

Comparative Report

The Unfinished Business of the Fifth Enlargement Countries

The views expressed in this report are those of the author and do not necessarily reflect the views of the Open Society Institute – Sofia.

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Introduction

“The Unfinished Business of the Fifth Enlargement” is a policy project of the Open Society Institute – Sofia European Policy Initiative (EuPI).

EuPI aims at stimulating and assisting new Member States from CEE to develop capacity for constructive co-authorship of common European policies at both government and civil society levels (www.eupi.eu).

The project implementation period took place from May 2008 to April 2009. The main outcome of the project is a publication comprised of ten national reports and a comparative analysis. The national reports describe and analyze the post accession state of affairs in the ten new member states (NMS) from CEE. They do not include data gathered after December 2008, and therefore, do not reflect the latest impact of the global economic crisis. The comparative analysis may have references beyond this period.

The project’s research methodology was based on the initial hypothesis that, although the new EU member states from CEE have formally complied with all EU membership criteria and thus completed the accession agenda, specific problems persist. These problems are, to a certain extent, common among them due to shared historical experiences and legacies. In view of their comparable level of integration in the EU, the new member states could look for common answers to their post accession challenges and, in doing so, contribute to the competitive advantage of the EU as whole.

The research hypothesis has been tested through inquiry and analysis conducted by national experts from each of the ten new member states from CEE: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. These national experts adhered to the same methodology and were asked to describe and analyze the post accession state of affairs in eleven policy areas. Through this process, the experts were able to identify existing and/or potential post accession “problem areas” in their countries’ political development and governance, economic development, welfare system and social inclusion, health system, educational system, justice and home affairs, migration, research and innovation, agriculture and rural development, regional development, level of EU funds absorption and their correlating impact.

The national experts were also asked to identify the existing membership leverage for post accession problem solving in each policy area and to provide a typology according to the following criteria: active and passive EU

leverage,¹ hard and soft mechanisms for influence, and level of significance and effectiveness of their impact.²

On the basis of the national experts' ten country reports and the typology of the membership leverage represented by a table (part C) in each report, a comparative analysis of the post accession state of affairs was developed. It is comprised of an executive summary and eleven policy chapters. The executive summary identifies the common policy trends in the development of the new member states (NMS) from CEE for the post accession period. It defines the policy areas of "the unfinished business", including some specific problems that must be addressed and the corresponding drivers of reform for its completion.

The eleven chapters cover the individual policy areas that have been researched by the national experts. Each of them is divided into three subsections: key findings, membership leverage and conclusions. They describe the common problems faced by NMS in the respective policy area and define priority areas and recommendations for common action on European and/or national levels.

Authors of the Reports

Comparative Report

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¹ The *active* and *passive* leverage typology is defined and used by other authors mainly with regard to the EU's role for stimulating reforms in the candidate countries (Vachudova, M. A. (2002) *The Leverage of the European Union on Reform in Postcommunist Europe*, Paper presented at the Conference of Europeanists, The Council of European Studies, Chicago, 14-16 March, 2002) where the active EU leverage concerns the linking of the progress of accession with the adoption of EU norms while the passive one is the attraction of the EU as a gravity centre of prosperity and successful development. For the purpose of the present study the typology is used to assess the effectiveness of the membership leverage over the new member states from CEE.

² After the accession to the European Union the membership leverage over the member states is *active* with the exception of some policy areas, where the EU still exerts *passive* leverage because further integration depends on meeting certain post-membership conditionality (i.e. accession to the Schengen area; accession to the Euro area). Moreover in the policy areas where decisions are taken primarily on the EU level, the membership leverage is *hard* as breaching the rules is accompanied by sanctions and therefore it is *significant* in terms of influence on a national level and *effective* as it manages to ensure the necessary enforcement by national stakeholders. The opposite is evident with regard to the membership leverage in policy domains of national competence where the EU produces mainly recommendations which are not binding and therefore are not accompanied by sanctions (*soft leverage*) and most often neglected by national decision-makers, which makes them *non-significant* in terms of impact and therefore *non-effective* (e.g. the Open Method of Coordination in education and social inclusion).

Country Reports

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E

xecutive Summary

- The main finding of this study is that five years (or two and a half, in the case of Bulgaria and Romania) following accession, EU membership for the ten central and eastern European states of the fifth enlargement has not marked the end of the process of transition of those countries. They continue to deal with the “unfinished business” from their transition agenda in the context of EU membership and the global economic and financial crises.

- The “unfinished business” in those countries concerns mainly the policy areas of national competence (political systems, social, educational, health reforms and sustainable economic development) that have been relatively neglected by decision-makers in the pre-accession period for the sake of the accession agenda.

- The study concludes that the EU accession agenda does not coincide with the transition agenda, the latter being much larger. Moreover, part of the “unfinished” transition agenda nowadays has been the result of the constant shift of the focus of the reforms contingent upon the requirements of the European accession agenda.

- The biggest challenges in the post accession period concern the political systems, which are characterized by fragmentation of existing political parties and appearance and disappearance of new ones, temptation to employ populism and nationalism and low and diminishing level of citizens’ trust in the institutions of representative democracy.

- The deficiencies in the political domain have predetermined a framework of very fragile political systems where fragmented political parties with short-term political lives are unable to commit to long-term and consistent reforms in the policy spheres that are of crucial importance for the citizens (e.g. health, education, social protection and social inclusion) thus leaving those structural reforms largely incomplete.

- The economic and financial crisis is posing additional challenges to the NMS. There is a risk the catching-up tendency to be reversed in most of the countries due to the economic slowdown and currency depreciation.

The crisis has exposed the vulnerability of the public finances and is challenging the sustainability of the economic development, diminishing some of the gains of the accession that have contributed to the economic convergence of the NMS with the old ones.

- The main risks for the future socio-economic development in those countries, considering the deterioration of the public financing under the crisis, will be posed by the uncompleted structural reforms in the policy fields of national competence (e.g. health, education, social protection, pensions), which might deepen the marginalization of certain groups of society and increase the already huge regional development discrepancies in the NMS. The lack of progress in those areas of citizens' concern might further increase the mistrust in the political establishments thus diminishing the already low citizens' trust in the institutions of representative democracy, which will cause already fragile political systems to become increasingly vulnerable.

- The membership leverage is very limited with regard to its impact on the "unfinished business" of the transition agenda in the post accession period. In the political domain, EU safeguards against extremism in politics are achieved through exercising peer pressure and implementing European policies, but there is no EU leverage specifically designed to remedy political shortcomings.

- In the uncompleted spheres of reform (e.g. health, education, social protection and pensions) the membership leverage – to the extent that it exists – is insignificant and ineffective in terms of impact because they are entirely of national competence.

- The only potentially effective membership leverage on the NMS is the Euro area accession as most countries are willing to do the necessary efforts in order to qualify for the Euro. The requirements for adopting the Euro provide for prudent macro economic policies thus contributing to the sustainability of public finances. Meanwhile, the prospects for introducing the Euro in eight of the NMS of CEE are still unclear and this limits the effectiveness of this leverage. Determining clear criteria for ERM II membership or allowing automatic entry for all NMS and then careful monitoring for fulfillment of the Maastricht criteria will increase its effectiveness in safeguarding public finances during the crises.

- The successful completion of the "unfinished business" of the transition agenda in the ten NMS from CEE after accession to the EU will require ensuring stable political systems with mature political parties, conducting and accomplishing long-term structural reforms in the policy spheres of citizens' concern (social, healthcare and educational fields), assuring functioning institutions of representative democracy that are trusted by the citizens, creating sustainable long-term economic development and safeguarding public finances.

- Unlike in the pre-accession period, when the EU played a major role in determining the rules of the game by acting as the main driver of accession agenda reforms, after accession it is up to each country

to develop its own road map for accomplishing the transition agenda. This will very much depend upon the capacity of national stakeholders to administer reforms from the driver's seat. As this capacity differs from country to country, its development on a national level will determine the winners from the laggards in the CEE region in middle-term prospective.

Political Development and Governance

I. Key Findings

Almost five years after the accession to the EU of the eight central European states and after two years of membership for Bulgaria and Romania, it is clear that one of the biggest challenges in the post-accession period emerged in the political domain.

The consensus that has dominated political discourse in the pre-accession period guaranteeing relative stability of governments has been replaced in the NMS in the post accession period by political instability and frequent resignations of both individual ministers and governments. General characteristics of the political systems in CEE after the accession are fragmentation of political parties and the appearance and disappearance of new ones, the temptation to employ populism and nationalism and the low and diminishing level of citizens' trust in the institutions of the representative democracy. Those characteristics represent a threat to the democratic developments in those countries and contribute to fragile political systems where the political culture, practices and governance structures – formed in the early post-communist period – remain largely unchanged after EU accession.

1. Party systems' fragmentation and fragile coalition governments some of which even in minority position with a short political lifetime

The EU accession consensus agenda in the pre-accession period resulted in an overshadowing of the political parties' ideological differences as the party platforms have been "standardized" by the "European discourse". The accession marked a process of political instability. The political parties that conducted the necessary reforms and brought the pre-accession process to a successful end (in the form of full-fledged EU membership) were losing support and legitimacy at the national level, being replaced by populist and nationalist formations.

Polish Prime Minister Leszek Miller was forced to resign one day after Poland joined the EU. The resignation of the **Czech** and **Hungarian** prime

ministers soon followed. In the Czech case, this was a direct consequence of the European Parliament elections' results which were disastrous for the ruling Socialist Party (only 2 mandates out of 24). Seven of the eight NMS of CEE that joined the EU in 2004 changed their governments amid political crises and scandals in the first two years after accession. The Slovak government survived but lost the support of parliament. In Romania, the political crises took constitutional proportions in 2007 when the new majority in parliament impeached President Basescu.

The process of political system fragmentation continued during the five year post accession period (two and a half for Bulgaria and Romania) and was characterized by the quick rise, sudden success and subsequent disappearance of new types of parties and party platforms.

The 2005 elections in **Poland** brought to power a government with pronounced populist and Eurosceptic views. After the 2007 parliamentary elections, however, both populist (*Self Defense*) and far right (LPR) parties that were previously in power were forced out of the parliament and became dormant. In **Bulgaria**, less than half an year after its establishment in late 2006, the GERB party of Sofia mayor Boyko Borisov became the most popular party in the country and claimed the majority of the votes cast in the European Parliament elections in 2007. Meanwhile, the National Movement Simeon II (NMSII; now renamed to National Movement for Stability and Progress) – the party that was governing the country during the pre-accession period (2001-2005) – will most likely not qualify for the next parliament (2009). In the fall of 2007 the prime minister of **Latvia**, Aigars Kalvitis of the People's Party, was forced to resign and replaced by a well-respected "crisis manager", Ivars Godmanis. Similar situations occurred again in February 2009 when Prime Minister Godmanis resigned under the pressure of the current economic crisis and a new government was formed that will likely consist of three of the four previously governing parties. The political situation in **Hungary** has been rather unstable during the whole post accession period – the first government re-elected in 2006 since the transition split in April 2008 following a referendum about the initiated reforms and was left in a minority position. In March 2009 the Prime Minister – Ferenc Gyurcsány resigned after Hungary's parliament passed a no confidence motion against him. After electing Bajnai as a prime minister a new government was formed in April 2009.

In most cases, minority governments with short political life spans have been in place after the accession in **Lithuania, Hungary, Poland** and **Romania**. The extremely fragile balance in the **Czech** political scene resulted in a vote of no confidence in the government of Mirek Topolánek during the Czech Presidency of the EU (March 2009) with 101 votes to 96. Four members of Topolánek's coalition (two of his own party) voted with the opposition.

The average lifetime of **Estonian** governments is 18 months.

The present government coalition in **Slovakia** is relatively stable because the fragmentation is taking place among the opposition.

2. Temptation to employ populism and nationalism

Populist and nationalistic trends are present in all NMS, although their concrete forms of expression, messages and impact upon the political life are vary in the different countries and depend on the national history and background. Populism has featured strongly in the political life of **Bulgaria, Hungary, Latvia, Poland** and Romania and elements of nationalism are observed in the **Czech Republic, Bulgaria, Slovenia** and **Slovakia**.

The populist and nationalistic trends in **Latvia's** political and public life are related to the Russian-speaking population, which became the "constituting other" in Latvia's identity-formation process. The potential for populism and nationalism in **Slovenia**, on the other hand, is most apparent in the case of the Roma community and so-called "erased". In the **Czech Republic**, it is widely perceived that the Civic Democrats have a distinctly pro-nationalist stance. The other party that consistently employs nationalist and xenophobic rhetoric is the Communist party that plays on citizens' fears that the government will return property to Germans who were expelled from the country at the end of World War II.

In **Bulgaria**, the sudden success of NMSII after 2001 and of the GERB party after 2006 can be attributed to a reliance on populist appeal. Extreme nationalism proved to be a useful way to mobilize voters for the Ataka party in 2005, when it became the fourth strongest political party overnight and its leader placed second in the 2006 presidential campaign against the popular incumbent Georgi Parvanov.

In **Poland**, in the aftermath of both presidential and parliamentary elections, a minority government of Mr. Kazimierz Marcinkiewicz was forged in the autumn of 2005, tacitly supported by both populist parties. Half a year later, they formally merged the PiS into a right-populist coalition.

In **Hungary**, all political parties have their own populist slogans. While the ruling Hungarian Socialist Party (MSZP) is consistently hesitant to implement fundamental reforms, a great deal of populism is generally associated with the larger opposition Hungarian Civic Alliance party (FIDESZ).

In **Slovakia**, the membership of the ruling Social Democracy party (SMER) in the Party of European Socialists (PES) was suspended due to the participation of the Slovak National Party (SNS), which was considered nationalistic and xenophobic, and the Movement of Democratic Slovakia (HZDS) of the former Prime Minister, Vladimír Mečiar, in the government.

In **Romania**, the minority government of the Liberal Party was blackmailed before the elections by the populist factions in parliament to increase social spending, which left Romania to face the current economic crises with a budgetary deficit of 3.5-4% for 2008 and gloomy perspectives for 2009. The parliament elected in late 2008 is the first one after 1992 where no xenophobic parties are present.

3. Low level of trust in the institutions of the representative democracy

Almost all NMS from CEE demonstrate low and diminishing levels of trust³ in national parliaments, governments and political parties four years (one in the case of **Bulgaria** and **Romania**) after accession to the EU. Poland (where citizen polling shows an increased trust in government), Slovakia (whose coalition government has the support of a majority in parliament) and **Estonia** (whose government enjoys political stability) present the only exceptions.

A major diminishing trend of citizens' trust is observed in Hungary, **Lithuania** and **Latvia**.

The low level of trust among the population in public institutions which in most cases is below the EU average,⁴ may be partly attributed to the disappointment of citizens from the political parties because of their:

- Lack of experience in developing authentic, ideologically specific political programs and communicating them to the citizens. This failure can be attributed to an accession consensus agenda that dominated political discourse in the pre-accession period. All major political parties had to follow the "European agenda" instead of devising competing platforms. As a result, the "European discourse" limited the scope for the development of more authentic, ideologically specific programs.

