes of the upper-tier territorial units,
- to make the tax laws more transparent,
- to decrease direct taxes,
- to analyze the possibilities of introducing the direct tax,
- the new system of the horizontal financial compensation,
- to ensure strict, direct, rightful and effective tax collection and to decrease the rate,
- to minimize tax evasion,
- to simplify tax legislation,
- to amend those parts of the tax laws that are the subject of not unified, ambiguous explanation,
- to simplify the vindicatory system in the tax field,
- to consider the possibilities of the unification of the income tax rate,
- the shift of the tax burden from direct toward indirect taxes,

- to reconsider the exercise of the rates of the property taxes,
- to consider the system of the stimulation tax tools for the housing.

The first two aims are directly concerned with the fiscal decentralization and the territorial self-government at the regional level (upper-tier territorial units) and at the local level (municipalities). The rest of the aims are not directly connected with the fiscal decentralization and they deal with the aims of the tax reform. The aims of the above mentioned decentralization had never been elaborated and presented at such level, although the self-governments in the mode of their income base is not less important as it is a part of the same tax reform.

Amongst the most important principles of the tax policy in solving the tax reform belonged the principle of the justice and proportionality; the principal of the neutrality; the principle of exclusion the duplicity of the tax; the principle of simplicity and unambiguity and the principle of effect. Besides the above mentioned general principles of tax policy it is necessary to consider also the following thesis in the formation of the tax system:

- The direct tax of the income should help to fulfill the fiscal aims, and principally it should not be used to fulfill other aims, as e.g. the social policy, structural or regional policy and the economic policy. Introducing the specific tax modes (whatever the reason is) leads towards the increase of the complexity of the tax system, increase of the societal costs to apply it and the increase of the risk of the tax circumvention.
- The tax principles must be realized without regard to the interests, intentions and the aims of the different partial interest groups.
- The unnecessary needs of the state budget will be displayed in the amount of the rates but must not influence the realization of the tax principles.
- The changes in the frame of the tax reform are good to be realized simultaneously if possible and as soon as possible so the tax-payers can experience its advantage sooner and so the new tax system can really function during this electoral period. The first possible term of effect of the new tax laws is 1. 1. 2004. [5]

3. Tax reform versus fiscal decentralization

Enforcement of the fiscal decentralization in the field of the self-government in the Slovak republic was an important step for ensuring the municipality financing, for their possibilities to better provision of the local public goods, but also to round off the process of the reform of the finances with the European Charter of the Local Self-Government and European Charter of the Regional Self-Government. The new way of financing the municipalities and upper-tier territorial units reacts to the changes that had been realized after transferring some of the competencies from the bodies of the state administration to the local self-governments. The fiscal decentralization could be realized only in the case of ensuring the adequate legal conditions – mainly the new law about the local taxes. The operation of the municipalities in the first year of the validity of this law was as it was expected, i.e. the local taxes and fees were increased several folded what was not accepted with willingness of the tax payers. This evoked the follow-up need to further amendments of the rules of the municipality financing.

Last but one marked reform of the tax system was realized ten years ago under the influence of the serious changes in the economic sphere – shift from the centrally planned economy of the socialistic type towards the market-oriented economy. [2] The tax laws that are valid since 1993 were amended many times, especially with the intention to correct its imperfections. Some changes of the tax laws were also conditioned by the political and other influences based on whose a lot of non-systematic measures penetrated to the tax laws and they gave some groups of the tax payers preferential treatment. The result of this process was a marked complication of the tax law. A lot of exceptions and conditions caused the ambiguity of the laws and consequently it evoked the need to issue further measures or explanations. The next negative phenomenon was that the tax laws were many time suspicious to the tax payers and they lump-sum-“punished” them in advance and most of the tax payers understood it as injustice. Unjust character of some measures in the tax laws at the same time lead to the general tolerance to circumvention and infringement of such “unjust” laws, what is the unwanted tendency of the whole society without dispute. The realization of the process of transferring the competencies from the state administration to self-administration evoked the increased pressure to the deeper and more permanent change of the tax laws. The aim of the recent tax reform was not only the higher level of justice – as it is most often proclaimed aim, but also to ensure the qualified financing of the public goods, that were increased in the process of decentralization. The practical financing lagged behind what was evoking the unwillingness of different subjects of the local and territorial self-government, as well as Združenie miest a obcí Slovenska (Association of the towns and communities) – ZMOS.

In the municipalities’ budgets in their income base there should be one rule valid. The transferred operations of the state administration should have been financed by the state transfer, the originally self-government competencies should have been financed from the local taxes. As the financing of the public goods in the scope of the transferred competencies was not sufficiently financed, the municipalities were relying on the using of the other source (their own income base), with the use of their own tax incomes. We can unambiguously say that the situation got more complicated especially because of the time disagreement of the transfer of the competencies and the transfer of the finances to the self-government bodies what caused the problems among the main departments of the public administration.

Since passing the basic law that was adjusted the territorial self-government must pass another almost fifteen years till the bodies of the public power started to seriously deal with the issue of the financial decentralization in the field of public administration in practice.[1] In 2004 the new laws about the local taxes and fees were valid already and they should ensure the higher financial autonomy to the municipalities (that they required based on the underfinancing, but also according to European Charter of the Local Self-Government) with the approval of the government. This caused that at the beginning of 2005 people and firms paid for the land, houses, flats, offices or the production halls to some cities several times more than in the period before (the highest increase of the taxes compared to the year before was in one municipality as high as 2 353 %, see table 1). Also, the municipalities set 30-times higher tax to the entrepreneurs than to the citizens. The mostly introduced reasons are that the flat owners and the owners of the family houses create the biggest group of the voters. It is said that this was the reason why the self-governments were more considerate of citizens and the entrepreneurs. In any case, any limitation change we consider to be an intervention that impedes and presents the non-acceptable restriction for the self-governments (right at the beginning of running the new tax system).

