

WORKING PAPERS

19

Karol Frank

**THE CONTRIBUTION
OF STRUCTURAL POLICY
IN THE NEW MEMBER STATES
TO THE CATCH-UP PROCESS**

THE CASE OF SLOVAKIA

The WORKING PAPER SERIES is intended to convey preliminary, partial results of ongoing research achieved by fellows or research groups of the Institute for Economic Research which can be prepared for later publications.

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ABSTRACT

The aim of this paper is to analyse how Slovakia makes use of the funds of the EU cohesion policy. It should give tentative answers whether the cohesion policy contributes to economic growth of the country (to the catching-up-process vis-à-vis the EU average in per capita income). The study should also try to show the affects of this policy on regional disparities within Slovakia. In addition, it should be find out how the Slovakian institutions perform in doing that what had been laid down in the plans and operational programs.

KEYWORDS: Structrural policy, cohesion policy, convergence process, scoring model

JEL CLASSIFICATION: O11, O17, O19

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ABBREVIATIONS

CP	Cohesion Policy
EU	European Union
NSRF	National Strategic Reference Framework
GDP PPS	Gross domestic product per capita in purchasing power standard
V4	Visegrad Countries – Czech Republic, Hungary, Poland, Slovakia
ERM II	Exchange rate mechanism II
JASPERS	Joint Assistance in Supporting Projects in European Regions,
JEREMIE	Joint European Resources for Micro to medium Enterprises,
JESSICA	Joint European Support for Sustainable Investment in City Areas,
OP	Operational programme
NBS	National Bank of Slovakia
PPP	Purchasing power parities
SGP	Stability and Growth Pact
NACE	General Industrial Classification of Economic Activities
NUTS	The Nomenclature of Territorial Units for Statistics
CGE	Computable General Equilibrium
FDI	Foreign Direct Investments
EAGGF	The European Agricultural Guidance and Guarantee Fund
FIFG	Financial Instrument for Fisheries Guidance
EAFRD	European Agricultural Fund for Rural Development
EFF	European Fisheries Fund
R&D	Research and Development

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INTRODUCTION

¹Regional development in the European Union (EU) is constantly changing and poses a number of challenges to the member states. Most of the new member states have undergone an economic transition that has represented a tremendous challenge, unparalleled in their modern history. European integration and the Cohesion Policy (CP) combined are seen as possibility to accelerate and successfully catch up with the EU15 (EU27) average.

According to Article 158 of Treaty establishing the European Community (EC) *in order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.*

The accession of new member states opened the possibilities to shape the Cohesion policy to their respective needs. The present financial perspective of the European Union for the years 2007 – 2013 and the new proposals on Structural Funds and Cohesion Fund offer significant opportunities for Slovakia to improve the overall economic development of lagging behind regions.

The financial allocation for present programming period (2007 – 2013) represents 11,5 Billion € or 1,6 Billion € per year. This substantial amount of financial resources concentrated in the three main objectives of the Structural policy could accelerate the catching up with the EU average. This paper will address various aspects regarding this process in four chapters.

- The **first chapter** is focused on the catching up process of Slovak economy since the beginning of the transition to the present. The regional as well as national economic development will be subject of this chapter.
- The objective of the **second chapter** is to analyze the present programming period, its design, operational programmes, and their compliance with the objectives that are most relevant to balanced regional development.
- **Chapter 3** will be focused on the qualitative assessment of potential effects, which could be obtained in the various intervention areas connected to operational programmes. The main emphasis will be laid on the assessment of possible long-term ef-

¹ Práca je súčasťou riešenia projektu VEGA c. 2/0068/09: Slovensko v európskom integračnom priestore po prijatí Lisabonskej zmluvy: Ekonomické efekty členstva v Európskej únii; prínosy, výzvy a rizika členstva v eurozóne.

fects of the financial instruments in various areas and objectives of national structural policy.

- The implementation of cohesion policy in the present financial perspective and its potential effects on Slovak economy will be the objective of the **fourth chapter**.

1. THE CATCHING UP PROCESS OF THE SLOVAK ECONOMY

1.1. INTRODUCTION

Slovakia began its transition process in 1991 as a part of the Czech and Slovak Federative Republic (CSFR). The new federal government, formed after the collapse of the Communist regime, started to prepare for a legislative, economic and administrative reform in the beginning of 1990. By the end of 1990, the economic reform was presented to the public. The main tasks of this reform were fast and massive privatisation; price liberalisation and liberalisation of foreign economic relationships; macroeconomic balance; and the establishment of a social security system. The reform also carried with it a restrictive monetary and fiscal policy regime; a mechanism of internal convertibility of the currency; exclusion of the circulation of foreign currencies in the economy; and a depreciation of the Czechoslovak Koruna of more than 80 per cent. Furthermore, the basic goals of Structural Policy were also specified (Frank, 2005).

With the formation of Slovak Republic on 1 January 1993, the process of building the necessary institutional framework for an independent state took off. However, lack of experience, insufficient human capital, various structural problems, controversies as regards the transition method, inadequate administrative capacities, a low level of law enforcement and other problems seriously hampered this process. The unsolvable situation as to the competencies between national and federal levels was one of the crucial factors that led to the split. Another important reason was the different impacts of the transition process on the social situation on the national level. Conversion of heavy military industry, deep structural problems of the Slovak industry and the so-called “radical” way of transition had a severe impact on the economical and social situation in entire regions. The necessity of a deeper social consideration thus became an important topic.

In the past, the nature of industrialization in Slovakia led to the creation of mono-structural micro regions where often a few large enterprises were located. This limited number of large enterprises, which employed the majority of the labour force in the regions, also presented their main structural weakness. The centrally planned localisation of important industries led to an “unnatural” regional distribution of energy- and environment-intensive production with low value added. Many of the regions were not able to promote further development of these industries. The inevitable restructuring of these industries during the transition period resulted in a severe impact on employment and overall socio-economic development. After the market liberalization many of the main enterprises lost their competi-

tiveness which caused deep structural problems in most of the present NUTS II regions. Due to the high redistribution in the centrally planned economy, income and productivity differences in the respective regions were minimal. Changes in property rights and redistribution mechanisms during transition made the differences more evident. However, the economic and social policy was not prepared to temper with these changes (Frank, 2007).

During 1994 – 1998 Slovakia underwent the so called “Own way of transition” as a reaction to the federal transition strategy, which it opposed. In 1995 Slovakia applied for EU membership. Although becoming a part of the European integration was one of the most important priorities of the government, the actual outcome was quite the opposite. At the Luxembourg Summit in December 1997, the European Council decided not to open accession negotiations with Slovakia. The main arguments provided in Luxembourg were the instability of constitutional institutions and the democratic deficit.

Table 1.1
Brief Chronology of Slovakia's EU accession efforts

4. October 1995, Luxembourg	Signing of Association Treaty between Slovakia and the European Communities
27. June 1995, Cannes	Official request of Slovak government to join the EU
November 1996, Strasbourg	Resolution of the European Parliament calling to respect human rights and democracy in Slovakia
12-13. December 1997, Luxembourg	The EU Council recommend to start accession negotiations only with the six countries in the first group
31. March 1998, London	Decision to start accession negotiations with six countries - Czech republic, Estonia, Hungary, Poland, Slovenia and Cyprus.
10 December 1999, Helsinki	Decision to start accession negotiations with Slovakia
9. October 2002	The European Commission recommends the accession of Slovakia to the EU in 2004
1. May 2004	Accession of Slovakia to the EU

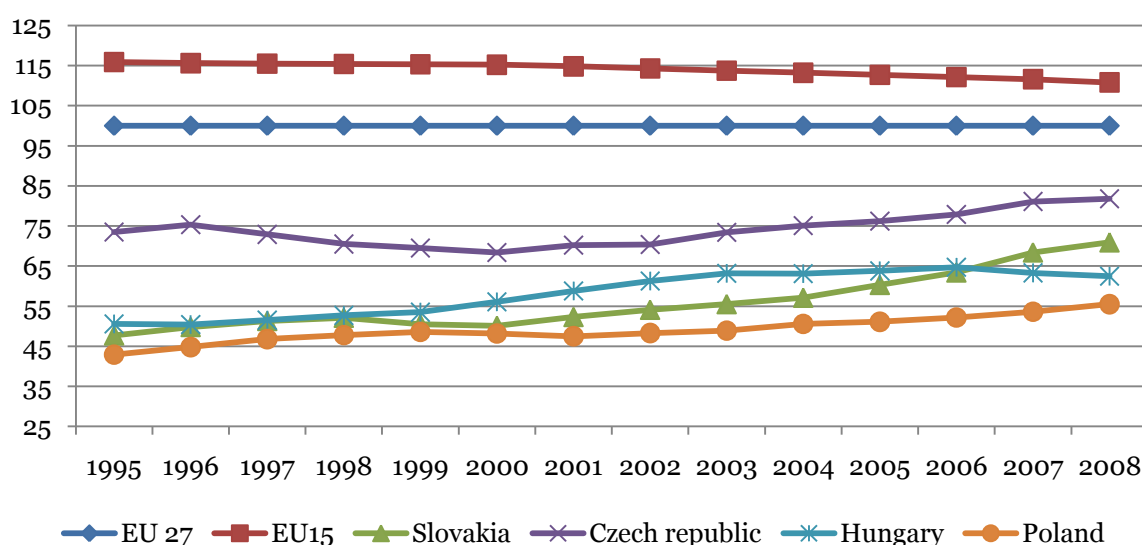
After the 1998 parliamentary election, a new government with a different policy orientation (as compared to the 1994 - 1998 government) brought with it a change in the Slovakia - EU relations. Slovakia was persistent in its efforts to fulfil the Copenhagen criteria, which eventually paid off as it led to an invitation to open accession negotiations in December 1999 in Helsinki.

After 1999 Slovakia underwent a substantial shift in economic policy and political development and has since implemented substantial economic reforms (especially in the period of 2002 – 2006), including reforms of the tax, pension, healthcare, welfare and social security systems. Although the reforms have created the necessary conditions for overall macroeconomic stability, robust economic growth and overall improvement of the main macroeconomic indicators, substantial regional disparities still exist in Slovakia.

1.2. CATCHING-UP ON NATIONAL AND REGIONAL LEVEL

Since the beginning of the transition, the Slovak economy is catching up with the rest of the former socialist countries with the “old” EU member states. The convergence to the EU average (EU15, EU25 or EU27) is a moving target and it is used as the main indicator of convergence mainly on national level. Considering the development of Slovak economy in the past 10 years, it can be concluded that this process was successful. The development of Gross domestic product per capita in purchasing power standard (GDP PPS) in the Visegrad Countries (V4)² is shown in chart 1.1.

Chart 1.1
Development of GDP PPS in selected countries compared with the EU average

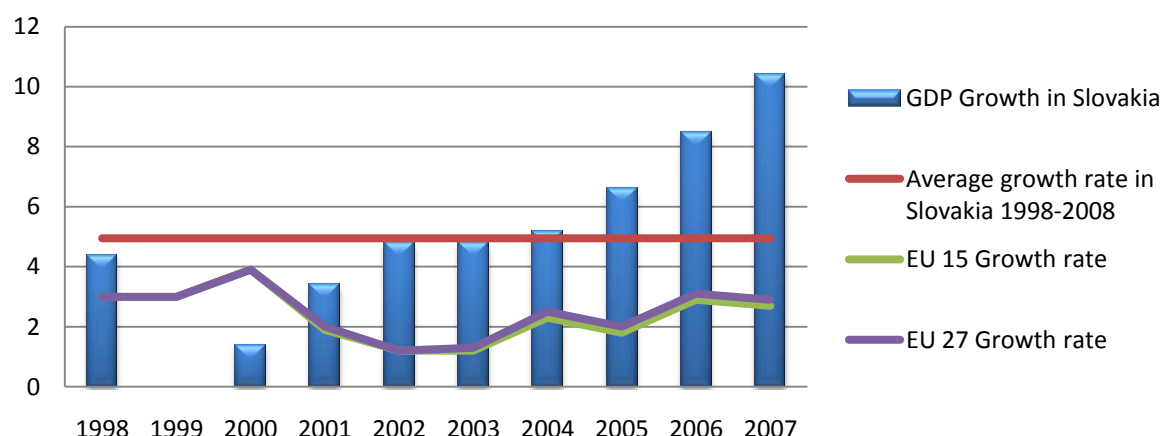


Source: Eurostat

The development of these selected countries in the last decade is showing a clear convergence pattern, with the small exception of Hungary experiencing substantial economic difficulties in recent years. Since 2000, Slovakia has been experiencing a substantial increase in economic growth, which has resulted in the improvement of most macroeconomic indicators.

² Visegrad Group of countries composed by Czech republic, Hungary, Poland and Slovakia.

Chart 1.2
Growth Rates Comparison in Slovakia and EU15 (EU 27) 1998 - 2007



Source: Eurostat, Statistical Office of Slovakia, own calculations

The inflow of foreign direct investments, implementation of structural reforms in many areas of the national economy, together with business friendly environment and low wage level contributed to rapid economic growth in the last years (Table 1.2).