- Lack of ability to implement reforms in the public sectors of key importance for the citizenry (i.e. education, healthcare, social security and pensions' systems), which were relatively neglected during the pre-accession period. The political fragmentation and the relatively brisk economic growth in the post accession period reduced the incentives for reforms in these sectors. Meanwhile certain interest groups that benefit from the status quo have become particularly consolidated in the least reformed policy fields and they oppose any reform by exercising influences over the decision-makers.

II. Membership Leverage

Meeting the political components of the Copenhagen criterion has been a precondition for opening the negotiations for EU membership. Before accession, the passive leverage (the promise of membership) has played a significant and effective role in ensuring democratic development in the accession countries.

Although there is not a specifically designed EU leverage for exerting influence and guaranteeing the functioning of the Copenhagen political criteria in the pre-accession period or following accession, EU membership

³ See Tables 1,2,3 in the Annex.

⁴ See Tables 1,2,3 in the Annex.

has proved to have the capacity to safeguard against extremism in politics. This is done mainly through exercising peer pressure (the “naming, blaming and shaming” instrumentarium) and through the effects of the membership leverage in other policy domains. Thus, the membership leverage here plays through policies, not politics.

Criticizing policies disciplined the governing parties and constrained the politicians’ misconduct, moderating the prospect for turbulence in political life. Through its common decision-making mechanisms and rules (a sort of “the spill-over effect” of the mode of governance), the EU is setting commonly accepted boundaries and injecting predictability into policy making.

Membership leverages in the other policy domains that affect the political systems are the Euro area accession,⁵ the oversight and management of EU funds and funds blockage,⁶ the Cooperation and Verification Mechanism (CVM) for **Bulgaria** and **Romania** and the safeguard clauses.⁷

The only potentially effective mechanism over the political domain is the activation of article 7 of the Treaty on European Union (suspending member state voting rights in the Council). This measure was unofficially discussed in **Bulgaria** because of the country’s failure to combat corruption and organized crime; even its mere circulation in inner circles became a punitive measure for the government.

The process of “Europeanization” of political parties, though debatable, is a step further in legitimizing national parties by membership in European political networks. Europeanization or “EU-isation” served as a political tool for exerting influence over political knowledge, expertise, representation and accountability. It is soft, limited in influence and potentially effective as a point of leverage for “naming, blaming and shaming”. For example, the membership suspension of the ruling Social Democracy party (SMER) in **Slovakia** in the Party of European Socialists (PES) was considered to be a punitive measure because of the participation of the nationalistic and xenophobic Slovak National Party (SNS) in the government but it did not have any impact. The membership was resumed in 2008 without any political consequences for the Slovak government.

III. Conclusions

Almost five years after the accession to the EU of the eight central European states and two years of membership of Bulgaria and Romania, the establishment of stable political systems with mature political parties capable of conducting

⁵ For detailed information, please refer to the chapter on *Economic Development*.

⁶ For detailed information, please refer to the chapter on *Absorption of EU Funds*.

⁷ For detailed information, please refer to the chapter on *Justice and Home Affairs*.

and accomplishing long-term structural reforms in the public sectors of key importance as well as functioning institutions of representative democracy that are trusted by the citizens is still a challenge for the NMS from CEE. As this “unfinished business” is part of the transition agenda of the former communist countries but has never been part of the accession agenda, there is not any specifically designed EU leverage to remedy political shortcomings and the EU’s role is limited to safeguarding against extremism in politics through exercising peer pressure and through its policies. Therefore, it is up to each country to develop the capacity to meet those challenges and to complete the “unfinished business” of the transition in the political domain.

The Polish case of the twin brothers in power proved the capacity of the political system in the country to survive turbulence and to sustain democratic values in the long run. This is made evident by the fact that after more than an year in power, the current ruling coalition does not show any serious signs of losing the electorate, which was the case of all previous governments in Poland post-1989.

Economic Development

I. Key Findings

The economic performance of the NMS from CEE following accession proved that they have largely succeeded in developing a functioning market economy and the capacity to cope with the competitive pressure and market forces within the Union. They have also started to narrow the gap in economic development with Western European member states at least till the beginning of the global economic and financial crisis. The crisis however, has exposed the vulnerability of public finances in those countries and is now challenging the sustainability of their economic development, diminishing some of the gains of the accession that have contributed to the economic convergence of the NMS with the old ones.

At the same time, already five years after the accession to the EU (two and a half for Bulgaria and Romania), the prospects of introducing the Euro are still unclear for eight of the ten NMS from CEE.

1. Economic growth

In the period following EU accession extending until 2008, economic growth in NMS has been remarkable and in 2007 topped more than 6%.⁸ The only exception to this trend has been Hungary with economic growth of 1.1% in 2007. In its initial years of EU membership, instead of accelerated growth, **Hungary** experienced a decline in its relative level of development. The actual problems of the Hungarian economy do not stem from EU membership but are the result of undisciplined domestic economic policies dating back to 2002. One of the consequences of the stabilisation measures announced in the country in 2006 (part of the convergence programme of Hungary aimed at restoring the balance of public finances) was that the government sector suffered important cuts, while the performance of the private sector assured a moderate, but still positive overall growth rate.

⁸ See Table 4 in the Annex.

From 2008 onward, however, projections show a decrease in the growth rate for all the NMS as a consequence of the global economic crisis and forecast negative growth rates for **Estonia** and **Latvia**. This trend will most likely reverse much of the catching up that NMS have achieved since accession.

2. GDP per capita

This period of rapid economic growth in the countries that accessed in 2004 coincided with and was reinforced by the benefits of the Single market and EU funding. The GDP per capita increased in each NMS after the accession (with the exception of Hungary, which experienced a very slight decrease⁹). The monthly labor costs increased significantly¹⁰ leading to a double digit wage growth in recent years in some countries like **Lithuania**. The Government revenue and expenditure have increased everywhere¹¹ and the Government debt has decreased in all NMS in CEE with the exception of **Latvia** and slightly in **Romania**.¹² A general positive trend is registered for all NMS that joined the EU in 2004 in terms of general government deficit (-) / surplus (+) as a percentage of GDP.¹³

3. Employment/Unemployment

The employment rates have been increasing since EU accession¹⁴ and the unemployment decreased significantly – almost by half in **Slovakia**, **Poland**, **Lithuania** and the **Czech Republic**.¹⁵ There is a slight increase of the unemployment rate registered in **Hungary** and in **Slovakia**. In the latter country one of the key issues with regard to the labour force is long term unemployment and social exclusion due to the decline of traditional industrial production and agriculture.

The gradual integration into the EU has also contributed significantly to the restructuring of the economies and the rapid development of the share of services.

4. Single Market Consolidation

The fifth enlargement has been largely beneficial for the EU single market and for both the old and the NMS.

⁹ See Table 5 in the Annex.

¹⁰ See Table 6 in the Annex.

¹¹ See Table 9 in the Annex.

¹² See Table 10 in the Annex.

¹³ See Table 12 in the Annex.

¹⁴ See Table 7 in the Annex.

¹⁵ See Table 8 in the Annex.

In 2006, the EU-15 invested EUR 37.2 bn in the NMS, which was almost twice as much as in 2004 (EUR 19.1 bn). The services sector, particularly financial intermediation, business services and telecommunications, has gained most from the surge in foreign direct investment (FDI) in the NMS.

The share of the 12 NMS in EU-15 outward FDI flows jumped to 12% in 2004 and has remained at that level since. During the period 2004-2006, Germany was the main investor in the NMS, followed by Spain and Austria.¹⁶

EU-15 outward FDI stocks held in the 12 NMS reached EUR 273.1 bn at the end of 2006. This was 9 % of all extra-EU-15 stocks and marked a growth of 22% from the situation at the end of 2005.¹⁷ As regards stocks held by the EU-15 in the NMS, **Poland, Hungary** and the **Czech Republic** were the main partners at the end of 2006, 68% of all EU-15 stocks being held in these countries.¹⁸

In the NMS from Central and Eastern Europe business environment goods and services imports and exports have increased significantly and even doubled in some countries.¹⁹

5. Business Environment

The 2008 Summary Innovation Index of EU member states (SII)²⁰ reflects performance in 2006/2007 and defines four groups.

While the old member states form the two top groups of Innovation leaders (Sweden, Finland, Germany, Denmark and the UK) and Innovation followers (Austria, Ireland, Luxembourg, Belgium, France and the Netherlands), the NMS belong to the groups of the Moderate innovators (**Estonia, Slovenia, Czech Republic**) and the catching-up countries (**Hungary, Slovakia, Poland, Lithuania, Romania, Latvia** and **Bulgaria**) with innovation performance well below the EU average. All of these countries have been catching up, with the exception of Lithuania. **Bulgaria** and **Romania** have been improving their performance the fastest.²¹ The sub-index for Enterprise Environment of the Lisbon review 2008 shows²²

¹⁶ EUROSTAT Statistics in focus, 71/2008, page 2.

¹⁷ EUROSTAT Statistics in focus, 71/2008, page 1.

¹⁸ EUROSTAT Statistics in focus, 71/2008, page 3.

¹⁹ See Table 11 in the Annex.

²⁰ It is a composite of 29 indicators going from a lowest possible performance of 0 to a maximum possible performance of 1.

²¹ European Innovation Scoreboard 2008, Comparative Analysis of Innovation Performance, January 2009, page 3.

²² The Lisbon Review 2008, Measuring Europe's Progress in Reform, Ranking and Scores of EU countries, page 8.

that the best scoring new member state from CEE is **Estonia**, occupying the fourth place out of 2; the worst is **Poland** at 25th place.²³

6. Prospects for joining the Euro area

Unlike the initial intentions and plans at the time of the entry in the EU, only two countries from the fifth enlargement succeeded in meeting the Maastricht convergence criteria and joined the Euro area – **Slovenia** (2007) and **Slovakia** (2009). **Lithuania**, **Latvia** and **Estonia** are in the ERM II mechanism.

In **Lithuania**, the introduction of the euro was initially planned for 2007, but after failing to bring inflation under control it was postponed first to 2010 – and now – to 2012. The timetable for introduction of the Euro envisaged that **Latvia** will join the EMU on January 1, 2008. Meanwhile, taking into account the high inflation, the Latvian government reviewed previous plans and decided to announce a target date for introduction of the Euro not later than 24 months before the expected feasible introduction of the Euro (tentatively in the period of 2011-2013). In **Estonia**, the target date for euro adoption was initially 2007, but because of high inflation it was postponed first to 2008 and then further delayed to 2010. This goal is still quite ambitious but it remains a high policy priority for Estonia. In **Romania**, the government established a target of joining the Euro area in 2014, but without strong political will and more coherent policies this aim will certainly be missed. The initial expectation of the Bulgarian government – that the country would be ready to adopt the Euro as its currency in 2010 – proved unrealistic and **Bulgaria** does not have yet a planned date. The issue of entering the Euro area has become highly politicized in **Poland**. The current government of Donald Tusk has stated the importance for the country that Euro adoption be considered as early as 2012. The **Czech Republic** is one of the countries with no clearly defined timetable for Euro adoption, although there is intensive discussion on the issue, which has been further intensified by the Slovak political decision to switch to Euro in January 2009. However, neither the government nor the Czech National Bank has set an exact date.

Regarding the adherence to the Convergence criteria, inflation in April 2007 – March 2008 in all eight NMS from CEE has been above the reference value of 3.2%.²⁴

²³ For more information on individual countries performance and rankings in other indexes – The World Bank's *Doing Business*, EBRD's *Transition Indicators*, *Heritage Foundation's Index of Economic Freedom*, *Fraser Institute's Economic Freedom of the World Index*, or IMD's *World Competitiveness Scoreboard* are only part of the international indexes, measuring business environment and competitiveness – see Country reports, Subsection B2, Economic Development, Issue: Regulatory business environment.

²⁴ See Overview table Economic indicators for Convergence, ECB Convergence Report, May 2008, page 30.

With regard to the budgetary performance of the countries in 2007, only Hungarian deficit was above 3% of GDP (the reference value for this period). In **Hungary**, before EU accession, there were plans for introducing the Euro by 2008, but due to high public deficit levels since 2002, the public debt/GDP ratio has begun to increase, and, at present, the country does not fulfil any of the Maastricht criteria.

Over the 12-month reference period from April 2007 to March 2008, the reference value for long-term interest rates was 6.5%. In **Romania** and **Hungary**, long-term interest rates were above the reference value during the reference period (7.1% and 6.9% respectively).

Thus, the prospects for introducing the euro in the eight new members of CEE are still unclear, while the global economic and financial crisis continues to expose the vulnerability of the burgeoning economies, challenging their sustainability and reversing some of the gains of the accession.

II. Membership Leverage

The Euro Area Accession is the most important EU leverage in the economic sphere and it also has important political implications. The requirement for adopting the Euro provides for prudent public budgeting and spending thus limiting the populist urges of politicians to lure potential voters through spending public money. Moreover, the political parties broadly agree on the structural policies originating in the EU and the ECB, such as the Lisbon Agenda, the fiscal discipline of the Stability and Growth Pact, membership of the Exchange Rate Mechanism II and the early adoption of the euro.

Leverage can be passive or active depending on whether the country is in the ERM II. If it is active, it is hard, significant and effective as the countries already in the ERM II know precisely the content of the Maastricht criteria to be met to adopt the Euro. If it is passive, this tool is not sufficiently effective because of the lack of clear criteria for accepting countries in the ERM II mechanism, which impedes the ability of the country to define whether the implementation of certain reforms would provide for expedient entry into the Euro area.

Meanwhile, in view of the current economic and financial crisis, EU leverage, especially with regard to the member states that are outside the Euro area and especially the ERM II, proves to be of major importance for securing public finances and ensuring countries' transition through the crises. Determining clear criteria for ERM II membership or allowing automatic entry for all NMS will increase its effectiveness in safeguarding public finances during the crises.

Other mechanisms with a certain impact on the economic sphere are the Lisbon process²⁵ and the Structural Funds.²⁶

²⁵ For detailed information, please refer to the chapter on *Welfare System and Social Inclusion*.

²⁶ For detailed information, please refer to the chapter on *Absorption of EU Funds*.

III. Conclusions

The initial years of EU membership for the ten CEE states addressed in this report have been characterized by remarkable economic growth that coincided and have been reinforced by EU accession and the benefits of the Single market and EU pre-accession and structural funds. This resulted in boosting of the catching-up process and narrowing the gap in the economic development with the Western European member states till the beginning of the world economic and financial crises. Two of the NMS (Slovenia and Slovakia) managed to perform in accordance with the Maastricht convergence criteria and joined the Euro area thus ensuring deeper economic integration in the dawn of the financial crisis.

