



Benefits and costs of EU membership

The pros and cons of EU funded developments in Hungary

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Issues

I. Financial aspect

II. Pros - Benefits and results

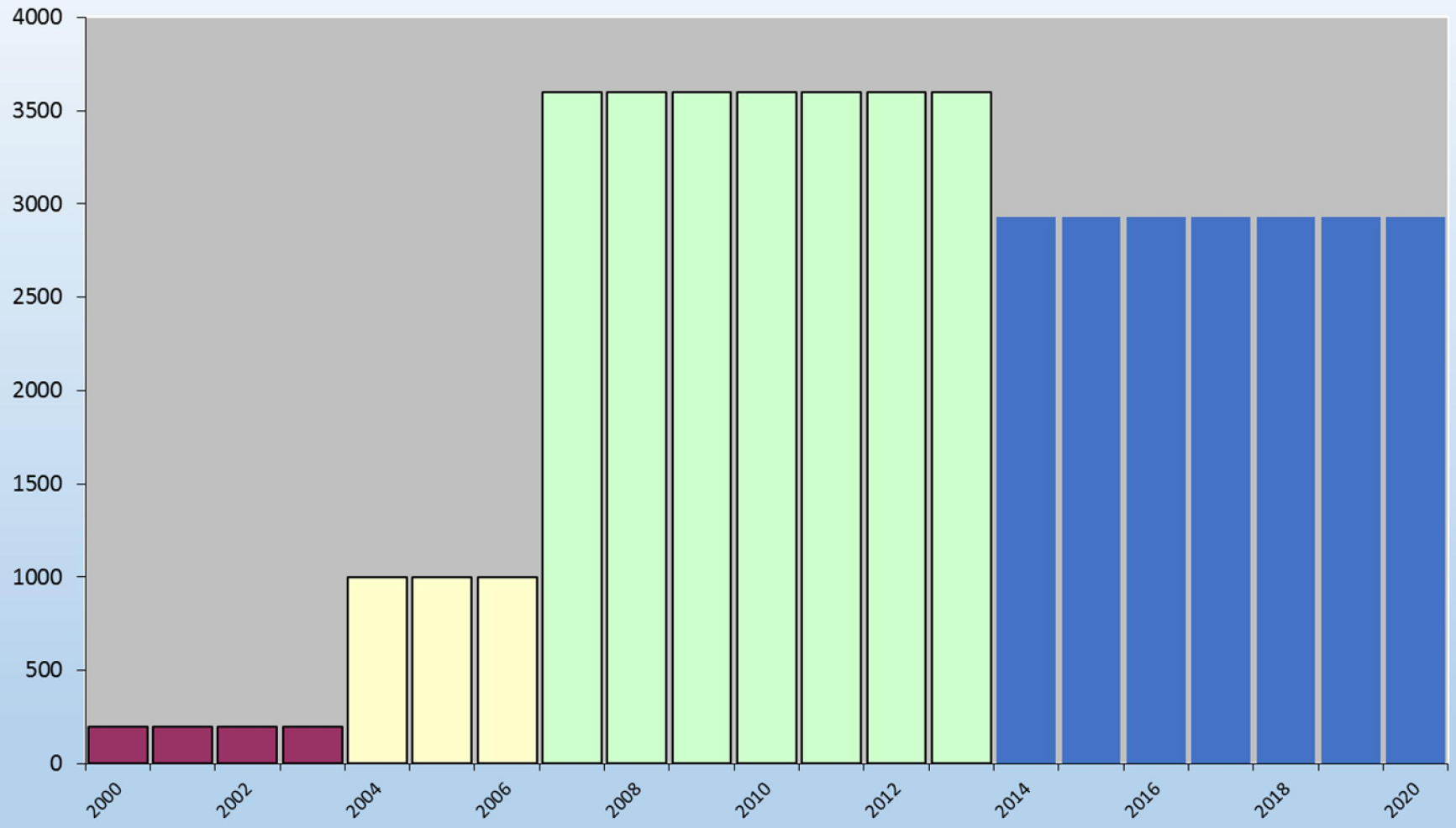
III. Cons - Problems and missed opportunities



Financial aspect

EU SF and CF funds in Hungary , 2000 – 2020

Million EUR



■ Pre-accession ■ 1st Programming Period ■ 2nd Prog. Per. ■ 3rd Prog Per.