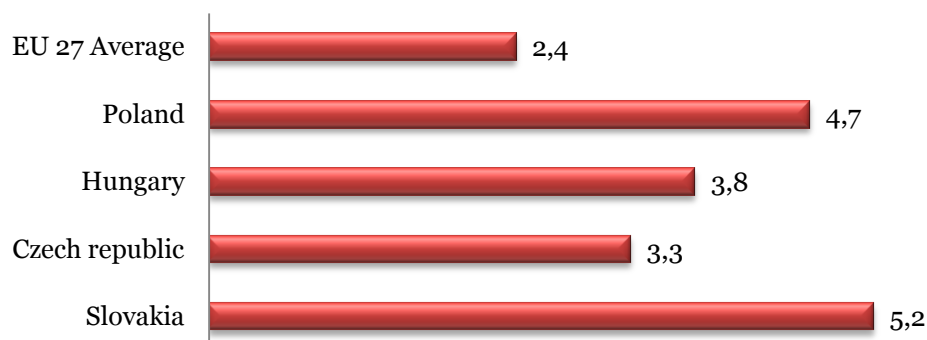
Table 1.2
Development of main macroeconomic indicators of Slovakia, 1995 - 2007

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Real GDP Growth	7,9	6,9	4,4	4,4	0	1,4	3,4	4,8	4,8	5,2	6,6	8,5	10,4	6,4
CPI	.	.	6,1	6,7	10,6	12	7,3	3,3	8,5	7,5	2,7	4,5	2,8	3,9
Real wage index	4	7,1	6,6	2,7	-3,1	-4,9	1	5,8	-2	2,5	6,3	3,3	4,3	4,4
Nominal wage index	14,3	13,3	13,1	8,4	7,2	6,5	8,2	9,3	6,3	10,2	9,2	8,6	7,4	9,2
General government debt as % of GDP	.	31,1	33,8	34,5	47,8	50,3	48,9	43,4	42,4	41,4	34,2	30,4	29,4	27,6

Source: Eurostat, Statistical Office of Slovakia.

In this selected period, Slovakia has been experiencing year-on-year GDP growth above the EU27 average. The average economic growth in 1996 – 2008 (Chart 1.3) was higher by 2,8 percentage points above the EU27 average and at the same time it was the highest average economic growth among the V4 countries. The highest contribution to the economic growth had the final household consumption with an average 57%. The final general government consumption contribution has declined from 21,8% to 18,6% in 2007, on the other hand, favourable development of net exports in the last year brought a positive contribution to the growth of the GDP by 4,5 % in 2007.

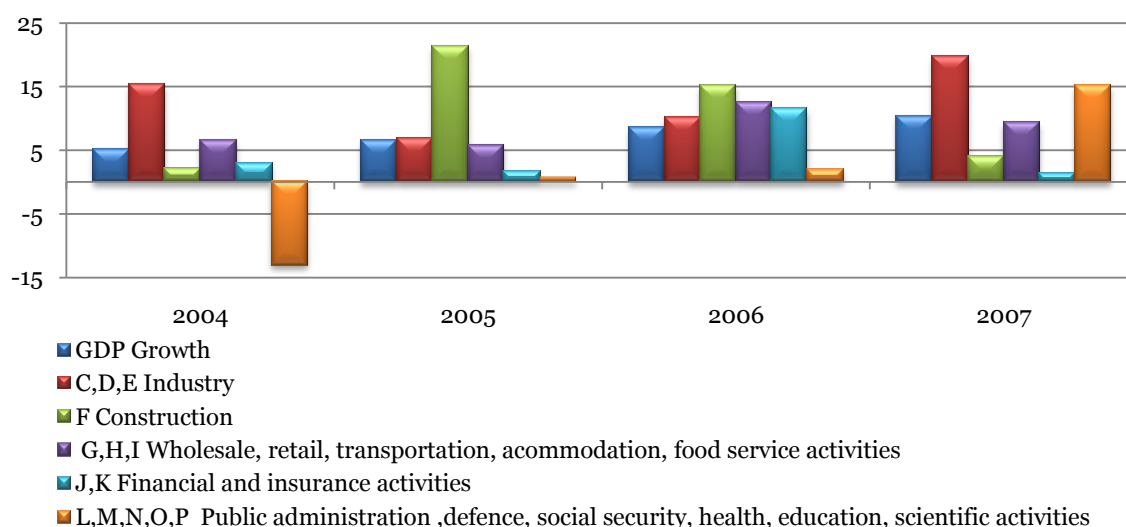
Chart No. 1.3
Average economic growth 1996 - 2008



Source: Statistical Office of Slovakia, own calculations

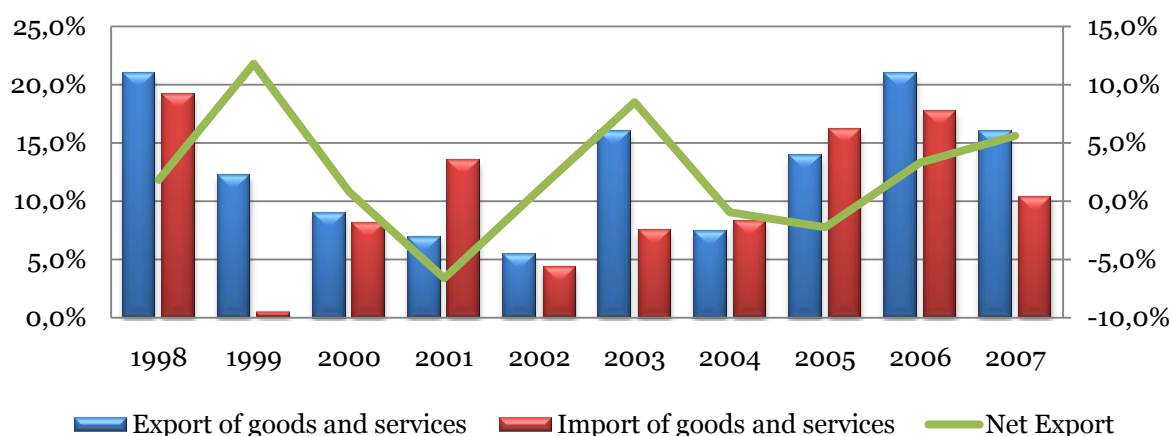
From the sectoral point of view, industrial production and construction sector were the main driving forces of economic growth (Chart 1.4). Since the accession to the EU up to the 2007 the Slovak economy grew by 27,7 %. According to the NACE classification the construction sector (F) went up by 45,4 % and industry(C,D,E) by 40,9 %. Wholesale, retail, transportation, accommodation and food service activities (G,H,I) grew by 30,2 %.

Chart 1.4
Annual growth of selected sectors (NACE Classification) 2004 – 2007 in %



Development of export and import volumes was highly influenced by the accession to the EU in 2004 and with considerable inflow of foreign direct investment as well, which created new production capacities mainly in the automotive and electronic industry sector (Chart 1.5). The volume of exports went up by 59,8 % and the volume of imports grew by 50,9 % four years after the accession to the EU. The share of exports and imports of goods and services on GDP totalling 203,3 % is making Slovakia one of the most open economies in the EU (in 2007).

Chart 1.5
Annual volumes of imports and exports, 1998- 2007



Source: Statistical Office of Slovakia, own calculations

The fulfilment of budgetary convergence criteria became a strong political and economic obligation after the accession of Slovakia to the Exchange rate mechanism (ERM II) in November 2005. Changes adopted in the public finance system³ together with robust economic growth resulted in favourable development of general government deficit measured as % of GDP and government debt as well and allowed the adoption of the common European currency in 2009. The budgetary criteria have been fulfilled in 2008 to qualify for the adoption of euro in 2009. Although the Maastricht convergence criteria have been successfully fulfilled, the real convergence of Slovak economy still poses a challenge. The differences in wage level, labour productivity, price level and unit labour costs as well as other differences are still present.

Although the disparities on the national level, measured by GDP PPS are slowly falling, disparities on the regional level are remaining an issue. The influences of economic transition together with the legacy left behind by the central planned economy are the main reasons for existing regional disparities.

Development of the GDP PPS confirms the dominant position of Bratislavský kraj in the formation of GDP in Slovakia (Table No. 3). Bratislavský kraj is the only region in Slovakia with a GDP per capita above the EU average (119,7 % of EU 25 average in PPS⁴). This region is also known for its lack of labour supply. This makes the region a target for inward migration from other regions. It is a typical urban region; therefore, it is quite complicated to make coherent comparisons with other regions of Slovakia, which have dispersed urban areas with dominant rural settlements. The eccentric localisation of this region near Vienna and

³ The main components of the public finance reform included the introduction and implementation of the ESA 95 accounting principles, strengthening of multi annual budgeting, founding of the State Treasury and Debt and Liquidity Management Agency, fiscal decentralization, programme budgeting and implementation of EU Budget transaction into national budget.

⁴ According to Eurostat data for 2005.

Győr is also a strong impetus for further economic growth. The urban character of this region lays the foundation for its strong growth, no matter what economic policies are enacted by the central government and makes the region immune to external economic shocks. Bratislavský kraj is beginning to act as a technological leader in comparison with other regions. It has also has enormous locational advantages and excellent starting conditions as a capital city and is therefore almost predetermined to achieve an outstanding positive development. It is expected that the inflow of foreign direct investments (FDI) together with domestic investments will be one of the relevant driving forces in the expected robust economic development. The urban character of this region predetermines the Bratislava region to be the centre of economic, financial and scientific progress in Slovakia. The capital city character shapes this region as centre for many headquarters and public administration institutions, which implies the creation of jobs with high labour productivity. Non-Bratislava districts may be able to draw an advantage from the proximity to the capital.

The development of GDP PPS also confirms this development. According to statistical data, Bratislavský kraj is still the most developed region in Slovakia. According to the disparity indicator 1 (share on of the best performing region on the worst performing region in GDP per capita PPS) and 4 (share of regional GDP on national GDP per capita in PPS) it is still growing much faster than the rest of the regions and Slovakia as well (Table 1.3).

Table 1.3
Regional GDP per capita in PPS and selected disparity indicators (NUTS III level)

NUTS III / Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Slovak republic	6965	7649	8317	8828	8991	9639	10462	11204	11635	12433	13563
Bratislavský kraj	14759	16216	18015	19272	19591	21218	23847	26161	25941	28342	33124
Trnavský kraj	7724	8368	8932	9269	9530	10223	10497	11042	12231	12758	14604
Trenčiansky kraj	6533	7198	7660	8131	8353	8920	9662	10162	10643	11373	11967
Nitriansky kraj	5990	6548	7044	7451	7840	8472	8793	9292	10157	10775	12042
Žilinský kraj	5663	6242	6820	7248	7310	7828	8510	8979	9353	10120	11141
Banskobystrický kraj	5781	6333	6920	7371	7436	7983	8782	9596	10024	10346	9733
Prešovský kraj	4492	4888	5273	5473	5476	5811	6304	6852	7058	7483	7962
Košický kraj	6053	6769	7394	8007	8119	8576	9672	10127	10359	11073	11423
Disparities											
disparity 1	3,29	3,32	3,42	3,52	3,58	3,65	3,78	3,82	3,68	3,79	4,16
disparity 2	1,72	1,71	1,69	1,69	1,74	1,76	1,67	1,61	1,73	1,70	1,83
disparity 3	0,64	0,64	0,63	0,62	0,61	0,60	0,60	0,61	0,61	0,60	0,59
disparity 4	2,12	2,12	2,17	2,18	2,18	2,20	2,28	2,33	2,23	2,28	2,44

Source: (Frank, Kvetan, 2008)

Numbers in the bottom part of the table represent the following disparity indicators:

- Disparity 1 – share of GDP per capita of the best performing region (Bratislavský kraj) on the worst performing region (Prešovský kraj),

- Disparity 2 - share of GDP per capita of the second best performing region (Trnavský kraj) on the worst performing region (Prešovský kraj),
- Disparity 3 share of GDP per capita of the worst performing region (Prešovský kraj) on GDP per capita of Slovakia,
- Disparity 4 share of GDP per capita of the best performing region (Bratislavský kraj) on GDP per capita of Slovakia.

The other disparity indicators shown in table 1.4 confirm the uneven development on the regional level, highlighting the fact that convergence on the national level leads to higher regional disparities on NUTS III or NUTS II level. On NUTS II level the only region with GDP PPS growth (2005/1995) higher than the national average was Bratislavský kraj with a 124% increase since 1995. Western Slovakia region was performing slightly lower than the national average (95 %), but the remaining NUTS II regions were 12 percentage points below the national level reaching only a 83% increase of GDP PPS since 1995.

Table 1.4
Regional GDP per capita in PPS – NUTS II level

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005/1995
Slovakia	6965	7649	8317	8828	8991	9639	10462	11204	11635	12433	13563	95%
Bratislavský Region	14759	16216	18015	19272	19591	21218	23847	26161	25941	28342	33124	124%
Western Slovakia	6647	7320	7836	8263	8582	9123	9731	10234	10882	11782	12779	92%
Central Slovakia	5719	6312	6883	7339	7413	7951	8746	9412	9631	10145	10455	83%
Eastern Slovakia	5277	5841	6330	6753	6816	7247	8034	8499	8661	9170	9663	83%

Source: Statistical Office of Slovakia

The increase in regional disparities on NUTS II and NUTS III level confirms the dispersion of regional GDP PPS as well (Table 1.5)⁵. For a given country, the dispersion of regional GDP at NUTS II or NUTS III level is expressed as the sum of the absolute differences between regional and national GDP per inhabitant, weighted with the regional share of population and expressed in percent of the national GDP per inhabitant. According to Eurostat data, the dispersion of GDP per capita in PPS is higher on NUTS III level than on the level of NUTS II regions. Development of GDP dispersion shows a considerable increase in the dispersion of GDP after the EU accession. However, only further development (and availability of relevant and up to date statistical data) can confirm continuing regional divergence.

⁵ The value of the dispersion of GDP per inhabitant is zero, if the values of regional GDP are identical in all regions of the country or economic area (such as EU-25 or euro area-12), and it will show, *ceteris paribus*, an increase, if the differences between the values of regional GDP per inhabitant among regions are rising (Eurostat, 2008).