On the other hand, the rapid economic and foreign investment growth has made the economies dependent and vulnerable as it increased domestic consumption and contributed to raising inflation. In the public sector, electoral populism further accelerated wage growth. In this context, unit labour costs (labour costs adjusted for productivity) have increased at a relatively fast rate, eroding competitiveness, especially in labour-intensive sectors. The current economic and financial crisis has exposed the vulnerability of public finances and is challenging the sustainability of recent economic development gains, causing a reversal of the catching-up process. Meanwhile, the prospects for introducing the Euro for eight of the new members of CEE are still unclear. In this situation the only potentially effective membership leverage is the Euro area accession as it can guarantee sustainability of public finances. In order to achieve this, all NMS from CEE should be either automatically admitted to the ERM II or be provided with clear criteria for admission in the mechanism and then carefully monitored for fulfillment of the Maastricht criteria.

Welfare System and Social Inclusion

The EU has hardly been the single or even the first international player who influenced NMS social policies either directly or through the many overlapping policy areas – employment, healthcare, education, small business promotion, taxation, pensions, access to public services, regional policy etc. Therefore those countries and EU are undergoing simultaneously a change in their social policies but while in the case of the old member states this is a process of recalibration, in the case of the Central and Eastern European countries it is a complete reshaping or even a creation from scratch. This is the case with most of the policies addressing poverty, homelessness, school dropout and other dimensions of extreme marginalization that are underdeveloped at present. At the same time their effectiveness is even of greater importance in a situation of financial and economic crises which worsens the situation of the underprivileged groups, deepens the economic inequalities, creating a risk for social tensions.

I. Key Findings

After accession to the EU, there had been a series of largely positive developments in raising employment and decreasing unemployment, extending to the beginning of the economic and financial crisis.

Besides the rapid economic growth of the NMS, some structural problems have remained (e.g. the number of unemployed young people caused by the high level of school dropout and/or lack of correspondence of the educational system to the needs of the labor market). Social disparities have increased and the growing share of the population that is at-risk of poverty²⁷ in some countries may even further increase under the current financial and economic crisis.

Although the social protection systems are in various stages of development in the different countries, the social inclusion being assessed positively in the **Czech Republic** and **Estonia** unlike in **Poland** and

²⁷ See Table 13 in the Annex.

Bulgaria, there are deficiencies in all countries regarding access to services and level of infrastructure in terms of geographic distribution, diversity of services, discrimination or poverty. The Roma community is particularly vulnerable in **Bulgaria, Lithuania, the Czech Republic, Slovenia, Hungary, Romania** and **Slovakia**.

The sustainability of the pension systems is problematic because of the ageing population and negative demographic trend and needs attention as it is crucial for the free movement of people and capitals as well as for reducing the risk of poverty and promoting social inclusion.

1. Employment and Unemployment

Positive trends in the NMS after accession to the EU are the spike in employment rate (although the 70% target set by the Lisbon strategy is not yet attained) and the significant decrease in the level of unemployment over the recent years as a result of the rapid economic growth and emigration.²⁸ The exception is **Hungary**, which still has a low level of employment, and **Slovakia** where the problem of long-term unemployment is due to the structure of labour supply.

The problems in these areas concern the number of unemployed young people among the total number of the unemployed, which is still high in **Lithuania, Latvia** and **Slovakia**. The main reason is widely believed to be the educational system, which does not reflect the needs of the labour market, and corresponding school dropout rates, which afflict the NMS.

The increase in social expenditure initiated by governments in recent years, which was made possible due to higher budget revenue,²⁹ could be considered a positive trend. However, it did not always guarantee improvements in the welfare and social inclusion domain. Many of the expenditures were politically motivated and spent during pre-election campaigns rather than carefully targeted to benefit the poorest groups.

2. Social Services

There are deficiencies regarding access to services and infrastructure in terms of the geographic distribution, diversity of services, discrimination or poverty. Regional income disparities and income inequality remain rather high and there is a poverty risk associated with unemployment, which could be exacerbated by the current economic and financial crisis. Poverty remains most threatening to groups like unemployed individuals, incomplete families or families with many children, and single persons.

The diversity of social services is further limited by the small number of services provided in the community and the high rates of

²⁸ See Tables 7 and 8 in the Annex.

²⁹ See Table 9 in the Annex.

institutionalization, especially among children.³⁰ There is a shortage of stationary social care services of a long-term nature and institutional care for the elderly. The Roma community is in particularly vulnerable position in **Bulgaria, Lithuania, the Czech Republic, Slovenia, Hungary, Romania** and **Slovakia**. Equitable access to healthcare is problematic especially for Roma and those living in isolated rural areas.

Certain aspects of housing policy are problematic such as social housing and support for young couples. The social housing stock in NMS is lower than in the old ones and particularly low in **Bulgaria** – less than 3% of the total stock.³¹ In almost all NMS, the huge pre-fabricated blocks of flats are growing more decrepit and must undergo extensive renovation in order to be more energy efficient and protected from the negative climate conditions. Housing is a particularly hot issue in the **Czech Republic** regarding the existence of so-called regulated lease contracts drafted before 1990 that stipulate a maximum limit of rent. The tricky situation of regulated versus deregulated prices of flats reduces the inter-country mobility of the labour force where the market of rental flats exists only to a limited extent. There are also serious social aspects at stake since many elderly people and pensioners live in flats with regulated rents.

3. Pension Systems

The sustainability of pension systems is problematic with regard to the ageing population and negative demographic tendencies that are characteristic for the whole of Europe. Further modifications or reforms are urgently needed in **Slovenia, Hungary, Romania, Bulgaria** and the **Czech Republic**.

The reform of the pension system that took place in **Slovakia** in the period of 2002-2006 and mainly the two compulsory pillars are subject of strong criticism by the present government. The underestimation of the second pillar popularity led to a strong deficit in the Social Insurance Company that is responsible for PAYGO system under the first compulsory pillar.

In **Latvia**, discussions about using the pension funds for economic stabilization demonstrate the instability of the system. As a direct result of pension reform, **Lithuania** is at lower risk with regard to the sustainability of public finances but risk could be further reduced by undertaking certain reforms. In **Poland**, the pensions system, while in need of a fine tuning, has largely been reformed.

³⁰ Institutionalization is the placing of children in specialized institutions where they are permanently separated from their home.

³¹ The National Housing Strategy of the Republic of Bulgaria (Национална жилищна стратегия на Република България), pages 4, 5.

4. Social Inclusion

In the 2008 Lisbon review, sub-index "Social Inclusion"³² shows that the best performance in the NMS in CEE are the **Czech Republic** and **Estonia**, ranked 12 and 13 respectively, followed by **Slovenia** and **Lithuania** (16 and 17) while the last places of all member states are occupied by **Poland** and **Bulgaria**.³³

As far as the overall performance of the NMS is concerned in achieving the Lisbon objectives it shows that their reform efforts produce mixed results.³⁴ Four of the countries improved by one rank, namely **Slovenia** (15th), **Lithuania** (19th), **Latvia** (21st) and **Romania** (25th), demonstrating that they are moving in the right direction in some areas, albeit some from a rather low base. On the other hand, the largest decline in rank out of all 27 countries is registered by **Hungary**, falling five places to 22nd place, linked in particular to a poorer assessment of the country's financial services and efforts towards increased social inclusion. In addition, both the **Czech Republic** (16th) and the **Slovak Republic** (20th) decline by two ranks, while the largest of the accession countries, **Poland**, falls one more rank, displaced by **Romania**, and is now second to last at 26th place, only ahead of **Bulgaria**. At the other end of the spectrum is **Estonia**, which continues to be the highest-placed NMS, just outside the top 10 and right behind Ireland at 12th.

II. Membership Leverage

The social systems have not been part of the accession agenda and the membership leverage over the social domain is limited in impact and soft in nature. The Lisbon strategy is non-effective because the EU tools for influence behind it are very limited. Most measures are financed from the member states' budgets, and this makes any rapid catching-up of the less developed members unlikely. The Open Method of Coordination (OMC) which governs the implementation of the EU Lisbon strategy is limited and ineffective in impact due to the absence of any legal or financial sanctions as well as the negative effect of domestic mediating factors (the lack of political priorities, negative influence of domestic interest groups, etc.). The European Commission's ability to exercise peer pressure is limited and member states seek to reduce the critical tone of recommendations of the EU institutions (the "window-dressing" strategy).

Public opinion and the media in the EU proved to be effective leverage after accession in the case of **Bulgaria**. The Bulgaria's integration in the

³² The other sub-indexes forming the Ranking and Scores of the EU countries are Information Society, Innovation and R&D, Liberalization Network Industries, Financial Services, Enterprise Environment and Sustainable Development.

³³ The Lisbon Review 2008, Measuring Europe's Progress in Reform, Ranking and Scores of EU countries, page 8.

³⁴ The Lisbon Review 2008, Measuring Europe's Progress in Reform, page 7.

EU has generated a high level of interest in the social situation in country. The BBC made a film about the situation of the children in the Bulgarian institutions, which provoked a harsh reaction all over the EU. The Bulgarian institutions were forced to comment and to show activity on the issue. This case demonstrated the influence of public opinion in the EU heretofore unknown to Bulgarian institutions.

The suggestion of the **Romanian** government for European policy for the Roma minority, including the establishment of a European Agency for Roma and a special unit within the Commission, was reluctantly received by other member states, fearing it would create a precedent that could be used by other minorities, such as the Muslim minority in Western Europe.

The European Structural Funds and especially the Social Fund³⁵ are potentially effective points of hard membership leverage.

III. Conclusions

The Welfare System and Social Inclusion is a policy domain of national competence where “unfinished business” still remains do be done by the ten NMS from CEE. Access to services and infrastructure should be completed in terms of geographic distribution and diversity of services while avoiding discrimination or poverty risks. Further modifications or deeper reforms of pension systems should be completed on a national level to guarantee long-term sustainability.

The social systems have not been part of the accession agenda and the membership leverage over the social domain is limited in impact and rendered ineffective. It could be further strengthened through expanding the OMC scope and making it more detailed (setting specific national targets, objectives and indicators to measure progress while strengthening the monitoring and reporting requirements) and developing common standards for guaranteeing sustainable and adequate pensions.

The main tasks and responsibilities for accomplishing the transition in the social sphere, however, belong to national governments. Its success will depend on the capacity of national stakeholders to initiate, push for and monitor the completion of the “unfinished business” agenda in the social sphere.

³⁵ For detailed information, please refer to the chapter on *Absorption of EU Funds*.

Health System

I. Key Findings

A general characteristic of healthcare reform in the ten NMS in CEE is its incompleteness. The fragile political systems create a framework in which fragmented political parties exist with short-term political life regardless of whether they are in a ruling position or in opposition. The appeal of populism and strong lobby groups further complicate the political scene and contribute to the inability of those in power to commit to long-term reforms of crucial importance for citizens (i.e. healthcare reform). This creates a pattern wherein outgoing governments desist from completing reforms and each new government initiates reforms from scratch. This pattern ultimately leads to profound disappointment and low satisfaction with healthcare by the population which bears the consequences of this unreformed area on a daily basis. This burden is also borne by medical professionals who either immigrate (brain drain) or protest publicly. The lack of sustainability regarding the accepted direction of the reform, the constant experiments and partial changes taking place in the years following the launch of major reforms and the lack of sustainable financing of the healthcare system are still the main deficiencies.

1. Insufficient quality and accessibility of healthcare services

The quality as well as the access to healthcare services differ from one region to the next and reveal large regional disparities. Especially in the remote rural areas, the access to the healthcare is generally limited. Effectiveness of the services provided is often compromised by the large number of providers and concentration of services in the big cities, service-induced demand, the "cream skimming" phenomena and formal accreditation process of the healthcare facilities.

2. Financing

In all NMS from CEE, public expenditures on healthcare and illness are below the EU average.³⁶ There is even a decrease of funding in some

³⁶ See Table 14 in the Annex.

countries (**Estonia, Lithuania, Slovakia**) or maintenance of the same level from seven years prior (**Poland, Slovenia**).

In general, the medical services offered by a large number of providers are confronted with limited financial resources. The role of private funds is insignificant so far. The reason is that those funds provide the same package of services as the national fund but the citizens who decide to insure themselves in private funds are not discharged from the obligation to pay premiums to the National Fund. This duplication does not create a basis for competition between funds; on the contrary – it prevents citizens from choosing private funds because of the resulting double payment for the same package. There is lack of incentive for consumers to participate in the mutual financing of the system based on the principle of solidarity. The practice of shadow payments to doctors for healthcare services remains a widespread practice.

3. Human Resources

The low income in the sector and the lack of incentives for good labour performance, especially among nurses and the doctors, are the reasons for the brain drain in the profession. The reduced number of middle-level personnel (mainly nurses and midwives) is related to the deterioration of the quality of services and creates a risk of complications because of poor medical care after the acute treatment.

In **Bulgaria**, because of the discrepancy between the universal package³⁷ of services and the limited financial resources in practice, co-payment is unavoidable for a number of services, although not officially announced. This situation creates grounds for corruption, limited access to healthcare and poor quality of service. It also creates tension between providers and consumers, compromises the trust in the system and the level of solidarity.

In **Lithuania**, there is a need for radical reform – the healthcare system is characterized by a relatively low level of funding and poor quality of services. The inappropriate mix of incentives for the use of resources (physicians, money) seems to play an important role in explaining the mismatch between relatively high share of doctors with prestigious qualifications and the relatively poor demographic indicators.

In **Latvia**, secondary and tertiary care faces a key problem: hospitals (and even specialized facilities) take care of many patients whose needs are social rather than medical, because social care services are still not fully developed. The whole process of reforms (including privatization) is characterised by a somewhat fragmented and contradictory approach.

³⁷ Universal package of services means coverage of almost all the healthcare problems.

In the **Czech Republic**, fundamental weaknesses include a significant dependence of healthcare upon public resources, a lack of competitiveness in the market, poor control of expenditure, limited rights for citizens as patients, poor quality of services and high level of corrupt practices.

In **Hungary**, both hospital administrators and the government lack real incentives to improve the efficiency of the healthcare system. The sum total of health reform has been mismanaged throughout the last 18 years. The inadequate performance of the healthcare system is due to perverse efficiency incentives for providers (e.g. under-the-table payments, the pharmaceutical lobby's influence, etc.) and the weak enforcement tools of the Health Insurance Fund, which work against reform of the outdated and unbalanced structure of healthcare services.

In **Poland**, the system proves very difficult to reform and needs a political agreement that would stand for a longer period of time to allow for more profound results to emerge and eventually to correct the path of reforms. As the current political life in the country stands, this seems unlikely. The healthcare finances coupled with the costs of procedures served and the ownership of facilities are issues that represent probably the most important policy problem of Poland over the last decade.

In **Estonia**, a strategy to ensure the sustainability of high-quality healthcare needs more attention, especially in view of the brain drain from the Estonian health sphere, which remains a significant problem. The insufficient funding is a long-held problem.

In **Romania**, doubling the funding over the last three years (until 2007) did not significantly alter the situation or the quality of the system because it was swallowed by the unreformed and centralized system, with politically appointed hospital directors who are not accountable to the public. Despite the increase, at least half of the users of the health services report making additional payments. There is an unfair competition between the universal healthcare system, which is corrupt and inefficient, and the private system, which is more competitive but prohibitively expensive.