Main findings

- EU Funds are the single biggest non-repayable transfers that these countries have ever received
- EU funding amounts to 3-4% of the CEE's countries' GDP annually (until 2013) and 2,7% after 2014
- Due to the crisis and budgetary restraint the EU resources together with the 15% national co-financing represent of 90% of all public development resources

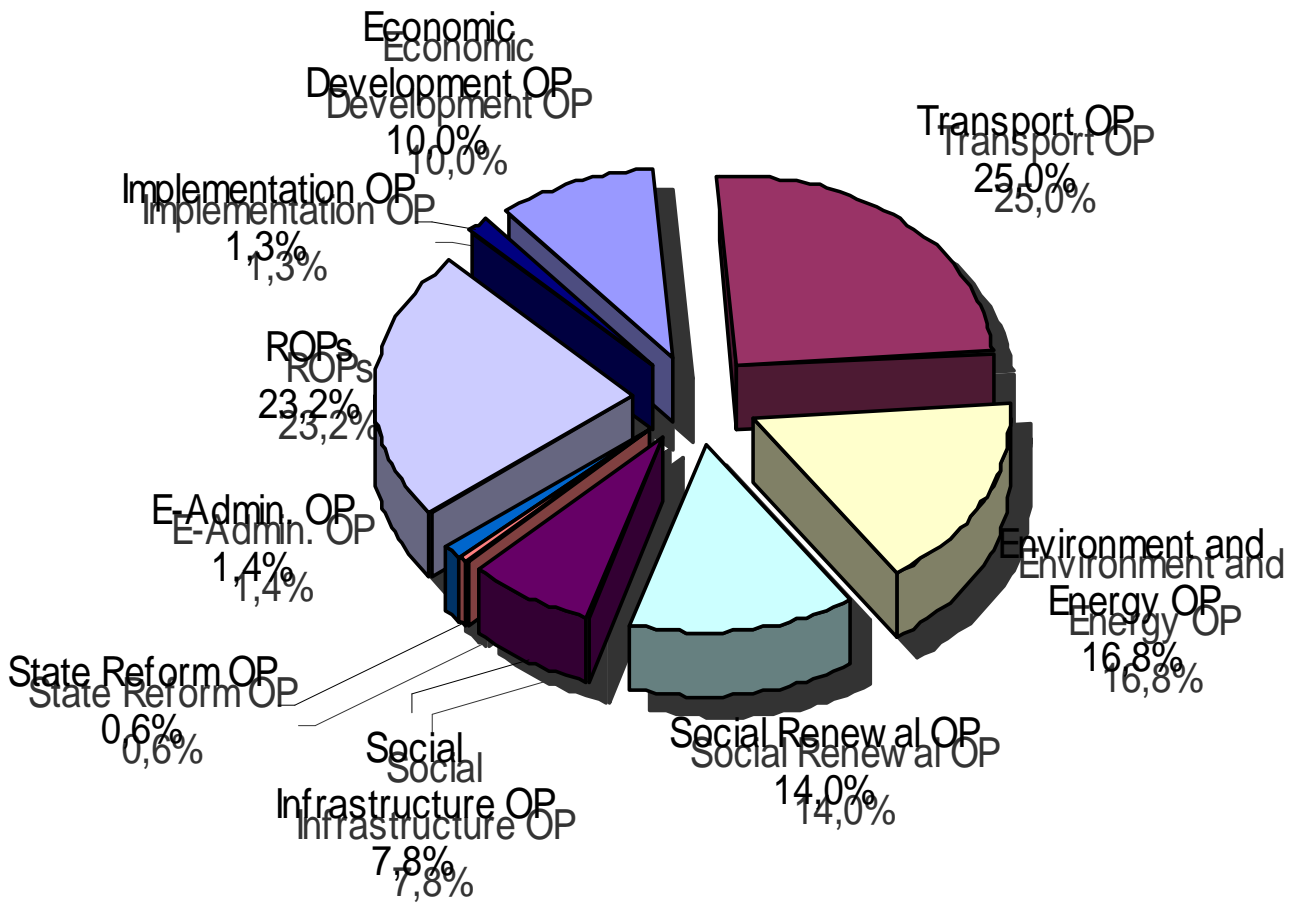
Therefore

- EU Funds are essential in the catching up in the speeding up growth and convergence in the country
- All sectors and key institutions - SMEs, NGOs, public or state institutions, local governments - are largely dependent on these programmes and resources.
- The issue of how the EU money is spent has become very important - there aren't any other resources

Basic CEE information on EU funds 2007-13											
	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE total
Population* (million)	7.6	10.5	1.3	10.0	2.2	3.3	38.2	21.5	5.4	2.0	102.1
Annual GDP* (billion EUR)	36.0	145.9	14.5	98.4	18.0	27.4	353.7	121.9	65.9	36.1	917.9
GDP per capita (EUR)	4,764	13,890	10,821	9,830	7,993	8,232	9,266	5,682	12,149	17,617	8,990
EU funds 2007-2013 (billion EUR)	6.7	26.3	3.4	24.9	4.5	6.8	65.3	19.2	11.4	4.1	172.6
EU funds per capita (EUR)	882	2,502	2,540	2,488	2,014	2,035	1,711	895	2,094	2,003	1,690
EU funds per GDP	2.6%	2.6%	3.4%	3.6%	3.6%	3.5%	2.6%	2.3%	2.5%	1.6%	2.7%