Table 1.5
Dispersion of regional GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
NUTS III	28,3	27,2	28,0	27,6	27,3	27,8	27,2	28,1	28,7	29,2	33,8
NUTS II	26,3	25,2	26,3	26,4	25,8	26,7	26,8	28,1	27,8	28,1	32,3

Source: Eurostat

The catch up process remains one of the most important tasks of economic policy in Slovakia. Sustainable fiscal policy combined with considerable amount of financial resources allocated for the 2007 – 2013 period could provide a contribution to additional national economic growth with positive effect on regional disparities. One of the limiting factors, which can hamper the full scale of positive externalities from the implementation of structural funds and cohesion fund, is the ongoing financial and economic crisis. The contribution of structural policy in this programming period, its design, allocation of financial resources and their efficiency will be the examined in the following chapters.

2. STRUCTURAL POLICY IN SLOVAKIA

2.1. EXPERIENCE FROM PREVIOUS PROGRAMMING PERIODS

To understand the current development in implementation of 2007 – 2013 financial perspective, it is necessary to introduce the experience with the EU structural policy in Slovakia in the pre-accession and 2004 - 2006 programming period.

The availability of pre-accession assistance for economic development (PHARE), for environmental and transport (ISPA), and for agricultural and rural development (SAPARD) has prepared the way for the increase in funding to be made available in 2004 - 2006 – essentially in the same sectors – under the Structural Funds. The main achievement to date from pre-accession assistance is the increase in administrative capacity and experience that these instruments have brought. The first national plan for regional development for pre-accession support was adopted in 1999, for post-accession funding in 2001, but the National Development Plan was adopted only in March 2003. Individual ministries were late in preparing the grant schemes for smaller projects and compared to neighbouring countries they were approximately a year behind schedule. Consequently, the delayed process of documentation and legislative preparation hindered accreditation of the implementing agencies. However, the lag observed during the pre-accession period was adjusting at the final phase of preparation for the Structural Funds. After the Commission had adopted the basic documents required for initiating Structural Funds exploiting in December 2003, Slovakia launched the first call for a Local Infrastructure priority (Operational program Basic Infrastructure) on 19 January 2004 (it was the second call from all acceding countries).

The National Development Plan (for the programming period 2004 – 2006) that was adopted in 2003 was too complicated and even though it was reduced from an initial 11 operational programmes to 4 in the final version (Basic infrastructure, Industry and Services, Agriculture and Human Resources) it remained quite obscure. In addition, the structure of other documents in their final form has often been unintelligible for the applicants, which has led to formal mistakes in project preparation. The revised National Development Plan for the period 2004 – 2006 introduced four programming documents, one Operational Programme (OP Basic Infrastructure) and three Sectoral Operational Programmes (SOP Industry and Services, SOP Human Resources and SOP Agriculture and Rural Development for Objective 1. As regards Objectives 2 and 3, NDP determined one Single Programming Document for each of them. The main objectives for eligible regions based on adopted National Development Plan were also defined as main source of regional disparities and were identified in following areas (CSF, 2003):

1. Infrastructure,
2. Human resources,
3. Industry and services,
4. Agriculture and rural development.

A new challenge has been caused by the parallel use of the Structural Funds from the 2004 – 2006 period and the new programming period for 2007 – 2013. Preparing and implementing two system- different programmes at the same time was very time consuming and led to serious administrative pressure. The duplicity of rules, documents and programming was confusing for both the involved authorities and implementation bodies and for the applicants. The restructuring and redistribution of funds in the revised National Strategic Reference Framework 2007 -2013 elaborated by the new government (elected in 2006 after the early elections) caused a substantial delay in the start of calls in the new programming period. To avoid such a waste of precious time in implementation of structural policy, it is necessary to achieve widespread political consensus on the priority areas, which are most relevant. Although the changes made by the new government caused delays, the main strategy of the NSRF remained the same. Changes have been implemented mostly in financial allocations in operational programmes (more in chapter 3).

The experience with the pre-accession support and the short programming period 2004 – 2006 is a good starting point for the implementation of structural support in the present 2007 – 2013 financial perspective. The new design of structural policy in this period brought several changes to the structure of objectives, financial allocations, connection to the Lisbon strategy objectives and changes in the council regulations concerning the institutional and legal framework.

2.2. THE NEW DESIGN OF STRUCTURAL POLICY IN 2007 – 2013

The new architecture of Structural Funds is designed with the intention to simplify the overall structure with the respective financial instruments. The previous number of four objectives and four Community initiatives with 6 financial instruments have been reduced to 3 objectives with three financial instruments. The support for the 2007 – 2013 programming period is focusing on three objectives (Council Regulation, 2006):

- **Convergence** shall be aimed at speeding up the convergence of the least-developed Member States and regions by improving conditions for growth and employment through the increasing and improvement of the quality of investment in physical and human capital, the development of innovation and of the knowledge society, adapta-

bility to economic and social changes, the protection and improvement of the environment, and administrative efficiency.

- **Regional competitiveness and employment** shall, outside the least-developed regions, be aimed at strengthening regions' competitiveness and attractiveness as well as employment by anticipating economic and social changes, including those linked to the opening of trade, through the increasing and improvement of the quality of investment in human capital, innovation and the promotion of the knowledge society, entrepreneurship, the protection and improvement of the environment, and the improvement of accessibility, adaptability of workers and businesses as well as the development of inclusive job markets.
- **European Territorial Cooperation** shall be aimed at strengthening cross-border cooperation through joint local and regional initiatives, strengthening transnational cooperation by means of actions conducive to integrated territorial development linked to the Community priorities, and strengthening interregional cooperation and exchange of experience at the appropriate territorial level.

Changes have been implemented in the structure of financial instruments. The Cohesion Fund (CF) is no longer a separate financial instrument, but is part of the Convergence objective together with the European Regional Development Fund (ERDF) and European Social Fund (ESF). The regional competitiveness and employment objective is financed by ERDF and ESF and European territorial cooperation is financed by ERDF.

The agriculture and rural development is not incorporated in the cohesion policy in this period and have their own legal and regulatory basis. The European Agricultural Guidance and Guarantee Fund (EAGGF) and Financial Instrument for Fisheries Guidance (FIFG) have been transformed into European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF).

The URBAN II and EQUAL community initiatives have been integrated into the convergence and regional competitiveness and employment objectives. For the next period of cohesion policy programmes between 2007 and 2013, three initiatives are being introduced:

- JASPERS- Joint Assistance in Supporting Projects in European Regions,
- JEREMIE- Joint European Resources for Micro to medium Enterprises,
- JESSICA - Joint European Support for Sustainable Investment in City Areas,
- MICRO-CREDIT Initiative.

According to Council Regulation, Chapter IV (EC, 2006), main principles of EU assistance are to be respected:

- Complementarity, consistency, coordination and compliance,
- Programming,
- Partnership,
- Territorial level of implementation
- Proportional intervention,
- Shared management,
- Additionality,
- Equality between men and women and non-discrimination and
- Sustainable development.

Principles of shared management, equality between men and women and non-discrimination as well as sustainable development principle represent new principles build in the new financial perspective for 2007 – 2013.

2.3. THE SLOVAK NATIONAL STRATEGIC REFERENCE FRAME- WORK IN 2007 – 2013

2.3.1. PREPARATION OF THE NSRF

The current programming period represents the first period of full use of financial resources from the Cohesion policy. The seven-year financial framework based on the NSRF preparation started already in 2004 under the supervision of the Ministry of Construction and Regional Development (Table 2.1).

Table 2.1
Timetable of NSRF preparation

19th October 2005	First draft version of the NSRF was approved by government
17th May 2006	Second draft version of the NSRF was approved by the government
6th June 2006	Second draft version was submitted to the European Commission
17th June 2006	Early parliamentary election. Changes in the NSRF based on the political priorities of the new government
8th October 2006	Approval of the draft version of NSRF by the government
6th December 2006	Final approval of the NSRF including Operational programmes
21st December 2006	Submission of the NSRF to the European Commission (Slovak version)

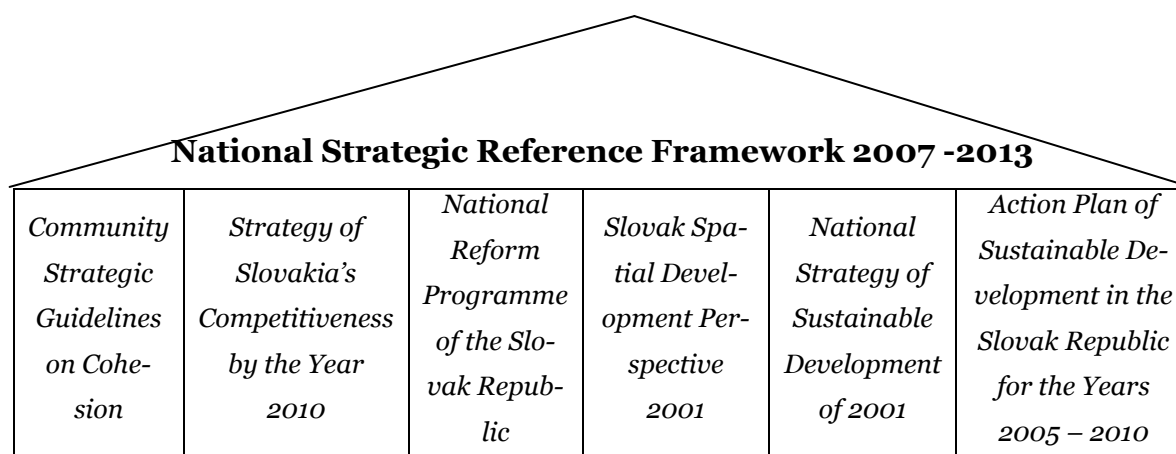
January 2007	Submission of the NSRF to the European Commission (English version)
17th August 2007	European Commission officially approved the NSRF

The preparation of NSRF was based on strategic documents previously adopted by the government as well as documents adopted on the EU level. The following documents constituted the basis for the NSRF preparation:

- Community Strategic Guidelines on Cohesion,
- The Strategy of Slovakia's Competitiveness by the Year 2010 (the so-called Lisbon Strategy for Slovakia)
- The National Reform Programme of the Slovak Republic,
- Slovak Spatial Development Perspective 2001,
- National Strategy of Sustainable Development of 2001 the Action Plan of Sustainable Development in the Slovak Republic for the Years 2005 – 2010.

The NSRF is the central integrating document defining and providing links of the major components of various strategies to the end of achieving the highest possible synergy and effectiveness in accomplishing the vision and achieving the strategic objective by the year 2013 (NSRF, 2007).

Chart 2.1
NSRF as the integrating document of various national and EU strategies



Source: own figure based on (NSRF, 2007)

The NSRF was elaborated according to the principle of partnership on the national level as well as EU level. On the national level various working group were involved. The

Partnership for the National Framework group was established with the objective to discuss issues and details concerning the NSRF among these particular partners:

- Representatives of the relevant ministries,
- Self-governing regions,
- Representative associations of cities and municipalities,
- Professionals and business representatives,
- Employers associations and trade unions,
- Non-profit and non-governmental organisations and
- Academic professionals.

Besides the Partnership for the National Framework work group the Council of the Government for Regional Policy and Supervision over Structural Operations as well as the Committee for the Structural Funds and the Cohesion Fund were important coordinating institutions applying the partnership principle.

2.3.2. STRUCTURE OF THE NSRF

The socio-economic analysis in the NSRF identifies key disparities and development factors of Slovakia. It is serving as a basis for the identification of strengths, weaknesses, opportunities and threats in the period of 2007 – 2013. The key disparities are identified in three main areas (NSRF, 2007):

- 1. Macroeconomic development:** low level of growth potential of the regions; low rate of employment; high unemployment with significant disparities among regions; low value added creation per employee; low share of population with higher education and low flexibility of the education system to the needs of the labour market; low informatisation level; low innovation performance and low share of R&D expenditures on GDP.
- 2. Economic policy:** lack of coordination between partial economic policy instruments; insufficient transparency, quality and consistency of implementation systems; low level of concentration of resources and measures and absence of instruments for R&D support and innovation; low quality of information available to public.
- 3. Sectoral and regional situation**
 - 3.1. Human resources
 - 3.2. Infrastructure and regional accessibility
 - 3.3. Knowledge economy

The sectoral and regional classification based on the identification of existing disparities forms the thematic concentration of structural interventions in the overall structure of the NSRF. The NSRF Structure is based on the hierarchy of Objectives (Table 2.2.).

Chart No 2.2
Hierarchy of NSRF objectives

Vision		
Overall convergence of the Slovak economy to the EU 15 average through sustainable development		
Strategic objective		
Increase significantly the competitiveness and performance of the regions and of the Slovak economy and employment by 2013 while respecting the principles of sustainable development		
Strategic priorities		
Infrastructure and regional accessibility	Knowledge economy	Human resources
Specific priorities		
Regional infrastructure	Informatisation of society	Modern education for the knowledge society
Environmental infrastructure and protection of the environment	Research and Development	Fostering growth of employment, social inclusion and building of institutional capacities
Transport infrastructure and public passenger transport	Infrastructure of universities	
Modernisation of health infrastructure	Support of competitiveness of enterprises and services mainly through innovation	

Source: own figure based on (NSRF, 2007)

The overall convergence of the Slovak economy to the EU 15 average through sustainable development represents a long-term objective. The expected achievement of this long-term objective is projected for the first half of the 21st century and will cover several programming periods. Currently a Vision and Strategy of the Slovak economy to the year 2030 is being elaborated under the supervision of the Institute of Economic Research of Slovak Academy of Sciences. The Strategy should lay the foundation for a broad consensus on long-term development of the Slovak economy. The Vision and Strategy is a document open to discussion, should be amended, and modified reflecting the changes in the global economy

and its influence on the Slovak economy in the future. The consent in the society to pursue the objectives in the Vision and Strategy is the most relevant factor, which ensures the success of this document. The political consent on the objectives of such a long-term strategy has proven to be crucial for its success and represent a tremendous challenge for the current and any future government. Experience from the past is showing that this will be a very difficult task.