Transition of healthcare system is one of the most problematic in **Slovakia**. Started reforms did not satisfactory afflicted the system but results in permanent deficit. Key problem in the political decisions for reforms represent several lobbyist groups that play important role. The whole process of healthcare transition is impacted by significant lack of transparency.

Although the healthcare system in **Slovenia** is characterised by high levels of inclusion in the compulsory health insurance system that functions under the solidarity principle, there is a need to reform the logic of functioning of the system because of the problem with Slovenian ageing population. The still prevailing role of the state within the healthcare system should be reassessed resulting in the emergence of some new mix of public and private partnership on the structural level.

II. Membership Leverage

There is an OMC³⁸ in initial stage of development in the healthcare domain. New EU Health Strategy, 'Together for Health: A Strategic Approach for the EU 2008-2013' was adopted on 23 October 2007, putting in place a framework to improve health in the European Union through a value-driven approach, recognising the links between health and economic prosperity, integrating health in all policies, and strengthening the EU's voice in global health. As this document provides only general guidelines the membership leverage in this policy domain is insignificant, limited to very soft coordination and some hard measures related to the movement of people in the EU.

III. Conclusions

Reform of the healthcare system has been part of the transition agenda but has never been part of the accession agenda because it is entirely a matter of national competence. That is why the influence of membership leverage is insignificant and ineffective.

Therefore there is a need for a sustained and accountable national effort for the completion of structural reform of the healthcare systems in the NMS from CEE along the following lines: an increased role for private institutions in providing a level playing field to compete with state institutions and reform of financing (defining the range of healthcare services that are covered by state insurance and introduction of voluntary private insurance, allowing more realistic pricing of the services and legalizing payments by patients).

The economic recession and declining budgetary revenues might provide important incentives to national governments to initiate reforms and attract private funds to the healthcare sector. By addressing these most problematic areas of concern, national governments can complete the "unfinished business" of the healthcare transition agenda.

³⁸ For detailed information, please refer to the chapter on *Welfare System and Social Inclusion*.

Educational System

I. Key Findings

Similar to the developments in the health system domain and contrary to expectations, the fragile political establishments after the accession of the ten NMS from CEE proved unable to conduct or complete the necessary structural reforms in the educational field opposed by interest groups thus leaving the reform process incomplete. Although there is a difference between the countries with regard to the level of completion of the reforms, there are common core problems concerning the quality of education, especially high education, wherein output does not correspond with the needs of the labour market. The adequacy of the funding and the level of decentralization of both the system as a whole and of the governance and school management are still important challenges for some of the countries.

The deterioration of the social status of the teaching profession has led to deterioration of the quality of the human resources involved in the educational system. The low popularity of the teacher career due to low salaries and high workload is a largely recognised problem in the NMS.

1. Deterioration of the quality of education

In terms of the share of low 15 years old achievers in reading (one of the benchmarks set in the Lisbon strategy), half of the NMS in CEE show poorer results than the EU average (**Bulgaria**, the **Czech Republic**, **Lithuania**, **Romania** and **Slovakia**).³⁹ As far as the early school leavers are concerned, it is **Bulgaria**, **Romania** and **Latvia** that lag behind the EU average.⁴⁰ All the NMS from CEE with the exception of Romania are above the EU average in terms of completed upper secondary education⁴¹ and all of them (save for Bulgaria and Slovenia) meet the EU average requirement for increase of the percentage of graduates in mathematics, science and technology for 2006.⁴²

³⁹ See Table 15 in the Annex.

⁴⁰ See Table 16 in the Annex.

⁴¹ See Table 17 in the Annex.

⁴² See Table 18 in the Annex.

However the indicators for the number of diplomas issued is not indicative of the quality of the education, its relevance and the competitiveness of the human resources that obtain diplomas. The expert assessment in the ten NMS registers a general decrease in the quality of education, especially the quality of higher education which leads to brain-drain because of the lack of compatibility of the higher education output within the EU and worldwide. The education system is not adequate with regard to the needs of the labour market and a coherent strategy is needed for it to adapt to the challenges of the new economy. The integration of students from ethnic minorities into the school education system is also problematic.

The results from the Programme for International Students Assessment (PISA) of the Organization for Economic Cooperation and Development (OECD) for 2006 show that, regarding the average students' performance in science, three countries are significantly above the OECD average (**Estonia, Slovenia** and the **Czech Republic**), two are about the OECD average (**Hungary** and **Poland**) and half of the NMS from CEE are significantly below the OECD average.⁴³ Reading performance of students in **Poland** and **Estonia** is above and **Slovenia** is at the OECD average. The other seven NMS from CEE are significantly below the OECD average in students' reading literacy.⁴⁴ In Mathematics performance, three of the countries (**Estonia, Czech Republic** and **Slovenia**) are above, **Poland** is at the OECD average and the other six countries are significantly below.⁴⁵

Deterioration of the quality of the human resources involved in the teaching profession negatively impacts the quality of the educational output. Because of the low popularity of teaching careers, it is difficult for the higher education institutions to attract motivated students for pedagogical studies. In this respect the importance of life-long learning is even greater. In this area all the NMS from CEE except Slovenia lag considerably behind the EU average.⁴⁶

2. Adequate funding

In 2007 public expenditure on education is below the EU average in **Bulgaria**, the **Czech Republic, Estonia, Lithuania, Romania** and **Slovakia**.⁴⁷ In **Latvia, Lithuania, Estonia** and **Slovakia** there is even a decrease in the level of funding as percentage of GDP in comparison with seven years ago. The level of public funds itself is not an indication of the

⁴³ The Programme for International Students Assessment (PISA), 2006, OECD, Table 2, Range of rank of countries/economies on the science scale, page 22.

⁴⁴ The Programme for International Students Assessment (PISA), 2006, OECD, Table 4, Range of rank of countries/economies on the reading scale, page 47.

⁴⁵ The Programme for International Students Assessment (PISA), 2006, OECD, Table 5, Range of rank of countries/economies on the mathematics scale, page 53.

⁴⁶ See Table 19 in the Annex.

⁴⁷ See Table 20 in the Annex.

adequacy of the financing of the system unless it is fully bound by the necessary structural reforms in the education system.

3. Decentralization

The decentralization of the educational system (including governance, school management and financial decentralization) is limited and incoherent in a number of countries. The autonomy of universities is ambiguous in some countries and there is a strong opposition to any reforms in this respect.

In **Romania**, the maintenance part of the schools finance is decentralized while salaries are strictly centralized. There is an important rural-urban divide, with students in rural areas receiving lower quality education than those in urban areas. The situation is dramatic when it comes to rural students accessing university, with only 1% of them succeeding in doing so.

Although local municipalities possess certain leverage with regard to schools' financial and administrative management, **Latvia's** education system generally represents a rather centralized approach.

In **Slovakia**, decentralised management on each level of the education system is not yet secured.

Reform of the system of governance has already begun in **Bulgaria** but in a rather chaotic way; financial decentralization has led to the delegation of school budgets but the instruments available for municipalities to manage the process have remained very limited.

One of the main reform issues in **Lithuania** is higher education governance: there is strong resistance to the proposal of the Ministry of Education and Science to subject the selection and appointment of executive heads of universities to some external influence through the establishment of new councils with the representation of social partners and strategic decision-making power.

In the **Czech Republic**, the ambiguous but traditional position of universities as entities with high levels of autonomy but no financial independence has recently led to discussions on better and more effective management of universities. Historical legacies of university status stymie any radical reforms related to modification of governance structure and management at universities. Such reforms are unlikely to be approved in the near future.

II. Membership Leverage

In the field of education, EU influence comes already after some basic tenets of the education reform have been established; part of the reform in financing of school education, the key issues of decentralization and governance, teacher career and remuneration and external evaluation were primarily inspired and supported by the World Bank and non-governmental organizations (analysts and think tanks of the Washington consensus).

Currently, the EU can influence to some extent the next stages of national reform through the Open Method of Coordination⁴⁸ in education. The Education and Training 2010 work programme provided for a separate process of the OMC which is closely related to the EU Lisbon strategy without being a formal component of it. Its influence is much weaker compared to the Lisbon strategy because of the lack of national commitments and progress reporting foreseen, as well as formal recommendations from the EU institutions for countries that perform poorly.

The only direct instrument of EU influence on the higher education system is the Bologna process, which aims through harmonization of academic degrees and quality assurance standards to create what is called a European Higher Education Area. Similar is the Copenhagen process in the field of vocational education. In **Hungary**, however, the implementation of the Bologna process produced somewhat ambiguous results due to the relative abundance and reduced quality of Bachelor degrees.

The horizontal EU programmes are an effective tool for promoting exchange and mobility but their funds are limited and should be supplemented by national budgets. An increased unification and transferability of qualifications and skills can help NMS to successfully update the system for assessing student performance both internally and externally.

The EU Structural Funds⁴⁹ and especially the Social Fund are important tools for EU impact upon education in areas such as teacher training and qualification and school governance through direct investment in human resource development, transfer of know-how and sharing of best practices.

III. Conclusions

The education system has always been a policy field entirely in the competence of national decision-makers. During the pre-accession process, the EU has limited influence over any reforms in the area because of the lack of Community acquis. On the other hand, while negotiating for EU accession, national governments have been largely preoccupied with reforms in the policy areas where there was strong EU conditionality thus largely neglecting the field of education. The expectation was that, after the accession, policy makers would concentrate on accomplishing the "unfinished business" left in the educational domain. Contrary to these expectations, the challenges of conducting the structural reforms needed to ensure better quality education, especially higher education whose output

⁴⁸ For detailed information, please refer to the chapter on *Welfare System and Social Inclusion*.

⁴⁹ For detailed information, please refer to the chapter on *Absorption of EU Funds*.

corresponds to the needs of the labour market and creates conditions for replacement of the brain drain, still lie ahead.

The EU can only wield a modicum of influence over the next stages of national reforms in the field of education. For this reason, development of the OMC in education should be intensified (towards more detailed common indicators and benchmarks/standards), country specific targets should be defined to ensure more rigorous monitoring and reporting and greater emphasis should be put on the adequate funding of education (defining standards for sustainable funding, including requirements for allocating a minimum share of the GDP).

The successful completion of the transition in this policy domain largely depends on the national capacity for initiating an indigenous policy process that will address these deficiencies and complete the reforms while ensuring long-term and consistent implementation.

Justice and Home Affairs

I. Key Findings

The entry and membership in the Schengen area of eight of the countries (leaving aside Bulgaria and Romania) from the fifth enlargement is one of the most notable achievements of the post accession period. It has proved to be highly beneficial in terms of public perception about the increased level of public security as well as available funds for infrastructure development, especially for the EU external border countries. According to official statistics, there has been a decrease in the overall ordinary crime rates in five of the countries in the Schengen area⁵⁰ (the exceptions being Hungary, Latvia and Slovenia).

The general concern following accession is the human resource deficit in both the police force and judiciary. This impacts efficiency, effectiveness and quality of judicial decisions and the complementary staff at the courts. The length of judicial procedure is the most visible aspect often criticized by citizens. The workload of policemen in big cities is overwhelming and a problem with overstaffing of police in small to medium-sized towns, which serves as additional factor for ineffectiveness and corruption. Corruption is not a big issue in the eight CEE countries that joined the EU but still presents a problem in Bulgaria and Romania.

There is a common understanding that the effective fight of organized crime (drug-related crimes, human trafficking, crimes related to information technology etc.) and the prevention of terrorist acts requires joint operations because of their regional and cross border-nature. Therefore, the conclusion is reached that cooperation between law enforcement bodies on an EU level has to be enhanced.

1. Corruption and Organized crime

Transparency International's 2008 *Corruption Perception Index* shows that there is a constant improvement trend since accession in all NMS from

⁵⁰ See Table 22 in the Annex.

CEE with the exception of Bulgaria where there is a decline⁵¹ in the index. Bulgaria and Romania rank last among all member states of the EU.

The failure of **Bulgaria** two years after the accession to produce convincing results in fighting high-level corruption and organized crime – issues that have raised serious concerns during the pre-accession process – were registered by the EC in its monitoring reports under the Cooperation and Verification Mechanism (CVM).

Due to the lack of transparency in distribution of funds, overturning of competitive procedures as well as lack of effective mechanisms for identifying conflicts of interest and preventing corruption, Bulgaria was sanctioned by a freeze on the €220 million slated to be issued under PHARE. Together with other frozen funds, the sums suspended so far for Bulgaria amount to more than €800 million.

Even though the level of organized crime has stabilized around pre-accession levels and the traditional activities (drugs, weapons, trafficking in human beings) do not show signs of increase, public funds embezzlement, including EU Funds, have sharply increased.

In order to tackle corruption in **Romania** new institutions were created in the pre-accession period as a result of pressure from the EC. A new generation of prosecutors initiated investigations against high-level politicians. A slow counter-reaction from political parties followed after the accession and a real anti-corruption coalition was forged in parliament. Most of the political class mobilized to change the legislation that empowers prosecutors. The Romanian government even attempted to close down the National Anticorruption Directorate in 2007. The president of Romania is empowered to appoint top prosecutors and a vicious fight erupted between the president and parliament. Not a single case of high level corruption was finalized. All the cases initiated to deal with former and current ministries were blocked by parliament or the Supreme Court of Justice, which sent the cases back to prosecutors. Romanian organized crime groups are not big but they are expanding in dimension and scope; EU accession has effectively facilitated their free movement in the EU.

2. Efficiency of the Justice System

Common problems regarding the justice systems in the NMS from CEE after the accession are the deficiencies in human resources and financing with regard to both law enforcement and the judiciary. This leads to an inefficient system and accounts for the rather low level of trust among citizens.⁵² The trust in the national legal system is above the EU leverage only in **Estonia** and there are four countries where the level of citizens' trust has diminished after the accession: **Bulgaria, Romania, Hungary** and **Latvia**. Bulgarian, Romanian and Hungarian judicial systems are in

⁵¹ See Table 21 in the Annex.

⁵² See Table 23 in the Annex.

need of further structural reforms that increase transparency, effectiveness and take steps to avoid conflicts of interest. The human resource deficit in law enforcement seriously endangers the quality and objectivity of the pre-trial phase.

II. Membership Leverage

The EU does not have effective leverage in the Justice and Home Affairs domain. That is why it uses international cooperation instruments to address cross-border challenges of crime and terrorism such as EUROPOL and EUROJUST,⁵³ the European Judicial Network for civil and commercial matters⁵⁴ and the European Judicial Network in criminal matters⁵⁵ in which the NMS from CEE participate.

Since March 2006, **Poland** has participated in the group of 6 (G6, formerly the G5) which represents the biggest EU member states cooperating politically within the JHA area. The country held the G6 presidency in the second half of 2007. This fact underlines the importance of the country in the area of homeland security and border protection.