**based on EUROSTAT data, 2010*

SF & CF allocation per programme 2007-13 in Hungary



The pros - results and benefits

Results and benefits

1. Pressure of absorption

- Political priority since the beginning
- So far no significant losses - almost 100% absorption !
- Absorption pressure leads to solutions that speed-up and simplify project selection
- System is more and more in delay (*HU was 23rd performing EU MS in 2013 compared to one of the best in 2009-10*)
- 2014: radical change of the institutional system (ministerial control, abolition of management organisations) → increasing risks

2. Macroeconomic impact

- very hard to measure
- Structural Funds can be seen as an income transfer (should not...)
- *but then where is the money spent...?*

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3.9	4.8	4.0	3.9	0.1	0.9	-6.8	1.1	1.6	-1.7	0.2	1.4 ^f

Hungary - Real GDP growth rate – volume - Percentage change on previous year

Results and benefits

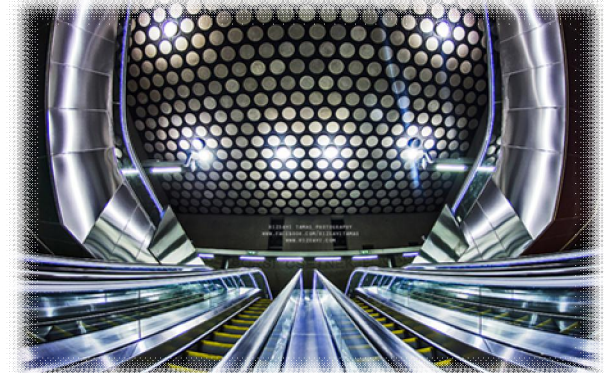
3. Good governance - the „real“ added value of the structural policy

- EU funds require new MS to set up and use a new system for the management of public funds.
- Based on long term proven European principles and objectives:
 - multi-annual and multi-level strategic programming, strong partnership-based planning, concentration of the resources, setting up measurable objectives and indicators, the use of continuous monitoring, use the principle of transparency.
- Tool of improvement of governance. MS have transformed their general budget management system → public money is better spent than before...
- The system still has not reached the required level - latter years it has shown some increasing disruption from the original track
- The shortages are not at all due to the EU rules, just oppositely because of the intentional or accidental bad interpretation and misadaptation of the EU rules and principles.

Results and benefits

4. Some of the best....

- More than 80.000 individual projects with a total investment volume of 5-6% of the GDP annually
- New level of public infrastructure (motorways, environmental major projects, rehabilitation of city centres, ports, public transport developments, hospitals, schools, etc.)
- Special programmes for disadvantaged groups for lagging behind micro-regions
- Substantial support for R+D+I
- Starting new state-of-the-art programmes - like JEREMIE (capital funds), micro credit programmes for SMEs, energy savings programme.



Cons - Problems and missed opportunities

Cons – Problems and missed opportunities

1. The „real“ effect

• EU Funds are only conditionally effective. Some factors that have proven to increase effectiveness:

- clear and coherent long and mid-term strategies
- management approach
- good practice of public procurement/tendering
- institutional quality
- broad partnership with a wide range of actors, incl. local and regional bodies, businesses, social partners and other organisations.

→ Serious and increasing deficiencies regarding the above factors in HU:

- Missing long term strategies (planning is only made for „EU“ money, but not for public policies).
- Implementation reform from 2014: management is done by ministries instead of management organisations
- Public procurement is the most problematic area since the accession
- Abolition of the NUTS 2 regions and regional bodies
- Extremely centralised planning and decision making – formal involvement of partners
- Limited transparency of decision making

Cons - Problems and missed opportunities

2. EU Funds vs. structural reforms and policies

- Money was spent without thorough reform of the large systems (education, health, public transport system, etc.)
- Missed positive effect on governance by not providing clear policy goals and targets

3. Regional differences

- The differences between the richest and poorest have significantly increased over the last 10 years – *against the main objectives of the Funds...*

4. Inefficient use of the funds

- Financing unnecessary, inefficient projects (Prestige investments, politically important investments)
- Seeking for quick wins instead of long term programmes
- Grant-dependent approach from companies, universities, NGOs...

5. Weak public and civil controls

- Lack of transparency...
- Risk of corruption and bad management

THANK YOU !

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