The Strategy for 2007 – 2013 with the objective to *Increase significantly the competitiveness and performance of the regions and of the Slovak economy and employment by 2013 while respecting the principles of sustainable development* built in the NSRF describes the possible way to achieve this mid – term objective. It is based on the previously adopted documents of the EU and national strategic documents. The measurable indicators of this Strategy are also an integral part of the NSRF (Table 2.2).

Table 2.2
Indicators of the Strategy (initial and target value)

Indicator	Initial value (2005 ⁶)	Target value (2013)
Energy consumption of enterprises	854,3 kgOE/1000 EUR	663,4 kgOE/1000 EUR
Summary innovation index	Ranking the 22 nd	Ranking the 18 th
GDP per capita at PPP compared to EU 15	53,7 %	over 60 % of the EU 15 level
Productivity of labour compared to EU 15	60,9 %	over 70 % of the EU 15 level
Employment rate compared to EU 15	57.7 %	63.4 %

Source: (NSRF, 2007)

Based on the results of analyses of the current situation of the Slovak economy, the following summary disparities and development factors influencing the level of sustainable overall convergence of Slovakia to the EU 15 countries in the programming period 2007 – 2013 were identified (Table 2.3).

Table 2.3
Summary of disparities and development factors

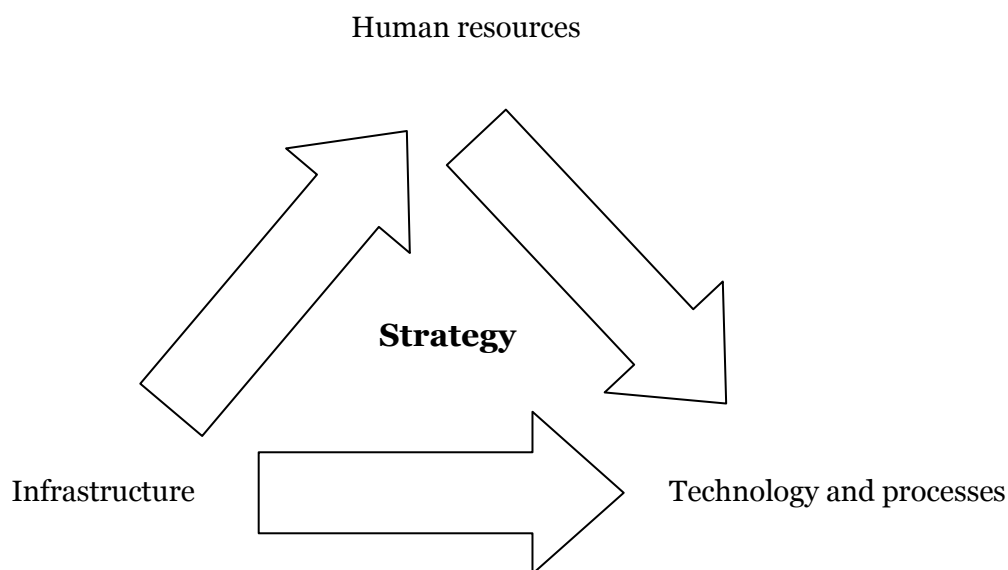
Disparities	low competitiveness of production and services insufficient quality of human resources insufficient quality and accessibility of public infrastructure
Development factors	technologies and processes contributing to a better utilisation of the production potential, its development and raising the innovative capacities of regions development of human potential and efficient use of workforce infrastructure improving accessibility of regions and quality of the environment and public services

⁶ Data for Energy Consumption date back to 2004.

Source: (NSRF, 2007)

The Strategy is based on principles of thematic and territorial concentration. Thematic concentration answers the question what will be supported by the Structural funds and the Cohesion Fund. The main idea behind thematic concentration is to support sectors and thematic areas of the economy in which the interventions are the most effective. The principle of concentration is the most efficient way to implement the structural interventions and achieve the strategic objective for 2007 – 2013. Thematic concentration is in the Slovak NSRF focused on three main areas (NSRF, 2007):

- *Building and modernising of public infrastructure,*
- *Knowledge economy* - research, development, innovation and informatisation contributing to the development of technology and improvement of processes, thereby developing the sources of economic growth for a knowledge-based economy and raising the quality of economic growth driven by existing factors,
- *Improvement of the quality and better utilisation of human resources.*



Source: own figure based on NSRF

These thematic priorities are in mutual interaction and complement each other. Thematic priorities are concentrated in the following four strategic priorities:

- 1. Infrastructure and regional accessibility,**
- 2. Knowledge economy,**
- 3. Human resources and**
- 4. Technical assistance.**

1. Infrastructure and regional accessibility. Lack of infrastructure and regional accessibility is one of the main major obstacles resulting in the uneven development of Slovak regions. The lack of transport, environmental, health and social infrastructure and services linked to this infrastructure is one of the main reasons for interventions in lagging behind regions. The availability of efficient infrastructure is undisputable precondition for the attraction of investments thus generating the necessary supply side effects on the economy. The NSRF identifies two positive effects of public infrastructure and regional accessibility (NSRF, 2007):

- a. Public infrastructure investments increase the attractiveness of the territory for investing; they generate private direct investments, which have a positive influence on the growth of economic performance and competitiveness of the production sector of regions.
- b. Public infrastructure investments increase the attractiveness of the territory for visitors, its inhabitants and the following generations. They create the preconditions for a more efficient functioning of public services.

This strategic priority is carried out by four specific priorities: Regional infrastructure, Environmental infrastructure and protection of the environment, Transport infrastructure and public passenger transport and Modernisation of health infrastructure.

2. Knowledge economy. The overall level of innovation and R&D activity is very low in Slovakia. Slovakia ranks among the least performing countries in the EU in the summary innovation index. Therefore, the objective is to improve the position from the 22nd place in 2005 to 18th place in 2013. The share of R&D expenditure on GDP is also among the poorest in the EU. In 2006, the member states with the lowest R&D intensity were Cyprus (0.42%), Romania (0.46%), Bulgaria (0.48%) and Slovakia (0.49%) (Eurostat, 2008). The NSRF defines the objective of this thematic concentration as *to develop the sources of sustainable economic growth and raising the competitiveness of the industry and service sectors*. This strategic priority is carried out by four specific priorities: Informatisation of society, Research and Development, Infrastructure of universities and Support of competitiveness of enterprises and services mainly through innovation.

3. Human resources. Human capital represents a crucial precondition in the building of knowledge based economy and society. The support of human capital in this strategic priority should focus on flexible, mobile, educated and skilled labour force. To

achieve these objectives, it is necessary to adopt and implement a deep reform of the education system, together with the implementation of life-long education. This Strategic priority is composed of the specific priority - Modern education for the knowledge society and specific priority objective Ensuring long-term competitiveness of Slovakia by adapting the education system to the needs of the knowledge society.

In the area of social development, the specific priority Fostering growth of employment, social inclusion and building of institutional capacities is part of this strategic priority. The main objective is growth of employment, reduction of unemployment, social inclusion and building of administrative capacities.

4. Technical assistance. This strategic priority is only part of Convergence objective in the NSRF. The specific objectives in the framework of NSRF are focused on:

- a. Preparation, management, monitoring, evaluation, publicity and strengthening of administrative capacities in these areas.
- b. Financial management, control and strengthening of administrative capacities in these areas.

The structure of objectives focused on four main priorities, which are the most relevant development factors in the Slovakia is a solid foundation for positive development in all respective areas. The thematic concentration of priorities allows focusing on the most relevant development factors and their support from Structural Funds and Cohesion Fund. However, it is necessary to implement these priorities in the most efficient way and in the most efficient regions in Slovakia. Therefore, a territorial concentration approach is also part of the NSRF priorities. The interventions should be carried out in municipalities in the respective NUTS III regions, which act as the main economic driving force in the region. The NSRF identifies two types of territorial intervention areas:

- innovation and cohesion growth poles;
- specific cases, in territories outside the growth poles.

The economic and social development in these regions provides the necessary impetus for the development of neighboring municipalities, thus improving their economic condition. Table No. 2.4 shows the number of growth poles in the respective NUTS III regions and share of population living in these regions. Table 2.4 also shows that the majority of population is living in the growth poles regions. In specific cases, the intervention can be carried out in regions not classified as growth poles.

Table 2.4

Number of growth poles in present programming period in Slovakia (NUTS III level)

Self governing regions NUTS III	Number of municipalities total	Number of growth poles	% of population living in growth poles
Bratislavský kraj	73	37	95,1
Trnavský kraj	251	106	81,9
Trenčiansky kraj	276	104	83,9
Nitriansky kraj	354	156	83,8
Banskobystrický kraj	516	125	76,8
Žilinský kraj	315	139	86,8
Prešovský kraj	666	176	77,2
Košický kraj	440	130	79,8

Source: (NSRF, 2007)

The Strategy of the NSRF defines besides Strategic and specific priorities also horizontal priorities. The purpose of the horizontal priorities is to achieve objectives, which are not part of the individual operational programmes and require combination of various operational programs and mutual coordination. Every horizontal priority defines a priority objective and priority application in operational programmes and subsequent projects (Table 2.5). The NSRF defines the following four horizontal priorities:

- Marginalised Roma communities,
- Equal opportunities,
- Sustainable development and
- Information society.

Table 2.5

Horizontal priorities of the NSRF for 2007 – 2013

Horizontal priority	Horizontal priority objective	Horizontal priority application
A. Marginalised Roma communities	Increase employment and level of education of MRC and improvement of their living conditions	Comprehensive approach (integration of projects under several OPs)
B. Equal opportunities	Ensure equal opportunities for all and prevent all forms of discrimination	Principle to be applied with respect to all projects
C. Sustainable development	Ensure environmental, economic and social sustainability of economic growth	Principle at the level of the NSRF strategic objective
D. Information society	Development of inclusive information society	Integrated approach (interoperability of public administration information systems and introduction of e-services under operational programmes)

Source: (NSRF, 2007)

2.3.3. REGIONAL AND SECTORAL ALLOCATION OF STRUCTURAL FUNDS AND COHESION FUND

In the present programming period, 11,587 Billion € are available from the Structural funds and Cohesion fund in Slovakia, from which the allocation for the Convergence objective is 10,9 Billion €, for the Regional Competitiveness and Employment objective 449 Mil. € and for the European Territorial Cooperation 227 Mil. € (Table 2.6). The maximum rate of contribution from the ERDF, the ESF and the CF within the Convergence objective and Regional Competitiveness and Employment objective is 85%.

Table 2.6
Financial allocations for 2007 - 2013

Objectives	Fund	Financial allocation
1. Convergence	Cohesion Fund	3 898 738 563 €
	Structural Funds	7 012 862 858 €
	Cohesion Fund and Structural Funds	10 911 601 421 €
2. Regional Competitiveness and Employment	Structural Funds	449 018 529 €
3. European Territorial Cooperation	Structural Funds	227 284 545 €
Total	Cohesion Fund and Structural Funds	11 587 904 495 €

Source: own figure based on (NSRF, 2007)

The strategy, priorities and objectives of the NSRR are implemented through eleven operational programmes. Six operational programmes: in the Convergence objective, from which four will be co-financed by the ERDF covering all Slovak regions except the region of Bratislava (OP Information Society, Regional Operational Programme, OP Competitiveness and OP Health). Two OP covering the whole territory of Slovakia, co-financed by the ERDF and CF (OP Transport, OP Environment) and three operational programmes for both Convergence and Regional Competitiveness and Employment objectives covering all regions in Slovakia.