In the case of **Bulgaria** and **Romania**, the Cooperation and Verification Mechanism (CVM) in reforming the judiciary, fighting organized crime and corruption was established by the EC to periodically assess the government's efforts to curb corruption and organized crime in the three-year post accession period. The developments in the two countries however revealed the non-effectiveness of this EU leverage. The main sanction attached to CVM – the invocation of the JHA safeguard clause envisaging that sentences/decisions by national courts would not be recognized by other member states – could be costly for emigrants and may induce business cost for Romanian, Bulgarian and European investors, but would neither curb corruption nor affect politicians. Therefore this mechanism is not effective for the purpose it has been initially designed. It has a certain political significance which lies in the findings and allegations of high-level political corruption but as it is part of the “naming, blaming and shaming” instrumentarium, its impact is again limited.

Although Schengen Membership is a passive EU leverage for Bulgaria and Romania (which are in a process of fulfilling technical requirements in preparation to join in 2011) the EC is trying to use the mechanism to exercise political pressure. A draft EC report on the CVM in 2008 announced that the Commission may decide not to recommend Bulgarian and Romanian accession to Schengen due to failure to produce results in the fight against organized crime and high-level corruption. If applied, such measures might

⁵³ The main purpose behind those formations is improving the effectiveness and cooperation among competent Member State authorities in preventing serious forms of international organized crime and terrorism.

⁵⁴ http://ec.europa.eu/civiljustice/index_en.htm

⁵⁵ <http://europa.eu/scadplus/leg/en/lvb/l33055.htm>

inflict costs on the most mobile citizens traveling abroad but they would not help to advance any areas of concern.

III. Conclusions

The most challenging issue within the functioning of the justice system of the ten NMS from CEE following accession to the EU has been its efficiency. Remedying the deficiencies in human resources and financing, improving the functioning of the law enforcement and the judiciary and reducing the courts' backlog are therefore the major goals for the national decision-makers in the JHA.

Provided that the EU does not have leverage in the Justice and Home Affairs domain, it uses international cooperation instruments to address cross-border challenges of crime and terrorism. There is a common understanding that law enforcement and judicial cooperation should be enhanced and further developed. Introducing the co-decision procedure and qualified majority voting for matters of police and judicial cooperation in criminal matters, regardless of the future of the Reform Treaty, is recommendable in this respect.

In the case of Bulgaria and Romania, in order to push for a stronger national commitment in the fight against corruption and organized crime, the EC is ascribing political power to technical instruments. In the case of the Schengen accession, this approach may provide political incentive to speed up the process of preparation of the two countries but political discretion should be avoided in the final decision regarding Bulgarian and Romanian membership in Schengen provided they fulfill all technical requirements. The effectiveness of the Cooperation and Verification Mechanism (CVM) in reforming the judiciary, fighting organized crime and corruption is limited for the purpose it has been initially designed. The problem solving here is of a political and not of a technical nature. Therefore the EC should redesign the mechanism to inflict maximum costs on decision makers or it should be abandoned. Keeping the measure in the area of technical aspects does not work if the problem is political and it should be addressed by political means.

Migration

I. Key Findings

After accession to the EU some common trends are observed in the NMS from CEE regarding migration. The countries clearly evolve more and more from countries of origin (after 1989) to countries of destination or transit for migrants.⁵⁶ The number of foreigners with long-term permits increased in recent years.⁵⁷ Trends in emigration decreased especially as the global economic slowdown reduced employment opportunities abroad. The demand for labour which was largely precipitated by the vibrant economic growth before the economic crisis has reversed dramatically recently.

Those tendencies combined with the negative demographic trends, characteristic of all NMS – low birth rates, population decrease, increased life expectancy and increasing number of inactive population – will seriously challenge the sustainability of social services, healthcare and the welfare system in general. They urgently require adequate migration and integration policies on both national and EU level.

II. Membership Leverage

The EU initiated a common immigration policy in 1999. Due to the high political salience of immigration, several attempts have been politically blocked by the EU member states. However, in October 2008 the Pact on immigration and asylum was adopted at the EU summit. This political document is based on a selective approach towards migration according to individual needs of the EU member states, despite aiming to shape a common position to immigration at the EU level. It demonstrates that the EU's soft leverage is increasing in the area of immigration, but its scope still remains rather limited relative to other EU policy areas. The EC proposed a general framework directive based on the 2005 policy plan on legal migration. Furthermore, four special directives are planned by the EC for specific target groups (high-qualification workers, seasonal workers,

⁵⁶ See Table 25 in the Annex.

⁵⁷ See Tables 26 and 27 in the Annex.

intra-corporate transferees, remunerated trainees). The effectiveness and significance of the progress in this policy area for the NMS remain to be seen.

III. Conclusions

Immigration has the potential to at least partially offset the negative effects of demographic trends. Targeted policy in this respect is welcome on both EU and national levels. Moreover the development of common European policy on migration is seen as an impetus to push for more adequate policies on a national level. Most NMS either do not have such a policy or have very restrictive ones due to historical legacies (Baltic states).⁵⁸

Most countries are also interested in facilitating the entry of and residence for minorities of the same origin living in neighboring countries (visa-free entry for citizens and short-term or temporary residence permits). Although the issue regarding the lack of a highly qualified labor force exists to a different extent in the NMS, national decision-makers should envisage adequate incentives in national policies to attract and retain highly qualified workers from both the EU and third countries.

⁵⁸ Strong immigration laws since the regaining of independence in Latvia are related with Latvia's defined national interests, especially, state security after regaining of the independence. Substantial immigration flows during the Soviet rule and the changes in ethnical composition caused negative image on any immigration trends after 1990. Common policy and agreements with third countries on repatriation of their citizens could be welcomed in Latvia. The migration policy of Estonia has been stable and restrictive since 1991 and currently the quota for third country migrants is 0.1% of the permanent population.

R

Research and Innovation

I. Key Findings

The R&D and Innovation potential in the private sector is low in most of the NMS from CEE. The old network of research institutions is not connected to the real economy and has no incentive to change, especially with the funds increase in recent years. As a result, cooperation between science and industry is underdeveloped. Moreover, too much funding goes to basic research, while technology development and transfer are neglected.

While the EU old member states form the two top groups of Innovation leaders (Sweden, Finland, Germany, Denmark and the UK) and Innovation followers (Austria, Ireland, Luxembourg, Belgium, France and the Netherlands), NMS belong to the groups of the Moderate innovators (**Estonia, Slovenia, Czech Republic**) and the catching-up countries (**Hungary, Slovakia, Poland, Lithuania, Romania, Latvia and Bulgaria**) with innovation performance well below the EU average. All of these countries have been catching up, with the exception of Lithuania. **Bulgaria** and **Romania** have been improving their performance at the quickest rate.⁵⁹ Nevertheless, for Bulgaria it would take almost 30 years to close the gap with the moderate performers, and almost 40 years for the latter to close the gap with the innovation followers and about 25 years for the latter to close the gap with the innovation leaders.⁶⁰

Under these conditions, most of the NMS will continue to be technology importers and providers of cheap workforce for western employers thus creating conditions for further brain drain instead of brain circulation.

⁵⁹ European Innovation Scoreboard 2008, Comparative Analysis of Innovation Performance, January 2009, page 3.

⁶⁰ European Innovation Scoreboard 2007, Comparative Analysis of Innovation Performance, January 2008, page 12.

II. Membership Leverage

The Lisbon strategy⁶¹ does not work effectively for the NMS and the Lisbon goals will not be achieved till 2010. In all member states from CEE, expenditure on R&D as a percentage of GDP is below the EU average⁶² and very far away from the required 3% of GDP envisaged in the Lisbon Strategy. The ratio of public-private funding has also not been achieved⁶³ (two thirds should be covered by private companies). The **Czech Republic** is the closest to the requirement. On a national level huge territorial inequalities in R&D exist, which is a demonstration of the countries' general centre-periphery problem.

When the European Council set the 3% of GDP objective for R&D investment, the Commission suggested that the OMC⁶⁴ should be applied to this objective, as well. Applying the OMC is "non-binding" however and the EU puts political rather than legal pressure on member states, with the Commission's role being limited to surveillance.

A strategic coordination of the EU Cohesion policy linking the structural funds with the Lisbon and other strategies provides an opportunity for significant and potentially effective impact of the funds. This, however, very much depends on the absorption capacity of each country and therefore differs from state to state. The participation in the Framework Programs (VIth and VIIth), the Competitiveness and Innovation Framework Program (CIP) and the Structural Funds is seriously hindered by the huge amount of administration and paperwork that is required from researchers and entrepreneurs.

III. Conclusions

Boosting competitiveness in research and innovation is definitely "unfinished business" in the NMS from CEE.

The Lisbon Strategy does not work effectively for those countries and the Lisbon goals will not be achieved until 2010. The main barriers to implementation at the national level are related to insufficient implementation capacities, weak and unclear legal status of the OMC documentation in the legal system, resistance from interest groups and shortage of financing.⁶⁵

⁶¹ For detailed information, please refer to the chapter on Welfare System and Social Inclusion.

⁶² See Table 24 in the Annex.

⁶³ EUROSTAT, Key Figures on Europe – 2009 edition, page 191.

⁶⁴ For detailed information, please refer to the chapter on *Welfare System and Social Inclusion*.

⁶⁵ Nakrošis, V. (ed.) *Lithuania's participation in the European Union Open Method of Co-ordination processes: Impact assessment on public administration and public policy*. Final report, 2006, <http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian).

Therefore, on a European level, strengthening the Lisbon Strategy through clear, tangible, but also realistic objectives is of key importance for improving the situation. Simplification of the requirements regarding funding programmes is also needed in order to increase their accessibility and potential effectiveness for research and development on a national level.

Most of the efforts for advancing research and development depend on national decision-makers. National policies should be designed to achieve greater cohesion among research and business sectors, enhance the quality and increase the numbers of people working in R&D in the future, modernize and develop new R&D infrastructure and reduce fragmentation in funding. The entire philosophy of R&D funding should be changed, from direct subsidies paid to state research institutes for their simple existence to project-based funding. Universities and research institutes have to remove all administrative obstacles to public-private partnerships and establish units that enable links with the business sector.

Agriculture and Rural Development

I. Key Findings

Common features of all NMS are declines in the GDP output of the agrarian sector⁶⁶ and the depopulation of rural areas.⁶⁷ The age structure of the rural demographic is less favorable than the urban one due to the comparatively low percentage of working age citizens. There is fragmentation of land ownership and slow process of consolidation, which is a significant barrier to long-term investments in agriculture, land improvements and efficient use of agricultural machinery.

II. Membership Leverage

Reluctant to expand the already expensive CAP payments to the new members, the EU gradually introduced common direct payments for NMS (25% from old EU level in 2007, 30% in 2008, 35% in 2009 and so on) during the accession negotiations. Therefore, farmers from NMS (Slovenia is an exception) are put in less favourable situation because they receive half or less the amount of direct support from EU funds than farmers from the old member states.

Unlike direct support, rural development funds are fully available for NMS following accession. NMS were allowed to supplement the direct payments received from EU with funds from their national budgets, without exceeding EU-15 level.

EU subsidies and funds have played a very positive role as they contribute to the huge increase of agricultural income following accession.⁶⁸ Their effectiveness depends on the absorption capacity of the countries and therefore differs from country to country.

⁶⁶ See Table 28 in the Annex.

⁶⁷ The only exception is Poland where there is an interesting phenomenon noted since the EU membership – a gradual increase of those living in the rural areas. Gradually, the rural areas become more and more attractive places for living with the infrastructure getting better and information technologies allowing for a number of professions to live outside of towns.

⁶⁸ See Table 30 in the Annex.

The increase in farmers' income levels has been the highest in **Lithuania** where the growth in 2007 amounted to almost 40% and was the highest among the EU-27.⁶⁹ In **Poland**, agriculture is one of the sectors that gained most from EU accession, turning farmers into strong defenders of the EU. The increase in farmers' income was primarily used for consumption. The same holds true for the **Czech Republic** where in the shortened programming period (2004-2006) the Countryside Development and Multifunctional Agriculture Operational Program ranked among the most successful operational programs.

Slovenia was the only NMS where farmers received direct payments in 2007 at the same level as farmers in the 'old' EU member states because it carried out the necessary reforms and introduced direct payments before accession (intended to compensation for lost revenue due to reduced market-price protection).

On the contrary, **Hungary**, four and a half years after accession, has a rural society where small and mid-size businesses are still not ready to meet the competitive challenges coming from the low-cost CEE countries or from high-quality suppliers in the old member states. In the pre-accession period, Hungary was the last CEE candidate to accredit its SAPARD Agency which caused several years of delay in using the financing available under this pre-accession programme. Similar delays in establishing an agency to issue payments and the cereal intervention system, together with poor budgetary planning have resulted in severe liquidity problems by late 2004 for the majority of farmers and triggered the long-lasting farmer demonstrations in early 2005.

Romania entered the EU with a special 'cooperation and verification mechanism' in agriculture due to difficulty faced in registering the highly fragmented agricultural plots according to EU methodology. The EC reports revealed deficiencies and a decision was made in August 2008 to temporarily suspend rural development payments to Romania. Romanian authorities insist that the problem will be remedied promptly and the payments resumed.

III. Conclusions

There is a clear need for land consolidation actions and stabilization of population in the countryside to avoid depopulation. This is a particularly acute need in view of the fact that large swaths of the NMS are classified as significantly rural or predominantly rural.⁷⁰ The land consolidation process is entirely the purview of national decision-makers and actors.

⁶⁹ Eurostat News Release, EU agricultural income per worker up by 5,4 percent, 11 March 2008.

⁷⁰ See Table 29 in the Annex.

Membership leverage in the form of the CAP plays an important role and could be further strengthened. The independent adoption of payments from the volume of production and the abolishment of production quotas (especially for the milk sector) would result in more competitive EU agricultural outputs in global markets, which, in long run, will need less direct aid and market regulation. This, in turn, would allow for limited market intervention from the EU budget and could simplify the World Trade Organization agricultural products trade negotiations.⁷¹ More attention should be paid to the development of rural area with the use of resources that are not direct payments and market regulation measures. Reform of CAP to target support to small and medium-sized farms is welcome by most of the NMS but not by the Czech Republic where large farms prevail.

⁷¹ Office of the Committee for European Integration, *Cztery lata członkostwa Polski w UE. Bilans kosztów i korzyści społeczno-gospodarczych*, Warszawa 2008, p. 56-57.

Regional Development

I. Key Findings

Big regional discrepancies in the socio-economic and infrastructure development including the centre-periphery dimension characterise the NMS from CEE. EU Structural Funds take aim at promoting regional convergence and balanced territorial development.⁷² As the whole territory of seven of the ten NMS from CEE is eligible for funding under the Convergence objective, the allocation of Structural Funds is organised in a generic manner with finances covering set priorities without explicit regional targeting within the country itself. Thus, in practice, the EU structural funds favour the richer regions which have the capacity to attract more investment and migrants, while the other regions face an outflow of capitals and people. This creates divergence effects instead of the formally declared convergence objectives of the policies and funds allocated.