The newly apprised adjustment should minimize mainly the extreme increase of the rate mainly in those municipalities whose localization in the social-economic space does not make any rational assumption for such behavior. There was no analysis realized which of the entrepreneurial field was effected by the behavior of the municipalities and/or if they were even effected. The higher real estate tax can decimate only those entrepreneurs that do not use their land and buildings, and they just wait for the appropriate time to sell them or those entrepreneurs whoa are the agricultural subjects in the urban space.

It is interesting to see how the removal of the limitations inspired some of the local assemblies in the rates increases that were firmly fixed until then. Some representatives of the entrepreneurial sector claim that they got into the real economic troubles because of such set down taxes. Such claims that are also supported by the Ministry of finances should be also supported by the deeper analysis of the reasons but also by the numbers of such subjects to make it objective. However such analysis was not realized till now.

Table 1 The total yield from the real estate tax in the selected medialised municipalities (in thousands Sk)

	2004	***2005***	***Increase (%)***
Pečeňady	2 085	49 070	2 353
Nededza	137	2 525	1 843
Kalná nad Hronom	6 120	95 600	1 562
Nový Tekov	2 030	27 060	1 333
Veľké Kostoľany	2 390	29 250	1 224
Jaslovské Bohunice	9 000	73 140	813
Košice	244 315	450 000	184
Bratislava	556 100	1 122 996	202

Source: MF SR

Probably the most problematic discrepancy is between self-government and the nuclear power station in the municipality Jaslovské Bohunice. The municipality created two tax zones, one for the municipality and the other for the nuclear power plant (table 2), that we introduce in comparison with the capital city Bratislava. We can state that the so-called „zoneness" in Jaslovské Bohunice seems to be excessive, overblown as the new tax system solves also this one unique problem that directly deals with just two municipalities nuclear facility tax, what lead to possible double taxation (what the reform should be impeding). The amendment of the law does not allow to state different zones for different parts of the cadastral territory even though it is possible to understand the effort of the municipalities to build the sufficient income base for their own development. The anticipated increased yield of the real estate tax should have been the domain of especially the big cities, where the recent tax according to the market values of the real estates is lower than in the small cities or in the country.

Table 2 Comparison of the rates of the real estate tax (Sk per m^2)

	Bratislava		***Jaslovské Bohunice***	
	centre	***other***	***municipality***	***Nuclear power plant***
Flats and family houses	9	10	1	-
Recreational building and cottages	27	30	4	-
Industrial constructions	81	90	30	500
Constructions for other entrepreneurial activity	112	161	50	500

Source: Generally binding municipal regulations

The taxes and fees were set down by the municipalities by themselves for the first time. The realized principles of the fiscal decentralization had the following signs:

- The facultative setting of the tax and the collection of the local taxes by the self-government were introduced,
- the authority and independence of the municipalities was strengthen,
- the rates of the local taxes did not have the set down maximum limit and thus it were the municipalities who made the decisions about the top sum,
- the municipalities can collect not only the taxes but also other payments of the similar character as the local taxes,
- the importance of the generally binding municipal regulations is being stressed and it should be determining in the application of the local taxes in practice. [1]

Currently, the municipalities may impose the following 8 local taxes: real estate tax, dog tax, tax on the use of public space, accommodation tax, vending machine tax, non-gainful (entertaining) slot-machine tax, tax on the entry into and parking of a motor vehicle in a historical part of the city, nuclear facility tax. The regional administration can impose the tax on a motor vehicle. The great media bubble about the local taxes has been already solved by the Financial resort that prepared the draft of the law amendment, although according to the municipalities representatives it was not as dramatic so that the upper limit of the local taxes rate had to be set down. It is necessary to solve just some extremes that are financially insignificant although as to the percents we deal with high numbers. One of the principles of the tax reform says that "tax principles must be realized without regards to the interests, intentions and goals of the different partial interest groups". It depends only on the point of view what we will understand under the term partial interest group: municipalities or entrepreneurs.

Despite of the unjustified tax rate increase totally, the municipalities did not not increase the real estate taxes unbearably. Local taxes form the share of the expenses of the business subjects (according to the survey of The Business Alliance of Slovakia) only by one per cent. Nowadays, the new law amendment can come in force, and according to it the maximum limit of the real estate tax rate can reach not more than 20-multiple of the lowest year rate.

4. Conclusion

Even the short effect of the conclusions of the fiscal decentralization and the consequent reform of the local taxes points to the fact that the financing of the municipalities was underdimensioned and thus it leads to an increase of income base of the local taxes, however the financing of the shifted competences from the state administration is being financed insufficiently.

The protest wave of the economic subjects and the citizens against the increase of the own income base of the municipalities does not correspond to the wave of the requirements for higher and higher provision of the local goods and better meeting of the local needs that must be ensured by the municipalities.

From the macroeconomic point of view the realized tax reform is bringing positive effects for the business environment and the self-government space. The selective tax policy that was applied up to that time was based on the advantaging of the certain branches or the types of the business subjects was substituted by the plane tax policy that will create the generally appropriate conditions for entrepreneurship and investments (e.g. by the depreciation policy, longer period of amortization of the tax losses, etc.). The current state of the fiscal decentralization is substantially more transparent, activisating and more modern. It creates the sufficient basis for the own income basis of the municipalities' budgets, thus it is not very appropriate to interfere into the non-stabilized system of the local budgets immediately after the first year of their operation. The found disproportions that evoke the undesirable tax competition could have been solved by the impact of the mechanisms of the public or private markets.

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