Table 2.7**Financial allocations for the Convergence objective 2007 - 2013**

	Financial Allocation	Share in %	Fund
OP Information Society	993 095 405 €	9,1%	ERDF
OP Environment	230 756 935 €	2,1%	ERDF
	1 569 243 065 €	14,4%	CF
Total	1 800 000 000 €	16,5%	ERDF+CF
Regional Operational Programme	1 445 000 000 €	13,2%	ERDF
OP Transport	2 329 495 498 €	21,3%	CF
	877 409 097 €	8,0%	ERDF
Total	3 206 904 595 €	29,4%	ERDF+CF
OP Research and Development	883 000 000 €	8,1%	ERDF
OP Health	250 000 000 €	2,3%	ERDF
OP Competitiveness	772 000 000 €	7,1%	ERDF
OP Education	600 000 000 €	5,5%	ESF
OP Employment and Social Inclusion	864 000 000 €	7,9%	ESF
OP Technical Assistance	97 601 421 €	0,9%	ERDF
Total Convergence Objective	10 911 601 421 €		
From ERDF	5 548 862 858 €		
From ESF	1 464 000 000 €		
From CF	3 898 738 563 €		

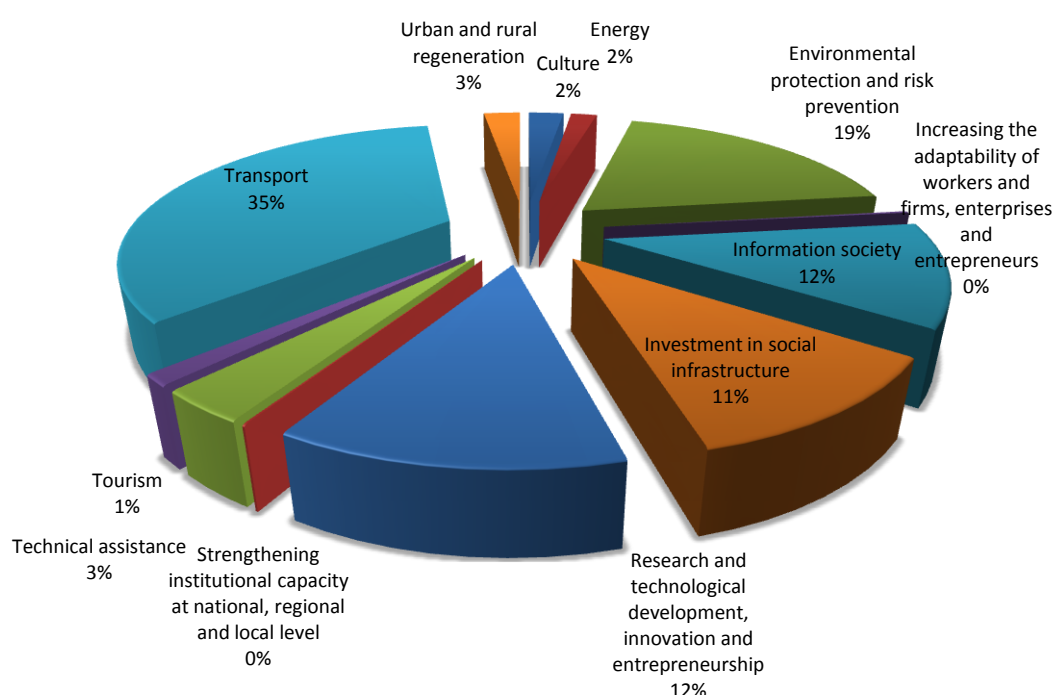
Source: (NSRF, 2007), own calculations

The majority of financial resources in the Convergence objective is allocated to OP Transport with 29,4 % share on overall allocation. The lack of transport infrastructure is considered as one of the major obstacles contributing to uneven development of Slovak regions. The interventions in this OP will be focused to the modernisation of railway corridors, which are part of the TEN-T network as well as other railway tracks. An important part of the interventions in this OP will be the financing of roads, high-speed roads and motorways to improve the accessibility of lagging behind regions and finish the west – east interconnection of the country together with building of intermodal transport infrastructure. The second largest contribution with 16,5 % share is allocated to the OP Environment. The objective according to the NSRR is to “*improve the environment and rational use of resources by completing and improving the quality of environmental infrastructure, in line with EU and Slovak regulations, and to strengthen the environmental component of sustainable development*”. The financial resources will be spent mainly on infrastructure projects in the field of water and waste management.

Table 2.8**Financial allocations for the Regional Competitiveness and Employment objective 2007 - 2013**

Competitiveness and Employment Objective			
	Financial allocation	Share	Fund
OP Research and Development	326 415 373 €	72,7%	ERDF
OP Education	17 801 578 €	4,0%	ESF
OP Employment and Social Inclusion	17 801 578 €	4,0%	ESF
OP Bratislava Region	87 000 000 €	19,4%	ERDF
Total Objective	449 018 529 €	100%	
From ERDF	413 415 373 €		
From ESF	35 603 156 €		
Total NSRF 2007 - 2013			
	11 360 619 950 €		

Source: (NSRF, 2007)

Chart 2.3**Share of financial resources from ERDF and CF in 2007 – 2013 by theme**

Source: EU, 2007

From the regional perspective (NUTS III level), only Bratislava region is not eligible for support from Structural Funds in the Convergence objective. The financing of Bratislava region is covered by the Structural Funds in the Regional Competitiveness and employment

objective⁷. The preliminary allocation of financial resources at NUTS II level is shown in table 2.9. The further economic and social development of NUTS II regions is determined by their current economic position together with the anticipated effects of regional policy. Positive effects of foreign direct investments, successful application for support by regional development policy and structural funds together with national co-financing should create favourable conditions for further socio - economic development. However, the uneven development of NUTS II regions will likely continue. Nitriansky and Banskobystrický region could serve as an example for regions, which seem to appear not problematic on NUTS II level, but on NUTS III level, their development is highly uneven (Frank, 2007).

Table 2.9

Indicative regional allocations for Structural Funds (ERDF, ESF) for NUTS 2 regions - Convergence objective

NUTS 2 region	West Slovakia	Central Slovakia	East Slovakia	Total
Allocation	34,1%	31,9%	34,0%	€6 685 149 487

Source: MCRD SR

Respecting the territorial concentration, the priorities of the NSRF are being implemented in the growth poles of each region. Each strategic priority is concentrated in one of these types of growth poles (Table 2.10).

The support in the Knowledge-based economy priority is primarily concentrated in the innovation growth poles in the respective regions. Support is oriented towards the increase of competitiveness of local businesses and services, research and development activities and improvement of university infrastructure. The support in the Human resources strategic priority and its specific priorities is concentrated in the all regions of Slovakia, not only in the defined growth poles. The support in the Infrastructure and regional accessibility strategic priority is allocated in the innovation and growth poles as well, mainly in the field of health and regional infrastructure.

⁷ District Bratislava II, district Bratislava III, district Bratislava IV, Bratislava – Jarovce, Bratislava – Rusovce Bratislava – Čunovo, district Senec and district Malacky.

Table 2.10

Application of the territorial concentration principle in the implementation of the NSRF specific priorities

Specific priority	Innovation growth poles	Cohesion growth poles	Municipalities not being growth poles
1.1 Regional infrastructure	x	x	
1.2 Environmental infrastructure and protection of the environment	All regions		
1.3 Transport infrastructure and public passenger transport	All regions		
1.4 Modernisation of health infrastructure	x	x	
2.1 Informatisation of society	All regions		
2.2 Research and development	x		
2.3 Infrastructure of universities	x		
2.4 Support of competitiveness of enterprises and services mainly through innovation	x		
3.1 Modern education for a knowledge-based society	All regions		
3.2 Fostering growth of employment, social inclusion and building of institutional capacities	All regions		

Source: NSRF, 2007

2.3.4. ASSESSMENT OF THE STRUCTURE AND OBJECTIVES OF THE NSRF

The structure and objectives of the NSRF create favourable preconditions for interventions in areas and regions, which are lagging behind. The concentration of resources from Structural Funds and Cohesion fund to growth poles based on the territorial and thematic principles creates a firm basis for the improvement of local infrastructure, human capital and knowledge economy in the respective regions. However, in order to effectively implement the financial support it is necessary to overcome a large number of obstacles and bottlenecks, which are lowering the efficiency of implementation.

The eleven operational programmes represent a solid foundation, for contribution of the structural support to achieve the objectives of vision and strategy of the NSRF. The structure, strategic and specific objectives and operational programmes are focused on territories and themes where the structural support could provide the necessary impetus for additional economic and social development. There is a substantial link between strategic documents, activities mainly in the case of cross-financing and there is also clear complementarity of ob-

jectives financed by ERDF, CF and ESF in the programming documents. The contribution of operational programmes, its priority axes and measures to additional economic growth will be examined in the following chapter.

3. THE EVALUATION OF OPERATIONAL PROGRAMMES IN THE PRESENT NATIONAL STRATEGIC REFERENCE FRAMEWORK

In Slovakia, the debate on the utilisation of structural support from the SF and Cohesion fund is mostly limited only on the quantitative indicators related to the absorption capacity. However, a more important and often-neglected discussion is the discussion about the efficient use of the funds in areas, which can create positive spill over effects. The aim of following chapter is to analyse the operational programmes included in present NSRF. The evaluation of expected effects of structural interventions requires the creation of a common methodology for each examined country. Therefore, a scoring model will be used as common framework in this analysis (Erdödy, 2008).

3.1. METHODOLOGICAL APPROACH

The measurement of anticipated supply side effects of the interventions according to Erdödy (2008)⁸ is conducted by using criteria relevant for the evaluation of the operational programmes and their contribution to economic growth:

1. **Production externalities (PE):** Is the volume of input factors increasing? Is there any observable inflow of foreign direct investments induced by the implementation of the measures? Is the overall competitiveness of the region or the country increasing?
2. **Productivity externalities (WE):** Is the quality of input factors improving? Are there any observable productivity gains induced by the implementation of the measure?
3. **Complementarity (C):** Are there any complementary measures available, which are increasing the efficiency of interventions? Are the measures included in the priority axes creating synergy effects with other measures implemented in the operational programmes? Is there present an observable and clear systematic pattern behind each measure?
4. **Efficiency (E):** Is the measure oriented towards the improvement of strengths in the respective field? Is there a real competition among the applicants applying for the financial resource from the calls of the operational programmes?

The application of these criteria on the measures covered by priority axes in all operational programmes a scoring model can be constructed, in order to evaluate the potential effects of each operational programme and the NSRF on the increase of growth potential of the economy. This scoring model is constructed using the following methodology Erdödy (2008, p. 24-25):

⁸ More on the theoretical background on these four criteria is to be found in Erdödy (2008, p. 22-23).

- Each operational programme is focused on a number of priority axes, which are segmented into measures.
- Each measure of the priority axes in the respective operational programme is evaluated according to the four above-mentioned criteria
- The criterion can acquire the value of one to three points.
 - The value 1 represents a low level of fulfilment of the above-mentioned criteria.
 - The value 2 represents moderate level of fulfilment.
 - The value 3 represents high level of fulfilment.
- An arithmetic mean is calculated for each measure;
- This result is multiplied by the share of the financial allocation of the measure on the overall financial allocation;
- The result of the previous step is a partial indicator of each measure;
- The sum of these partial indicators (calculated for each measure in the priority axes of each operational programme) represents the partial indicator of the respective operational programme.
- The sum of these partial indicators represents the NSRF Indicator.

This methodology allows calculating the indicator for each operational programme by multiplying each OP partial indicator with the share of each OP financial allocation on the overall allocation. The results lying in the interval from one to three are showing us the potential of the operational programmes to meet the above-mentioned criteria. It is necessary to bear in mind that this model based on expert assessment and scoring, is subject of qualitative estimations and assessments of the author. Therefore, its results need to be interpreted with some carefulness⁹. The methodology and the partial score outcomes can (and should) differ among countries and are comparable only by the common methodology. The results are strongly influenced by the amount of financial resources allocated to the respective measures as well as by the structure of the operational programmes, priority axes and measures.

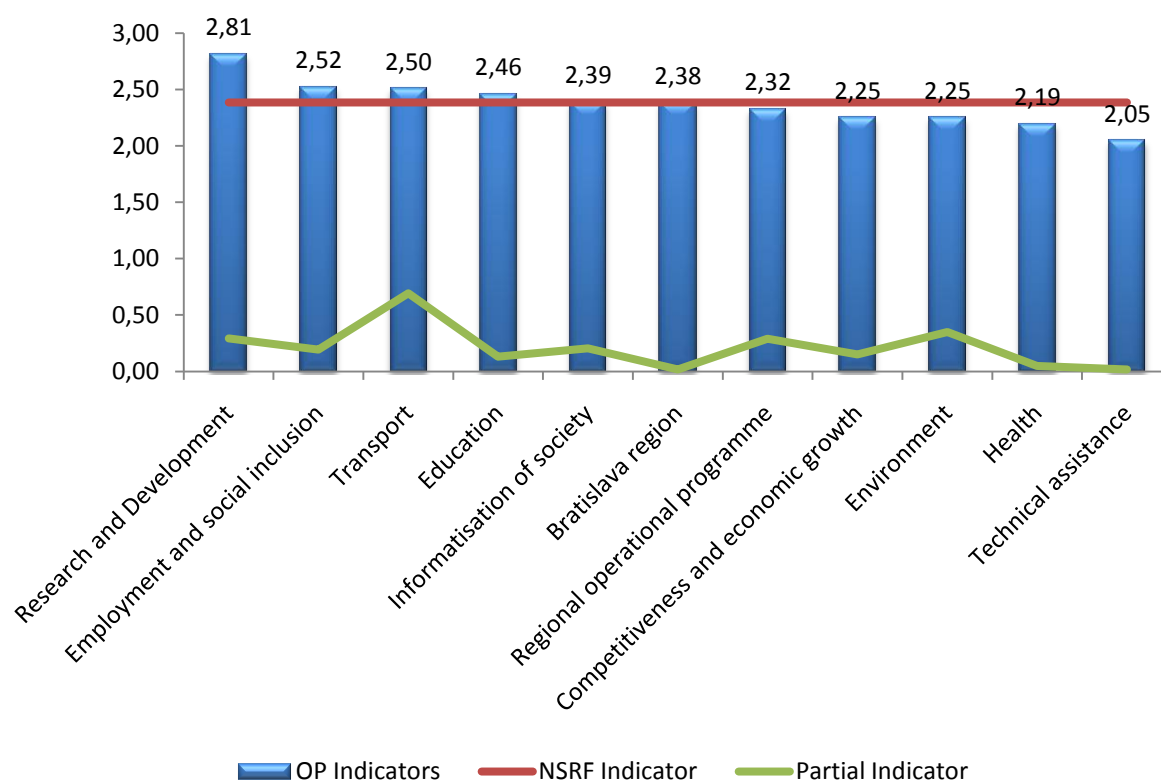
⁹ The calculation for each Operational Programme is part of the annex of this study.

3.2. THE INTERPRETATION OF THE SCORING MODEL RESULTS FOR INDIVIDUAL OPERATIONAL PROGRAMMES

The application of methodology mentioned in the previous subchapter brought several results. The overall financial allocation of the NSRF is divided into 11 Operational Programmes¹⁰, which were subject of the evaluation, by the scoring model.