1. Regional discrepancies

Common features for all NMS are the big discrepancies between different regions of the countries and also the urban-rural division in economic development.⁷³

Even more pronounced disparities exist on the regional level and especially on the level of micro-regions in economic performance. They relate to the availability of public services, as well as to higher unemployment rate in the peripheral regions. A poorer living standard in such micro-regions causes stagnation and, consequently, weakening of the local communities (i.e. citizens' participation in public affairs, development of cultural and social activities, etc.) and a general undermining of these communities' sustainable development. The micro-regions thus suffer from significant changes in their demographic structure and loss of educated people in their productive age.

⁷² 55 out of 84 regions eligible for Convergence in the European Union are in the new member states (67.37%).

⁷³ EUROSTAT, Key Figures on Europe – 2009 edition, pages 214-222.

2. Uncompleted decentralization

Decentralization is still in progress and is a very slow process. This has a negative impact on the autonomy of regions in all aspects of policy making including the control of locally spent public funds and their ability to participate in partnerships. The administration capacity on the local level is problematic because of a lack of experiences with the decentralized system of governance and the lack of abilities and skills on the part of local actors regarding complex planning, implementation and evaluation of projects and programmes.

NUTS II regions have been artificially created⁷⁴ as territorial-administrative units corresponding to the general characteristics of EU NUTS II regions, but they are still not strong regarding their administrative capacity, competences, and political importance. They were created at the EU's request, on an arbitrary basis, without regard to historical tradition or common interests. Neither the state, nor the counties are interested in the establishment of a new and strong sub-national unit.

Public-private partnerships (PPPs) will provide for the use of the private sector's strong investment leverage and serve to speed up the improvement of local infrastructure and the provision of services. At this time they are still at a preliminary stage of development aside from some interesting examples (Latvia, Hungary, Czech Republic) in this respect.

II. Membership Leverage

The EU regional policy operates both in formal way through the Structural and Cohesion Funds to reduce regional and social disparities in the EU,⁷⁵ and in informal ways in which the EC has actively promoted decentralization and the empowerment of sub-national actors in national and structural fund planning and implementation.

⁷⁴ Regions at level 2 of the NUTS classification whose GDP (Gross Domestic Product) per inhabitant is less than 75% of the Community average are eligible for funding under the Convergence objective.

- **Bulgaria:** the whole territory
- **Czech Republic:** Střední Čechy, Jihozápad, Severozápad, Severovýchod, Jihovýchod, Střední Morava, Moravskoslezsko
- **Estonia:** the whole territory
- **Hungary:** Közép-Dunántúl, Nyugat-Dunántúl, Dél-Dunántúl, Észak-Magyarország, Észak-Alföld, Dél-Alföld
- **Latvia:** the whole territory
- **Lithuania:** the whole territory
- **Poland:** the whole territory
- **Romania:** the whole territory
- **Slovenia:** the whole territory
- **Slovakia:** Západné Slovensko, Stredné Slovensko, Východné Slovensko

⁷⁵ See Table 31 in the Annex.

The strongest EU leverage in regional development stems from the absorption of Structural Funds and especially the European Regional Development Fund, the European Social Fund and the Cohesion Fund. It is targeted at regions with the primary aim of promoting regional convergence and balanced territorial development. What happens in practice, however, is that the weaker regions are in disadvantaged position – when exposed to more competition they tend to lose out to the stronger ones. Thus the divergence effects appear instead of the formally declared convergence objectives for which public resources are allocated.

III. Conclusions

In order to overcome the huge in-country regional discrepancies in socio-economic and infrastructure development, national decision makers in the NMS from CEE should complete the decentralisation and shape the autonomy of the regions in all aspects of policy making.

Both national and EU policies should concentrate on building the capacity of regions to develop with a special focus on the in-country less developed ones. In order to make the EU Regional policy work for NMS, some re-targeting of assistance needs to be done at the EU level. Further simplification of the delivery mechanisms will allow for more direct, equitable and autonomous participation of sub-national units (regions, counties and municipalities). Special technical assistance for those regions should be considered to allow them to participate in the variety of EU structural operations without compromising the overall system requirements of transparency, impact assessment, etc. They will, however, need a different set of objectives from the most developed regions, which need support in their global position and for diversification of their production and service base. The weakest will further need improved infrastructure, enhanced education and social services. This investment in sub-national capacity should include institutional building and strengthening of existing institutions.

Level of Absorption of EU Funds and Their Impact

I. Key Findings

The successful and efficient absorption of EU funds proved to be a “learning by doing” exercise in the NMS from CEE. The first years after accession to the EU are characterized by the model of drafting planning and strategic documents (for the financial perspective 2004-2006)⁷⁶ in an attempt to meet all needs and to activate all opportunities, in most cases ignoring limited absorption capacity. This largely resulted in difficulties in accomplishing ambitious goals, insufficient co-ordination and formulation of objectives which did not correspond to actual needs and/or capacities of potential direct beneficiaries. When coupled with the huge bureaucratic burden, it predetermined the low level of absorption in all countries in the first two years following accession.⁷⁷

1. Centralized management

The system of operational programs in the shortened programming period 2004-2006 has been characterized by high level of centralization. Regional operational programs were defining the same priorities and measures for all regions in the respective country, being managed centrally by the corresponding Ministry which decreased funds’ efficiency. For the 2007-2013 programming period a decentralized approach has been adopted and several regional operational programs were set up, taking notice of much higher competencies of the regional authorities in setting the development priorities and managing the funds.

2. Bureaucracy overburden

Based on the experience of the programming period 2004-2006 (characterized by overly bureaucratic procedures), most of the countries took measures to reduce the bureaucratic burden with positive results.

⁷⁶ See Table 31 in the Annex.

⁷⁷ See Table 32 in the Annex.

Thus the absorption rate of Structural Funds in 2007 rapidly increased and reached a rate of over 70% in all NMS from CEE (Hungary being “the best” with 82%)⁷⁸ while for the period May 2004–September 2006 it was below 30% for all the countries except Slovenia (34%) and Hungary (32.5%).⁷⁹

The NMS achieved record absorption figures with regard to the ERDF, receiving in 2007 EUR 3 billion, nearly as much as they were reimbursed altogether in 2004, 2005 and 2006 (EUR 3.5 billion). By end of 2007, they had reached an average consumption of 71% of their financial allocations for the period 2004-2006, whereas the average ERDF absorption rate for EU 15 (period 2000-2006) was at 85%.⁸⁰

Although some simplifications originated at the EU-level (for example, the eligibility rules), most of the measures in this respect have been undertaken on a national level (e.g. the electronic application process).

3. Lack of transparency and management challenges

Common problems pertaining to the absorption of funds in the NMS concern: absorption versus impact, deficiencies in consulting beneficiaries and the transparency and accountability of the process. The deficit of qualified human resources and a high employee turnover caused by low salaries in the public institutions dealing with EU projects negatively impacted the administrative capacity for funds’ management. The unexpected increase in the cost of programmes and projects (especially related to construction and real-estate) created a need to re-evaluate the capacities of the measures.

An additional challenge has been caused by the parallel use of the Structural Funds from the 2004-2006 period and the new programming period for 2007-2013.⁸¹ Preparing and implementing two distinct systematic programmes at the same time was very time consuming and led to serious administrative pressure on a national level because of the need for allocation of additional human, financial and technical resources. In **Bulgaria** and **Romania**, the EU pre-accession aid that is set to be complete by 2010 coincides with the operation of the Structural and Cohesion Funds under the current 2007-2013 financial perspective.

There have been few legal disputes and resignations linked to the lack of openness in the management of EU funds. In **Lithuania**, the former Economics Minister from the populist Labour Party was forced to resign from the cabinet in 2005 when the Lithuanian Higher Service Ethics Commission decided that he breached conflict-of-interest rules by

⁷⁸ See Table 33 in the Annex.

⁷⁹ See Table 32 in the Annex.

⁸⁰ Report from the Commission, 19th Annual Report on Implementation of the Structural Funds (2007), {SEC(2008) 2649}, page 4.

⁸¹ See Table 34 in the Annex.

initiating the establishment of a joint company in Russia.⁸² In **Bulgaria**, a top governmental official resigned and is under investigation for awarding contracts for transport infrastructure to a company owned by his brother.

II. Membership Leverage

In the pre-accession period the EC applied a number of instruments of influence that proved to be significant and effective: “gate-keeping”, monitoring, provision of legal and institutional models, technical assistance and twinning and financial assistance. The main instrument of EU leverage after accession is the rule of automatic de-commitment under the so-called ‘n+2’ rule: any unspent amount of Structural Funds is de-committed. The application of the ‘n+3’ rule until 2010 will mitigate the risk of a de-commitment of EU assistance in the first part of the 2007-2013 programming period.

In addition to financial leverage, the EC has certain leverage over the physical results of EU assistance. It is represented in the monitoring committees and reviews of annual monitoring reports presented by the national authorities (based on the quarterly reports submitted by all member states). However, the Commission’s role is limited to the scrutiny of physical progress and no financial sanctions are possible in the case of a failure to achieve specified targets.

The Funds blockage was used in **Bulgaria** for curbing opportunities for high-level corruption regarding European taxpayer money. It proved to be effective and the amount of contracted projects has increased almost ten times in a short period of time, presumably after the measures undertaken by national authorities as a consequence of the EU’s punitive actions. The EC introduced in Bulgaria a system for forecasting the financial implementation of operational programs (LOTHAR) and exercising ex-ante control in respect of the ‘n+2’ and ‘n+3’ rule. Its effectiveness remains to be seen.

III. Conclusions

The effective absorption of the Structural Funds largely depends on the quality of the programming phase where the priorities set should correspond to the needs and the actual capacity of beneficiaries. Therefore, defining them in consultation with stakeholders in a decentralized and transparent manner requires the development of national capacity that is in a process of formation in the NMS from CEE. Further simplification of the delivery mechanisms on both European and national level is recommended.

⁸² Delfi. V. *Uspaskichas atsistatydina is ukio ministro pareigu ir traukiasi is Seimo*. 16 June 2005. <http://www.delfi.lt/archive/article.php?id=6912992>

Annex

Table 1: Trust in national governments (%)

	March-May 2008 (EB 69)	May-June 2006 (EB 65) compared to October-November 2005 (EB 64)	October-November 2004 (EB 62) compared to (EB 61)
Estonia	56	54 (-1)	47 (+2)
Slovakia	37	21 (+3)	22 (+5)
Slovenia	31	38 (-1)	35 (+8)
Lithuania	17	21 (-6)	38 (+7)
Czech Republic	21	34 (+8)	27 (+2)
Hungary	13	48 (+15)	40 (+9)
Romania	25	32 (+2)	40 (+4)
Latvia	15	25 (-4)	26 (-2)
Poland	26	22 (+8)	13 (+6)
Bulgaria	17	24 (-6)	26 (+7)
EU 27	32	-	-
EU 25	-	35 (+4)	34 (+4)

Source: Eurobarometer (data commutated by EuPI based on Standard EB 69,65 and 62)

http://ec.europa.eu/public_opinion/archives/eb/eb69/eb69_annexes.pdf

http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_en.pdf

http://ec.europa.eu/public_opinion/archives/eb/eb62/eb62_en.pdf

Table 2: Trust in political parties (%)

	March-May 2008 (EB 69)	May-June 2006 (EB 65) compared to October-November 2005 (EB 64)	October-November 2004 (EB 62) compared to (EB 61)
Estonia	15	21 (+3)	17 (+2)
Slovakia	11	10 (+3)	9 (+1)
Slovenia	13	19 (+5)	17 (+1)
Lithuania	7	10 (-1)	16 (+7)
Czech Republic	11	15 (+4)	10 (0)
Hungary	9	29 (+15)	18 (+5)
Romania	18	14 (+2)	18 (+4)
Latvia	5	6 (-2)	6 (-3)
Poland	7	9 (+2)	5 (+2)
Bulgaria	9	10 (0)	11 (+5)
EU 27	18	-	-
EU 25	-	22 (+5)	17 (+1)

Source: Eurobarometer (data commutated by EuPI based on Standard EB 69,65 and 62)
http://ec.europa.eu/public_opinion/archives/eb/eb69/eb69_annexes.pdf
http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_en.pdf
http://ec.europa.eu/public_opinion/archives/eb/eb62/eb62_en.pdf

Table 3: Trust in national parliament (%)

	March-May 2008 (EB 69)	May-June 2006 (EB 65) compared to October-November 2005 (EB 64)	October-November 2004 (EB 62) compared to (EB 61)
Estonia	36	41 (-5)	42 (+6)
Slovakia	34	27 (+7)	25 (+6)
Slovenia	31	37 (+4)	36 (+11)
Lithuania	12	14 (-5)	23 (+4)
Czech Republic	16	22 (+6)	18 (0)
Hungary	15	47 (+21)	38 (+9)
Romania	22	21 (-2)	32 (+2)
Latvia	12	21 (-4)	21 (+1)
Poland	16	13 (+1)	8 (0)
Bulgaria	12	17 (-3)	17 (+4)
EU 27	35	-	-
EU 25	-	38 (+3)	38 (+3)

Source: Eurobarometer (data commutated by EuPI based on Standard EB 69,65 and 62)
http://ec.europa.eu/public_opinion/archives/eb/eb69/eb69_annexes.pdf
http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_en.pdf
http://ec.europa.eu/public_opinion/archives/eb/eb62/eb62_en.pdf

Table 4: Real GDP % increase

	2004	2005	2006	2007	2008	2009	2010
Bulgaria	6.6	6.2	6.3	6.2	6.0	-1.0	1.3
Czech Republic	4.5	6.3	6.9	6.0	3.1	-2.5	1.1
Estonia	7.5	9.2	10.4	6.3	-3.6	-9.2	-1.4
Latvia	8.7	10.6	12.2	10.0	-4.6	-13.6	-3.8
Lithuania	7.4	7.8	7.8	8.9	3.0	-8.9	-2.8
Hungary	4.8	4.0	4.1	1.1	0.5	-5.2	-0.4
Poland	5.3	3.6	6.2	6.7	4.8	0.1	1.9
Romania	8.5	4.2	7.9	6.0	7.1	-2.3	1.1
Slovenia	4.3	4.3	5.9	6.8	3.5	-2.3	0.8
Slovakia	5.2	6.5	8.5	10.4	6.4	-1.1	1.8
Western Europe*	-	-	-	-	0.8	-3.3	0.2

Source: *Eastern Europe Consensus Forecasts, Consensus Economics inc.2009*

* Germany, France, the UK, Italy, Austria, Belgium, Denmark, Finland, Greece, Ireland, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland

Table 5: GDP per capita in Purchasing Power Standards (PPS) (EU-27 = 100) f = forecast

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bulgaria	26.4	26.9	26.9	27.8	29.3	31.0	32.5	33.7	34.5	36.5	37.3	39.7(f)
Czech Republic	72.9	70.5	69.5	68.5	70.2	70.4	73.4	75.1	75.8	77.4	80.2	83.0(f)
Estonia	41.8	42.3	42.3	44.6	46.1	49.8	54.4	57.2	61.1	65.3	67.9	64.2(f)
Latvia	34.6	35.6	36.0	36.7	38.7	41.2	43.3	45.7	48.6	52.5	57.9	55.2(f)
Lithuania	38.1	40.1	38.7	39.3	41.5	44.1	49.1	50.5	52.9	55.5	59.5	60.5(f)
Hungary	51.5	52.7	53.5	56.1	58.8	61.3	63.2	63.1	63.2	63.6	62.6	61.6(f)
Poland	46.8	47.8	48.6	48.2	47.6	48.3	48.9	50.6	51.3	52.3	53.4	55.1(f)
Romania	-	-	26.0	26.1	27.8	29.4	31.3	34.1	35.0	38.3	42.1	44.8(f)
Slovenia	77.7	78.6	80.6	79.8	79.7	82.3	83.4	86.4	87.4	87.6	89.2	90.6(f)
Slovakia	51.3	52.1	50.5	50.1	52.4	54.1	55.5	57.1	60.2	63.5	67.0	70.2(f)

Source: *Eurostat*

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb010>

Table 6: Monthly labour costs in EUR

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU 27	-	-	-	-	-	-	-	-	2573.6	2699.6	2450.2	-
BG	-	-	-	-	173.5	186.5	196.1	205.7	218.6	234.7	249.0	287.4
CZ	424.1	437.7	474.1	505.1	562.7	641.5	753.8	780.9	837.3	948.8	1037.6	1126.2
EE	263.3	304.7	350.7	389.7	425.9	486.7	547.2	586.0	644.0	711.8	827.1	-
LV	-	-	256.2	286.5	340.4	353.6	370.6	370.2	402.8	448.5	552.4	719.4
LT	-	-	-	-	381.3	412.0	446.9	466.9	494.9	545.1	636.6	759.7
HU	-	-	-	-	-	-	-	814.4	875.3	1018.5	994.8	1104.3
PL	436.8	496.2	545.3	588.3	655.4	769.4	760.7	686.8	687.9	808.4	878.4	983.2
RO	149.3	147.0	187.7	176.0	213.1	220.1	245.6	244.2	274.4	365.1	434.2	549.1
SI	1130.1	1218.6	1305.9	1373.5	1358.2	1435.6	1542.4	1603.3	1618.0	1699.0	1760.8	1871.0
SK	309.7	359.6	394.2	340.2	398.5	416.4	481.8	517.8	583.2	619.9	711.4	842.3

Source: Eurostat

http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=lc_an_costm&lang=en

Table 7: Employment rates (%)

	2003	2004	2005	2006	2007	2008
BG	43.1	44.5	44.7	46.7	49.0	50.0
CZ	54.8	54.1	54.7	55.0	55.6	55.9
EE	52.4	52.9	53.9	56.8	57.6	57.7
LV	51.3	52.1	52.6	55.3	56.9	57.4
LT	52.5	50.9	51.9	52.7	53.9	53.3
HU	46.9	46.6	46.6	46.8	46.8	46.2
PL	44.1	44.0	45.2	46.5	48.5	50.4
RO	52.0	51.3	50.1	51.0	51.3	51.4
SI	52.8	55.4	55.4	55.8	56.8	59.9
SK	49.8	48.9	49.8	51.2	52.3	53.7
EU 27	51.4	51.3	51.9	52.7	53.4	53.6

Source: Eurostat

http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=lfsa_ergan&lang=en

Table 8: Unemployment rates (%)

	2003	2004	2005	2006	2007	2008 m 12	2009 m 03
BG	13.7	12.0	10.1	9.1	6.9	5.3	5.9
CZ	7.5	8.2	7.9	7.1	5.3	4.7	5.5
EE	10.7	10.0	7.9	5.9	4.7	8.4	11.1
LV	10.6	9.9	8.9	6.8	6.0	11.5	16.1
LT	12.9	11.3	8.3	5.6	4.3	9.7	15.5
HU	5.9	6.10	7.2	7.5	7.4	8.3	9.2
PL	19.4	19.1	17.7	13.8	9.6	7.0	7.7
RO	6.9	7.7	7.2	7.3	6.9	5.8	:
SI	6.5	6.0	6.5	6.0	4.8	4.1	5.0
SK	17.1	18.6	16.3	13.4	11.1	9.3	10.5
EU 27	9	9.2	8.9	8.2	7.1	7.6	8.3

Source: Eurostat

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelection=1&plugin=1>

Table 9: Government revenue, expenditure and main aggregates (Euro per inhabitant)

	2003	2004	2005	2006	2007	2008
EU 27	3911.9	4095.4	4283.4	4459.0	4637.2	4719.8
Bulgaria	472.9	520.7	561.6	598.0	687.5	788.0
Czech Republic	1626.1	1654.9	1873.2	2046.0	2185.4	2540.5
Estonia	1262.0	1343.9	1516.2	1718.9	2055.8	2409.6
Latvia	999.7	1092.4	1146.6	1373.7	1793.1	2255.8
Lithuania	943.0	1019.1	1134.7	1331.0	1496.2	1788.3
Hungary	1699.0	1802.8	1939.7	1984.0	2138.2	2270.8
Poland	1006.8	1018.9	1224.3	1347.1	1504.2	1779.9
Romania	477.7	487.0	677.8	806.0	1008.5	1179.7
Slovenia	2582.3	2689.6	2851.9	3007.4	3138.2	3394.8
Slovakia	1037.4	1092.9	1088.9	1315.9	14276.0	1536.5

Source: Eurostat

http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=gov_a_main&lang=en

Table 10: Central Government Debt (percentage of total)

	2003	2004	2005	2006	2007
Bulgaria	99.6	99.4	98.9	98.5	98.0
Czech Republic	95.0	97.5	93.9	92.8	92.9
Estonia	52.0	48.4	47.0	43.1	28.2
Latvia	91.7	99.6	106.8	117.7	137.9
Lithuania	94.8	95.2	95.7	95.3	94.6
Hungary	99.2	99.0	98.3	97.5	-
Poland	101.6	103.4	94.8	95.5	96.1
Romania	109.0	108.1	95.3	108.2	108.8
Slovenia	-	95.5	97.7	98.6	-
Slovakia	99.6	99.3	98.0	96.9	96.7

Source: Eurostat

http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=gov_dd_cgd&lang=en

Table 11: Goods and services, imports and exports at current prices**Exports and imports of goods and services**

	2004	2005	2006	2007	2008	2009	2010
Bulgaria	11326.0	13174.1	16290.7	18320.2	20953.4 (f)	22871.7 (f)	-
Czech Republic	61914.8	72347.2	86865.9	101934.2	117525.7 (f)	116732.7 (f)	128599.4 (f)
Estonia	7043.6	8875.8	10602.2	11359.0	11855.5 (f)	12738.1 (f)	13567.6 (f)
Latvia	4913.0	6226.2	7202.4	8915.0	9873.1 (f)	10518.5 (f)	11380.8 (f)
Lithuania	9451.6	12007.0	14167.4	15457.6	19613.7 (f)	21125.3 (f)	22775.3 (f)
Hungary	51976.8	58500.3	69362.5	81165.3	91203.8 (f)	86034.5 (f)	94678.5 (f)
Poland	76573.1	90643.3	109801.6	126144.8	139753.3 (f)	124387.8 (f)	133824.0 (f)
Romania	21882.8	26401.1	31553.2	36574.1	42345.5 (f)	42235.7 (f)	48155.6 (f)
Slovenia	15739.9	17864.9	20664.3	24186.5	26459.3 (f)	28588.4 (f)	31520.9 (f)
Slovakia	25341.1	29348.6	37625.9	47436.0	55853.5 (f)	61820.9 (f)	67040.0 (f)
Bulgaria	13619.6	16715.6	21030.5	24704.7	28861.1 (f)	31352.9 (f)	-
Czech Republic	61854.8	69167.1	82943.6	95536.7	109795.5 (f)	109365.6 (f)	120672.8 (f)
Estonia	7839.3	9576.5	12112.4	13021.4	12941.8 (f)	13210.8 (f)	13781.3 (f)
Latvia	6658.0	8098.0	10646.8	13168.9	12793.8 (f)	12224.6 (f)	12604.4 (f)
Lithuania	10737.0	13491.7	16607.8	19270.5	23394.5 (f)	23538.2 (f)	25554.6 (f)
Hungary	54708.4	60136.8	69987.5	79638.5	89418.9 (f)	83790.9 (f)	92647.5 (f)
Poland	81374.3	92454.9	114717.3	134493.0	152718.2 (f)	139364.7 (f)	150138.1 (f)
Romania	27372.3	34512.3	43296.7	53913.4	61690.2 (f)	61123.9 (f)	69169.2 (f)
Slovenia	16091.4	17983.2	20823.5	24635.9	27772.9 (f)	29989.2 (f)	32882.4 (f)
Slovakia	26257.8	31113.9	39336.0	47998.5	56342.0 (f)	62149.2 (f)	67114.1 (f)

Source: Eurostat

**Table 12: General government deficit (-)/surplus (+)
Percentage of GDP**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
BG			-0.8	-0.3	1.6	1.9	3.0	0.1	1.5
CZ	-3.7	-5.7	-6.8	-6.6	-3.0	-3.6	-2.6	-0.6	-1.5
EE	-0.2	-0.1	0.3	1.7	1.7	1.5	2.9	2.7	-3.0
LV	-2.8	-2.1	-2.3	-1.6	-1.0	-0.4	-0.5	-0.4	-4.0
LT	-3.2	-3.6	-1.9	-1.3	-1.5	-0.5	-0.4	-1.0	-3.2
HU	-2.9	-4.0	-8.9	-7.2	-6.4	-7.8	-9.3	-5.9	-3.4
PL	-3.0	-5.1	-5.0	-6.3	-5.7	-4.3	-3.9	-1.9	-3.9
RO	-4.4	-3.5	-2.0	-1.5	-1.2	-1.2	-2.2	-2.5	-5.4
SI	-3.7	-4.0	-2.5	-2.7	-2.2	-1.4	-1.3	0.5	-0.9
SK	-12.3	-6.5	-8.2	-2.7	-2.3	-2.8	-3.5	-1.9	-2.2
EU 27	0.6	-1.4	-2.5	-3.1	-2.9	-2.4	-1.4	-0.8	-2.3

Source: Eurostat

<http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&init=1&pcode=teina200&language=en>

**Table 13: Percentage of total population at risk of poverty
after social transfers**

	2000	2007
EU 27	-	-
BG	14.0	14.0
CZ	-	10.0
EE	18.0	18.0
LV	16.0	23.0
LT	17.0	20.0
HU	11.0	16.0
PL	16.0	19.0
RO	17.0	19.0
SI	11.0	12.0
SK	-	12.0

Source: COMMISSION STAFF WORKING DOCUMENT

Demography Report 2008: *Meeting Social Needs in an Ageing Society*, Brussels, 21.11.2008 SEC (2008) 2911

http://www.parliament.bg/pub/ECD/SEC_2008_2911_EN_ACTE_f.doc

Table 14: Percentage of public expenditures on healthcare and sickness in GDP

	2000	2007
EU 27	-	7.5
BG	-	4.5
CZ	6.4	6.5
EE	4.4	3.9
LV	2.5	3.1
LT	4.6	3.9
HU	5.3	6.4
PL	3.8	3.8
RO	3.3	5.0
SI	7.3	7.4
SK	6.5	4.8

Source: COMMISSION STAFF WORKING DOCUMENT

Demography Report 2008: Meeting Social Needs in an Ageing Society, Brussels, 21.11.2008 SEC (2008) 2911

http://www.parliament.bg/pub/ECD/SEC_2008_2911_EN_ACTE_f.doc

Table 15: Benchmark 1. Low achievers in reading
EU benchmark for 2010: 20% fewer 15 years-old with poor reading skills

Low achieving 15-years old in reading literacy (%)

	2000	2006	EU average 2000	EU average 2006	EU benchmark and goals 2010
BG	40.3	51.1	21.3	24.1	17
CZ	17.5	24.8	21.3	24.1	17
EE	-	13.6	21.3	24.1	17
HU	22.7	20.6	21.3	24.1	17
LV	30.1	21.2	21.3	24.1	17
LT	-	25.7	21.3	24.1	17
PL	23.2	16.2	21.3	24.1	17
RO	41.3	53.5	21.3	24.1	17
SK	-	27.8	21.3	24.1	17
SI	-	16.5	21.3	24.1	17

Source: European Commission Education and Training GD: "Progress towards the Lisbon objectives 2010 on education and training"

http://ec.europa.eu/dgs/education_culture/publ/pdf/educ2010/indicatorsleaflet_en.pdf

Table 16: Benchmark 2. Early school leavers

EU benchmark for 2010: reduce early school leavers to 10%

Age 18-24 (%)

	2000	2006	EU average 2000	EU average 2006	EU benchmark and goals 2010
BG	20.3	18.0	17.6	15.3	10
CZ	5.5	5.5	17.6	15.3	10
EE	14.2	13.2	17.6	15.3	10
HU	13.8	12.4	17.6	15.3	10
LV	19.5	19.0	17.6	15.3	10
LT	16.7	10.3	17.6	15.3	10
PL	7.9	5.6	17.6	15.3	10
RO	22.3	19.0	17.6	15.3	10
SK	5.6	6.4	17.6	15.3	10
SI	7.5	-	17.6	15.3	10

Source: European Commission Education and Training GD: "Progress towards the Lisbon objectives 2010 on education and training"

http://ec.europa.eu/dgs/education_culture/publ/pdf/educ2010/indicatorsleaflet_en.pdf

Table 17: Benchmark 3. Upper secondary attainment

EU benchmark for 2010: reach 85% having completed upper secondary education

Upper secondary completion rate (age 20-24) (%)

	2000	2006	EU average 2000	EU average 2006	EU benchmark and goals 2010
BG	75.2	80.5	76.6	77.8	85
CZ	91.2	91.8	76.6	77.8	85
EE	79	82	76.6	77.8	85
HU	83.5	82.9	76.6	77.8	85
LV	76.5	81	76.6	77.8	85
LT	78.9	88.2	76.6	77.8	85
PL	88.8	91.7	76.6	77.8	85
RO	76.1	77.2	76.6	77.8	85
SK	94.8	91.5	76.6	77.8	85
SI	88	89.4	76.6	77.8	85

Source: European Commission Education and Training GD: "Progress towards the Lisbon objectives 2010 on education and training"

http://ec.europa.eu/dgs/education_culture/publ/pdf/educ2010/indicatorsleaflet_en.pdf

Table 18: Benchmark 4. Mathematics, science and technology graduates

EU benchmark for 2010: 15% increase of maths, science and technology graduates

Tertiary graduates in maths, science and technology

	2000 increase since 2000	2006	EU average 2000	EU average 2006	EU benchmark and goals 2010
BG	-	+20.3	-	+25.9	+15
CZ	-	+40.7	-	+25.9	+15
EE	-	+60.7	-	+25.9	+15
HU	-	+55	-	+25.9	+15
LV	-	+34.9	-	+25.9	+15
LT	-	+37.6	-	+25.9	+15
PL	-	+86.6	-	+25.9	+15
RO	-	+29.6	-	+25.9	+15
SK	-	+98.6	-	+25.9	+15
SI	-	+10.6	-	+25.9	+15