Chart 3.1

Partial Indicators of Operational programmes and NSRF Indicator



Source: own calculations

The results of the scoring model show interesting results. **The value of the overall NSRF indicator is 2,38 points, slightly above the average value 2,37 (with OP technical assistance).** Eleven operational programmes adopted by the Slovak government are the main instruments in the utilisation of structural support from the EU. We can conclude, that giving the value of the NSRF indicator the operational programmes and their priority axes and individual measures have middle to high potential to contribute to additional growth incentives. The structural interventions channelled through the operational programmes will create the above mentioned growth effects, but will not exhaust their full potential. A more thorough look at growth potential of the NSRF interventions is possible when

¹⁰ The structure of the NSRF is analysed in chapter 2.

we look at the level of operational programmes, their priority axes and respective measures (Chart No. 3.1). The scoring model is showing us, that design of operational programmes and its objectives has different influence on the increase of the growth potential of the Slovak economy.

The OP Research and Development with its priority axes and measures achieved 2,81 points. The measures are oriented towards the upgrade and improvement of infrastructure for research and development, support of networks of excellence in R&D, transfer of knowledge and technology from R&D into business sector and improvement in the infrastructure of higher education and of the education process. All of these measures are in the condition of Slovak economy crucial in the long – term support of knowledge-based economy, thus creating long – term prospects for future sustainable economic growth. The effects are expected to be seen in long-term, but they are providing necessary basis for steady development in R&D and education sector, which are among the weakest performing sectors in Slovakia. The share of financial resources allocated to this operational programme represents 10,4 % of overall allocation. The level of criteria fulfilment is highest of all examined operational programmes (PE: 85,19%; WE: 96,3 %; C: 100,0%;E: 74,07 %). The funding and effective implementation of these measures with respect to thematic and territorial concentration of these measures in cohesion and innovation growth poles creates substantial externalities (measure 2.2 Transfer of knowledge and technology from research and development into practice) in many sectors and synergy effects in the economy.

Operational programme Employment and social inclusion lies on the second place of eleven examined OP with score at 2,52 points and share of 7,61 % on overall allocation. This result confirms the importance of human resources development in Slovak economy. Slovakia is experiencing the third highest unemployment rate in the European Union at 9,4 %, which only emphasizes the importance of this operational programme. The integration of unemployed and socially excluded citizens into the labour market will provide production externalities and productivity externalities as well and provide substantial synergy effects with other operational programmes. However, some measures lower the overall efficiency with allocation of financial resources to programmes oriented on gender equality and marginalized Roma communities. Although these projects are important to integrate the Roma minority, their effects ought to be expected in a very long-term perspective. The integration of marginalised Roma communities is also one of the four horizontal priorities of the NSRF. The integration of priority axis 4 (Building capacities and improving the quality of the public administration) into this operational programme seems to be redundant and only reduces the overall score of this OP and should be integrated in the Priority Axis 5 Technical assistance.

The level of criteria fulfilment of this particular OP is strong in productivity externalities and complementarity (PE: 63,89%; WE:77,78%; C:83,33 %; E:47,22 %).

The third place with 2,28 points belongs to the **OP Transport** with share of 27,67 % on overall allocation. The financial allocation for this particular OP programme represents the highest share on overall allocation. Also its position above the average of the NSRF indicator indicates the importance of this operational programme in the strategy of Slovak economic policy. The availability of efficient infrastructure is undisputable precondition for the attraction of investments, generating the necessary supply side effects on the economy. Although the level of criteria fulfilment is not significantly high (with the exception of productivity spillovers and complementarity, the high share of financial allocation contributed to above average value of the OP Indicator (PE: 66,67 %; WE: 75 %; C: 62,5 %, E: 54,17 %)). The construction of intermodal transport public terminals or upgrade of mobile railway means of transport is important, but does not create immediate incentives for economic growth in terms of production externalities or synergy effects. On the other hand, the construction of necessary west – east connection by motorways, expressways and reconstruction of second-class roads is one of the main priorities of this programming period.

The Operational program Education with score of 2,38 points and share of 5,33 % on overall allocation is the fourth best performing OP, although its share on overall resources does not substantially contribute to the overall NSRF indicator. The global objective of the operational programme is defined as follows: *“Ensuring competitiveness of the Slovak Republic in the long run by adapting the system of education to the needs of a knowledge-based society”* (Ministry of Education, 2007). The existing economic and social situation in education requires interventions into all components of the system of education, as well as in the area of research and development. The Priority axis 1 - *Reform of the Education and Vocational Training System* and priority axis 2 - *Continuing Education as an Instrument of Human Resource Development* and its measures create synergy effects with the OP R&D and OP Employment and social inclusion. The level of criteria fulfilment (PE: 66,67 %; WE: 83,33%; C: 83,33 %; E: 56,67 %) confirms the positive effects of the OP on productivity spillovers and complementarity with other OP.

The next OP Competitiveness and economic growth with score of 2,25 and share on overall allocation at 6,66 % is on eighth place. The interventions in this OP are focused on economic growth mainly in the first priority axis Innovations and Growth of Competitiveness. The measures in this respective priority axis are oriented on support of innovations, technology transfers, support of common services for entrepreneurs and support for innovation activities. These measures have strong potential to stimulate future economic growth with significant positive spillovers. The second axis contributed to lower performance

of this OP on overall score, mainly in the measure focused on upgrade of public lightening and energy consultation. These measures certainly have positive spillovers, but at present, there are not the main driving force of competitiveness and economic growth. The level of criteria fulfilment of this particular OP is strong in productivity externalities, complementarity and efficiency (PW: 75,0 %; WE: 83,33 %; C: 79,17 %; E: 79,17 %).

The Regional operational programme scored 2,32 points with a share of 12,4 % on overall financial allocation. The main objective of this OP is to increase the availability and quality of public infrastructure in regions. The OP is highly complementary with other operational programmes (Transport, Informatisation of society, competitiveness and economic growth, Education and Employment and Social Inclusion). The OP is addressing its objectives in five priority axes with a wide range of intervention areas (measures). About 24 % on overall OP allocation is implemented in the measure Infrastructure of education. The infrastructure of educational institutions in most regions needs substantial investments, in order to improve the quality of education and create conditions for the generation of positive educational spillovers. However, the financial resources in this measure have to be allocated only to institutions, which are among the best in the regions, respecting the concentration and efficiency principle. The third priority axis *Strengthening of cultural potential of the regions and tourism infrastructure* is seen as strong development factor leading to improvement of economic development in regions. The priority axis provides strong positive spillovers in productivity and production. The improvement of infrastructure in tourism together with the upgrade and restoration of cultural heritage increases the attractiveness of the regions for tourism. Tourism industry is one of the most important employers in some Slovak regions; therefore, it is necessary to improve the quality and standard of services in order to improve its attractiveness, competitiveness and quality. The measure *Regeneration of settlements* lowers the overall score of this OP mainly in the productivity and efficiency criterion. Although it is important to improve the quality of living (housing), there are only limited productions or efficiency spillovers. The level of criteria fulfilment of this OP is highest in productivity and complementarity (PW: 54,17 %; WE: 70,83 %; C: 66,67 %; E: 58,33 %).

The operational programme **Environment** scored 2,25 points with a share of 15,53% on overall allocation. Although this OP does not directly contribute to the improvement of long-term growth prospects, environment is an important factor contributing to the attractiveness of the country as well as the quality of living. The criteria used to evaluate in this OP should respect these specific position. The majority of the financial allocations are concentrated in the first priority axis *Integrated protection and rational utilisation of water* (measure Municipal waste water collection and treatment pursuant to SR commitments towards EU) with 50,8 share on overall allocation of OP Environment. The level of criteria fulfilment

of this OP is highest in productivity and complementarity (PW: 68,75 %; WE: 79,17 %; C: 66,67 %; E: 50,0 %).

The operational programme **Informatisation of society** scored 2,39 with a share of 8,57 % on overall allocation. The main objective of this OP is to create an inclusive information society as a tool for development of high-performance knowledge-based economy (Government Office of Slovakia, 2007, p. 33). According to the i2010 report, Slovakia placed on 25th place in the indicator *availability of basic public services online for citizens and enterprises*, which is the third worst position in the EU. However, the usage levels are higher than the connectivity would imply, and not far from EU average (European Commission, 2007). To address this lagging behind, the majority of financial resources are concentrated in the first priority axis *Electronisation of public administration and development of electronic services*. The objective of this priority axis is focused on improvement of e-Government services in Slovakia, which will increase the effectiveness and accessibility of public administration and with the development of electronic services on central, local and regional level create positive. The value of OP Indicator in this OP is reduced by the second priority axis *Development and renewal of the national infrastructure of repository institutions*. The measures included in this priority axis contribute to the improvement of cultural heritage, but are not generating significant production or productivity externalities. The third priority axis *Improvement of broadband Internet access* aims to improve the low level of broadband connectivity. The performance of this OP in the level of criteria fulfilment is highest in the complementarity and productivity indicator (PW: 33,33 %; WE: 72,22 %; C: 83,33 %; E: 61,11 %).

The operational programme **Health** scored 2,19 points with a share of 2,16 % on overall allocation. The OP Health focuses on the improvement of quality, effectiveness, accessibility, and safety of the provided healthcare by means of support of investment projects of complex restructuring programmes of hospital healthcare providers (Ministry of Health, 2007). The global objective - *the improvement of conditions influencing health condition of the productive-age and unproductive-age population through increasing of the quality, accessibility and effectiveness of healthcare and health support under healthcare infrastructure* – is implemented via two priority axes. The first priority axis focuses on reduction of inequality in health sector, addressing the regional disparities in healthcare, and improvement of healthcare accessibility and quality together with more efficient management of resources. The second priority axis is oriented mainly on the preventive role of healthcare and aims on the improvement of the population health condition.

The level of criteria fulfilment in this OP is highest in the productivity externalities and complementarity with other measures in related operational programmes (PW: 22,22 %; WE: 66,67 %; C: 66,67 %; E: 33,33 %). The overall improvement of healthcare and health

condition of the population will contribute to the increase in productivity and together with other measures implemented via other operational programmes improve the overall quality of human resources in the economy.

The operational programme Bratislavský kraj has specific position among the other operational programmes, as its implementation is limited only to the Bratislava region¹¹. The region is eligible in the Regional competitiveness and employment objective. The global objective of the OP is reinforcement of competitiveness of the region through development of knowledge-based economy and developing the region attractive for life (Ministry of Reconstruction., 2007). Bratislava region implements its operational programme in three priority axes, which are in concord with the strategic objectives of the NSRF. The OP Bratislava region scored 2,38 points with a share of 0,75 % on overall resources. First axis, Infrastructure is focusing on regeneration of settlements and regional and urban public transport. The second is focusing on innovation and technology transfers and informatisation of society. The latter has the most significant potential to foster the economic growth in this region, with the first priority axis serving as necessary support creating the critical mass of necessary infrastructure. The level of criteria fulfilment in this OP is highest in the productivity externalities and complementarity with other measures in related operational programmes (PW: 60,0 %; WE: 73,33 %; C: 73,33 %; E: 60,0 %).

3.3. EX ANTE EVALUATION OF THE NSRF

Expert team of the Institute of Economic Research of Slovak Academy of Sciences conducted the ex-ante evaluation of the NSRF (IER SAS, 2006). The main objective of the Institute was to interact with the actors involved in the elaboration of the Slovak NSRF. The ex-ante evaluation was continuing and interactive process and its members were participating on all relevant meeting related to the NSRF. Objectives of the ex-ante evaluation were focused on:

- Analysis of economic development of Slovak economy,
- The structure of the NSRF,
- Relevance of the vision, strategic objectives and overall consistency of the strategy,
- Definition of strategic and specific priorities,
- Clarification and quantification of investment priorities in the NSRF,
- List of operational programmes and system of their management,

¹¹ More on regional development in chapter 1.

- Quantification and impact assessment of various financing scenarios and
- Overall assessment of the NSRF, including the number of operational programmes as adopted by the government on May 17th 2006.

The conclusions of the ex-ante evaluator in the final report were the following

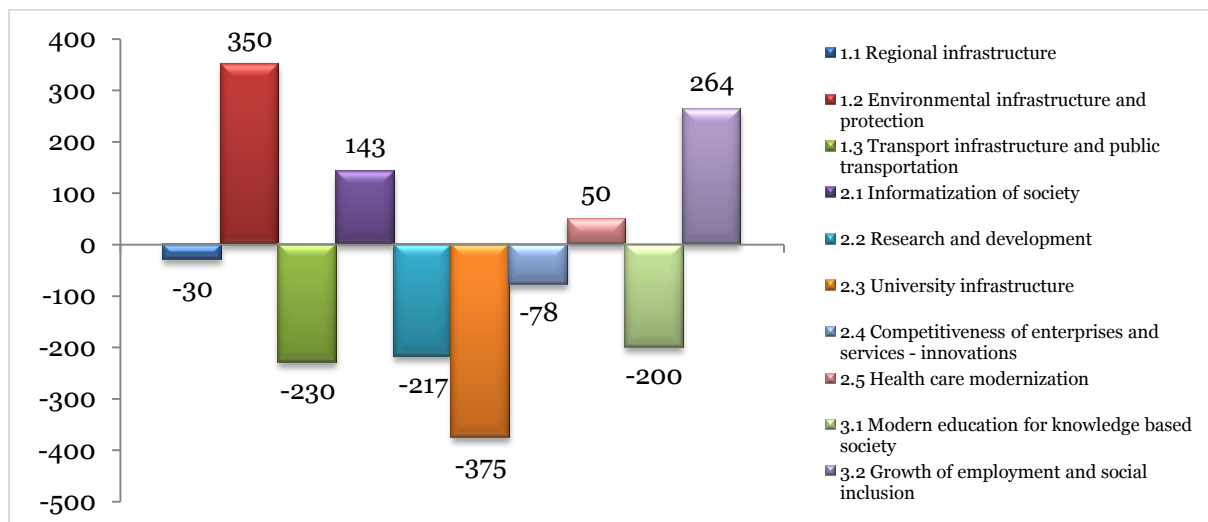
The NSRF seeks to achieve a well-balanced application of structural interventions from several perspectives (NSRF, 2006):

1. It aims at linking the thematic and regional approaches while pointing out the necessity to finalise that approach in operational programmes;
2. It allows a well-balanced access to short-, medium- and long-term interventions, in particular with regard to employment. It means in particular the growth effects in the short term driven by the building of infrastructure and the development of SMEs, but also a long-term development in the fields of education, research and innovations;
3. It supports a good balance between major investments and properly structured programmes of minor activities spread over several centres;
4. It enables to balance standard investments into regional infrastructure with the support of innovation and risk capital;
5. It assumes that the spatial planning policy defined by the Slovak Spatial Development Perspective would be respected in regional development and in the development of decentralised economic structures. Through the development of a polycentric settlement structure of Slovakia, it follows up the European-wide polycentric structure of settlement and communication skeleton consisting of international transport corridors.

The ex-ante evaluation was elaborated on version adopted on May 2006 by the previous government. With the formation of new government with different policy priorities, the financial allocations were changed in all strategic and specific priorities (Chart 3.2). Changes in allocations in specific and strategic priorities made by the next government are shown in table No. 3.1.

Chart 3.2

Adjustments in financial allocations for the final version of the NSRF (October 2006) in Mio. €



Source: own calculations

Significant increase (in %) of resources was allocated to specific priorities Environmental infrastructure and protection (24,14 %), Informatisation of society (16,82 %), Health care modernization (25,0 %) and Growth of employment and social inclusion (44,0 %). From the view of strategic priorities the financial allocation were increased in the Infrastructure and regional accessibility (1,41 %) and Human resources – employment, social inclusion and education (4,57 %) which reflected the priorities of the new social-democratic government. These changes negative influenced the second strategic priority Knowledge economy where substantial amount of financial resources (477 Mio. €) were transferred to another priorities. The largest increase after the redistribution of financial resources was allocated to Environmental infrastructure and protection (350 Mio. €), Informatisation of society (147 Mio. €) and Growth of employment and social inclusion (264 Mio. €).

Previous analysis based on the scoring model focused on qualitative evaluation of measures in the respective priority axes of operational programmes. The main objective of the scoring model was to evaluate the operational programmes and their potential productivity and production externalities, efficiency and complementarity. An integral part of the ex-ante evaluation was the modelling of the expected impact of financial allocation and their implementation on Slovak economy. The estimations were made twice, the first for the first adopted version of the NSRF and second for the altered version of the NSRF. The modified version of the NSRF was adopted on October 2006 with changes shown in Table 3.1.

Table 3.1**Changes in financial allocations adopted on October 2006**

Strategic priority	Specific priority	Fund	Change in allocation of specific priorities	Change in allocation for strategic priorities
1. Infrastructure and regional accessibility	1.1 Regional infrastructure	ERDF	-2,03%	1,41%
	1.2 Environmental infrastructure and protection	ERDF+CF	24,14%	
	1.3 Transport infrastructure and public transportation	ERDF+CF	-6,69%	
2. Knowledge economy	2.1 Informatisation of society	ERDF	16,82%	-14,13%
	2.2 Research and development	ERDF	-24,11%	
	2.3 University infrastructure	ERDF	-65,22%	
	2.4 Competitiveness of enterprises and services - innovations	ERDF	-9,18%	
	2.5 Health care modernization	ERDF	25,00%	
3. Human resources – employment, social inclusion and education	3.1 Modern education for knowledge based society	ESF	-25,00%	4,57%
	3.2 Growth of employment and social inclusion	ESF	44,00%	
4. Technical assistance		ERDF	-2,00%	-2,00%
Total				-2,89%

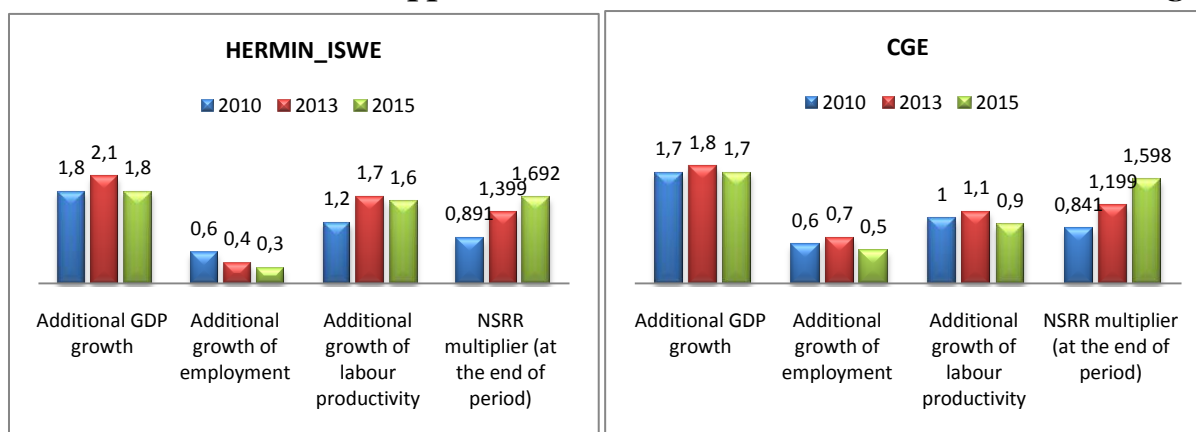
Source: own calculations

The estimations were based on use of the modified HERMIN model and a Computable General Equilibrium model. In Slovak conditions a modified HERMIN model, namely HERMIN_ISWE has been used (Kvetan et al., 2007). The model is divided into several blocks, namely block of supply, block of demand (block of absorption) and block of income distribution. The model decomposes the economy into small number of sectors, which allows identifying the key structural changes in the economy.

The Computable General Equilibrium model with recursive dynamics (sequence of static CGE models) was the second modelling instrument evaluating the impact of structural interventions. The model decomposes the economy into:

- Production sector – Enterprises,
- Final consumption sector – Households, Government, Investments,
- Foreign countries

The modelling results are showing substantial contribution of the structural support to the Slovak economy (Chart 3.3).

Chart 3.3**Evaluation of structural support based on HERMIN_ISWE and CGE modelling**

Source: Kvetan et al, 2007

The results are also showing negative impact of adjustment of the financial allocations made by the new government (Table 3.2 and Table 3.3). Modifications made in the strategic and specific priorities negatively influenced the effects of structural support on Slovak economy.

The additional GDP growth is according to the HERMIN and CGE quantifications lower by 0,2 percentage points. In addition, the prospects of additional growth of employment were slightly reduced, especially in year 2010. Additional growth of labour productivity is lower by 0,2 percentage points as well. The negative impact on the above mentioned indicators is reflected in the value of NSRF multiplier. At the end of year 2015 the value of the multiplier is lower by 0,16 percentage points.

Table 3.2**Evaluation of NSRF adopted in May 2006**

	Evaluation by HERMIN			Evaluation by CGE model		
	2010	2013	2015	2010	2013	2015
Additional GDP growth	2	2,3	2	1,7	1,9	1,8
Additional growth of employment	0,7	0,4	0,3	0,7	0,6	0,5
Additional growth of labour productivity	1,4	1,9	1,7	1	1,2	1,1
NSRF multiplier (at the final period)	0,958	1,534	1,852	0,814	1,267	1,67

Source: Kvetan et al, 2007

Table No. 3.3**Evaluation of NSRF adopted in October 2006**

	Evaluation by HERMIN			Evaluation by CGE model		
	2010	2013	2015	2010	2013	2015
Additional GDP growth	1,8	2,1	1,8	1,7	1,8	1,7
Additional growth of employment	0,6	0,4	0,3	0,6	0,7	0,5
Additional growth of labour produc-	1,2	1,7	1,6	1	1,1	0,9
NSRF multiplier (at the final period)	0,891	1,399	1,692	0,841	1,199	1,598

Source: Kvetan et al, 2007

The quantifications of the NSRF using the above-mentioned models were conducted in the period of stable world economy without the significant impact of ongoing financial crisis. Present economic development of world economy and impacts connected to the financial crisis will alter with high probability the expected effects of structural interventions. The financial crisis is already having impact on the Slovak economy. Therefore, it is necessary to design the economic policy of the government with respect to new challenges related to the financial crisis. The importance of economic policy and overall institutional framework related to implementation of structural support will be the objective of the last chapter.

4. IMPLEMENTATION OF STRUCTURAL POLICY IN SLOVAKIA

An important precondition for effective implementation of Structural policy is favourable economic environment supported by domestic economic policy. Although the programming documents create solid framework for implementation of structural support, this framework has to be supported by eliminating the existing bottlenecks that reduce its effectiveness. However, allocation and spending of financial resources is not sufficient to stimulate economic growth. There are three essential ingredients of a successful strategy for regional convergence at the EU level (*Funck, Pizzati, Bruncko, 2003*):

1. Financial stability is a prerequisite for growth together with supportive role of macroeconomic policies.
2. Convergence policies need to be pursued at the appropriate territorial level. A trade-off appears to exist between maximizing growth at the national level and reducing the regional disparities between regions in individual countries.
3. Successful strategy for attracting investments, which should be based on thorough analysis of regional specificities, bottlenecks and potential competitiveness advantages.

The structural support interacts inevitably with domestic economic policy and creates substantial trade offs. There also are concerns over the possible implications of a large influx of external funding in terms of potential macroeconomic imbalances, particularly if it implies a strong stimulus to non-tradable sectors, such as the construction industry, as this can potentially lead to inflationary pressures and overheating in the domestic economy (*Bachtler, McMaster, 2005*).

The following chapter will focus on the role of overall macroeconomic environment, absorption capacity and institutional framework in Slovakia.

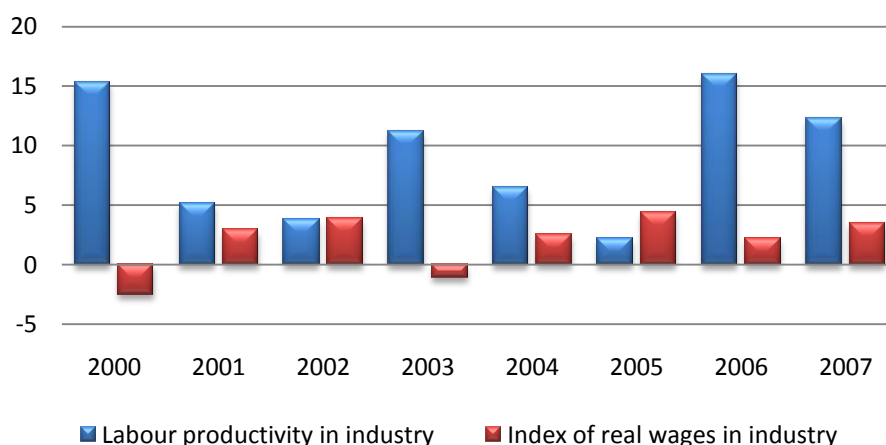
4.1. OVERALL MACROECONOMIC ENVIRONMENT

Since 2002 to 2006, the Slovak economy experienced unprecedented institutional and economic changes. The reform packages implemented in this period created precondition for future economic growth. Structural changes were implemented in a wide range of sectors. Significant changes were adopted in social system, healthcare, pension system, labour code, collective bargaining, judicial system and public finances. The least controversial part of the reform package was the tax reform. The implementation of several changes in the tax system created, together with subsequent parts of the reform package, temporary comparative ad-

vantage for the Slovak economy, mainly in the area for attracting foreign direct investments. The introduction of common tax rate at 19%, abolition of dividend, gift and inheritance taxes together with abolition of most tax deductible items were the main components of the reform. A very important part related to regional policy was the implementation of fiscal decentralisation. Most of the changes implemented in this period were strongly opposed by opposition parties, and after the early parliamentary elections in 2006, several changes have been implemented in tax, healthcare, social and pension system and labour code. However, the changes implement by the new government altered the above mentioned system, the substantial part of reform components has been maintained. Another important step in the process of integration was the fulfilment of the Maastricht criteria in 2008 and accession to the Eurozone on 1st January 2009. The Slovak economy has been experiencing an impressive economic growth in the last years. The economic growth is driven by net export and domestic demand without any signs of internal or external imbalance. The annual growth of labour productivity in industry is higher than the growth of real wages, which eliminates possible inflation pressures (Chart 4.1). Sound fiscal discipline in the framework of Stability and Growth Pact (SGP) together with public finance reforms aimed at balanced public finances in 2011. The adoption on the common European currency in 2009 eliminated the influence of high volatile central European currencies and stabilised the economic environment in Slovakia.

Chart 4.1

Labour productivity and real wage productivity growth in industry



Source: Statistics Office of Slovakia

However, the negative effects of financial crisis severely affected this positive development. According to the Interim report of the European Commission as well as national institutions (National Bank of Slovakia, Ministry of Finance), sharp economic slowdown is

expected in 2009 and 2010. The estimated economic growth should slow down from 6,4 % in 2008 to app. -3 % in 2009.