Source: European Commission Education and Training GD: "Progress towards the Lisbon objectives 2010 on education and training"

http://ec.europa.eu/dgs/education_culture/publ/pdf/educ2010/indicatorsleaflet_en.pdf

Table 19: Benchmark 5. Participation of adults in lifelong learning

EU benchmark for 2010: Increase of participation in lifelong learning to 12.5% of the adult population

Age 25-64 (%)

	2000 increase since 2000	2006	2007	EU average 2000	EU average 2006	EU average 2007	EU benchmark and goals 2010
BG	1.4	1.3	1.3	7.1	9.6	9.7	12.5
CZ	5.6	5.6	5.7	7.1	9.6	9.7	12.5
EE	6.5	6.5	7.0	7.1	9.6	9.7	12.5
HU	2.9	3.8	3.6	7.1	9.6	9.7	12.5
LV	7.3	6.9	7.1	7.1	9.6	9.7	12.5
LT	2.8	4.9	5.3	7.1	9.6	9.7	12.5
PL	4.3	4.7	5.1	7.1	9.6	9.7	12.5
RO	0.9	1.3	1.3	7.1	9.6	9.7	12.5
SK	8.5	4.3	3.9	7.1	9.6	9.7	12.5
SI	7.3	15.0	14.8	7.1	9.6	9.7	12.5

Source: European Commission Education and Training GD: "Progress towards the Lisbon objectives 2010 on education and training"

http://ec.europa.eu/dgs/education_culture/publ/pdf/educ2010/indicatorsleaflet_en.pdf

Table 20: Total public expenditure on education as a % of GDP

	2000	2007
EU 27	-	5.03
BG	4.19	4.51
CZ	4.04	4.25
EE	5.57	4.87
LV	5.64	5.06
LT	5.63	4.95
HU	4.50	5.45
PL	4.87	5.47
RO	2.88	3.48
SI	-	5.83
SK	4.15	3.85

Source: European Commission Education and Training GD: "Progress towards the Lisbon objectives 2010 on education and training"

http://ec.europa.eu/dgs/education_culture/publ/pdf/educ2010/indicatorsleaflet_en.pdf

Table 21: 2008 Corruption Perception Index

Country rank	Country	2008 CPI score	2003 CPI score
26	Slovenia	6.7	5.9
27	Estonia	6.6	5.5
45	Czech Republic	5.2	3.9
47	Hungary	5.1	4.8
52	Latvia	5.0	3.8
52	Slovakia	5.0	3.7
58	Lithuania	5.6	4.7
58	Poland	4.6	3.6
70	Romania	3.8	2.8-3.1 in 2006
72	Bulgaria	3.6	3.9-4.0 in 2006

Source: Transparency International

http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table

Table 22: Crimes recorded by the police (in numbers)

	2004	2005	2006
Bulgaria	142 093	137 800	136 410
Czech Republic	351 629	344 060	336 446
Estonia	53 048	52 916	51 834
Latvia	62 173	51 435	62 328
Lithuania	84 136	82 074	75 474
Hungary	418 833	436 522	425 941
Poland	1 461 217	1 379 962	1 287 918
Romania	231 637	208 239	232 658
Slovenia	86 568	84 379	90 354
Slovakia	131 244	123 563	115 152

Source: Eurostat

http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=crim_gen&lang=en

Table 23: Trust in national legal system

	March-May 2008 (EB 69)	May-June 2006 (EB 65) compared to October- November 2005 (EB 64)	May-June 2005 (EB63)	October- November 2004 (EB 62) compared to 61
EE	58	49 (0)	49	44 (+3)
SK	31	29 (-2)	27	27 (+11)
SL	28	32 (-2)	34	27 (-3)
LT	28	23 (-4)	30	28 (+1)
CZ	32	35 (+3)	32	32 (+3)
HU	38	55 (+11)	50	52 (+5)
RO	28	34 (+3)	35	26 (-3)
LV	27	32 (0)	37	34 (+5)
PL	32	29 (+7)	23	16 (-5)
BG	13	20 (0)	20	20 (+2)
EU 27	46	-	-	-
EU 25	-	48 (+1)	50	45 (-3)

Source: Eurobarometer (data commutated by EuPI based on Standard EB 69,65 and 62)

http://ec.europa.eu/public_opinion/archives/eb/eb69/eb69_annexes.pdf

http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_en.pdf

http://ec.europa.eu/public_opinion/archives/eb/eb62/eb62_en.pdf

Table 24: Expenditure on R&D % of GDP

	2000	2007
EU 27	1.86	1.84
BG	0.52	0.48
CZ	1.21	1.54
EE	0.61	1.14
LV	0.44	0.7
LT	0.59	0.8
HU	0.78	1
PL	0.64	0.56
RO	0.37	0.45
SI	1.41	1.59
SK	0.65	0.49

Source: COMMISSION STAFF WORKING DOCUMENT

Demography Report 2008: *Meeting Social Needs in an Ageing Society*, Brussels, 21.11.2008 SEC (2008) 2911

http://www.parliament.bg/pub/ECD/SEC_2008_2911_EN_ACTE_f.doc

Table 25: Net migration in thousands

	2000	2007	2030
EU 27	724.6	1,910.4	1,093.1
BG	0.0	-1.4	-0.5
CZ	6.5	83.9	22.9
EE	0.2	0.2	-0.3
LV	-5.5	-0.6	-0.6
LT	-20.3	-5.2	-0.3
HU	16.7	14.0	17.3
PL	-409.9	-20.5	-1.3
RO	-3.7	0.7	-0.8
SL	2.7	14.1	3.4
SK	-22.3	6.8	3.9

Source: Eurostat

Table 26: Employment rate of third-country nationals in % – women

	BG	CZ	EE	LV	LT	HU	PL	RO	SI	SK	EU27
2005	-	51.9	56.3	-	-	55.3	38.8	-	38.8	-	44.0
2006	-	60.5	60.3	-	-	43.9	41.0	-	41.6	-	46.0
2007	-	62.1	62.3	61.5	-	56.5	58.2	56.7	36.4	-	46.7

Source: Eurostat – European Union Labour Force Survey
http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-07-018/EN/KS-RA-07-018-EN.PDF

Table 27: Employment rate of third-country nationals in % – men

	BG	CZ	EE	LV	LT	HU	PL	RO	SI	SK	EU27
2005	-	86.1	67.9	79.8	-	73.6	64.5	-	66.7	-	66.9
2006	-	81.3	73.5	91.4	-	79.7	61.0	76.2	65.7	-	69.2
2007	-	81.0	77.1	68.6	80.6	75.5	68.1	71.6	80.2	-	70.0

Source: Eurostat – European Union Labour Force Survey
http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-07-018/EN/KS-RA-07-018-EN.PDF

Table 28: Importance of Agriculture in GDP

	2004		2005		2006	
	GVA in agriculture Mio.EUR	% GDP	GVA in agriculture Mio.EUR	% GDP	GVA in agriculture Mio.EUR	% GDP
BG	1588.7	9.75	1 544.3	8.58	1 547.8	7.57
CZ	1 249.7	1.58	916.4	1.02	866.2	0.84
EE	195.3	2.29	208.0	2.11	220.6	1.90
LV	278.6	2.78	280.0	2.43	307.7	2.16
LT	514.0	3.14	599.6	3.21	555.4	2.60
HU	2 486.0	3.54	2 300.9	3.02	2 262.6	2.92
PL	5 819.6	3.25	6 096.9	2.83	6 520.0	2.73
RO	7 192.3	13.24	6 269.2	8.92	7 009.7	8.13
SI	488.6	2.09	479.8	1.94	455.0	1.71
SK	576.8	1.90	449.7	1.32	508.7	1.26
EU 27	169 638.5	1.80	149 413.3	2.25	142 992.4	1.39
EU 12	20 863.4	4.12	19 532.2	3.34	20 646.0	3.14

Source: European Commission, DG Agriculture and Rural Development, Brussels, AGRI G.2/BT/FB/LB/PB/TV/WM/D (2007)
http://ec.europa.eu/agriculture/analysis/markets/prospects12_2007_en.pdf

**Table 29: Percentage territory of rural areas
(2003 – NUTS 3)**

	% predominantly rural	% significantly rural	% predominantly urban
BG	76.5	22.3	1.3
CZ	8.8	90.6	0.6
EE	20.7	71.6	7.7
LV	55.9	43.6	0.5
LT	65.0	35.0	-
HU	64.6	34.8	0.6
PL	60.3	36.8	2.9
RO	61.6	38.3	0.1
SI	69.5	30.5	-
SK	32.2	63.6	4.2
EU 27	57.0	35.7	7.3

Source: European Commission, DG Agriculture and Rural Development, Brussels, AGRI G.2/BT/FB/LB/PB/TV/WM/D (2007)

http://ec.europa.eu/agriculture/analysis/markets/prospects12_2007_en.pdf

Table 30: Development in agricultural income (2000=100)

	1996	2001	2002	2003	2004	2005	2006	2007
BG	-	111,8	89,9	-	91,9	97,9	92,8	75,5
CZ	-	127,2	99,6	87,3	137,5	152,1	153,9	185,7
EE	97,7	116,7	109,2	150,1	222,4	234,1	232,8	278,0
LV	-	129,8	127,7	140,0	233,2	243,0	282,6	311,6
LT	-	92,6	86,0	96,6	152,6	191,8	179,6	284,6
HU	-	105,1	89,1	89,8	141,6	142,0	146,2	149,1
PL	-	115,0	103,9	96,0	180,8	163,3	187,4	209,7
RO	-	174,6	159,7	192,1	278,9	161,0	148,4	124,5
SI	106,1	81,8	107,8	78,9	122,6	125,5	112,2	125,5
SK	105,9	113,6	106,7	100,3	129,7	120,9	147,9	161,1
EU 27	-	108,9	103,3	-	115,8	105,1	109,1	114,6

Source: European Commission, DG Agriculture and Rural Development, Brussels, AGRI G.2/BT/FB/LB/PB/TV/WM/D (2007)

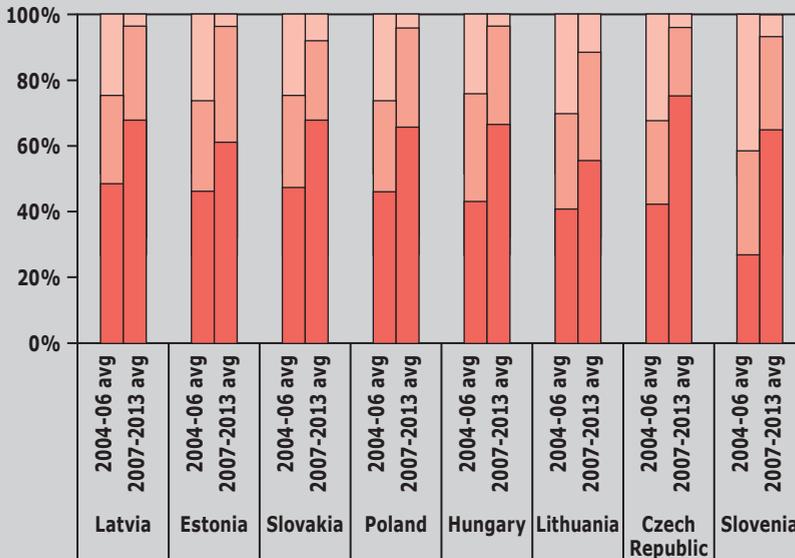
http://ec.europa.eu/agriculture/analysis/markets/prospects12_2007_en.pdf

Table 31: Structure of available EU funds

Structural Funds are the EU's main instrument to support real convergence

NMS: Structure of Available EU Funds

1/ Structural actions 2/ Agriculture Other



1/ Structural actions include structural funds (ERDF, ESF, community initiatives) and cohesion funds.

2/ Agriculture includes direct payments, market measures, and rural development (FIFG/EFF and EAGGF (guidance & guarantee)/EAFRD).

Source: European Commission.

Source: Data from national authorities, quoted from Christoph Rosenberg, International Monetary Fund: "EU Funds in the NMS: Opportunities and Challenges", February 14, 2007

Table 32: Absorption rate May 2004 – September 2006
Total payments made, as percentage of the national allocations

Country	Absorption rate
Slovenia	34
Slovakia	27.5
Poland	24.5
Lithuania	25.5
Latvia	25
Hungary	32.5
Estonia	29
Czech Republic	26

Source: European Commission, quoted by Baleanu (2007)

Table 33: Four Structural Funds: Payments against decisions
(EU 8 reference period 2004-2006) as of 05.02.2008

Country	%
Hungary	82
Slovenia	81
Estonia	79
Poland	74
Latvia	74
Lithuania	74
Czech Republic	73
Slovakia	72

Source: European Commission, GD Regional Policy
http://ec.europa.eu/regional_policy/index_en.htm

Table 34: Total assistance allocated to the EU-10 for 2007-2013

Distribution calculated as function of eligible population, nation wealth, regional wealth, and unemployment rate (max. 4% of GDP)

Country	Total assistance (billion euro)	Total assistance per capita	Percent of GDP
Czech Republic	26,69	2.627	3.5
Estonia	3,39	2.555	4.1
Hungary	25,31	2.561	3.9
Latvia	4,01	1.751	3.9
Lithuania	6,78	2.041	4.2
Poland	67,28	1.773	3.6
Slovakia	11,51	2.102	3.9
Slovenia	4,10	2.082	2.0
Bulgaria	6,67	909	4.0
Romania	19,67	911	3.2
Total	175,40	1.930	3.6

Source: DG Regio, Economist Intelligence Unit

Other publications of the OSI European Policies Initiative:

- *Not Your Grandfather's Eastern Bloc
The EU New Member States as Agenda Setters in the Enlarged European Union*
 - *Economic and Political Challenges of Acceding to the Euro area in the post-Lehman Brothers' World*
- available at: <http://eupi.eu>
-

“The Unfinished Business of the Fifth Enlargement Countries” publication is comprised of ten national reports and a comparative analysis. The national reports describe and analyze the post accession state of affairs in the ten new member states (NMS) from CEE. The comparative analysis identifies that five years (or two and a half, in the case of Bulgaria and Romania) following accession, the ten central and eastern European states of the fifth enlargement continue to deal with the “unfinished business” from their transition agenda in the context of EU membership and the global economic and financial crises. The biggest challenges in the post accession period concern the political systems, which are characterized by fragmentation of existing political parties and temptation to employ populism and nationalism. The fragmented political parties with short-term political lives are unable to commit to long-term and consistent reforms in the policy spheres that are of crucial importance for the citizens (health, education, social protection etc.) thus leaving those structural reforms largely incomplete. This lack of progress further increases the mistrust in the political establishments thus diminishing the already low citizens’ trust in the institutions of representative democracy, which might cause already fragile political systems to become increasingly vulnerable.