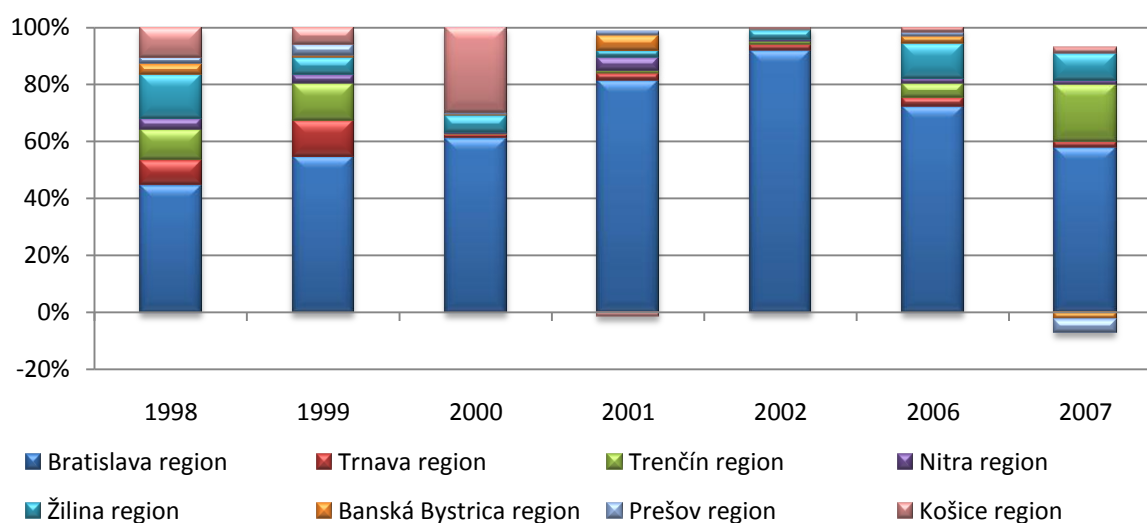
The high openness of Slovak economy implies export growth deceleration with negative effects on GDP growth. Domestic demand is likely to be main driving force contributing to GDP growth in 2009. Government consumption and infrastructure investments, which are part of the second anti – crisis package adopted by the government in February are likely to be the main drivers of economic growth in next years. The financial crisis and the government obligation to implement measures to counter the negative effects of the crisis postponed the plans for balanced budget in 2011. The dependency of Slovak economy on export revenues from main economic partners facing economic difficulties lead to increase in the unemployment, mainly in the regions with already high unemployment rate. The first stimulus package adopted by the government at the end of 2008 did not have any significant effects. Therefore, a second stimulus package with a list of more specific tasks was adopted in February 2009. The stimulus packages adopted by the government are focused on following measures (the financial amount in brackets is monthly contribution per capita):

1. Creation and maintaining of social enterprises (330 €)
2. Maintaining the employment in existing enterprises (339 €)
3. Support for active job search
4. Increase of labour force mobility (104 €)
5. Support for domestic agriculture producers and manufacturers (41 €)
6. Start of self-employment (41,3€)
7. Creation of new working positions (212 €)
8. Increase of non-taxable deductible amount from 3435 € to 4017 € on annual basis
9. Improvement in implementation of EU Structural Funds and investments in infrastructure using public private partnership schemes (PPP).
10. Value added tax modification, which will allow the enterprises to obtain tax overpayment in 30 days (previously 60 days).

The economic development and its abrupt changes made the problems with lack of labour force in specific industry branches and construction less urgent. On the contrary, the overall economic slowdown in all key sector of Slovak economy increases the unemployment mainly in the least developed regions. The inflows of foreign direct investment are also losing dynamics, with majority of FDI concentrated in the Bratislava region (Chart 4.2).

Chart 4.2

The inflow of FDI, regional breakdown



Source: National Bank of Slovakia, coherent data for 2003-2005 not available

Although the economic policy conducted in the recent years is favourable and could provide support for structural interventions, the level of operational programmes implementation in the new programming period is negligible. **According to the data of Ministry of Construction and Regional development the overall level of implementation is at 0.93% (30.7.2009).** This is an alarming situation and it is imperative to increase the effort on all levels, to improve this negative development.

4.2. ABSORPTION CAPACITY

The absorption capacity is the ability to use the allocated amount of financial resources to specific needs based on the Operational programmes in the NSRF by all relevant involved actors. Kalman (2002) identifies seven factors influencing the absorption capacity:

- Administrative absorption problems,
- Rent – seeking,
- Use of fund for consumption instead of investments,
- Timing related problems,
- Information disadvantage of the transfer giving authority (principal – agent) problem,
- Multiple priorities leading to sub – optimal results and
- Problems resulting from relative price changes induced by transfers.

In Slovak conditions, majority of factors mentioned by Kalman, mainly in the present programming period, influences the implementation.

Oprescu, Constantin, Ilie, Pislaru (2005) define the absorption capacity as the degree in which a country is able to effectively and efficiently spend the financial resources from the Structural Funds. They identify absorption capacity on the supply side (of funds) and absorption capacity on the demand side. Horvath (2004) focuses on the supply side of absorption capacity and identifies three determination factors:

- Macroeconomic absorption capacity,
- Financial absorption capacity and
- Administrative absorption capacity.

The macroeconomic absorption capacity is according to Horvath (2004), defined as the capacity to absorb macroeconomic effects generated by the supplementary expenses that are going to be spent and does not present any substantial problems in Slovak conditions. The financial absorption capacity, the ability to co-finance the projects is one of the main obstacles mainly on the regional and local level. The administrative capacity is the long – term weakness of the whole implementation of structural support in Slovakia. The main problem areas identified in this field in the NSRF are:

- the parallel implementation of two programming periods (2004 – 2006 and 2007 – 2013),
- lack of employees in process of implementation,
- high fluctuation of employees in the respective ministries,
- requirements for the improvement of quality of processes by European Commission, increased organisational complexity,
- leaving of staff to the private sector,
- insufficient remuneration of the personnel.

According to the HESO survey (HESO, 2005) conducted among various experts in Slovakia, the problems with implementation and monitoring are caused by following factors:

- the system of public administration and territorial self-governments lacks efficiency and transparency;
- limited application of client-oriented approach;
- much time spent on operative tasks;
- leading employees lack management and leadership skills;
- insufficient cooperation among ministries;

- documents submitted to the meeting of the government are of differing quality;
- low level of communication and cooperation between central public administration authorities and territorial self-governments;
- lack of financial resources to introduce quality management systems and process management (insufficient optimisation of activities performed by human resources)
- lack of understanding for process management (process management = concentrating on the causes of results; functional management = concentrating on results),
- non-existence of standards for quality assessment targeted at the assessment of the level of services provided by public administration;
- insufficient use of benchmarks for the assessment of processes in public administration and self-government authorities, and of the activities, quality and cost of individual authorities;
- low financial motivation of human resources;
- Insufficient education and training of human resources.

Although it is impossible to estimate the financial absorption capacity for the present 2007 – 2013 period, data from the previous programming period could serve as example of the absorption capacity on the NUTS III level. This approach is not applicable to present structure of operational programmes and respective financial allocations but provides at least some insight into the experience with the implementation (Table 4.2)

Table 4.1

Financial absorption in the previous programming period on NUTS III level (30.11.2008)

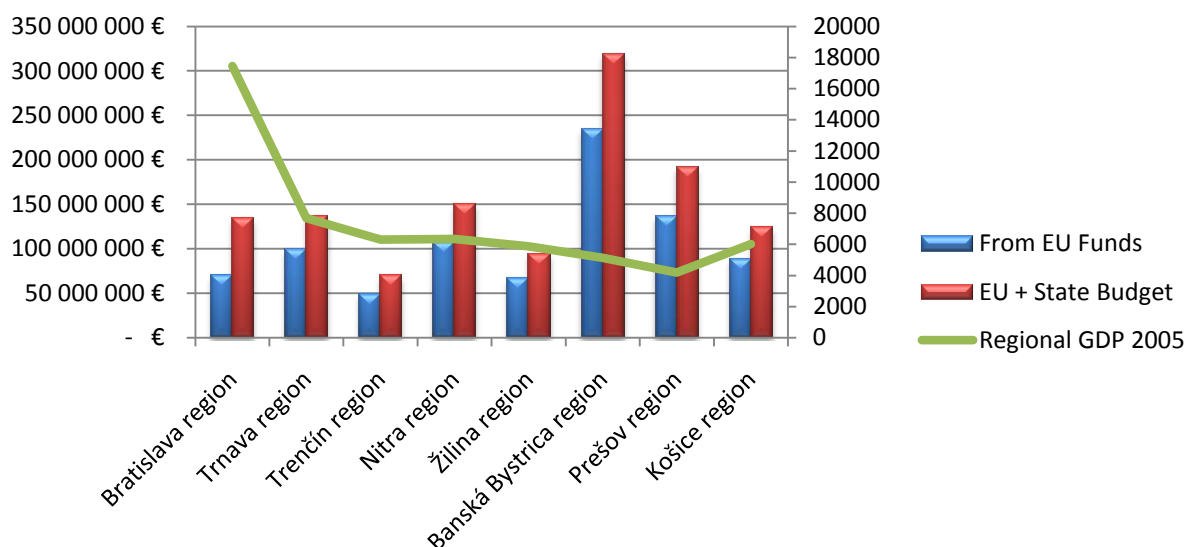
Region	From EU Funds	EU + State Budget	From EU Funds	EU + State Budget
Bratislava region	69 922 542 €	134 042 197 €	8,2%	11,0%
Trnava region	98 986 057 €	136 556 399 €	11,6%	11,2%
Trenčín region	48 846 507 €	69 853 095 €	5,7%	5,7%
Nitra region	107 242 431 €	150 373 046 €	12,6%	12,3%
Žilina region	66 780 156 €	94 263 692 €	7,9%	7,7%
Banská Bystrica region	234 098 028 €	318 867 480 €	27,5%	26,2%
Prešov region	136 011 949 €	190 619 913 €	16,0%	15,6%
Košice region	88 790 744 €	124 267 626 €	10,4%	10,2%
Total	850 678 415 €	1 218 843 448 €	100%	100%

Source: www.nsrr.sk, own calculations

The majority of the financial resources spent in the regions were from the Operational programme Basic infrastructure, Industry and Services, Human Resources and Agriculture and Rural Development. The distribution of funds according the economic performance of the region is shown in Chart 4.3. Chart confirms dominant position of Bratislava region on GDP formation.

Chart 4.3

Financial absorption capacity in relation to the volume of regional GDP in Mio. € (2004 – 2006)



Source: www.nsrr.sk, Regstat, regional GDP at current prices

The financial absorption is strongest in the Banská Bystrica region due to high financial amounts spent in the above-mentioned operational programmes. The worst performing is the Trenčín region. With exception of Banská Bystrica, it can be said that the financial absorption regions is quite equal in all regions. The majority of the funds were allocated to infrastructure projects.

In present programming period the utilisation of financial support is inadequate. The prolongation caused by changes in already adopted NSRF by the previous government is one of the main determining factors. The parallel implementation of two programming periods causes also substantial pressure on the administrative absorption capacity. Table 4.3 shows the level of administrative capacities on Ministries involved in the cohesion policy agenda and shows the inadequate level of fulfilment in all ministries. Improvement in this field is a crucial component on the supply side of the cohesion agenda. The planned capacity is fulfilled only to 50,8 % which is inadequate and causes substantial problem on both sides involved in this agenda.

Table 4.2**Comparison of administrative capacities in state administration**

State Administration	Number of employees			
	21.12.2006	15.2.2007	Target number	Level of fulfilment
The Ministry of Economy	168	166	271	61,3%
The Ministry of Labour, Social Affairs and Family	229	237	352	67,3%
The Ministry of Construction and Regional Development	163	173	278	62,2%
The Ministry of Education	56	63	347	18,2%
The Ministry of Finance	140	147	299	49,2%
The Ministry of Transport, Posts and Telecommunications	54	82	148	55,4%
The Ministry of Environment	86	104	160	65,0%
The Ministry of Health	6	16	65	24,6%
The Government Office	25	35	78	44,9%
Total	927	1023	2013	50,8%

Source: Government of SR, 2007

CONCLUSION

The accession to the EU created favourable preconditions to increase the pace of the convergence process of Slovakia towards the EU average. The implementation of deep structural changes in 2004 – 2006 in Slovak economy created favourable macroeconomic conditions and increased the rate of convergence in recent years. However, the ongoing financial and economic crisis negatively affected this positive macroeconomic development.

The eleven operational programmes represent a solid foundation, for contribution of the structural support to achieve the objectives of vision and strategy of the NSRF. The structure, strategic and specific objectives and operational programmes are focused on territories and themes where the structural support could provide the necessary impetus for additional economic and social development. There is a substantial link between strategic documents and activities mainly in the area of cross-financing and there is also clear complementarity of objectives financed by ERDF, CF and ESF in the programming documents. The implementation in the present programming period is inadequate. From 11,5 billion € only 0,68 % were allocated to finance the objectives based on the present NSRF. The quality of the programming documents (operational programmes, programming manuals) creates favourable preconditions, but the objectives are not being implemented in real economy.

The majority of financial resources spent in the present programming period are used for technical assistance in the respective operational programmes, and only one priority axis (Supporting employment, social inclusion, and capacity building in the Bratislava region) is currently being financed in the operational programme *Employment and social inclusion*. For other priority axes in other operational programmes the amount of money spent is equal to zero.

The analysis of individual operational programmes conducted in this project has shown substantial potential of cohesion policy to support the convergence process of the economy towards the EU average. The analysis conducted by the scoring model, identified the effects of structural policy in the field of efficiency and productivity spillovers.

Positive contribution of Structural policy is also supported by the results of the HERMIN and CGE model. However, it is imperative to start implementing the cohesion policy in this programming period immediately and eliminate the most urgent obstacles related to absorption capacities on the side of applicants as well as on the side of managing authorities.

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